

Discussion Paper

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How will BREXIT affect the Caribbean?

Overview and indicative
recommendations

by Errol Humphrey

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Key messages

Brexit-induced uncertainty engulfs the UK and threatens its partners, including the Caribbean.

Caribbean-EU relations will remain intact until 2020, but assurances are needed on what will happen thereafter.

Brexit presents an opportunity for the Caribbean to explore new development paradigms.

Brexit could have significant negative impacts on the Caribbean. The region needs to consider options.

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The views expressed in this study are those of the author only and should not be attributed to any other person or institution.

Acronyms

ACP	Africa, the Caribbean and Pacific
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum (of ACP States)
CBI	Confederation of British Industry
CRIP	Caribbean Regional Indicative Programme
EC	European Community
EDF	European Development Fund
EPA	Economic Partnership Agreement
EU	European Union
FCORs	French Caribbean Overseas Regions
FDI	Foreign direct investment
FTA	Free trade agreement
GBP	British Pound
GDP	Gross domestic product
GSP	Generalized system of preferences
LAC	Latin America and the Caribbean
M&E	Monitoring and evaluation
NGO	Non-governmental organisation
NIESR	National Institute of Economic and Social Research
NIPs	National Indicative Programmes
UK	United Kingdom
WTO	World Trade Organization

Executive Summary

On 23rd June 2016, in a referendum on whether Britain should maintain its EU membership, 52% of British voters opted to leave the Union. The vote to exit the EU (Brexit) has given rise to political and economic uncertainty in the UK and raised concerns among its international partners.

Political, economic, and trading uncertainty

The outcome of the referendum prompted the resignation of David Cameron as British Prime Minister and within eighteen days Theresa May emerged as the new leader of the Conservative party. Mrs. May took over as Prime Minister on 13th July and immediately indicated that Brexit will go ahead. Nevertheless, political uncertainty continues to surround the Brexit process, with divergent views between EU leaders and Brexit advocates on the way forward.

The vote to leave the EU has unsettled financial markets and the business community, leading to a deterioration of economic indicators and moving the Bank of England to introduce measures to stimulate growth. Uncertainty also reigns with respect to the post-Brexit trading arrangements between the UK and the EU as well as between the UK and all of its other partners, including the Caribbean.

Uncertainty remains about the timing and orientation of the exit negotiations between Britain and the EU. Whereas Mrs. May has indicated that the UK is unlikely to start the formal exit process before the end of the year, German Chancellor Angela Merkel has cautioned against a prolonged period of uncertainty.

Impact on Caribbean-EU relations

Considering some of the principal aspects of the existing Caribbean-EU relationship, the issues post-Brexit, which are of primary concern to the Caribbean, include:

- status of legally-binding agreements with the EU;
- impact of Brexit on the EPA;
- status of the Caribbean Regional Indicative Programme (CRIP) and National Indicative Programmes (NIPs);
- future of CARIFORUM's ACP status could be under pressure post-2020;
- EU-LAC relationship is expected to remain unchanged in the short and medium term;
- no impact on visa waiver agreement with the EU (Schengen countries); and
- lost of UK's counterbalancing influence to the less development-oriented forces in the EU.

Impact on Caribbean-UK relations

Post-Brexit, the Caribbean-UK relationship will require significant political and economic interventions to prevent the region from being disadvantaged. Some of the Caribbean's principal areas of concern are:

- how to address the short-term uncertainty associated with Brexit;
- the impact of a slowdown in UK economy on Caribbean trade, investment, and economic growth;
- the negotiation of new trade arrangements with the UK will be a priority for the Caribbean;
- new development cooperation arrangements must be addressed;
- negative impact of British currency devaluation on the Caribbean's exports to the UK; and
- depreciation of the British Pound will have a negative impact on aid, remittances, returning nationals.

Conclusions and recommendations

The Caribbean should see the post-Brexit environment, not as a tragedy, but as an opportunity to bring a new orientation to its longstanding relationship with the UK, while also strengthening its ties with the EU, and exploring possibilities for strategic alliances with other centres of influence. This new development paradigm would require Caribbean countries, individually and collectively, to focus on and adopt a systematic approach to the attainment of those goals, which they themselves have prioritized.

As was recommended earlier with respect to the region using the period of uncertainty to identify priorities and develop implementing strategies, the Caribbean should take advantage of the period of uncertainty, during which the UK is negotiating its separation from the EU, to prepare the region's positions for its negotiations with the UK and exchanges with the EU. A pre-emptive and strategic approach by the Caribbean, concentrating on a limited number of clearly identified priorities and reinforced with detailed preparation, would be a plus for the region.

With respect to Caribbean-EU

In the short term, as is discussed in Section 3, most aspects of the Caribbean-EU relationship are unlikely to be affected by Britain's exit from the EU. Nevertheless, the region should initiate early engagements with the EU and take steps, either to confirm existing benefits or to position itself better to attain key long term objectives.

Therefore, the Caribbean should validation of existing EU Commitments with respect to the EPA, access to the EDF and other EU resources, the ACP-EU partnership, the Caribbean-EU Strategy, visa waiver agreements, the EU-LAC relationship and any other arrangements relating to the CARIFORUM-EU partnership. The Region should also seek assurances of continued EU development support post-Brexit despite rising levels of per capita income in some Caribbean countries.

If the UK leaves the EU, there will be questions about the value of the EPA. CARIFORUM should seize the opportunity to enhance the Agreement, by engaging the EU and presenting possible solutions with respect to specific EPA-related concerns.

When CARIFORUM and the EU have common interests, the numerical strength of CARIFORUM makes the region a highly valued partner. The Caribbean needs to mobilize more effectively in multilateral for a in order to bring significant value to the relationship with its EU partners and increase the likelihood of greater benefits for both Parties.

With respect to Caribbean-UK

As discussed in Section 4, the Caribbean needs to develop and pursue significant political and economic initiatives with the UK, at an early opportunity, in order to prevent the region from being disadvantaged in its relationship with a post-Brexit Britain. In order to give due consideration to and prepare for the likely fallout from a major economic decline in the post-Brexit Britain, Caribbean governments need to initiate a systematic plan of action involving the major stakeholders.

As was discussed earlier, the UK is the primary market in the EU for Caribbean goods and services. In keeping with the applicable trading agreement (the EPA), a British exit from the EU would eliminate the preferential access to the UK market of the region's goods and services. In the circumstances, the Caribbean needs to consider the various options for a future trading relationship with the UK and be prepared to initiate discussions aimed at securing the outcome that matches the region's priorities.

If the UK leaves the EU, the loss of the UK's budget contribution, particularly its key-based portion of the EDF, could lead to reduced funding for the Caribbean's regional and national Indicative Programmes. In

addition, there is already speculation about the UK's international development budget and how such funds will be used. The Caribbean, mindful of these developments, should engage proactively with the applicable British Cabinet Ministers and their key advisers to ensure that the region's interests and objectives are understood and appreciated and that the Caribbean benefits, to the greatest extent possible, from available British development aid.

Any *de facto* devaluation of the Pound against the dollar will make the Caribbean less competitiveness as a supplier of goods and services, including in the key tourism services, to the UK. If the British currency continues to trend lower or stabilizes at a lower level, the region will be obliged to introduce measures to try maintaining the competitiveness of Caribbean goods and services in the UK market. An additional approach to counter the region's diminished competitiveness in the UK is to explore alternative markets for the region's products.

At this time, it is impossible to determine the impact on the Caribbean of the UK's exit from the EU because there are so many unknowns and uncertainties. Nevertheless, although it is impractical to plan with certainty in an uncertain environment, the Caribbean must begin to consider its options. There must be reflection on priority areas of interest, consideration of possible impacts of the UK's exit from the EU, and strategizing on the best available options for addressing the Brexit-induced challenges.

