In different ways Guatemala, Honduras and Panama are boosting their ties with Israel. While Guatemala has moved its embassy to Jerusalem and Honduras is in the process of doing so, Panama has signed a free trade agreement with Israel. In this August edition of Latin American Regional Report: Caribbean & Central America, we begin by looking at the factors behind closer relations between Israel and some of the Central American Republics.

We then turn to Panama, where general elections are due on 5 May 2019, with a new government taking office on 1 July next year. That means that President Juan Carlos Varela is entering a ‘lame duck’ period, with just over nine months to go before the elections, and 11 to go before his term in office ends. At this stage a multitude of presidential hopefuls (over 20) are getting ready to contest primaries.

The next piece analyses recent trends in Central American migration, starting with a brief historical context and moving on to current developments. It considers geographical divisions, reasons for migrating, and growth in the overall migrant population. Finally, it considers implications of these current trends for Central American countries.

Turning to the Caribbean, we begin with Cuba where last month the new government led by President Miguel Díaz-Canel announced 20 measures – six decrees and 14 resolutions – to “regulate the activity” of the private sector. The measures, which will take effect as of December, will further tighten controls on ‘cuentapropistas’ (self-employed small entrepreneurs) and confirm that Díaz-Canel is not planning any further opening of the closed state economy.

We turn to Guyana where the International Monetary Fund (IMF) recently concluded its latest Article IV consultation. While positive about Guyana’s future as a major oil producer, it continues to urge restraint.

The next focus piece looks at Barbados where, following the Barbados Labour Party’s landslide victory in the 24 May general election [RC-18-06], it did not take long for the euphoria to dissipate; within weeks, Prime Minister Mia Mottley had to admit that the country’s public debt was 171% of GDP, not 135% as previously thought, and that it was suspending payments on external debt owed to commercial creditors.

The final focus piece looks at Trinidad & Tobago where the IMF reports that the economy is “slowly recovering from a prolonged recession”. While it expects positive growth of 1.0% in 2018 (in 2017 the contraction was -2.6%), the Fund warns that there is likely to be a slight slowdown in 2019 (0.9%) rather than any acceleration of the recovery.
**Swinging closer to Israel?**

In different ways Guatemala, Honduras and Panama are boosting their ties with Israel. Guatemala has moved its embassy to Jerusalem and Honduras is in the process of doing so. Panama has signed a free trade agreement. Here we look at the factors behind closer relations between Israel and some of the Central American Republics.

Part of the background is that Israel seems to have re-discovered Latin America in general. Last September Benjamin Netanyahu made the first ever trip by a serving Israeli Prime Minister to Latin America, stopping in Argentina, Colombia, and Mexico. Over the years relations between Israel and Latin America have been pendulum-like. There are large Jewish communities in a number of countries in the region. The Latin American republics played a key supportive role in the United Nations when Israel was recognised as an independent state in 1948. Many opened embassies in Jerusalem. But relations cooled after the Six-Day War in 1967 when Israel came in for increasing international criticism. In 1980 when the Knesset proclaimed the disputed city of Jerusalem to be its capital, all the Latin American countries moved their embassies to Tel Aviv. The rise of ‘pink tide’ nationalist governments in Latin America in the 15 years to 2015 also meant there was less sympathy for Israel and more for the Palestinians. However, since 2015 Latin American politics have swung back to the centre and the right, creating a new opportunity for Israeli diplomats. One small sign of increasing interest: after a six-year break, direct flights between Israel and Latin America were resumed in December, with Latam Airlines opening a Santiago-São Paulo-Tel Aviv route.

For many parts of Central America, relations with Israel are closely intertwined with relations with the US. That was already evident in September when Mexico’s President Enrique Peña Nieto said he had accepted Netanyahu’s offer to work with his country and the US to help develop Central America and thereby reduce the flow of illegal immigrants into the US. Peña Nieto said Israel, with its experience of agricultural development projects in Africa, could help boost the economic development of the Northern Triangle countries (Guatemala, El Salvador and Honduras).

Guatemala is perhaps the clearest example of the potential benefits – and costs – of an aggressively pro-Israeli position. Last December President Jimmy Morales decided to follow the US example and move the Guatemalan embassy back to Jerusalem. His decision came despite the fact that 128 UN members had earlier condemned the US decision to move its embassy, announced by President Donald Trump. Clearly Morales hoped his ‘me too’ gesture of support would earn Guatemala some credit in its bilateral negotiations with the US, including aid, security and governance issues. According to Arie Kacowicz, a Latin American specialist at the Hebrew University of Jerusalem, Guatemala and Honduras “pretty much need and want support and legitimacy from the US, and one way of achieving that is by being on friendly, cordial, or even extraordinary terms with Israel”.

One risk of course is simply that the quid pro quo is not achieved, and the US does not deliver what Guatemala or other countries may want. Extra officially, there are signs that what the Morales administration wants is a softer line from Washington on the treatment of both immigration and corruption. Specifically, since the Fuego Volcano eruption in June, Guatemala has asked the US for Temporary Protected Status (TPS) (which temporarily

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allows those fleeing countries afflicted by war or natural disasters to live and work legally in the US), to be granted to Guatemalan nationals. There is also evidence that the Morales government would like the US to reduce its financial support for the UN-backed International Commission against Impunity in Guatemala (CICIG) – which has investigated allegations of impropriety by the president himself and by members of his family. So far there has been silence on the TPS request, and although some conservative US senators are campaigning for a reduction in CICIG’s power and budget, no decisions have yet been announced.

