UK Policy and the Caribbean

Since 2010 many Caribbean nations have fallen further into debt, many are in IMF programmes, and almost all are heavily dependent on costly imports of energy and food. The consequence has been low rates of growth (there are some exceptions), a failure to complete the Caribbean Single Market and Economy, a significant decline in governments’ ability to provide the social provision that electorates expect, and growing instability.

At the same time the view of the region’s principal external partners, the US, EU and Canada has moved on in response to cuts in public expenditure and new strategic concerns. In contrast, the role of China and Venezuela in the region has become fundamental to the region’s economic survival. To a lesser extent, Russia and Brazil have become active across the region as a whole. More recently the UK, the EC, the US and Canada have recognised the need to develop new initiatives to work more closely together on issues such as prosperity, security, and energy in the region.

Despite this, the fundamental issues remain. Most nations have not yet addressed the interrelated issues of public sector reform, pensions, taxation, public expenditure, education, youth unemployment and growth. The trend towards higher taxation is reducing competitiveness. The gap between the English speaking economies of the region and their counterparts in Central and South America and the Hispanic Caribbean is widening. Few nations can achieve agreement on national interest issues in ways that would enable policies to survive from one government to the next. Levels of crime, narcotics related activity and violence continue to increase. Apart from a few Caribbean transnational companies, much of the region’s private sector remains protectionist. The Economic Partnership Agreement with Europe is making little headway and it is unclear whether a broad based US initiatives to be announced this year will succeed. On the plus side tourism which underwrites most Caribbean economies is returning to growth and a small number of nations may in time join Trinidad in experiencing oil and gas based wealth.

There are also important new geo-strategic developments. The Caribbean lies once again at the cross roads of history. The enlargement of the Panama Canal and plans for a second canal in Nicaragua makes the Caribbean of continuing strategic importance. The likelihood of new oil and gas finds will change the economic balance of power in the region. The possibility of a changed US-Cuba relationship could alter regional economic dynamics. Events in the Ukraine suggest a return to a form of rivalry for influence at a time when both China and Russia have heightened their profile in the region.

Beyond the Caribbean there is a view that unless the region is able to deliver greater economic dynamism, enable private sector led growth, and is more focussed on implementation, its
economies will stagnate and the region will become at greater risk of instability, criminality and failure.

The challenge for any future UK Government, given continuing limited resources, will therefore be how Britain can encourage new thinking and action by the Caribbean while ensuring that external actors remain engaged and better co-ordinated.

**Twelve Caribbean challenges for the next UK Government**

1. **Reparations**
The single most potentially divisive issue facing the next UK government in relation to the Caribbean will be the issue of reparations, especially if this crosses over to the Caribbean community in the UK. Caribbean Governments have developed a ten point plan that they wish to discuss at an all EU level. Some Caribbean governments have a more nuanced and softer approach. The issue has unpredictable outcomes.

2. **PetroCaribe and Venezuela**
Since 2005 when Venezuela’s concessional PetroCaribe arrangement was introduced, it has become of overriding economic and social significance to almost all of the countries of the Caribbean Basin. The arrangement allows for the state owned oil company PDVSA (Petroleos de Venezuela) to sell crude oil and oil products to member state on highly preferential credit terms. Recipient countries have up to 25 years to pay back costs, with grace periods and variable low interest rates depending on the world market price for oil. Payment can be in goods and services, a provision that for instance has made Venezuela into Cuba’s principal trading partner. All of this has changed the nature of the region’s long-term indebtedness with Caracas projecting that over one third of the Caribbean Basin’s external debt by 2015 will be owed to Venezuela.

Current social instability in Venezuela is creating uncertainty about the future of the arrangement. The least worst-case scenario is widely believed to a doubling of the interest rate to enable the Maduro government to manage better its domestic economy. The worst case scenario is a collapse of the Venezuelan government and a decision to end the arrangement, or move it on to more commercial terms, and/or insist on early repayment of the outstanding debt.

All such scenarios would create instability in the Caribbean, debt defaults, rating downgrades and swingeing cuts in social provision. It would also cause a major challenge for the UK, US, Canada, the EU and other traditional friends of the Caribbean if the region turned to them for support.

Although China, Saudi Arabia and Russia are said to be interested in replacing if the present arrangements were to end there appears to be no alternative low cost short term solution. US initiatives that might result in licensed natural gas shipments to the Caribbean would take years to put in place because of the absence of receiving terminals.

3. **Cuba**
Relations between Washington and Havana are improving. Discussions are continuing within the US Administration about whether functional engagement should be at the light or heavy end of the scale. The sense is that the Cuban economic reform process is genuine and moving forward and if there were to be a prisoner exchange significantly greater progress will occur before President Obama demits office. At least three significant high level US business delegations are scheduled to visit Cuba before the year’s end. At the same time the Office of Foreign Assets Control (OFAC) is ratcheting up pressure on the EU and other overseas businesses and in particular in relation to UK
banks in what most believe to be an effort to restrict access to investment in Cuba so that US companies may ultimately benefit.