1. Introduction

On 23rd June 2016, British voters went to the polls to answer the question “Should the United Kingdom remain a member of the European Union or leave the European Union”. When the ‘election dust’ had settled, it was revealed that the United Kingdom (UK) had voted to leave the European Union (EU), a process that has become known as Brexit. The ‘leave’ side secured 51.9% of the more than thirty-three and a half million votes cast in the referendum on whether Britain should remain in the EU. The British vote to leave the EU was met with incredulity, confusion, and uncertainty in the UK, the EU, and beyond.

The unexpected vote to leave the EU threw British politics into turmoil, from which the leaders of the political parties are now gradually recovering. The vote also sent shock waves around the globe, prompting many countries and businesses to reassess their trade and economic ties with both Britain and the EU. A number of major industries in the UK, including advertising, airline, automobile, banking, and pharmaceuticals have expressed concerns about the likely impact of Brexit on their business and hinted at the possibility of transferring some activities out of the UK to an EU member country.

As businesses pull back, share prices tumble, and the value of the Pound Sterling plummets, some analysts have concluded that Britain is heading for a Brexit-induced recession in the second half of this year. In addition, international rating agencies, such as Standard and Poor’s and Fitch have downgraded Britain’s credit rating and are forecasting a “significant slowdown” in the short to medium term (2016 -19).

This paper looks at the implications for the Caribbean (i.e. ACP Caribbean countries) of the British vote to leave the EU. It comprises four sections. Section 2, **Uncertainty, the principal short-term challenge**, provides an overview of aspects of the immediate political and economic uncertainty resulting from the Brexit vote; Section 3, **Impact on Caribbean-EU relations**, looks at some key aspects of Caribbean-EU relations and what impact, if any, Brexit might have on particular Caribbean interests; Section 4 **Impact on Caribbean-UK relationship**, reviews the principal areas of concern, with respect to the Caribbean-UK relationship, that will need to be addressed if the UK leaves the EU; and Section 5, **Conclusions and recommendations**, draws some conclusions and sets out a number of recommendations which should facilitate the Caribbean’s strengthening of its relationships with the EU and UK, while also seeking to reorient the region’s approach to its bilateral relationships. Annex 1 provides a brief summary of the UK’s unsettled relationship with the EU and highlights the Caribbean’s entry into the Africa, Caribbean and Pacific (ACP) Group of States.

2. Uncertainty – The principal short-term challenge

The immediate and main problem for all, including the Caribbean, is the level of uncertainty surrounding Britain’s exit from the EU. Some areas of particular concern for the Caribbean with respect to future relations with the EU and the UK are examined in Sections 3 and 4, respectively. Nevertheless, at this time, any Brexit-related policy or strategic decisions must be tempered by the reality that no one is certain what will take place, even within the coming days or weeks, not to mention over the longer term. Although a majority of the British electorate voted to leave the EU and the new British Prime Minister has confirmed that Brexit will go ahead, it is far from clear what will happen next or how the UK proposes to “uncouple” itself from the EU, and what agreement can be reached with the EU. The uncertainty is palpable and inextricably linked to the Brexit-driven political and economic developments within and outside of the UK.

Political Uncertainty

British Prime Minister David Cameron announced, immediately after the Brexit vote, that he would demit office in October so that the Conservative party could choose a new leader, who is better equipped to take Britain out of the EU.

In a surprising turn of events, the anticipated long and bruising campaign to replace Cameron lasted barely eighteen (18) days, with Theresa May emerging as the new leader of the Conservative party. Mrs. May, who had served as Home Secretary in Cameron's Cabinet, took over as Prime Minister on 13th July. Despite the Machiavellian-like intrigue, betrayal, duplicity and common 'back-stabbing', which characterized the jockeying for position in the early days after Cameron announced that he was stepping down, the leadership contest appears to have been bloodless (at least on the surface).

The fact that Theresa May has been fast-tracked into Downing Street reduces the political uncertainty following the UK's vote to leave the EU. It has also pushed aside the post-referendum leadership troubles, afflicting the Labour party and UKIP, relegating them to the status of sideshows as core Brexit-related initiatives dominate the political landscape within the UK and with the EU.

"Brexiters" prominent in new Cabinet

Mrs. May, who had supported the "remain" side of the referendum campaign, will be wary of the "Brexiters" and, in an early 'olive branch' to the "leave" wing of the party, the new leader indicated that she has no plans for another referendum and that Brexit will go ahead. In addition, Boris Johnson, the leader and most visible of the "leave" advocates, was named Foreign Secretary. David Davis, another of the "leave" leaders and a veteran Euroskeptic, has been appointed to the new cabinet position of Secretary of State for Exiting the European Union and Liam Fox, also one of the leading spokespersons in favour of leaving the EU, has been named Secretary of State for International Trade.

In the UK, Mrs. May is perceived as a hard negotiator, who will not be bullied by the EU, while among Commission mandarins and the EU political class, the new British Prime Minister is regarded as a tough, but known quantity. She is regarded as being someone with whom they can negotiate in good faith. However, Mrs. May's selection as Prime Minister does not eliminate the political uncertainty hovering over British-EU relations.

UK faces formal exit procedure

One area of certainty in an uncertain political environment is the procedure to be followed by the UK if it decides definitively to exit the EU. The 2009 Lisbon Treaty, specifically article 50, sets out a formal legal process for withdrawing from the EU (see Annex 2). If the British wish to leave the EU, the UK must initiate the process by formally advising the European Council that it intends to leave the Union. The "uncoupling" negotiations are meant to be completed within two years but the timeframe may be extended if all Parties agree. However, no one really knows how the Brexit process will work because Article 50 has never been used.

Article 50 will only apply after it has been triggered by the UK and, at this time, there is considerable uncertainty about when that will take place. Prime Minister May has indicated that the UK is unlikely to initiate the article 50 process before the end of the year. EU leaders, like German Chancellor Angela Merkel, while acknowledging that the UK will need some time to prepare, have emphasized that a prolonged period of uncertainty would not be in the best interest of either Britain or the EU.

Divergence between EU leaders and “leave” supporters

At this time, there is a clear divergence between the thinking, wishful perhaps, of the supporters of the ‘leave’ campaign and the position of EU leaders. The former have been suggesting that any formal withdrawal negotiations from the EU (set out in Article 50 of the Treaty on the European Union) should be delayed, that the UK should first have informal discussions with other EU member states, and that negotiations with the EU should be about free trade but not immigration. On the other hand, EU leaders, who are keen to ensure that Brexit is an isolated case and an unattractive option, are urging the UK to act without undue delay and are reiterating that access to the EU Single Market is tied to the free movement of EU nationals. Many of those who voted to leave are now, belatedly, being made to appreciate that “*they can’t have their cake and eat it too*”.

The concerns of the EU’s political leaders extend beyond their philosophical differences with the Brexiteers and the different visions of the two sides with respect to a united Europe. The Presidents of the European Council and Commission as well as leaders of leading EU Member States are worried about the prospect of “contagion” and they seem oriented towards taking a tough approach in any “exit negotiations” with the British in order to dissuade other member states from going that route. On the other hand, the populist anti-EU parties in some EU countries perceive the British exit as providing a boost for the chances of having successful anti-EU referenda in their own countries.

