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BRITAIN AND LATIN AMERICA:
ECONOMIC PROSPECTS

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Introduction

At Canning House in London in 1994 the Prime Minister spoke of Britain's relations with Latin America: 'we have a joint interest in political stability, in the security of our investments and a thriving and growing trading partnership'. Shortly afterwards the Mexican currency crisis, according to *The Financial Times*, had 'dimmed expectations for economies throughout Latin America' and, taken with the border dispute that resurfaced in January 1995 between Peru and Ecuador, 'raised some fundamental questions in the minds of investors about the wisdom of investment in Latin America'. Yet only one month after that crisis the British Government, with the joint participation of the Department of Trade and Industry (DTI), Foreign and Commonwealth Office and Confederation of British Industry (CBI), launched the Link into Latin America campaign to encourage British business to seize the new opportunities in the region. Is the British Government right to encourage British business to involve itself more in the development of Latin America?

Shared History

This paper will focus on the economic relationship between Britain and Latin America. Yet some historical and political perspective is needed. Britain's ties of friendship with the countries of Latin America stretch back nearly 180 years, to the early nineteenth century when Britain played a major role in helping these countries to secure their independence.¹ Independence leaders – such as Bolívar, San Martín, and Miranda – enjoyed political and financial links with London. Lord Cochrane led the navy that brought Chilean independence, under Bernardo O'Higgins, in 1818. Cochrane also gave naval support to the leaders of Brazilian independence between 1823 and 1825. A British Legion, including a battalion of some 4,000 volunteers, formed an important part of Simón Bolívar's force that brought independence to New Granada in 1819 and Venezuela in 1821. The following year, Britain was the only state outside the Americas to be invited to the Panama Congress – the first assembly of representatives of the newly independent states. It was

¹ This role has been well documented, most recently by Rory Miller, *Britain and Latin America in the 19th and 20th Centuries* (London and New York, 1993).

largely as a result of British mediation that Uruguay achieved independence in 1828 as a buffer state between its two large neighbours.

In parenthesis, the very struggle for the independence of individual nation states points up a lesson for those planning involvement in Latin America: though there are common threads throughout the culture, not least from the Spanish heritage, the diversity of culture between and within the nations is just as marked. Chile is as different from Venezuela as Scotland is from Italy. Even with a relatively small sub-region such as Central America, the character of the nations reflects real differences in their social, economic and political histories. This does not need saying to the Latin American specialists but it is certainly relevant for those planning a Latin American commercial strategy.

Returning to the 19th century, after the independence of Latin American states British firms went on to build railways, ports, bridges, sewerage systems, and to invest in shipping, mining, telegraph and cables. Argentina, for example, became second only to India as a beneficiary of British capital. By the end of the 19th century Britain was the biggest foreign economic presence in South America.

Then, drained of resources in two world wars, Britain had almost disappeared from the region by the middle of the 20th century. Now, as the 21st century approaches we have again become a significant player – the second largest fixed investor in Latin America and the largest foreign fixed investor in the North American Free Trade Agreement (NAFTA). In contrast to some other countries, we are expanding our diplomatic representation in the region – strengthening existing posts and opening new posts in Santo Domingo, Monterrey, Curitiba and Porto Alegre.

Investment

A stable economic and social base is the first essential for any country. The striking feature of Britain's involvement in Latin America, as opposed to that of other countries, has been the prominent role of direct investment (that is investment in machinery, plant and fixed capital as opposed to portfolio investment in stocks, shares and other securities). In recent years this has grown fast. It is the result of decisions by private companies; but it is stimulated by the right political and economic conditions. The United Kingdom (UK) is easily the largest single European investor.² In the period 1979 to 1992 new European Union (EU) investment in Latin America totalled

² See Annex I for British investment in Latin America.

about 18 billion US dollars. The UK's share at the end of 1992 was a conservatively estimated 8 billion dollars net book value and it has increased substantially over the past two years. According to Mexican figures, Britain is the second largest investor in that country, having provided about 6.5% of all inward new fixed investment flows over the past two years. This direct inward investment brings in technology and managerial expertise, strengthens – in the case of Latin America – the traditionally weak domestic savings base, and creates jobs.