To the annoyance of President Morales, he is now also being accused of impropriety in the way he has sought closer relations with Israel. The president and a large group of officials travelled from Guatemala to Israel and back in May for the opening of the new embassy in Jerusalem on an aircraft provided free of charge by US-based Jewish businessman Sheldon Adelson. The Guatemalan attorney-general’s office has now opened an investigation into whether this was a violation of Guatemala’s Ley de Probidad (Probity Law) and of article 439 of the penal code, which forbid the president from receiving gifts in kind.

After last year’s presidential elections – widely branded as fraudulent – and facing ongoing allegations of corruption, Honduras’s President Juan Orlando Hernández also seeks increased support from the US. Honduras supported the US embassy move to Jerusalem, and is preparing its own transfer. Yet Hernández has also been dogged by controversy. In April he had to cancel a planned visit to Israel to take part in the traditional torch-lighting ceremony on the eve of Independence Day. Israeli opposition parties, already trying to limit Netanyahu’s role in the ceremony, had objected strongly to the presence of the Honduran president, which they described as “scandalous” given serious human rights violations in Honduras. The incident has not, however, derailed bilateral relations. There is on the other hand a question mark over whether Honduras will get a better deal from the US as a result of its Israel policy. It did not prevent the US announcing in May that it is terminating the TPS programme for Honduran citizens: around 57,000 Hondurans living in the US have been given until January 2020 to find other ways to maintain legal residency in the US, voluntarily return to Honduras, or be deported.

By contrast, Panama’s recent approximation to Israel is much less politically controversial and not particularly designed to impress President Trump. Signed by both countries in May 2018, the Free Trade Agreement (FTA) should pave the way for a small improvement in relatively modest levels of bilateral trade. Panama’s agricultural and agro-industrial exports will get preferential access to the Israeli market. Israeli companies will be encouraged to invest in Panama and to use the country’s logistics hub including the Panama Canal. Israel will also help set up Panama’s first Agricultural Excellence Centre. The Panamanian embassy is remaining in Tel Aviv. President Juan Carlos Varela visited Israel in May, but took care to also go to the West Bank where he met president of the Palestinian National Authority Mahmoud Abbas and reiterated Panama’s support for peace talks focused on a two-state solution.

<table>
<thead>
<tr>
<th>Still small beer: Central American Trade with Israel, US$m, 2017</th>
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<tr>
<td><strong>Central American exports to Israel</strong></td>
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<tr>
<td>Costa Rica</td>
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<td>El Salvador</td>
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<td>Guatemala</td>
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<td>Honduras</td>
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<td>Nicaragua</td>
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<td>Panama</td>
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<td><strong>Total</strong></td>
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Panama’s general elections are due on 5 May 2019, with a new government taking office on 1 July next year. That means that President Juan Carlos Varela is entering a ‘lame duck’ period, with just over nine months to go before the elections, and 11 to go before his term in office ends. At this stage a multitude of presidential hopefuls (over 20) are getting ready to contest primaries: it is still too early to identify the front-runners.

Panama’s three main political parties, Cambio Democrático (CD) on the centre-right and in opposition, Partido Revolucionario Democrático (PRD), of the centre left, also in opposition, and Partido Panameñista (PPA), a centrist and populist party currently in government, are getting ready to do battle between themselves and with candidates from some of the smaller parties, as well as independents. The key next step in the race is party primaries, due to be held first by CD on 12 August, second by the PRD on 16 September, and third by the PPA on 28 October.

The big issue confronting the CD is the role of former president Ricardo Martinelli (2009-2014). He was extradited from the US back to Panama in June and remains imprisoned facing trial on charges of illegal electronic spying on political opponents during his time in office. Although there have been few reliable opinion polls this year, it is widely believed that Martinelli is still seen as ‘leader of the opposition’ by a significant proportion of the electorate. He cannot himself be a candidate (former presidents must await two consecutive five-year terms before they can run again, much also depends on his evolving legal situation), but who he endorses, and when, could turn out to be critically important. A total of 13 pre-candidates sought to contest the CD primaries, but some have dropped out reducing the field to eight at the latest count. An important contender is former foreign minister Rómulo Roux (2012-2014), who has taken some distance from Martinelli. If he reaches the presidency Roux says he will concentrate on re-accelerating the local economy. One of his main rivals is a Martinelli loyalist, former security minister José Raúl Mulino (2009-2014), who favours convening a constituent assembly.

Within the PRD there are no fewer than 17 contenders for the presidential nomination. They include former agriculture minister Laurentino ‘Nito’ Cortizo (2004-2006), former president Ernesto Pérez Balladares (1994-1999), and Zulay Rodríguez, a member of the national assembly. Cortizo says his priority is to improve Panama’s education, health, security, and water supply. Balladares has emphasised the need for constitutional reform and says that would be his top priority for the country. Zulay Rodríguez has made much of promising a “zero tolerance” approach to corruption.

The PPA arguably faces the most difficult challenge, because it is the party of government at a time when the electorate shows signs of impatience and anger over corruption and economic slowdown. President Varela has been on the back foot recently. In May he announced a plan for constitutional reform (an unfulfilled electoral promise) which would have involved also electing a constituent assembly in May next year – with no support from the other parties, the idea has now been dropped. Varela also wanted a relaxation of fiscal rules to increase public spending by US$300m ahead of the elections: this too has been dropped because the opposition majority within the national assembly (AN) will not back it.

Completing the string of embarrassing incidents, opposition protests also forced the authorities to reverse planned electricity tariff increases. Significantly, a potentially strong PPA contender, Panama City mayor José
Isabel Blandón, who has had a good approval rate among residents of the capital city, has distanced himself from the president, criticising political polarisation and saying he does not seek or need Varela’s endorsement.