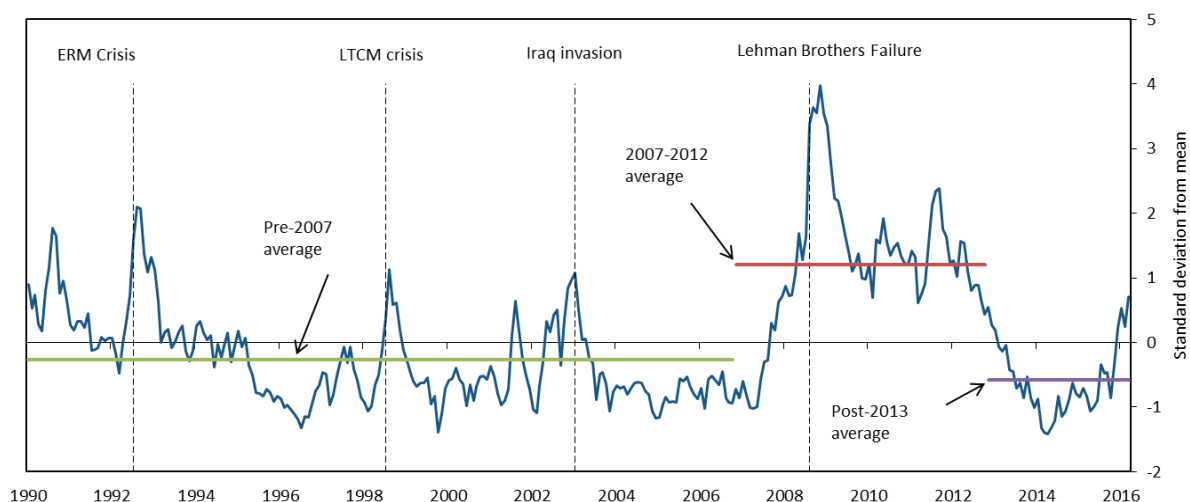
Scotland has added to the ring of uncertainty, by threatening another independence referendum if its interests are not satisfactorily taken into consideration in the post-Brexit exit negotiations. Scottish political leaders, who are already making overtures to the EU, have taken the position that Brexit goes against the wishes of the Scottish electorate, who voted “unequivocally” (62% in favour) to remain in the EU. Northern Ireland, another of the four countries, which make-up the UK, also voted solidly (56 %) in favour of remaining in the EU.

It should be noted that the arrangements for withdrawal only take “account of the framework for its future relationship with the Union”. Consequently, specific trade agreements and the like with the EU will be subject to additional negotiation. It is difficult to say what this will mean for the Caribbean, but the region can safely assume that a post-Brexit UK will be engaged in long and difficult negotiations for several years. In addition, negotiating a trade agreement with the Caribbean is unlikely to be one of the priorities for the UK. However, the region must find a way to demonstrate its relevance and be prepared to fight for an early place in the negotiating queue.

Economic uncertainty

The Brexit vote unsettled stock markets around the world and, reportedly, reduced the value of global share prices by US\$3 trillion during the two trading days immediately after the vote. In the UK, the FTSE 250, a share index comprising mostly British companies and investment trusts, fell by 14% over three days. The exchange rate value of the Pound plunged to its lowest level in three decades and has remained close to that level.

The dramatic developments on financial markets reflect the uncertainty, which has enveloped securities and currency markets since the British vote to leave the EU. The uncertainty is also having a significant negative impact on business confidence and economic activity. Bank of England Governor Mark Carney posits that there is a definite relationship between uncertainty and economic performance and at least three distinct types of uncertainty - geopolitical, economic and policy - that affects how an economy performs (see Figure 1).

Figure 1. Tracking UK economic uncertainty 1990 - 2016

Source: Bank of England

Britain's decision to leave the EU has led to a "dramatic deterioration" in economic activity, bringing back memories of the 2008/2009 global financial crisis. The National Institute of Economic and Social Research (NIESR), a leading economic forecaster, has concluded that the UK will go through a "marked economic slowdown" this year and next year, with a 50/50 chance of the country falling into a Brexit-induced recession within the next 18 months. Brexit, as discussed in Section 4, could also have negative macro-economic impacts in the Caribbean and other developing countries.

At the beginning of August, six weeks after the Brexit vote, Markit's Purchasing Managers Indexes in the UK were indicating that there has been a sharp drop in economic activity. In addition, it was observed that there are increasingly widespread reports that business activity has been adversely affected by the EU referendum, with declines in output, new orders and employment all steeper than initial 'flash' estimates.

On 3rd August, with the initial Brexit shock receding, but economic indicators continuing to decline, the Bank of England introduced measures designed to stimulate growth and to promote a sustainable return to the agreed inflation targets. The Bank's Governor Mark Carney said *"We took these steps because the economic outlook has changed markedly and indicators have all fallen sharply, in most cases to levels last seen in the financial crisis, and in some cases to all-time lows."*

Meanwhile, uncertainty remains about the timing and orientation of trade and other negotiations between Britain and the EU. Two major issues to be addressed in any British negotiation with the EU about continued access to the single market are immigration and a contribution to the EU's budget (the EU's market access agreements with Norway and Switzerland include both of these features). It will be politically challenging for a British government to accept such terms, given that concerns about immigration and payments to Brussels were key aspects of the 'Leave' campaign. In the circumstances, given the expressed position of EU leaders that the freedom of movement of EU citizens is non-negotiable and that the UK cannot pick and choose which provisions to accept, it is clear that the outcome of the negotiations between Britain and the EU remain uncertain.

At this time, there are divergent views, even among UK Government Ministers, about the negotiations with the EU. It is envisaged, taking into consideration the views expressed by UK Government Ministers David Davis and Liam Fox, as well as leading commentators, that financial markets and the business community are likely to face between two and six years of uncertainty while the British prepare for and then conduct negotiations with the EU on the separation terms and on a regime for trade between Britain and the EU.

Meanwhile, investment decisions will probably be scaled back or deferred because businesses and investors do not know what arrangements will be in place with respect to the UK's trade with the EU and with the rest of the world. BBVA Research in a report shortly after the vote to leave the EU, concluded that the long-term impact of Brexit for the UK would be negative, as a number of UK-based foreign firms consider relocating and London's financial centre risk losing some of its business. This level of uncertainty is reflected in the deteriorating economic performance in the UK and increasing concern among countries, for which the UK is a major export market.

Uncertainty about the UK trading arrangements

One of the major concerns, for all UK trading partners, including the Caribbean, is uncertainty about the conditions which will apply with respect to future access to the UK market for goods and services. The business community likes stability and predictability and the contours of the post-Brexit market, which will face economic operators in the UK and those who do significant business with the UK, is far from predictable. In a scenario, where the UK drifts along for years without reaching agreement with the EU, uncertainty will also hang over Britain's trading relationship with its partners, including Caribbean countries.

The post-Brexit trading arrangements between the UK and the EU as well as between the UK and all of its other partners, including the Caribbean, are subject to negotiation. In the first place, no one can predict what will be the outcome of those negotiations and, secondly, a logical sequence and legal obligations would imply that the exit negotiations with the EU need to be completed before the UK can conclude trade negotiations with the Caribbean and other non-EU countries. Uncertainty about the outcome of the negotiations is exacerbated by the fact that the positions of the 'leave' leaders seem to be at odds with fundamental EU policy.

If Britain and the EU are unable to reach a trade deal, trade between them will be regulated by World Trade Organization (WTO) rules. The UK and EU would be obliged to apply to each other's products the tariffs and other trade restrictions they apply to the rest of the world in the absence of trade preferential arrangements. Similarly, WTO rules would also apply to trade between Caribbean countries and the UK. Commonwealth preferences and other discriminatory arrangements, which some commentators have been discussing as possible approaches for future Caribbean-UK trade, would not be realistic options.