More questions have, however, been raised about the value to the recipient country of foreign portfolio investment. As a result of their integration into the world economy, the Latin American countries benefited from these flows of external finance. It brings many of the advantages of direct investment. At the same time the countries have also become more exposed and vulnerable to the volatility of financial markets. Moreover, some of the larger economies now have the capacity to cause an impact on their neighbours and indeed the world economy as a whole. Mexico has been the most obvious case in point, but Brazil and Argentina are others. The instabilities provoked by speculative moves against domestic currencies, as well as violent swings in exchange rates, threaten the sustainability of the impressive trade and financial reforms these countries have achieved. This problem is therefore a matter of interest for the international community as a whole and one which the British Government takes seriously. Indeed, we ourselves have had to face it in Britain in the not very distant past. The G7 summit in Halifax in 1995 agreed that the key to promoting financial market stability is the pursuit of sound macro-economic policies. To help buttress that process the G7 are proposing measures to strengthen International Monetary Fund (IMF) surveillance and to encourage the publication of better and more timely economic data to help improve transparency for the markets. Nonetheless, the fact has to be faced that, even with such improvements, we will not always be able to prevent crises. If these occur, governments and the IMF must be ready to take rapid action, when appropriate, to help an IMF member in trouble. Hence the Halifax G7 meeting proposal for a new 'Emergency Financing Mechanism'.

Trade Opportunities and Trade Blocs

Britain has a markedly lower share of Latin America's imports than of its inward investment. Even Brazil, the world's tenth largest economy in 1993, was only number 35 in the 1994 league table of Britain's export markets, though it had been as low as number 46 in 1982. Next in importance are Mexico at 39, Colombia 51, Argentina 52, Venezuela 54 (but down from 50 in the previous year) and Chile at 61. Latin America clearly offers great potential as a market for British and other European exporters. Our market

share of 1.8% is untypically low for the UK, whose world share of imports is about 4.5%. The Latin American import market grew at an average of 17% a year from 1990 to 1993. GDP has grown over the same period by 3.5% a year. Already results are encouraging. British exports to Latin America were up in 1993 and 1994 by 23.6% and 25.1% over the previous years.³ Yet still only a very small proportion of British companies export at all to Latin America. The image that has developed over past decades in the minds of business people of Latin America being a difficult region in which to work is a deterrent. The Link into Latin America campaign is designed to stimulate the interest of companies and provide advice on securing profitable business in the region. Peer encouragement also has a role to play. Successful companies who know the market, not least the financial and other services available, can give a hand to others who do not.

So what should business people do? The first answer is not to be put off by out-dated prejudices, but to look at opportunities on their merits. The right approach will vary enormously, depending on the size of company and the nature of their business. For some, a little desk research will quickly narrow the market opportunities, and the right way to pursue them – whether by direct sales, by entering a joint venture with a local partner, by substantial investment in the market, or through supply to a larger player already active in the market. There is a wide range of advice and services available from the Department of Trade and Industry in London (DTI) and our Embassies in the region, with whom they work very closely. Those looking at the region for the first time may find it helpful to talk to the Latin America Trade Advisory Group (LATAG), who advise Government on Latin American trade opportunities. The DTI provides general country and market information. Basic market research and help with finding a local agent can be commissioned by a company from commercial staff in the Embassy concerned, either *via* DTI or their local Business Link or Government office. Having done some homework, there is no substitute for visiting the markets selected – perhaps as part of a Government-supported outward trade mission, or by exhibiting at a local trade fair.

Healthy trade is two-way trade. In 1993 the EU took US\$ 29.1 billion, or 18%, of Latin American exports (compared with 46% into the USA, and only 4.3% into Japan). The scope for an increase is considerable, particularly when stimulated by favourable developments in trade policy. Latin America needs open European markets and a free, two-way flow of trade between itself and Europe. As a result of the final GATT agreement (appropriately launched in Uruguay – the Uruguay round), 60% of all Latin American exports to the EU will enter Europe duty free, in contrast to the 35% of the

³ See Annex II for British trade with Latin America.

region's exports which enter the US market duty free. Under the EU's Generalised System of Preferences other Latin American exports also enter Europe at reduced rates of duty (in some cases free of duty). There will be a need for a Latin American marketing effort in Europe, especially in the period before the accession of Southern European and Central European countries to the EU makes an increased impact on exports. Chile's success in targeting other markets than the USA is an example of what can be done.