The lack of recent and reliable opinion polls has increased uncertainty. Surveys conducted late last year by Dichter & Neira suggested President Varela had a 57% disapproval rate (vs. 35% approval), and that respondents identified the country’s biggest problem as crime (31%). The same agency found that 27% of respondents said they supported the PRD, 22% backed the CD, and only 5% supported the PPA.

**REGION | MIGRATION**

**Trends in Central American migration**

This article analyses recent trends in Central American migration, starting with a brief historical context and moving on to current developments. It considers geographical divisions, reasons for migrating, and growth in the overall migrant population. Finally, it considers implications of these current trends for Central American countries.

Although Central American immigration is a relatively new phenomenon, mostly dating from the late 1970s, its impact in the region and on foreign policy is quite significant. On the latter, it has come under renewed scrutiny since US President Donald Trump introduced his anti-immigrant rhetoric which targeted mostly Central Americans. The population of Central American migrants in the US has nearly doubled from 2000 to the present, but the trend has changed from 2009 onwards resulting from causes that stem from the impact of globalisation. Though migration has continued, over the past five years, it has done so at a declining rate. Overall growth in the immigrant population in the US has been offset by large numbers of deportations. In the long run, continued decline will affect economic growth and prosperity in the region.

**Historical context**

Migration from Central America is a phenomenon of the late 20th century, shaped by a combination of dynamics, mostly associated with political instability and poorly performing economies. In the 21st century, migration has been shaped mostly by globalisation and transnational organised crime.

The region exhibits four different outmigration periods. The first migration wave predates the 1970s, which was shaped mostly by intra-regional mobility of Salvadorans moving to Guatemala, Hondurans to El Salvador and Nicaraguans to Costa Rica. A second wave, 1970s to 1990, is shaped by conflict-related dynamics, with people escaping from civil war, repression, and military rule during that period. A large outflow of people moving abroad came from El Salvador and Nicaragua. The third wave is the post-civil war transition and the gradual integration to the global economy. During this wave people migrated as an economic rationale, responding partly to a demand for foreign labour and economic necessity. The final and current wave is shaped by continued economic needs, external demands for foreign labour and insecurity resulting from the consolidation of transnational organised crime networks. Since 2009 the region has experienced major shifts associated with insecurity and violence.

**Recent trends of Central American migration**

As of 2017, Central American migrants had practically doubled from 2.6m people to 4.3m people within a span of 17 years. This number reflects patterns associated with flows from two main sub-regions. Recently, policymakers have distinguished two regions within Central America, the so-called
Northern Triangle and the Southern region, which includes Nicaragua, Costa Rica, and Panama. Migration follows similar patterns linked to the rationales shaping the two sub-regions. The Northern Triangle is considered a region exceedingly affected by the ravages of violence associated with dense waves of transnational organised crime, particularly narco-trafficking, with out migration as a consequence. The second region is mostly defined by intra-regional migration networks with Costa Rica and Panama as labour import- ing countries for Nicaraguans working in domestic labour, security, transportation, and construction activities (Panama in particular for construction).

Drivers of migration from the Northern Triangle

Central American migration, particularly from the Northern Triangle countries, underwent changes in the post-2009 period, particularly related to increased insecurity coming from transnational organised networks. The slow economic recovery, the effect of the 2009 military coup in Honduras, as well as the expansion of youth gang violence and narco-trafficking networks in El Salvador and Guatemala had a broader and devastating effect on increasing emigration.

Waves of severe violence and insecurity associated with a prevailing environment of the operation of organised crime networks has informed decisions to emigrate. A larger number of people have sought to leave their home countries, including many applying for political asylum to escape persecution from narco-trafficking networks, gangs, or extortion rings. For example, in a 2014 study of Salvadorans, at least 20% stressed their interest to emigrate, particularly among those between the ages of 18 and 24, while 28% stressed that insecurity was the primary reason.

Insecurity is not accidental; the Northern Triangle is affected by violent homicides and extortions that intimidate people and push them out of their neighbourhoods and country. These homicides are not negligible in number and since the mid-2000s they have ranged between 38 and 40 a day for the three countries combined. They are accompanied by thousands of cases of extortion a year, and the intimidation and turf wars of an estimated 100,000 youth gangs (over half in El Salvador). In addition to insecurity, the economic factor is also central to this situation. Within a macroeconomic context, Central American economies are split between two poles of growth and wealth generation, with a third ‘missing middle’. First, the growth in the region has been driven by its dependence on the global economy, specifically on merchandise exports (predominantly agriculture and ‘maquilas’) and tourism (much of which comes from the diaspora itself). In terms of merchandise exports, fewer than 20 products account for more than 60% of exports by 50 top companies, which in turn employ only a fraction of the total labour force.

The second pole of growth is linked to migration. Remittances, nostalgic trade, diaspora tourism, and other services represent nearly 20% of GDP, on average. Remittances alone amounted to US$17bn in 2015, representing over 50% of household income in some 3.5m households in the region. Moreover, remittance recipient households have a total stock of savings of over US$3bn, the majority in informal, ‘under the mattress’ savings. This economic factor has contributed to inform people’s decision to migrate as the opportunity costs of migrating are not negligible.

In fact, amid these poles is a vast informal sector, comprised of more than two thirds of the labour force and the business sector together. It is euphemistic to talk about a private sector in Central America when most of these enterprises are one-person businesses that make less than two minimum wages. In turn, the low levels of income are the by-product of this economic model based on agriculture or other low-performing products that rely on unskilled, unedu-
cated and underpaid labour. Therefore, the consequence of an obsolete growth model, accompanied by high rates of informal work, and the presence of drug cartels, extortion rings, and youth gangs, have triggered emigration.