A full bilateral trade agreement would have to be concluded between the two sides before the UK could legitimately discriminate in favour of goods from the Caribbean. It might be possible for the UK to introduce some type of GSP in favour of developing countries, but the scope of such an arrangement is also an unknown at this time. In any case, under a GSP scheme, Caribbean countries would not be eligible for differential treatment, but would merely be treated in the same manner as other eligible developing countries.

The results of the referendum were still being absorbed when regrets and recriminations began to emerge, as the negative impact of "uncertainty" on the financial markets and the economy became evident. Petitions calling for another referendum (unlikely to happen) began circulating in the UK and secured over four millions signatures within three weeks. Some observers are even speculating that Brexit might not happen because the political class is likely to balk at the cost, financial and otherwise, and design some type of "fudge" that will appease everyone, but satisfy none. This type of thinking adds to the overall uncertainty, but the Caribbean, like other UK partners, should proceed on the basis that Brexit, in some form, is likely to become a reality.

3. Impact on Caribbean-EU relations

In the previous section, uncertainty was identified as a key short-term challenge, confronting policy makers at the political level and unsettling the business community. The challenge of Brexit-induced uncertainty, at the political, economic and policy levels, must be addressed in the UK, the EU, and the Caribbean. In this section, the focus is on Caribbean-EU relations and some of the principal aspects of the existing Caribbean-EU relationship are briefly reviewed in the bullet points below, with indications of their likely post-Brexit status.

- Legally-binding agreements with the EU: Although the relationship, which CARIFORUM countries have with the EU, is a consequence of the UK joining the EU in the early nineteen-seventies, **CARIFORUM countries have legally-binding agreements with the EU that should not be invalidated merely because of Brexit.** It is not foreseen that the CARIFORUM-EU relationship will change in the short and medium term. In the long term, anything is possible and, as John Maynard Keynes once wrote: *“in the long term, we are all dead”*.
- Future of the EPA: Some persons have raised questions about the future of the Economic Partnership Agreement (EPA) between the CARIFORUM and the EU. Although Brexit is unlikely to affect the validity of the Agreement, the economic value will be significantly eroded because Caribbean-UK trade and other economic linkages represent key aspects of the Caribbean-EU relations.

If the UK leaves the EU, the provisions of the EPA would not apply to that country because it would no longer be an EU Member State. In article 233 of the EPA, the term “EC Party” is used to mean the European Community or its Member States or the European Community and its Member States (a post-Brexit UK would not satisfy these criteria). In addition, article 245 of the EPA on the territorial application of the agreement specifies that the Agreement shall apply “to the territories in which the Treaty establishing the European Community is applied”, which post-Brexit would also exclude the UK.

With respect to the ongoing validity of the Agreement, article 244 of the EPA states that the Agreement *“shall be valid indefinitely”*, although either Party or Signatory CARIFORUM State may give written notice of its intention to denounce the Agreement. **Therefore, post-Brexit, the EPA would remain a valid agreement between the Parties, as defined, and the EPA-related trade and development obligations of the EU Party will not change because the UK chooses to leave the EU. It seems unlikely that Brexit will result in immediate changes to the EPA from the EU side, but CARIFORUM might wish to use the opportunity to push for desired adjustments to the Agreement, as discussed in Section 5.**

- Status of the Caribbean Regional Indicative Programme (CRIP) and National Indicative Programmes (NIPs): **With respect to the Regional and National Indicative Programmes, CARIFORUM have binding commitments from the EU until 2020, the end of the timeframe proposed for the 11th European Development Fund (EDF) (2014 – 2020).** There is speculation by some commentators that, if the UK withdraws its EDF contribution, the status of the CRIP and NIPs will not change, but the amount of EDF resources disbursed to the Caribbean might be reduced. In addition, given that the Cotonou Agreement is scheduled to expire in 2020, there is a possibility that a post 2020 EU, without the UK, could be under pressure from both non-Caribbean ACP and/or EU countries to reconsider the status of Caribbean countries as beneficiaries of EDF resources through the CRIP and NIPs. If this type of thinking emerges in future EU deliberations, it would probably also have an impact on the access of Caribbean countries to *ad hoc* EU funding instruments for all-ACP programmes.

Given the overarching uncertainty about how Brexit will be approached by the UK and what will be the reaction from the remaining 27 EU members, it is difficult to make an informed assessment of the

probability of a backlash against the CARIFORUM region of the ACP. Section 5 identifies some recommendations on how to proceed.

- Future of CARIFORUM's ACP status: In a related issue, with the UK leaving the EU, it is possible that questions might be raised about the continuing ACP status of the English-speaking CARIFORUM member states (the former British colonies). Arguably, with the Cotonou Agreement scheduled to expire in 2020, the real issue to be considered relates more to the future of the ACP-EU partnership and not just the status of Caribbean countries. Although it is unlikely that 2020 will see the end of the special ACP-EU relationship, the nature of that cooperation and how its benefits might best be maximised is an important unknown that should be factored into the Caribbean's and ACP's reflections on possible post-Brexit and post-2020 developments.
- EU-LAC relationship: Other CARIFORUM arrangements with the EU, such as: the region's involvement in the Latin America-Caribbean's relationship with the EU are expected to remain unchanged in the short and medium term. However, given that the Cotonou Agreement is expected to expire in 2020, as is mentioned immediately above, and taking into consideration the changing geopolitical landscape partly inspired by Brexit, the Caribbean needs to be aware of the possibility that in the long term the EU-LAC could replace ACP-EU as the primary framework for the Caribbean's interface with the EU. This is the type of issue on which the Caribbean should reflect and develop a regional position before British-EU exit negotiations have been completed and definitely before 2020.
- No impact on visa waiver: The visa waiver agreement between the EU (Schengen countries) and some CARIFORUM Member States does not involve the UK, which is not a Party to the EU's Schengen Agreement. Consequently, there is no reason why the visa waiver for the applicable Caribbean nationals visiting the relevant EU countries should be affected by Brexit. The CARIFORUM countries with which the EU has signed visa waiver agreements are: Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, St. Kitts & Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.
- Lost of UK's counterbalancing influence: As the EU expanded eastwards, it incorporated new members who have no history with former colonies and who feel no sense of obligation to assist middle income developing countries, such as those in the Caribbean. The UK's exit from the EU will remove the British influence as a counterbalance to the less development-oriented forces in the EU. Although the French and Spanish are sure to push the EU to maintain a pro-development agenda, there is a risk that Brexit will lead to a diminution in the EU's support for developing countries, particularly those in the Caribbean. This is even more likely since the CARIFORUM countries are primarily former British colonies and, except for Haiti, are not considered to be among "the poorest of the poor".
- "Contagion" unlikely, but feared: In general, beyond the considerations mentioned above, it is reasonable to conclude that if Brexit leads to a loss of confidence in the EU, with other Member States exploring exit options and uncertainty growing about the future of the Union, the result could be a widespread economic downturn, even beyond the borders of the EU. Therefore, any serious likelihood of a Brexit-inspired "contagion" across the EU, as is being advocated by some right-wing populists, would have negative impacts on exports, inward investment, jobs and overall growth in a number of countries, including those in the Caribbean, which have development partnerships with the EU. It seems unlikely that Brexit will result in a global economic crisis, but the danger that "contagion" could lead in that direction is engaging the attention of EU leaders.

4. Impact on Caribbean-UK Relationship

The principal Brexit-related concern with respect to CARIFORUM-EU relations is to confirm existing arrangements and ensure that the region does not lose any of the benefits, which it now enjoys. The Caribbean-UK relationship presents more complex challenges and necessitates significant political and economic interventions to prevent the region from being disadvantaged. Some of the principal areas of concern with respect to the Caribbean's relationship with the UK after an exit from the EU are summarized and assessed below.