The European Union is currently engaged in negotiations with MERCOSUR (Argentina, Brazil, Paraguay and Uruguay), Mexico and Chile aimed at more trade and stronger links. Britain strongly supports this process and is perhaps the most liberal of all EU member states in its approach to these negotiations. Of course, we have an interest in open markets on both sides. Even now there are (hopefully short term) issues which we want settled, such as whisky imports into Chile, car imports into Brazil and aero engine tariffs in Mexico. We also want to see the new relationship between the EU and the region providing for improved protection for intellectual property and action to eliminate non-tariff barriers to trade. This would produce a more secure environment for trade and investment in the interests of both parties. We welcome the signature in Madrid at the end of 1995 of an EU/MERCOSUR Inter-Regional Framework Agreement and look forward to a conclusion this year of the negotiations with Mexico and Chile. We supported Mexico's entry into the Organisation for Economic Cooperation and Development (OECD).

The EU and its member states also have with Latin America a strong common interest in supporting the new World Trade Organisation (WTO) just as they worked for the successful outcome of the last GATT round. As Latin Americans know, the UK was a consistent and effective advocate within the EU in favour of a liberal trading regime. As a trading nation we attach the greatest importance to open markets, not least in Europe where we have jointly succeeded in building a Single Market and not a Fortress Europe. We attach the greatest importance to the settlement of trade disputes through the WTO. We have a strong interest in market access to the Americas, not least NAFTA and MERCOSUR. Progressive trade liberalisation should lead ultimately to genuinely free trade between Europe and the Americas. This would need to include agriculture as an essential component of trade between Europe and the Americas – currently it constitutes some 57% of trade between the EU and MERCOSUR.

The Mexican Crisis and its Aftermath

What then about the impact of the financial crisis of December 1994? Can Mexico and the region as a whole repair the damage done to confidence by that crisis?

It is worth remembering that Latin America suffered an economic crisis in the 1980s. When Mexico defaulted on its debt in 1982 the crisis had repercussions throughout the continent and beyond and led to the so-called 'lost decade'. Economic growth that had reached six per cent per year on average through the 1970s fell to an average of 2.5% per year in the following decade. In the early 1990s growth in the region rose to nearly three per cent per year on average. Not a significant improvement some may say. However, the figures hide a fundamental change in philosophy towards the conduct of economic policy.

In the 1970s the prevalent economic model in Latin America revolved around import substitution. This promoted domestic industries by shielding them from international competition behind high tariff barriers. In addition, economies were characterised by state intervention and public ownership of the means of production and distribution. The impressive growth rate achieved in many Latin American economies in the 1970s was unsustainable. Periods of high growth alternated with periods of high inflation, several countries experiencing the pains of hyperinflation.

The newly accepted economic philosophy rejects this model in favour of economic liberalisation both domestically and internationally. Internal deregulation, removal of tariff barriers, financial liberalisation, fiscal prudence and privatisation have exposed Latin America to market forces and in many cases a period of prolonged and difficult adjustment. However, these policies promise a more solid foundation for future growth. In 1990 four countries (Argentina, Brazil, Nicaragua and Peru) had four-figure inflation rates. By 1994 only Brazil was in the same position and by 1995 all these countries had inflation rates below 20%, most in single figures, though Venezuela and Mexico have had to endure an increase in inflation after it had fallen. These reforms are fundamental and to a considerable extent irreversible. The foundations for economic development are therefore already far more solid than they were in 1982.

Sustainable Growth

Prospects for sustainable growth in Latin America are therefore now much better, but they are not assured. The most recent IMF survey shows growth for the region slowing from 4.6% in 1994 to 0.6% in 1995. The financial crisis was a factor in that. The same survey forecasts GDP rising to 4.0% in 1996. The OECD forecast for Central and South America is for a 3.3% increase. The World Bank recently estimated that annual growth could reach an average of 6.3% by the turn of the century. It is, however, clear that the achievement of this higher rate will require sustained increases in competitiveness to drive export growth, labour market and educational

reform, increases in domestic savings, investment in physical and social infrastructure and care of the environment for both short and longer term interests.