In fact, research showed that migration is triggered by different factors, including insecurity. Looking at the municipal data level, in Honduras, a 1% increase in homicides drives migration by 120%, while increases in the size of economic informality boost migration by 12%. In Guatemala, a 1% increase in homicides drives migration by 100%, while increases in economic informality boost migration by 4%, and a decline in the human development index increases migration by 5%. In El Salvador, a 1% rise in homicides increase migration by 188% and economic informality by 27%. A similar pattern was found between the migration of minors and violence in the three countries. These trends have continued in 2016 and 2017. Surveys of migrants in 2016 and 2017 show that 20%-30% of Central American respondents cited insecurity as a reason for having left their country.

Another driver of migration is the US demand for foreign labour. Central American migrants meet an important demand in certain low-skill or labour-intensive sectors of the US economy, particularly construction, domestic work, food, and hospitality services. For example, one important growth factor in the US economy is in real estate and construction where only 4% of the labour force works. In that sector more than 25% of migrants work in construction and may represent at least one-third of workers in that industry. A similar case is of female domestic workers, about a third of which work in that sector in a US economy where less than 2% of the labour force works in that activity.

### Migration of Nicaraguans

As with the Northern Triangle, Nicaraguan foreign labour migration is a by-product of the poor model of growth, one which precedes the 1980s period when thousands of Nicaraguans left escaping the civil war. Given the economic asymmetries of Nicaragua and Costa Rica (Costa Rica’s economy and minimum wages are at least five times that of Nicaragua) and a growing international demand for foreign labour in strategically important areas of other countries’ economies, there are more than 700,000 Nicaraguans living and working abroad, particularly in Costa Rica and the US. These migrants are sending over a billion dollars in remittances. Nearly half of those flows come from Nicaraguans in the US and the other half from Costa Rica.

These flows are only a part of a larger set of economic engagements that this community establishes with their homeland. Nicaraguan immigrants in the US not only send money home but also consume nostalgic products (beans, tortillas, cheese, etc.), call home, visit the country, or donate to charitable projects in their home community. In addition, remittance recipients have important stocks of savings and investments they make in their own initiatives.

However, despite these numbers, labour migration is not integrated into the government’s national development plans. Given the magnitude of informality and the extent of wealth generated through migration-related transnational activities, it is important to consider new development approaches.

### A declining trend in Central American immigration to the US?

This increased outward migration has not directly translated into a dramatic increase of immigration to the US. Rather, during 2009-2017, migration growth to the US has been seeing mixed patterns. For the Northern Triangle the growth in the number of migrants for this period was 1.9%. Two main factors are that on one hand enforcement may have reflected an effect in more apprehensions and difficulties entering the US, especially with Mexican authorities detaining prospective migrants. The other factor is the steady pattern of deportations.”
The table below compares people entering the US, the majority (89%) by crossing the US border, with the exception of Salvadorans where over half entered legally. In addition, many unaccompanied minors have sought to come to the US in numbers that are comparatively as large as, or larger than, the annual growth in the enrolment rate in secondary school within their home countries. In 2014 more than 50,000 unaccompanied minors had crossed the US border, and by the first half of 2018 the number was over 30,000.

Table 1: Estimated Annual Immigration from the Northern Triangle

<table>
<thead>
<tr>
<th>Year</th>
<th>El Salvador*</th>
<th>Guatemala</th>
<th>Honduras</th>
<th>Northern Triangle</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>61,000</td>
<td>43,485</td>
<td>50,205</td>
<td>154,690</td>
</tr>
<tr>
<td>2016</td>
<td>42,455</td>
<td>48,954</td>
<td>60,513</td>
<td>151,922</td>
</tr>
<tr>
<td>2017</td>
<td>25,465</td>
<td>60,139</td>
<td>48,478</td>
<td>134,082</td>
</tr>
</tbody>
</table>

Source: Author’s estimates. *In 2009 23% of migrants were authorized legal entry, and 61% in 2017.

The magnitude of this migration is measured by considering the number of people who are apprehended along the Mexico and US border as well as by those who eventually enter. Thus there are still large numbers of people who attempt to leave their countries but remain in transit trying to enter the US. Total migration outflows from these countries may be two or three times higher than the number of people crossing the US-Mexican border.

But while migration has continued, it is doing so at a declining rate (see Table 2 next page). This decline is particularly noticeable because the pattern of deportations has remained steady. Eventually, because most migration to the US is irregular without legal authorisation to work, the continued numbers of deportations effectively reduce the number of people in the country. In turn, the replenishment ratio of migrants from the Northern Triangle declines because the number of entries is not too large. In fact the net number between new migrant entries and deportations, in 2017 is 67,000. If to this situation is added continued border enforcement and the termination of Temporary Protected Status (TPS) for more than 300,000 Central Americans from El Salvador and Honduras, the size of the migrant population will effectively decline further.

Implications of changes in Central American migration

Central American migration continues to be one of the largest outflows of people in the world. However, as the number declines, there are some concerns that may point to a deterioration of the economies and societies in Northern Triangle countries.

First, while migration has been shaped by a demand for foreign labour, economics and insecurity in the region, there seems to be a slowing rather than increasing migration pattern relative to the total number of migrants. The economic implications for the Northern Triangle countries point to declining family remittances in the short term, in turn affecting economic growth as they are a driving economic force. Under the current model of economic growth, economic opportunities will remain limited. Slowing migration not only affects the receipt of remittances but also long-term transnational engagement, including family ties.