- Short-term uncertainty, particularly during the next one or two years when it is not clear how the UK plans to proceed or the manner in which the EU will respond, is likely to have a negative impact on the Caribbean, as British companies and individuals take a cautious approach to the use of corporate and personal resources. Consequently, tourism might be affected, as people defer travel plans, but it is difficult to make realistic projections until more information is available.

Similarly, investment from the UK to the region could be affected, as companies, which might have been contemplating the establishment of an overseas subsidiary or joint venture with a Caribbean partner or an investment in real estate, place those plans 'on hold', at least until the post-Brexit environment becomes clearer. At this time, it is impossible to quantify the probable impact on the region of the level of uncertainty in the UK. **However, if the period of uncertainty is relatively short, the impact on investment is likely to be negligible, but tourism, which tends to respond more rapidly to international developments, might be more seriously affected. Unfortunately, at this time, indications are that the Brexit-associated period of uncertainty will be protracted.**

As discussed in Section 2, the forward-looking signs for the UK economy are pointing towards a difficult period ahead, with the economy shrinking at its fastest rate since the 2008-09 financial crisis, according to the closely watched Markit Purchasing Managers' Index, which was released at the beginning of August. In addition, business leaders, such as Carlos Ghosn, the CEO of Nissan has expressed the view that most companies would defer decisions about future investment in the UK, pending the outcome of the trade and other talks between Britain and the EU. **This level of economic uncertainty and hesitancy in implementing investment decisions by companies based in the UK is likely to have a spill over negative impact on British companies, which might be contemplating an investment in the Caribbean.**

- Slowdown in UK economy: Whereas the impact of short term uncertainty is likely to range from negligible (investment) to moderate (tourism), an economic downturn would be much more challenging. If, as seems likely, Brexit leads to a short and medium term slowdown in the British economy, there will be negative consequences for the Caribbean. Countries in the region, such as Barbados, are heavily dependent on tourism and the UK is Barbados' most important source market for tourist visitors. There are already reports of tour operators and other travel industry players expressing concern to regional hoteliers and tourism promotion officials.

An economic downturn in the UK will have a significant negative impact on the tourism industry in countries like Barbados. In addition, the flow of investment from Britain to Barbados (real estate and other sectors) as well as exports of Barbadian goods and services to the UK would be negatively affected by such a downturn.

- New trade arrangements must be negotiated: The UK is the primary market in the EU for goods and services from a number of the Caribbean countries. However, once Britain leaves the EU, Caribbean

goods and services will not have preferential access to the UK market because a post-Brexit UK will no longer be a Party to the EPA. Britain, as a member of the EU, was included in the EPA and other trade agreements negotiated by the EU. However, when or if the UK leaves the EU, the British will be obliged to establish new trading arrangements with the remaining 27 EU members as well as with other countries around the world.

On 21st June 2016, Full Fact, an independent UK factchecking charity, confirmed a November 2015 estimate by the Confederation of British Industry (CBI) that, as a member of the European Union, the UK benefits from free trade agreements with 50 countries around the world. This means that if the UK wants to retain the existing preferential trading arrangements with these countries, it would have to negotiate trade deals with all of them. ***It is unlikely that the Caribbean, with its micro states would automatically be placed high on that list of countries. In this environment, the onus will be on Caribbean countries to articulate a compelling reason why the UK should prioritize the negotiation of a new trade and development agreement with the region.***

- New development cooperation arrangements: Access to development resources is a concern for the small developing countries in the Caribbean. In this regard, the EU has been the largest provider of grant funds to the region for a number of years. The European Development Fund (EDF), the main instrument through which the EU provides development aid to ACP countries, is an important source of development funding for Caribbean countries. It is unclear how this might be affected by Brexit, particularly beyond 2020, but regardless of how the rest of the EU decides to proceed, development cooperation should be an important aspect of the UK-Caribbean relationship.

The EDF is financed by direct contributions from EU Member States according to a contribution key. The total amount of financial resources of the 11th EDF for the period 2014-2020 is €30.5 billion and almost half of this amount is contributed by Germany, the UK, and France. In the circumstances, a British exit from the EU could result in CARIFORUM countries receiving a smaller share of aid under the EDF.

However, since major parties in the UK seem favourably disposed towards ensuring that Britain maintains a significant external development profile, they might be prepared to increase the UK's development aid to the Caribbean. This approach would also seem to fit in with the idea of 'taking back control' of the UK and promoting a strong Britain able to play a lead role in support of developing countries, particularly those within the Commonwealth. According to the Official Journal of the EU, 6th August 2013, the UK's contribution to the 11th EDF, which is intended to cover the period 2014-2020, is € 4.48 billion.

- Negative impact of currency devaluation: International financial and currency markets have thus far reacted negatively to the Brexit vote, with the British Pound losing more than 10% of its value on currency markets in the days immediately after the vote to leave the EU. At this time, it is still uncertain whether this is a short term reaction or whether the value of the Pound will stabilize at a lower level, but most analysts are predicting that the value of the Pound is likely to remain depressed against the dollar for a number of years.

Since several Caribbean currencies, such as the Barbados dollar, are pegged to the US dollar, any depreciation of the Pound against the dollar will make it more expensive for British travelers and investors in places like Barbados. In addition, Caribbean goods and services will appear more expensive to British importers, even if the current tariff exemptions and other market access conditions are secured through a Caribbean-UK trade agreement. Five weeks after the Brexit vote, the Pound is worth about US\$1.32, having fallen to its lowest levels since 1985.

- Depreciation of the Pound & UK aid programmes: Any sustained depreciation of Pound Sterling against the dollar will mean that the proceeds of Sterling-denominated British aid programmes will be reduced when disbursed in dollar-tied countries, such as Barbados.
- Depreciation of the Pound & returning nationals: A significant number of Caribbean nationals have returned home from the UK to retire or to invest in small businesses. These persons, who are receiving pensions in Pounds or have sold British businesses or property in order to invest the proceeds in dollar currency countries, could be seriously affected. ***Any sizeable and sustained devaluation of the Pound vis-à-vis the US Dollar will substantially reduce the disposable resources of “Returning Nationals” in countries like Barbados.***

5. Conclusions and recommendations

At this time, the post-Brexit landscape is opaque and uncertain, but UK partner countries, such as those in the Caribbean, must not panic and must avoid knee-jerk reactions. Given the prevailing political uncertainty in the UK and EU and the unsettled economic environment in the UK and beyond, this is the time for proactive engagement with strategic partners in the Caribbean, the UK, and the EU. It is also a time for sound analysis, scenario planning, sober reflection, and insightful decision-making.

As has been discussed earlier, there is considerable uncertainty about what will happen, when it will happen, and how it will happen. This level of uncertainty brings many challenges and makes it extremely difficult to plan. Nevertheless, the Caribbean should see the post-Brexit environment, not as a tragedy, but as an opportunity to bring a new orientation to its longstanding relationship with the UK, while also strengthening its ties with the EU, and exploring possibilities for strategic alliances with other centres of influence.

Brexit presents opportunity for paradigm shift

In the period of uncertainty and dislocation resulting from the vote to leave the EU, the focus should be on determining what the Caribbean would like to get out of its relationships with the EU, with the UK, and with other international partners. This is an opportunity, presented by Brexit, for Caribbean countries, individually and collectively, to take responsibility for their affairs, by developing and implementing long term strategies for the transformative growth and development of their economies.

The region, with a little help from its friends and strategic partners, should seize the opportunity to shift its development philosophy from dependence to true self-determination. This new development paradigm should be created by the region’s intellectual capital, refined and articulated by the region’s Senior Officials and Political Leaders, and implemented by the region’s private and public sector entities.