The year 1995 was difficult and challenging for Mexico itself. When the Mexican Foreign Minister was on an official visit to London in March 1995, the British Government issued a statement welcoming the Mexican Government's determined and constructive policies to resolve the economic crisis. Mexico has achieved much so far with its economic stabilisation programme. There appear to be some underlying weaknesses, notably in the banking system and the fact that Mexico's domestic savings rate is not strong enough to maintain growth at the level needed to support its fast growing population. But unlike the crisis in 1982, Mexico has regained access to the international capital markets in months not years. The Mexican Government is to be congratulated also on the decision to persist with its programme of reforms to improve the efficiency of the economy. Major challenges still lie ahead, not least to create the conditions for meeting social needs and for providing jobs for the one million young Mexicans who every year begin to look for work.

Latin America as a whole still faces the need for conditions which will assure sustainable political and economic development. Among the OECD countries a clear consensus exists that the best way to develop a country's full potential is to provide an economic framework where resources are allocated by the market rather than the state. Key instruments for achieving this are privatisation and deregulation. At the same time Latin America needs an efficient public sector to deliver those public sector goods and services required to provide education, health care, other aspects of the social safety net and essential infrastructure. The corrosive influence of corruption and of drugs-related and other crime has to be faced and tackled courageously. Fair – and, probably, broader based – tax systems are another basic requirement. But the overall burden of taxation has to be kept down if growth is to be stimulated.

Public Sector Reform

The government in Britain is itself engaged in a campaign to improve the efficiency of our public sector. In striving for this we ask some basic questions. Is the service, at cost to the tax payer, really needed? If the service is needed, does the Government have to be responsible for it? If not, it should be privatised or contracted out. If the Government must provide the service itself, can it be better organised to provide a better ratio of output of high quality services to costs, especially labour costs? Many good examples of successful public services and public sector reforms can be found in Latin

America. Pension reform in Chile is one. Costa Rica has managed to combine lively private enterprise with effective universal health care and education services. Britain and Europe have much experience to share with Latin America. Britain is, arguably, the pioneer of privatisation and deregulation and has much to contribute, from both its private and public sectors, in putting such policies into practice, taking account of the possible pitfalls.

Aid

Development aid from the European Union and its member countries is providing a significant role in such support for sustainable Latin American development. The EU and Member States are by far the largest providers of development assistance to Latin America – about 48% of the total, in 1993 – and it has since increased. Some 17% of EU aid has been provided by Britain. The main areas benefiting have been financial, technical and economic cooperation – including specific help for regional integration. The EU also provides support for the democratic process, non-governmental organisations, refugees, human rights and sustainable development, especially in the preservation of tropical rain forests. Britain's own aid to the region is more sharply focused in three areas: support for 'good government', including improved government structures and strategies, and privatisation; human resources development (education, health and children by choice); and the sustainable development of renewable natural resources and environmental issues. Where possible, these activities focus on the poorest.⁴

Aid budgets are inevitably under great pressure as a result of contributions to multilateral programmes reducing the funds available for bilateral aid and demands from additional countries, not least in Central and Eastern Europe. It is therefore important that EU aid should be coordinated in pursuit of the top priority objectives. The EU and Member States are working on this. They have recently begun a pilot exercise in six countries designed to improve the coordination of their aid programmes; two of these countries are in Latin America (Costa Rica and Peru). Perhaps even more targeting is called for, in support of structures for sustainable economic and political development on the lines discussed above.

⁴ See Annex III for British aid flows to Latin America.

Britain as a European Base

Britain also intends to play a prominent role in Latin America's relations with Europe. Apart from investment and cooperation in areas helpful to Latin America's political and economic development, Britain will support open EU trade policies towards Latin America. For Latin America, Britain, including London's financial centre, provides an attractive base for European marketing and other operations. Communications and telecommunications between Britain, Latin America and other European countries are excellent. The City of London is by far the strongest European financial centre, comparable with New York or Tokyo as a source of business investment funding. And it is not without good reason that 40% of all North American fixed investment in Europe is based in Britain. The reasons include a pro-business climate, relatively low levels of tax on business, a skilled labour force and a good environment for expatriate employees. As Latin American business becomes an increasingly strong player in Europe we will promote Britain as its base too. We welcome the decisions of the Colombian and Argentine authorities to establish their European trade promotion offices in London. The support provided by organisations such as the Latin American Trade Advisory Group, London First, Canning House, the Invest in Britain Bureau and others will have an important role to play in this process of attracting and consolidating the Latin American presence in the UK.