Second, given the continued apprehensions and deportations, the problem of job generation and reintegration is not negligible. For example, deportations alone amount to half of the annual labour force growth in El Salvador. However, the skill set of those returned, many of whom have been at least 10 years out of their home country, is suited to the US labour market rather than the home country. More problematic is that current reintegration programmes are mostly focused on light workforce development support or on entrepreneurship in countries with highly informal economies. In turn, unemployment or informal work rates will increase, affecting growth and development.
Moreover, with declining migration it is difficult to find short-term practical solutions and mitigating strategies for US labour shortages because the demand for foreign labour in the US is not negligible. There are many activities in the US economy that are requiring low-skilled foreign workers.

<table>
<thead>
<tr>
<th>Table 2: Migration and Labour Force Increase (2017)</th>
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<tbody>
<tr>
<td><strong>Year</strong></td>
</tr>
<tr>
<td>Outmigration (est.)</td>
</tr>
<tr>
<td>Entry to the U.S.</td>
</tr>
<tr>
<td>Deportations</td>
</tr>
<tr>
<td>Labor force increase (excl. deportations)</td>
</tr>
<tr>
<td>Of which, jobs created in the formal economy</td>
</tr>
<tr>
<td>Of which jobs in the informal economy</td>
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*Source: Author's estimates*

<table>
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<th>Table 3: Geographic Destination of Central American migration (2017)</th>
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<tbody>
<tr>
<td><strong>Country of Origin</strong></td>
</tr>
<tr>
<td><strong>United States</strong></td>
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<tr>
<td>(##)</td>
</tr>
<tr>
<td>Costa Rica</td>
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<tr>
<td>El Salvador</td>
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<tr>
<td>Guatemala</td>
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<td>Honduras</td>
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<td>Nicaragua</td>
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<td>Panamá</td>
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<td>Central America</td>
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**CARIBBEAN | POLITICS**

**Díaz-Canel reveals plans to ‘regulate’ private sector**

Last month the new government led by President Miguel Díaz-Canel announced 20 measures – six decrees and 14 resolutions – to “regulate the activity” of the private sector. The measures, which will take effect as of December, will further tighten controls on ‘cuentapropistas’ (self-employed small entrepreneurs) and confirm that Díaz-Canel is not planning any further opening of the closed state economy.

The new measures will also end a 16-month freeze on the issuing of business licences for cuentapropistas. Significantly, however, these licences henceforth will be restricted to one per person, which the government said would combat rising income inequality and tax evasion, but which cuentapropistas say almost defeats the purpose of their efforts to run their small businesses, which range from restaurants and B&Bs to hairdressers, car mechanics, and taxi drivers, of some 200 licensed activities in all.

Cuba’s ‘non-state sector’ as the government refers to it, largely comprises small business owners and their employees (as well as some individual traders or street sellers etc.). According to labour ministry data, it has expanded from 157,000 in 2010, to 592,000 as of 2017, or roughly 13% of the labour force.

Within the 129 pages of new regulations issued to the sector, the restriction to a single business licence will be applied retroactively. Yet of the 592,000 cuentapropistas currently reported by the labour ministry, only 7,000 of them are registered as holding more than one licence, i.e. barely 1.2% of the total.
Some of the most affected will be those in the tourism sector, with restaurants henceforth strictly limited to 50 seats. When private restaurants were first allowed in Cuba in the early 1990s, during Fidel Castro’s ‘Special Period’ (a time of severe economic crisis after the break-up of the USSR), the maximum numbers of seats permitted was 12. This was later raised to 20 and then to 50.

There were about 2,200 private restaurants in Cuba as of 2017, forming a critical part of the tourism sector, particularly in Havana. Some of the more successful and entrepreneurial restauranteurs had expanded their business by taking out a second licence - which the government now will oblige them to relinquish (or possibly transfer). Likewise, B&Bs will also face more inspections and may potentially also see limits imposed on the number of rooms that they are able to offer.

Elsewhere, many of the 6,000 Havana vintage car-owning taxi drivers who typically have used black market fuel (thereby keeping their fares low for tourists), will now be forced to purchase a minimum amount of fuel from state petrol stations (at considerable mark-up), as well as pay a monthly quota on their estimated earnings. Another regulation could limit their licences to certain municipalities or provinces, restricting their ability to work outside of set districts.

To make matters worse, the government still has not made good on its pledge to open wholesale supply stores, in the absence of which cuentapropistas have been forced to either source supplies on the local black market or import them (legally or illegally) – mostly from Miami. Hairdressers, beauty salons, and B&Bs have all become accustomed to shipping supplies in via family members arriving laden with large suitcases.

The new government has recently raided a string of state retail outlets accused of diverting goods to the black market, which begs the question as to why it doesn’t simply set up wholesale markets, which it might then also be able to tax lightly.

Even as it fails to put in place this fundamental resource, the government will now also require small businesses to open special bank accounts and carry out the bulk of their business through them, so as to better track their income for tax purposes.

The strong feeling among cuentapropistas is that the cash-strapped Communist government is really only allowing them to continue to operate in limited, tightly controlled form so as to tax them to the max – without a whit of understanding as to what small businesses actually need to thrive (whether that be access to local wholesale markets, or tax, credit and other incentives to expand and grow their small or micro ventures).

So even as the new draft constitution may well include recognition of markets for the first time since the start of the Revolution (see box next page), it is not really being matched by policy. Indeed, the Communist party recently added to its reform plan a ban on the accumulation of wealth, in addition to that already existing on property.