Initial steps in establishing required framework

In moving to embrace this new approach to their development agenda, Caribbean countries must establish the type of framework that would enable them to focus on the attainment of those goals, which they themselves have prioritized. The following five sequential steps could constitute the first phase in the establishment of the necessary framework.

- 1) Undertake extensive consultations with public and private sector interests, followed by serious reflection and eventual conclusion on what should be the region's development priorities;
- 2) Taking those priorities into consideration, make a realistic determination of what the region would like to get out of mutually beneficial relationships with the EU, UK and other development partners;
- 3) Review areas of concern with respect to key aspects of the existing relationships with the EU and the UK respectively and develop proposals for addressing the problem areas (some of these areas have been listed in the two sections above);
- 4) Be proactive in initiating early engagement with the EU and UK concerning the existing areas of concern in order to secure adjustments, where necessary, or assurances where there is uncertainty or ambiguity; and
- 5) Mindful of the region's new or updated priorities and moving beyond the problem areas referred to in step three (3) above, Caribbean countries must develop strategies for achieving the identified priority goals, where necessary with the support (at both the input and output stages) of development partners in the UK, the EU and other partner countries or regions.

It is also proposed that, in pursuing the approach suggested above, the Caribbean should accelerate the process by using the period of uncertainty, while the UK and the EU are going through their two/three year interregnum, to initiate consultations with stakeholders, to reflect on what the region wishes to achieve, and to develop clear strategies with timelines for attaining the identified objectives.

Recommendations with respect to Caribbean-EU

In the short term, as was discussed in Section 3, most aspects of the Caribbean-EU relationship are unlikely to be affected by Britain's exit from the EU. Nevertheless, the region should take certain steps, either to confirm existing benefits or to position itself better to attain key long term objectives. Some of the issues to be addressed, include:

EU Commitments should be validated

As indicated earlier, CARIFORUM countries have certain legally-binding agreements with the EU that should not be invalidated because the UK leaves the EU. Nevertheless, it is important to confirm the legal solidity of the Caribbean's status, in the short and long term, as it relates to the EPA, access to EDF and other EU resources, the ACP-EU partnership, the Caribbean-EU Strategy, visa waiver agreements, the EU-LAC relationship and any other arrangements relating to the CARIFORUM-EU partnership. While existing 11th EDF commitments and other agreements mentioned in this paragraph may be secure, the Region should take the initiative in endeavouring to obtain assurances and commitments with respect to all aspects of the relationship in the short, medium, and long term.

Seek assurances of continued EU development support

Although upper middle income countries, such as the Bahamas, Barbados, and Trinidad and Tobago among others, are already seeing a reduction in the quantum of EDF resources allocated through their National Indicative Programmes, the EU continues to be the largest donor of development aid to the Caribbean, at both the regional and national levels. Consequently, regardless of how the EU decides to fund its development programmes, CARIFORUM should engage with the EU, as a matter of urgency, to ensure that, in a post-Brexit environment, the region continues to receive a fair share of EU development support.

Protect against possible negative fallout

The expanded EU now comprises several countries with no connection to former colonies and consequently no sense of identity with the struggles of developing countries in the Caribbean. The UK's exit from the EU will remove the British counterbalancing influence against the less development-oriented forces in the EU. Assurances should be obtained from the EU that, with respect to the Caribbean-EU partnership, ACP-EU relations, and the EU-LAC engagement, CARIFORUM countries will not be disadvantaged as a result of the UK leaving the EU.

Seize opportunity to engage EU about EPA-related concerns

The EPA remains underutilized and Brexit presents an opportunity for the Caribbean to:

1. Intensify the efforts of the region's institutions and economic operators to maximize EPA-related opportunities; and
2. Underline the case for any necessary adjustments, based on realistic options arising out of systematic and evidence-based assessments. Specific areas of difficulty should be identified and possible solutions put forward. Among the issues that might be pursued with the EU are:
 - The inadequacy, to date, of the EU's aid-for-trade support. Through the first seven (7) years of EPA implementation, the UK and Germany are the only two EU member states, which have even endeavoured to deliver on commitments in this area.
 - The need to find a practical solution to the *Octroi de mer* issue – This is a non-tariff market access problem that is inhibiting trade and closer relations between CARIFORUM countries and the French Caribbean Overseas Regions (FCORs).
 - The need to energize the Protocol on Cultural Cooperation: the Protocol provides opportunities, which are not being utilized. CARIFORUM needs to develop a strategy that can be implemented jointly with the region's EU partners to unlock these opportunities.
 - The need to maximize access to EU framework programmes and technical assistance in the areas of innovation and intellectual property. The region must be more proactive in working with EU partners to benefit from opportunities in these areas.
 - The application of monitoring and evaluation (M&E) systems - at both the regional and national levels, the Caribbean need to take the initiative to develop fully and apply the type of M&E system that will facilitate proper assessment of EPA implementation and identify appropriate adjustments.

More effective mobilization in multilateral fora

CARIFORUM-EU cooperation in multilateral fora is envisaged both in the EPA and in the Joint Caribbean-EU Partnership Strategy. This is an area in which CARIFORUM can bring significant value to the relationship with its EU partners. With respect to international issues where CARIFORUM and the EU share common values and have common interests, the numerical strength of CARIFORUM makes the region a highly valued partner. CARIFORUM must become more adept at mobilizing and benefitting from its numbers in the multilateral arena.

Recommendations with respect to Caribbean-UK

The Caribbean's response to Brexit might reasonably be based on the assumption that the region would be better off maintaining a preferential trading relationship with the UK and also with the EU. Lower trade and foreign direct investment (FDI) will have a negative impact on capital formation, employment, and productivity, which is already low. More importantly, the impact will be negative on the overall economy, which in most Caribbean countries has been struggling to recover from the 2008/2009 global financial crisis. These negative impacts will lead to lower levels of Gross Domestic Product (GDP) and potentially lower living standards.

In a briefing paper, “Brexit and development: How will developing countries be affected”, prepared in July 2016 for the UK’s Overseas Development Institute (ODI), Max Mendez-Parra, Phyllis Papadavid and Dirk Willem te Velde advanced the position that the impact of Brexit on developing countries would be determined by the shock (of the decision) and the transmission channels of that shock. Mendez-Parra et al discussed three pathways of impact – trade, financial markets and investment, and migration and remittances – as being particularly relevant. The shock of the British vote to leave the EU is still being processed by the Caribbean, but the pathways of impact identified by Mendez-Parra *et al.* are clearly relevant to the region, as demonstrated by the issues considered in this section.

As discussed in Section 4, the Caribbean needs to develop and pursue significant political and economic initiatives with the UK, at an early opportunity, in order to prevent the region from being disadvantaged in its relationship with a post-Brexit Britain. Some of the key areas for consideration and recommendations about possible interventions, with respect to the Caribbean-UK relationship, are briefly addressed below.

Despite uncertainties, the Caribbean should consider options

In the short term, the climate of uncertainty, which is currently swirling around following the British vote to leave the EU, will have a negative impact on visitor arrivals from the UK. The degree of impact will most likely be tied to the extent of the period of uncertainty and the nature of speculation about what will be the outcome of any UK-EU negotiations.

The real problems for business communities in the Caribbean will arise if the situation in the UK deteriorates from uncertainty to definitive economic downturn. If such a scenario develops, there will be major negative impacts on tourism and foreign direct investment, as well as on exports of regional goods and services to the UK. In order to give due consideration to and prepare for the likely fallout from a major economic decline in the post-Brexit Britain, Caribbean governments need to initiate a systematic plan of action, incorporating: solicitation of feedback from stakeholders representing the applicable industry sectors, followed by consultations with various stakeholders in order to assist policy makers and public sector officials in appreciating the short and long term implications of such an economic downturn, and subsequently the calibration of a timely and appropriate response.