Education and Culture

Stronger educational and cultural contact will help to inspire greater interest in economic and political cooperation between Britain and Latin America. Language for a start. It is said that to buy you can always speak your own language, but to sell you need to speak the language of your customers. This message seems to be getting home in the case of Spanish, which is now the third most important foreign language taught in British schools. Demand for Spanish teaching and examinations has increased quite strongly. In 1989 3,112 students took Spanish A level; in 1995 the figure was 4,818 (that is now about half the number taking German A level). Portuguese continues to be an A level subject thanks to the University of Cambridge Local Examinations Syndicate. Also important is the academic infrastructure for Latin American studies in Britain, putting Britain prominently on the intellectual map in this field. Young people in Britain appear increasingly attracted to Latin American studies. For example, the number of students enrolled at the Institute of Latin American Studies at the University of London for MA and MSc degrees in Latin American studies has tripled over the past five years. London University has created a new MA in Brazilian Studies. There is a new permanent Mexican exhibition in the British Museum. Tango, samba, salsa and merengue classes add a Latin flavour to London these days. The

more that institutes, embassies, organisations and individuals can do to promote such cultural enthusiasm, the more solid will be the human base for political and commercial cooperation.

In the other direction British educational establishments have great opportunities in the supply of educational services, including further educational courses at British universities and other institutions, and in English language teaching. The British Council's programmes, the network of '*Culturas*' (British cultural and language centres) and the BBC External Services are great assets.

Regional Political Stability

The political context is fundamental. The way in which the border conflict between Peru and Ecuador was handled is encouraging. The guarantor powers of the 1941 border settlement speedily brokered a ceasefire, monitored and set in train a process towards the negotiation of a permanent settlement. The Europeans have made it clear that they are glad to share their experience with the peaceful settlement of disputes.

Britain has a particular interest in the security and stability of the Falkland Islands, Belize and Britain's dependent territories in the Caribbean. In the South Atlantic, Argentina's assertion of its claim to the islands is a disturbing element in the quest for stability. The UK rejects this claim and has no doubts about UK sovereignty over the Falkland Islands, South Georgia and the South Sandwich Islands and her right to administer them. But we are working hard to develop a constructive and friendly bilateral relationship with Argentina. Good progress has been made to repair the damage of the invasion and war of 1982. We now have a working arrangement (known informally as the 'sovereignty umbrella') whereby both sides have agreed to put the issue of sovereignty to one side while discussions take place on specific practical matters. It is a real achievement by both countries that the Foreign Ministers of Argentina and Britain signed, on 27 September 1995 in New York, a Joint Declaration on offshore hydrocarbons exploration in the South West Atlantic. The British Prime Minister and the President of Argentina subsequently met, also in New York, on 23 October 1995, the first such meeting between the heads of government of the two countries since the 1982 conflict. These developments bode well for the future of British/Argentine relations.

It is widely recognised that drugs trafficking and drug-related crime, including money laundering, now poses probably the biggest single threat to stability in Latin America and the Caribbean. This is not a new phenomenon, but it is one which has grown in recent years. As is well-known, drugs are transported from the main producing countries of South America by a variety

of means, including light aircraft and commercial aircraft, sea and air containers, fast boats and couriers. Plenty of evidence has accumulated that the traffickers are well-organised, well-supported and have vast financial resources at their disposal. They are also ruthless. Britain has fully recognised this threat and, for some years now, has been helping Latin American countries to deal with it by providing training, equipment and advice of various sorts. We will continue to do so.

International Political and Economic Cooperation

The countries of Latin America, both individually and as members of regional organisations, are now expanding their relations with the rest of the world. As a global economy becomes a reality, the Latin American economies are increasingly playing a significant part in it. Europe's and Latin America's approaches towards world trade issues are fortunately now much closer than they were in the decades when import substitution models and closed, uncompetitive economies were the fashion in Latin America.

