

**Divergent International Perspectives  
on the Caribbean:  
The Interaction Between the  
Ongoing Caribbean, U.S., and  
European Adaptations to  
the New Global Economy**

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## DEDICATION

With special thanks to Caribbean Project Associate Director Shawn Malone.  
Without his dedication, maturity, management skills,  
analytical abilities, and friendship,  
this enterprise never would have come to fruition.

## PREFACE

The initial version of this paper was prepared as the discussion document for a conference on "Divergent International Perspectives on the Caribbean," held in Washington, D.C., 17-18 June 1997. The conference was cosponsored by the Georgetown University Caribbean Project, the Caribbean Council for Europe, and the Caribbean Office of the Friedrich Ebert Foundation. Principal funding for the conference was provided by the Ford Foundation and the MacArthur Foundation.

The paper was then rewritten, taking into account the critiques provided by the conference participants, and a new conclusion was added. The paper is now available to the public as the first issue of the new *Georgetown University Caribbean Briefing Paper Series*. Conference participants did not endorse the final product, which is the sole responsibility of the author. (A list of conference participants appears in Appendix I.)

The research for this document was primarily conducted from January to May 1997. Interviews were conducted in the United States, Britain, Belgium, Mexico, Barbados, Dominica, and Saint Vincent and the Grenadines. Research carried out in Cuba, Jamaica, and the Dominican Republic during 1996 was also utilized. Special appreciation is extended to the numerous academics, businesspeople, diplomats, foundation personnel, and journalists who made themselves available to the author.

During the January to May 1997 research, all interview subjects were asked to suggest "proposals for consensus" that they believed might be supported by individuals representing opposing perspectives. These proposals were then considered by the June conference participants, who were encouraged to accept, reject, modify, or add to the items. Much of this work was conducted in small planning sessions, presided over by the moderators of the respective panels. These moderators did heroic work in pulling together diverse views into coherent reports, for which the author is profoundly grateful.

In the end, the conference participants concluded that there was not sufficient agreement to identify any consensus proposals as enjoying unanimous support. Some participants vigorously disagreed with one or more items, and many, as representatives of their governments, were not authorized to enter into consensus agreements of any sort. However, the participants did deem a number of ideas "worthy of further discussion" on the grounds that they moved the debate forward in a constructive manner. These "Ideas Deemed Worthy of Further Discussion" appear in Appendix II. It is expected that these ideas will be explored at future Georgetown University Caribbean Project meetings both in Washington and in the region.

Appendix III contains the texts of several of the presentations made at the June 1997 conference.

## EXECUTIVE SUMMARY

### INTRODUCTION

The Caribbean region, the United States, and Europe are all undergoing transitions with obvious economic dimensions and less overt but equally complex ideological, political, bureaucratic, and cultural components. In virtually all cases there is a time lag between the changed economic demands made by the international marketplace and the adjustment of social patterns. Just as habits left over from the feudal era slowed the growth of capitalism in the sixteenth century, so social legacies from the cold war/postcolonial era are currently slowing all countries' adjustments to the globalization of world trade.

That said, societies differ greatly in their abilities to absorb the costs of shedding cherished practices no longer compatible with the new world economy while still providing an adequate degree of protection to vulnerable social elements during the transition. Whereas the United States and Europe have significant resources with which to bridge the gap between new economic realities and old societal expectations, the Caribbean does not. Added to that Caribbean disadvantage is the tendency of each country or regional grouping to be preoccupied with its own transition problems and to underestimate the degree of domestic turmoil economic adjustments are creating in partners. Because the United States and Europe have the most influence on the structuring of the new rules for

global trade, they tend to ensure that their domestic constituencies are protected, while the Caribbean's domestic problems are often addressed as an afterthought or not at all.

It is the contention of this paper that, over the long term, untended gaps between Caribbean social expectations and new global economic realities could eventually generate serious security problems for both the region and its international partners.