While the government says it will not tolerate economic and social inequalities in Cuban society and does not want to see two classes of ‘haves’ and ‘have-nots’, it would also appear that the primordial fear of losing control continues to be dominant driving factor, particularly among the more conservative elements of the PC that are still in control under Díaz-Canel.

This was largely confirmed when the new president unveiled his cabinet – or council of ministers – in late July. Approved by the national assembly on
21 July, the council sees the continuance in their posts of much of the old guard, including ministers carried over from former president Raúl Castro (2008-2018) (who retains the powerful position of first secretary of the PCC) and some of the aging ‘históricos’ from the Revolution.

For example key ministers such as Rodrigo Malmierca (foreign trade & investment), Bruno Rodríguez (foreign affairs), Julio César Gándarilla Bermejo (interior), and General Leopoldo Cintra Frías (defence) all retained their posts. Also indicative of the continued influence of the old guard, the three historic vice presidents of the council of ministers – revolutionary commanders Ramiro Valdés Menéndez (86), Ulises Rosales del Toro (76), and Ricardo Cabbrisas (81) – remained in place.

Among the new faces, however, was Alejandro Gil Fernández, appointed from deputy minister to become Cuba’s new economy & planning minister, replacing the elderly Ricardo Cabbrisas. Like Díaz-Canel, Gil is a member of the newer generation of Cuban politicians. Another notable change was the absence from the new line-up of Marino Murillo, the former economic reform czar, who had accompanied Raúl Castro for a decade and was considered the architect of Castro’s modest reform agenda.

Gil faces into a very difficult portfolio, with the Cuban economy still lurching, badly affected by the crisis in its main ally and financial patron Venezuela, which has been obliged to significantly reduce oil supplies to Cuba, to crippling effect in Cuba. Díaz-Canel on 22 July admitted that first half real annual GDP growth was just 1.1%, below the government’s target of 2%.

The economy posted annual growth of just 1.6% last year, well below the 3% rate of growth needed for the economy to break even, on estimates by private economists, and very far away from the 7% rate need to really recover from the stagnancy Cuba has endured since the demise of the Soviet Union.

“The financial situation remains tense...forcing the adoption of additional measures to control resources in the second half,” Díaz-Canel stated, warning of further belt tightening in the state sector. He called on all Cubans to “work harder to improve the economy”. Yet taxing cuentapropistas to the hilt and strangling them with regulations is hardly the incentive they need.

### New constitution

The national assembly has also approved the first draft of a new constitution, to replace the 1976 version, which was partially reformed in 1992 and 2002. Among the key changes, the proposed new document, which is due to be submitted to popular discussion and modification and subsequently a referendum vote, would restrict presidents to two terms and stipulate that they must not be older than 60 at the start of the first term.

It would also significantly reorganise the government, introducing the position of a prime minister who would share power with the president (who makes the appointment) and would be in charge of the council of ministers.

The new constitution appears to drop the wording declaring its goal as achieving a Communist society. The draft text nonetheless emphasises that Cuba’s ‘socialist system’ is ‘irrevocable’ and the PCC the only legal party, with Article 224 reaffirming the socialist character of the Cuban political system, and the ‘guiding role of the one and only Communist Party’.

As mentioned earlier, it also recognises the role of the market and private property, although it “retains [as a key component] the essential principles of socialist ownership by the people over the basic means of production and central planning”.

In another ground-breaking change, the new constitution would also pave the way for same-sex marriage, defining matrimony as between two individuals rather than between a man and a woman.
On 15 June, the International Monetary Fund (IMF) concluded its latest Article IV consultation with Guyana. It is positive about Guyana’s future as a major oil producer, but it continues to urge restraint. For the moment, the A Partnership for National Unity-Alliance for Change (Apnu-AFC) coalition government led by President David Granger is heeding the IMF’s urgings, but the pressure to ease the purse string will inevitably grow as the country gets closer to the 2020 general election. In the meantime, US oil giant ExxonMobil has issued another bullish statement, increasing its estimate of ‘discovered recoverable resources’ to more than 4bn oil-equivalent barrels, up from its previous estimate of 3.2bn oil-equivalent barrels.

The IMF is very positive about the outlook for Guyana. It says straightforwardly: “Guyana’s medium-term prospects are very favourable”. Although its forecasts only run up to 2019, the year before the oil is set to begin flowing, the IMF does show some positive benefits to the economy ahead of ‘first oil’. Growth of 2.1% in 2017 should accelerate to 3.4% in 2018 and 4.8% in 2019. The fact that it needs to can be seen in the GDP per capita outlook. In 2017, GDP per capita grew by just 0.1%, and for 2018 it is expected to accelerate only to 1.4%. In 2019, however, the growth figure is a more encouraging 4.5% - but 2019 is getting perilously close to election time, and the fear of some in the ruling coalition is that the feel-good factor might come too late.

The main concerns for the IMF are the current-account deficit, which is expected to narrow from 6.7% of GDP in 2017 to 6.1% in 2018 and 4.3% in 2019, and the central government deficit which was 4.5% in 2017. Public debt was 52.2% of GDP at end-2017. The central government deficit is set to widen to 5.4% in 2018, falling back slightly to 5.1% in 2019. The increasing deficit is attributable in part to the cost of restructuring the sugar sector along with increased spending on infrastructure.

With regard to short-term financing, the IMF gives Guyana a substantial pat on the back, saying: “The authorities’ prudence and restraint towards borrowing in anticipation of future oil revenue is commendable”. It adds: “Developing the domestic capital markets would provide a more stable source of financing and help meet the needs of domestic long-term institutional investors. Private external borrowing should continue to be avoided, and central bank financing should not be used at all.”