Latin Americans are also demonstrating a willingness to play an increasingly constructive role in the international community. They are sharing the burden of international peace-keeping and are to be found in blue helmets in Africa, Europe and elsewhere. British and Argentine troops have, for example, worked closely together in Bosnia and Cyprus. We are conscious of the fact that two of the UN soldiers held hostage in Bosnia were captains in the Brazilian Army. We have a common interest in the effectiveness and financial viability of the United Nations itself. We also have a common interest in halting the spread of nuclear and other weapons of mass destruction. All Latin American states are now parties to the Treaty of Tlatelolco and Argentina and Chile have recently joined the Non-Proliferation Treaty.

From September 1995 Britain became a Permanent Observer to the Organisation of American States (OAS). The OAS is the world's oldest regional peacekeeping organisation, and has developed into an effective forum for promoting the consolidation of democracy and respect for human rights and for discussing regional trade and environmental issues. Our membership as a Permanent Observer is a symbol of our desire to play a constructive part in the political cooperation of the extended American family.

Conclusion

The driving force for Britain's involvement in the region in the 19th century was trade and investment; and it still is. Objectively, the opportunities for

British business in the region are considerable. Over the past year Latin America has weathered the Mexican crisis of December 1994. The prospects for sustainable growth are not assured but the foundations for it are far more solid than they were ten years ago. British firms have major opportunities. The most authoritative forecasts predict that growth will increase over the next ten years and that imports and trade generally will rise further. The UK share of Latin American imports is out of line both with our share of fixed investment in the region and our share of world imports; this is a further indication of the potential the region offers. British companies have a real contribution to make in further strengthening progress in areas such as privatisation, financial institutions, world marketing experience, access to Europe, and the development of social and physical infrastructure.

This commercial interest has, however, been coupled historically with a political approach which has supported the democracies in the region in finding solutions to their own problems as well as playing, with Europeans and others, a constructive and open role in world affairs. In today's world rapid communications and the explosion of population and technology force us to treat issues globally. It is no longer a world stifled by bipolar confrontation. New players, not least the democracies of Latin America, have the capacity and commitment needed to make a constructive impact on regional and global issues. They are the new partners that Britain and Europe need.

ANNEX I

FOREIGN DIRECT INVESTMENT FLOWS TO LATIN AMERICA
(net, in millions of US dollars)

	1980-89	1990	1991	1992	1993
Europe	12,168	1,819	1,481	1,658	1,431
<i>of which:</i>					
Belgium	148	57	34	70	-75
France	1,693	281	-12	148	333
Germany	2,812	289	375	306	-77
Italy	973	57	125	-48	40
Netherlands	701	292	314	242	285
Spain	1,283	282	582	505	369
United Kingdom	4,532	481	76	409	506
 USA	 11,018	 3,217	 4,970	 5,745	 8,465
 Japan	 2,918	 399	 561	 270	 132
 Total	 26,104	 5,435	 7,012	 7,673	 10,028

Source: Central Statistical Office

ANNEX II

BRITISH TRADE WITH LATIN AMERICA
(£,000)

	1987	1988	1989	1990	1991	1992	1993	1994
UK EXPORTS								
To								
South America	826	774	742	886	896	927	1238	1552
Central America	167	137	120	92	94	120	131	129
Mexico	199	190	205	263	275	291	336	389
Latin America	1192	1101	1067	1241	1264	1339	1705	2070

UK IMPORTS
From

South America	1134	1282	1514	1460	1448	1650	1803	1818
Central America	58	90	54	46	48	60	94	130
Mexico	245	145	154	172	147	153	166	240
Latin America	1437	1517	1723	1679	1643	1863	2063	2188

Source: Department of Trade and Industry

ANNEX III

BRITISH DEVELOPMENT ASSISTANCE TO LATIN AMERICA
(£,000)

1990/91	27,415
1991/92	30,245
1992/93	54,904
1993/94	46,716
1994/95	59,719

Source: Overseas Development Administration (figures exclude Belize and Guyana)