In addressing a possible significant economic decline in the UK, the Caribbean region should also be mindful of the five initial steps proposed earlier under the section, captioned “Brexit presents opportunity for paradigm shift”. ***In reacting to the overarching uncertainty and possible economic downturn in the UK following the vote to exit the EU, it would be a mistake for Caribbean countries either to overreact or to do nothing.***

Whither Caribbean-UK trade? The region will need to negotiate an FTA with UK

As was discussed earlier, the UK is the primary market in the EU for Caribbean goods and services. In keeping with the applicable trading agreement (the EPA), a British exit from the EU would eliminate the preferential access to the UK market of the region’s products. **Post-Brexit, the UK’s trade arrangements** will no longer be covered under trade agreements negotiated by the EU and the British will be obliged to negotiate new agreements to maintain favourable trading arrangements with international partners.

It is noteworthy that a group of eight British economists (referred to as Economists for Brexit), who campaigned in favour of Britain leaving the EU, have argued that “*The best WTO option to carry out Brexit in terms of the demands set out above is to remove the existing EU trade barriers on our imports from the rest of the world, including the EU, and go to full global free trade*”. The approach proposed by Economists for Brexit is theoretically appealing, but it presupposes that British exporters will be able successfully to face global competition. Unfettered free trade would present a major challenge for the Caribbean in the UK market. Although such a free trade scenario might be unlikely, the Caribbean should be mindful of the position being advocated by the Economists for Brexit and be

prepared to engage UK officials in order to ensure that the region's interests are taken into consideration as Britain develops its future trade policy.

A few commentators have proposed that if the UK leaves the EU, the British could offer some type of "Commonwealth Preference" to products from Commonwealth countries. However, this would be problematic because of the need to comply with WTO rules. The options open to the UK would seem to be either some type of generalized system of preferences (GSP) for a broad range of developing countries or full bi-lateral free trade agreements (FTAs) with partner countries or regions. In the case of the Caribbean, a trade and development agreement would seem to be the best approach to guarantee preferential access for the region's goods and services in a manner that would not necessarily be available to third countries.

Region should take advantage of the Brexit negotiating period

As was recommended earlier with respect to the region using the period of uncertainty to identify priorities and develop implementing strategies, the Caribbean should take advantage of the period of uncertainty, during which the UK is negotiating its separation from the EU, to prepare the region's positions for its negotiations with the UK and exchanges with the EU. ***A pre-emptive and strategic approach by the Caribbean, concentrating on a limited number of clearly identified priorities and reinforced with detailed preparation, would be a plus for the region. This type of proactive approach would make it easier for the Caribbean to convince the British that the necessary preparatory work has been done and that the region is ready to conclude an agreement expeditiously, perhaps similar to the EPA, but with a few areas of divergence to address genuine evidence-based shortcomings in the substantive Agreement.*** In the circumstances, the UK might be willing to give priority to negotiating with a Caribbean region (comprising mainly Commonwealth countries) that is well prepared and having a negotiating agenda, which the two sides could readily accept as an appropriate basis for moving forward.

Region should seek increased development support from post-Brexit UK

Inadequate resources, financial and personnel, is a major impediment to growth and development across the Caribbean. If the UK leaves the EU, there will be concern about the loss of the UK's contribution, both to the regular EU budget and to the specially-funded EDF arrangements. The EU's loss of the UK's budget contribution, particularly its key-based portion of the EDF, could lead to reduced funding for the Caribbean's regional and national Indicative Programmes. This is another area that the region should discuss urgently with both the EU and the UK to ensure that, regardless of the arrangements negotiated between them, their development support for the Caribbean does not suffer, in a post-Brexit environment.

As was discussed earlier, the UK's contribution to the 11th EDF (2014-2020), which is separate from its contribution to the regular EU budget, is € 4.48 billion. The Caribbean should proceed on the basis that, if the UK is no longer paying those funds into the EDF, a significant portion of the projected saving would be available to support projects in Commonwealth developing countries. The fact that the funds were already earmarked for development support and would be included in the UK's global commitment of 0.7% of GDP should make it easier for Caribbean countries to make a case for access to such resources. The possibility that Brexit might lead to a diminution in the EDF resources available to Caribbean ACP countries would also be another factor in favour of the region being favourably considered for additional development support from the UK.

In another side to the discussion on development support, the Daily Telegraph, in an article on 30th July 2016, reported that the new International Development Secretary Priti Patel, a prominent Brexit campaigner during the referendum, says her department will look to "leverage" its GBP 11 billion foreign aid budget to build new trade deals as it exits the European Union. Some NGO groups, such as Global Justice Now, have criticized the position articulated by Patel and questioned the legality of "tying" aid to trade agreements. It is also noteworthy that Prime Minister May has reaffirmed Britain's commitment to allocating 0.7 % of its GDP to development assistance. ***The Caribbean, mindful of these developments,***

should engage proactively with the applicable British Cabinet Ministers and their key advisers to ensure that the region's interests and objectives are understood and appreciated and that the Caribbean benefits, to the greatest extent possible, from available British development aid.

Caribbean must consider initiatives to counteract impact of devalued Pound

As was discussed earlier, in the immediate aftermath of the British vote to leave the EU, the value of Pound Sterling fell by more than ten (10%) per cent. A number of analysts are projecting that, although the Pound might rebound from 30 year lows, it will stabilize at a level significantly lower than before the Brexit vote.

This de facto devaluation of the Pound against the dollar will increase the cost of travel to the Caribbean for British holidaymakers and investors. Caribbean goods and services will also be more expensive to British consumers. In reality, the region will become less competitiveness as a supplier of goods and services, including in the key tourism sector, to the UK.

In addition to the competitiveness considerations, a long term depreciation of Pound Sterling against the US dollar, as discussed in Section 4, will reduce the value of Sterling-denominated UK aid programmes intended to support development projects in the Caribbean. The pensions and investment resources of Caribbean nationals, who return to the region from the UK, will also be negatively affected. The Caribbean cannot influence the value of the Pound, but public and private sector interests in the region should monitor strength and weakness in the British currency as the post-Brexit financial and business environment continues to unfold. ***If the British currency continues to trend lower or stabilize at a lower level, the region will be obliged to introduce measures to try maintaining the competitiveness of Caribbean goods and services in the UK market. An additional approach to counter the region's diminished competitiveness in the UK is to explore alternative markets for the region's products.***

Prepare for challenges and embrace opportunities

At this time, it is impossible to determine the impact on the Caribbean of the UK's exit from the EU because there are so many unknowns and uncertainties. It is anticipated that the Caribbean will face an extended period of elevated policy uncertainty as the UK undergoes a protracted separation from the European Union and finds it necessary to re-negotiate many of its international trade agreements. All indications are that both the new British Government and the leaders of the 'leave' campaign are only now trying to determine how the UK should proceed and what will be the contours of its negotiating agenda to exit the EU. Nevertheless, although it is impractical to plan with certainty in an uncertain environment, the Caribbean must begin to consider its options. There must be reflection on priority areas of interest, consideration of possible impacts of the UK's exit from the EU, and strategizing on the best available options for addressing the Brexit-induced challenges, which eventually will confront the Caribbean.

Britain's exit from the EU will have significant implications for the Caribbean's trade and development relations with the EU and the UK. The depth and scope of the impact will depend on the length of the period of uncertainty, the impact on the UK economy, and the kind of trading relationship which the UK eventually negotiates with the EU. Brexit, as was discussed above, also provides the opportunity for Caribbean countries to review and recalibrate their relationship with traditional development partners. Clarity and certainty about the reality of doing business with post-Brexit UK and EU would be invaluable for Caribbean countries, at this time. Unfortunately, such clarity and certainty may be a long time coming, but when it arrives, the Caribbean should be ready.