In all this, the IMF has a strong ally in Finance Minister Winston Jordan who is resisting calls from elsewhere within the government to begin spending. Public Security Minister Khemraj Ramjattan, for instance, is calling for substantial increases in public-sector wages. No doubt these calls will increase as the election approaches, but for the moment at least Jordan remains firm – and in this he has been helped by the decision (reported last month) of the Caribbean Court of Justice (CCJ) to uphold the constitutional ban on opposition leader Bharrat Jagdeo running for a third term. There is no doubt that the opposition People’s Progressive Party/Civic (PPP/C) would be a more formidable opponent in 2020 under Jagdeo’s leadership.

Exxon’s announcement about increased ‘discovered recoverable resources’ was made on 23 July. In its statement, the company said that Liza Phase 1 will produce 120,000 barrels of oil per day, starting “by early 2020”. Liza Phase 2 is expected to produce 220,000 barrels per day with production beginning in mid-2022. The third phase of development will be the Liza-5...
well in the northern portion of the Liza field along with “the giant Payara field”. This should be producing 180,000 barrels per day from 2023.

The statement went on to say that the Longtail well “established the Turbot-Longtail area as a potential development hub for the recovery of more than 500 million oil-equivalent barrels”. And it said: “The collective discoveries on the Starbroek Block to date have established the potential for up to five [floating production, storage and offloading (FPSO) vessels] producing over 750,000 barrels per day by 2025.”

Finally, the statement added: “There is potential for additional production from significant undrilled targets and plans for rapid exploration and appraisal drilling, including the Ranger discovery.”

Separately, the Guyana government is continuing to work on producing a Green Paper on ‘Managing Future Petroleum Revenues and the Establishment of a Fiscal Rule and a Sovereign Wealth Fund’. Sources who have seen the draft report that the government-revenue projections for Liza 1 and 2 are as follows (based on US$54 a barrel of oil): 2020, US$158.9m; 2021, US$321.5m; 2022, US$417.4m; 2023, US$718m; 2024, US$949m; 2025, US$1.05bn.

The significance of these projections is, of course, the more than six-fold increase in government revenues between 2020, the date of the next election, and 2025 when whoever wins in 2020 will be returning to the electorate for another verdict. With that sort of largesse available, it is obvious why the 2020 contest is assuming such huge importance.

BARBADOS | ECONOMY & POLITICS

The reality sinks in

It didn’t take long for the euphoria to dissipate following the Barbados Labour Party’s landslide victory in the 24 May general election, in which it collected all 30 seats leaving the outgoing Democratic Labour Party (DLP) with no foothold in the House of Assembly. Within weeks, Prime Minister Mia Mottley had to admit that the country’s public debt was 171% of GDP, not 135% as previously thought, and that it was suspending payments on external debt owed to commercial creditors.

Inevitably, given the size of the crisis, the country is now deeply engaged with the International Monetary Fund (IMF), something that the DLP government tried to resist, although by this time last year it was beginning to accept that an IMF programme might eventually be necessary. But, even then, the DLP government’s finance minister, Christopher Sinckler (2010-2018), was saying that Barbados should design its own programme and not be pushed about by the IMF.

Speaking in June last year, Sinckler said: “It is really incumbent on any country seeking such a programme to determine and even design what type of intervention it wants that would suit its conditions and which would get broad sectoral support before approaching the Fund. There is way too much historical evidence to show that countries which have been unable or unwilling to do so have been left having to implement badly designed IMF programmes which only reflect the wish list of Washington technocrats but end up causing massive destruction in their wake. This cannot and will not be the fate of this country!”

Maybe not, but it cannot be denied that Barbados is in a worse position now than it was a year ago, except in so far as it undoubtedly has a stable gov-
government that should be able to push through any policies it – or the IMF - deems necessary. This may include privatisation, which has long been resisted, including by the now-ruling BLP.

In October last year, for instance, BLP candidate Ryan Straughn, who is now finance minister, gave a lecture in which he said that the state-run Transport Board should be sold. Straughn asked his audience: “When will we recognise that the Government of Barbados does not have to own a bus to deliver subsidised fares for any of its citizens?”

This prompted an immediate rebuff from BLP parliamentarian Jeffrey Bostic, who said this was not BLP policy, which would be decided by the parliamentary group. The BLP’s General Secretary, Jerome Walcott, also jumped in, dismissing Straughn as “an economist… a young politician… new to politics”. He added that the lecture had not been “edited and controlled by the party”. However, Walcott did add that policy is not yet set in stone. And now, of course, the country is in the hands of the IMF, which at the very least will be demanding – inter alia - efforts to improve the finances of state-owned companies if not full divestiture.

One thing that has changed since the election is that there is now an opposition voice in the House of Assembly – not from the defeated DLP, but a disgruntled BLP politician, Joseph Atherley, who has crossed the floor to become the sole opposition parliamentarian, and hence officially Leader of the Opposition. He is unlikely to much worry the government, not just because he is just a single voice but also because he doesn’t seem that committed to opposing his former party. He wrote to Mottley on 20 July assuring her of his “critical support” and “sincere plaudits when you get it right, as I expect you often will”.

TRINIDAD | ECONOMY

A little breathing space, but not much

In its latest Article IV consultation, the International Monetary Fund (IMF) reports that the Trinidad & Tobago economy is “slowly recovering from a prolonged recession”, and positive growth of 1.0% is expected in 2018. But there is likely to be a slight slowdown in 2019 (0.9%) rather than any acceleration of the recovery. In 2017, the contraction was -2.6%.