The EU and Cuba have both agreed to negotiate a political and co-operation agreement. France’s Foreign Minister, Laurent Fabius, will visit Cuba shortly with a business delegation. The Dutch Foreign Minister visited in January.

The UK remains slow in responding at a ministerial level in relation to other EU member states and in defending UK business interests and individuals against US pressure on the UK banking system.

4. Crime and security
The Caribbean includes some of the most heavily indebted nations in the world. Region wide the crime and security situation is deteriorating. It remains the most tourism dependent region in the world. These facts sit uneasily with increased narco-trafficking though the region, signs that the Mexican cartels may migrate to the islands, the growing incidence of gang and drug related crime, and evidence of other security threats to the region. This has led some to consider the possibility that the region might over time come to include failed states.

5. Indebtedness
The Caribbean contains some of the most heavily indebted countries in the world. Even if the Caribbean is able to manage its way out of indebtedness and survive the associated social and political stress, it is by no means clear how smaller islands in the region will generate future growth unless they can reduce energy and food import costs, upgrade and enlarge their tourism product in ways that make the industry globally competitive, and educate future generations in ways that provide for globally competitive services based economies. Most policy is geared to addressing recovery rather than building growth on comparative advantage and new industries.

6. Overseas Territories
The financial services sector together with tourism underwrites the economy in the Overseas Territories. Most have accepted greater regulation and oversight and the need for better governance, but have yet to be convinced they are doing anything other than ceding business to other less transparent offshore locations including some in Europe that do not comply with OECD guidelines. Government in the UK continues to struggle with understanding how to promote investment in such micro states when the answer is not diversification but the upgrading of existing facilities and infrastructure around tourism.

7. Investment
Although the UK government in the form of UKTI continues to promote UK trade and has established a complex network of officials across the region with no matching outreach in the UK, an increase in imports is not what the Caribbean wants. What it requires is investment, know-how in developing vibrant private sector enterprises, education that brings new skills that enable it to leap borders, and the encouragement of transnational Caribbean companies presently investing overseas to partner with UK and other companies to invest in the region. It also requires the exploration of the way in which investment in energy related infrastructure, transport infrastructure and educational infrastructure might be promoted and financed by multilateral agencies.

8. The Dominican Republic and Central America
The Dominican Republic has continued to emerge as a major Caribbean economy, and a country supportive of the UK on issues that range from narcotics interdiction to support for Haiti. As such it warrants being more highly placed in the hierarchy of importance in the UK’s Caribbean agenda. So too Central America where Governments have become more proactive since the signing of the
association agreement with Europe and countries such as Panama, Nicaragua and Guatemala offer significant investment and trade opportunity.

9. **A role for the Caribbean Diaspora**

Previous UK governments have believed that a helpful repository of knowledge and experience about UK policy towards the Caribbean lies with Britain’s Caribbean community. As the mixed success of the Caribbean Board in advising on policy indicated this view may have been before its time.

Paradoxically, this may now be a more viable approach as an engaged and highly educated third generation of professionals in the Diaspora has emerged at senior levels across the UK in the public and private sector and in academia. This disparate and presently uncoordinated group of individuals thinks very differently about the Caribbean and the UK relationship. As a recent breakfast meeting hosted for this group by the Jamaica National Money Services Ltd showed, they are looking for a new form of relationship with the Caribbean that is unfettered by history and might operate on the basis of peer to peer relationships, and new forms of communication.

10. **Education, leadership and generational change**

The biggest challenge for the Anglophone Caribbean is in restoring falling educational levels and developing skills for the future. This may represent both a soft power and commercial opportunity for the UK. It is also central to a new generation of Caribbean political and business leaders emerging with a clear vision of the future and able to engage with issues of implementation and a changed global environment.

11. **Climate change and the environment**

The Caribbean is among those regions at most risk from sea level change and extreme weather. Almost all of its population and economic infrastructure lie within 5km of the sea. It has neither the capacity nor financial ability to mitigate the effects and is a no or low carbon emitter. Climate change is an area in which any future government should actively engage with the region in a public and well publicised manner. It also offers significant opportunity for UK services and good exports.

12. **The UN and multilateral fora**

The Caribbean continues to be able to deploy 15 votes in the UN and in other multilateral fora. Since 2000 a range of new hemispheric bodies including CELAC, UNASUR, and ALBA have emerged. The willingness of CARICOM to support Argentina’s position in respect of the Falklands indicates a new approach that relates to shared values and support internationally.

13. **Co-operation with allies**

Reduced budgets and shared concerns suggest that there is again a role for closer co-ordination between the UK, EU, US and Canada in respect of the Caribbean. There is also a case for considering whether closer co-ordination with China is achievable or desirable.

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