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Annex 1. Background: An unsettled British-EU relationship

On 25th March 1957, the Treaty of Rome was signed by six (6) European states (Belgium, France, Italy, Luxembourg, West Germany and the Netherlands) officially establishing the European Economic Community (EEC). *(When the referendum was held in the UK on 23rd June 2016, the EEC had become the EU and expanded to twenty-eight (28) members).*

Britain's difficult "on and off" relationship with the EU began in the nineteen-sixties when its applications to join the EEC in 1963 and 1967 were blocked by French President Charles de Gaulle.

On 1st January 1973, the UK was finally able to join the EEC. However, barely two and a half years later, some in the UK were already questioning whether it should remain in Europe and, on 5 June 1975, it held a referendum to gauge the level of support for its continued membership of the EEC. *On that occasion, 66% of the votes were cast in favour of remaining in the EEC.*

Box 1. Six CARICOM countries sign Lomé Convention and help to establish ACP

When Britain joined the EEC in 1973, it transferred authority for its trade agreements to the European Community. The Commonwealth Preferences Scheme, under which imports from the English-speaking Caribbean and other Commonwealth developing countries entered the UK under preferential rates, was among the UK-specific trade arrangements that came to an end. In negotiating its membership of the EEC, Britain advocated for the EEC to extend preferential trading arrangements to the former British colonies to compensate for the loss of the Commonwealth preferences.

On 28th February 1975, six (6) CARICOM countries (Bahamas, Barbados, Grenada, Republic of Guyana, Jamaica, and the Republic of Trinidad and Tobago) joined developing countries from Africa and the Pacific, all former colonies of EEC Member States, in signing a trade and development agreement with the EEC. This was the first Lomé Convention and it marked the beginning of what is now a 41-year relationship between CARICOM countries and the EU. In June 1975 the six CARICOM countries also became charter members of the Georgetown Agreement, which formally established the African, Caribbean and Pacific Group of States (ACP).

Following the accession of the Dominican Republic to the 4th ACP-EC Lomé Convention in 1990, the Caribbean Forum (CARIFORUM¹) of the African, Caribbean and Pacific Group of States was formally established in November 1992. These days, the original six CARICOM countries, which joined the ACP Group in 1975, have become sixteen (16) CARIFORUM countries, including five non-Commonwealth countries – Belize, Cuba, Dominican Republic, Haiti, and Suriname.

During the forty-one (41) years since the 1975 referendum Britain often seemed intent on carving out a separate identity within the EEC/EU. The key developments include:

- In June 1984 – Prime Minister Margaret Thatcher threatened the other EEC members into granting the UK a special annual multi-billion pound "British rebate".

¹ The region currently pursues its relationship with the EU as the Caribbean Forum of ACP States (CARIFORUM). Therefore, this note refers to CARIFORUM when commenting on the interface with the EU, but refers to CARICOM when reflecting on the region's relationship with the UK.

- In February 1986, Britain signed the Single European Act, intended to establish a single market, which was intended to be: “an area without frontiers in which the free movement of goods and persons, services and capital is ensured”. Almost immediately, the Euroskeptics in the UK began to question Britain’s acceptance of the Act’s provision on free movement of persons.
- In 1993, the then British Prime Minister, John Major was obliged to face down a back-bench rebellion over the 1992 Maastricht Treaty, which introduced co-operation on foreign policy and security. This Treaty also created the single European currency, the Euro.
- In 1999 when the Schengen Agreement, abolishing border controls among EU member states, was incorporated into EU law, the UK sought and was granted an opt-out.
- In January 2002, when the Euro was introduced as a physical currency, Britain did not join the single currency because the British preferred to retain the Pound Sterling and public opinion did not support the Euro.
- In 2015, after his victory in the General Election, UK Prime Minister Cameron sought from EU colleagues and failed to obtain a British exception to the EU’s single market provisions with respect to freedom of movement of EU citizens.

As 2015 gave way to 2016, Prime Minister Cameron felt obliged to deal with a growing anti-EU faction within his own Conservative party and the increasing popularity of the anti-immigration UKIP was also a concern. Finally, faced with a troubled Eurozone, an ongoing migrant crisis, and increasing anti-Europe sentiment across the UK, Prime Minister Cameron announced in February of this year that a referendum on Britain’s membership of the EU would take place on June 23. The “rest is history” and much of it is yet to be written.

Annex 2. Article 50 of the Treaty on the European Union

There is a formal legal process for withdrawing from the EU - enshrined in Article 50 of the 2009 Lisbon Treaty - although it has never been invoked. The text of Article is reproduced below for ease of reference.

Article 50 of the 2009 Lisbon Treaty

1. Any Member State may decide to withdraw from the Union in accordance with its own constitutional requirements.

2. A Member State which decides to withdraw shall notify the European Council of its intention. In the light of the guidelines provided by the European Council, the Union shall negotiate and conclude an agreement with that State, setting out the arrangements for its withdrawal, taking account of the framework for its future relationship with the Union. That agreement shall be negotiated in accordance with Article 218(3) of the Treaty on the Functioning of the European Union. It shall be concluded on behalf of the Union by the Council, acting by a qualified majority, after obtaining the consent of the European Parliament.

3. The Treaties shall cease to apply to the State in question from the date of entry into force of the withdrawal agreement or, failing that, two years after the notification referred to in paragraph 2, unless the European Council, in agreement with the Member State concerned, unanimously decides to extend this period.

4. For the purposes of paragraphs 2 and 3, the member of the European Council or of the Council representing the withdrawing Member State shall not participate in the discussions of the European Council or Council or in decisions concerning it.

A qualified majority shall be defined in accordance with Article 238(3)(b) of the Treaty on the Functioning of the European Union.

5. If a State which has withdrawn from the Union asks to rejoin, its request shall be subject to the procedure referred to in Article 49 (unanimous approval by all EU Member States and a majority in the European Parliament).

About ECDPM

ECDPM was established in 1986 as an independent foundation to improve European cooperation with the group of African, Caribbean and Pacific countries (ACP). Its main goal today is to broker effective partnerships between the European Union and the developing world, especially Africa. ECDPM promotes inclusive forms of development and cooperates with public and private sector organisations to better manage international relations. It also supports the reform of policies and institutions in both Europe and the developing world. One of ECDPM's key strengths is its extensive network of relations in developing countries, including emerging economies. Among its partners are multilateral institutions, international centres of excellence and a broad range of state and non-state organisations.

Thematic priorities

ECDPM organises its work around four themes:

- Reconciling values and interests in the external action of the EU and other international players
- Promoting economic governance and trade for inclusive and sustainable growth
- Supporting societal dynamics of change related to democracy and governance in developing countries, particularly Africa
- Addressing food security as a global public good through information and support to regional integration, markets and agriculture

Approach

ECDPM is a “think and do tank”. It links policies and practice using a mix of roles and methods. ECDPM organises and facilitates policy dialogues, provides tailor-made analysis and advice, participates in South-North networks and does policy-oriented research with partners from the South.

ECDPM also assists with the implementation of policies and has a strong track record in evaluating policy impact. ECDPM's activities are largely designed to support institutions in the developing world to define their own agendas. ECDPM brings a frank and independent perspective to its activities, entering partnerships with an open mind and a clear focus on results.

For more information please visit www.ecdpm.org

ECDPM Discussion Papers

ECDPM Discussion Papers present initial findings of work-in-progress at the Centre to facilitate meaningful and substantive exchange on key policy questions. The aim is to stimulate broader reflection and informed debate on EU external action, with a focus on relations with countries in the South.

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