Over the medium term, the IMF is expecting growth to stabilize at an unexciting 1.5%. Furthermore, it sees risks as being “tilted towards the downside”. These risks include lower energy prices and delays in delivering energy-related projects on time. Nevertheless, perhaps optimistically given the lack of any dynamism in the economy, the IMF argues that the “relatively favourable circumstances in 2018 with stronger energy prices and low inflation provide a window of opportunity to establish a medium-term adjustment strategy”.

One of the key adjustments is seen to be “creating an enabling environment for the non-energy sector to be an engine of growth”. The IMF urges continuing efforts to support tourism, and the removal of “obstacles to non-energy growth” which it lists as including air/sea connectivity, the cost of doing business, and access to finance.

Crime, of course, is another drag on the economy. The IMF puts direct crime-related costs from public, private, and social spending at 3.5% of GDP, which is actually about average for the Latin American and Caribbean regions. However, Trinidad’s homicide rate is amongst the highest in the Caribbean.
*** CLEANOUT AT PETROJAM. Jamaica’s Prime Minister Andrew Holness has ordered a strategic review at state-run petrol refinery Petrojam. In a statement in parliament on 10 July, Holness added that the cabinet had agreed major changes to the oversight and control of public bodies and that proposals were to be advanced for amendments to the Public Bodies Management and Accountability Act (PBMA). In the meantime, there have been four major resignations from the Petrojam board, including General Manager Floyd Grindley, following reports about nepotism, cronyism, and corruption. Holness told parliament: “This government has nothing to hide. We are shielding no one and are not covering up anything.”

*** CABINET RESUFFLE IN BAHAMAS. Just over a year after coming to power, Prime Minister Hubert Minnis has reshuffled his Free National Movement (FN) government. The changes, which take effect from 30 July, were announced by Minnis at the beginning of the month. He said: “There will be quite a number of Cabinet ministers who will be relocated to other ministries and quite a number of permanent secretaries who will be relocated to other ministries.”

This was a genuine ‘reshuffle’ rather than bringing in new blood, with ministers being moved around rather than sacked and replaced. The prime minister said: “It gives individuals exposure and experience in all of the different ministries.” He added: I have not lost faith in any cabinet minister. My cabinet ministers have performed exceptionally well, and I am sure they will continue to do exceptionally well.”

Minnis also announced that he planned to establish a new office within the Office of the Prime Minister to act as a “modernisation unit, so that we can modernise and transform the public service and the entire government”.

*** BARBADOS REMOVES VISA BARRIER FOR HAITIANS. Barbados’s Prime Minister Mia Mottley used her first address to fellow Caricom leaders, at the early July summit in Montego Bay, Jamaica, to push the case for freer movement of people within the community. In particular she argued for a simplification of the issuance and verification of skills certificates for people seeking to work in other countries. She said: “We have to change and change urgently”. Mottley proposed legislation that would reduce the time needed for accreditation from around four months to about three weeks.

The prime minister also announced that Barbados is to abolish the visa requirements for Haitians visiting Barbados. Mottley explained: “Every day we allow people who are not members of this community to travel freely into the Caribbean area without visas. Haiti took the extraordinary step of signing the revised Treaty of Chaguaramas and committing to a Caricom Single Market and Economy. In those circumstances, my cabinet has agreed to remove the visa requirements for Haiti. In our view it breaches the fundamental tenets that bind us under the revised Treaty of Chaguaramas.”

*** ICJ TO TAKE MORE TIME OVER GUYANA-VENEZUELA CASE. On 2 July the International Court of Justice (ICJ) announced that it first needs to resolve the question of jurisdiction before proceeding with the substance of the Guyana-Venezuela dispute. It has given Guyana until 19 November 2018 to submit its case on this point, and Venezuela until 18 April 2019 to respond. Most observers see this as a case of the ICJ wishing to go the extra mile to minimise any future adverse response from Venezuela to an eventual finding against it. Nevertheless, there is some slight nervousness in Guyana that the ICJ now feels the need to determine its jurisdiction even though the matter was referred to it by the United Nations Secretary-General."
FDI up. On 5 July the United Nations (UN) Economic Commission for Latin America & the Caribbean (Eclac) released its latest report on foreign direct investment (FDI) to Latin America and the Caribbean (LAC) which showed that overall FDI to Central America was up 4.5% in 2017 compared with the previous year, to reach US$13.08bn. This is in contrast to the LAC average which fell 3.6% in 2017. The Eclac report notes that the sub-region continues to be an important export platform for the goods destined for the US. In particular, clothing (in all countries excluding Panama and Costa Rica) and electronic manufacturing industry (especially in Honduras and Nicaragua) remain important recipients of FDI, however new industries now challenge them such as medical equipment made in Costa Rica. Across the various countries, the Eclac report notes that Panama by far remains the main recipient, accounting for US$6.07bn of FDI in 2017 (a slight increase on the US$5.99bn in 2016). This is followed by Costa Rica (US$2.99bn, a slight increase on the US$2.96bn in 2016), Honduras (US$1.19bn up from US$1.14bn), and El Salvador (US$0.79bn up from US$0.35bn). The countries in Central America to have registered a decline were Guatemala (where FDI dropped from US$1.19bn to US$1.15bn) and Nicaragua which dropped from US$0.899bn to US$0.897bn).

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*Figures from the United Nations Economic Commission for Latin America & Caribbean Dec 2017
**Figures from the United Nations Economic Commission for Latin America & Caribbean April 2018
Quarterly growth based on figures from the local central banks

Inflation Rate (%)

(Selected countries, latest available data)