## I. CARIBBEAN ECONOMIC ISSUES: THE INTERNATIONAL CONTEXT

**I-A. New Trading Arrangements: Post-Lomé IV, FTAA, and NAFTA Parity.** The international community's new trading arrangements are having a particularly severe impact upon the region. A succession of *Lomé Conventions* have led the Caribbean to rely upon preferential trade arrangements with and aid from Europe. As Europe adapts to the new global economy, however, its priorities are changing. Expansion of the European Union (EU) to include countries without historical Caribbean links and growing European business interest in Asia and the former Eastern bloc countries have caused Brussels to reassess its traditional links with the region. In addition, the necessity for the EU to comply with new, relatively strict World Trade Organization (WTO) trade rules will put severe pressure on traditional trade arrangements with the Caribbean. Moreover, the value of Caribbean preferences is already being eroded by the liberalization of EU trade rules, which is opening the European market to new competitors. The new European tendency to allocate aid on the basis of need rather than colonial ties also bodes ill for the majority of Caribbean countries, which are not among the poorest of the poor. The relationship is likely to be further altered by EU emphasis on enhancing the role of the private sector and interest in establishing stricter aid conditionalities. Although Europe has no intention of abandoning the Caribbean, and is sympathetic to many Caribbean complaints regarding the United States, it is less intensely engaged in the region than previously. The current Lomé Convention (Lomé IV) is due to expire in the year 2000, and the successor agreement is likely to be less advantageous for the Caribbean.

The effort of the United States to adapt to globalization by enhancing its access to markets in the hemisphere via free trade agreements is having an immediate negative impact on the Caribbean. When NAFTA came into effect in 1994 and lowered tariffs on imports from Mexico, the region's garment industries immediately began to suffer. Although the Caribbean is eligible in principle to become part of the envisioned *Free Trade Area of the Americas* (FTAA) that the United States hopes to establish by 2005, in reality only some of the region's larger countries are seriously preparing for FTAA accession. U.S. trade officials' resistance to anything beyond transitional, narrow, case-by-case exceptions to FTAA rules for small countries makes FTAA membership unattractive for the region's smaller states, which fear that unfettered free trade would wipe out important sectors of their domestic economies. However, if these nations are left out of a future FTAA, their market access in the hemisphere will be jeopardized.

An effort by President Clinton to provide some intermediate trade relief for the Caribbean via a version of *NAFTA parity* has uncertain prospects in Congress.

**I-B. Divergent Approaches to Trade Liberalization: The Transition from Preferential to Reciprocal Trade.** Most observers in the Caribbean, the United States, and Europe agree that an inexorable transition is under way from preferential to reciprocal trade. The reduction of preferences will have a particularly acute impact on the Caribbean; strategists within the region argue that steps must be taken to ensure that the transition there is extremely gradual. The banana sector, on which much of the Windward Islands' workforce depends for its livelihood, is especially vulnerable due to well-organized potential competitors in Latin America.

## II. CARIBBEAN ECONOMIC ISSUES: THE REGIONAL CONTEXT

As the above-mentioned changes in the international economic environment have occurred, Caribbean per capita growth rates have stagnated. The region primarily blames negative international developments for its problems, but others, including the World Bank, say that faulty economic policies and lackluster private-sector entrepreneurship are the real culprits.

**II-A. Strategies to Adapt to a Global Market Economy.** Although all observers agree that improvement of the Caribbean's *business environment* is critical, the region's progress in this regard still leaves much to be desired. Foreign investment rates are up, but they have not risen sufficiently to compensate for the decline in aid and trade preferences. Caribbean business procedures remain cumbersome, and the small size of the region's markets means that foreign firms frustrated by such problems simply take their business elsewhere. The indigenous Caribbean private sector tends to be risk averse, and sometimes new endeavors are not able to move forward unless they benefit the interests of entrenched elites. The slowness of the Caribbean education system to adapt to the new demands of the market, particularly in the high-technology sector, is another negative feature of the business environment.

*Manufacturing* could provide growth opportunities for the larger Caribbean islands, particularly the Dominican Republic, Jamaica, and Trinidad and Tobago, if access to the U.S. market improves. On the smaller islands manufacturing prospects are bleak.

The region's good (albeit expensive) telecommunications infrastructure, use of English, high educational levels, and proximity (in terms of both geography and time zones) to the United States have equipped it remarkably well to enter the *information technology and related computer services* sector. The region's relatively high wages are eroding its ability to compete for low-technology data-entry contracts, however, and its attractiveness as a locale for more profitable high-technology activities is limited by its outdated computer engineering curricula. Notwithstanding these difficulties, some Caribbean companies have made great strides in the information technology sector and are poised to become world-class competitors.

Although *tourism* is the only sector that has consistently increased its share of total Caribbean income over the past two decades, its future growth is limited in many islands by the shortage of land that can be developed in an environmentally sound manner, strong competition from other regions, poor air connections to the newer Caribbean tourist destinations, and heavy dependence on imported inputs. Nonetheless, tourism is clearly one of the more promising sectors for the region, with health and ecological tourism offering particularly intriguing opportunities. In the eyes of some, tourism also has a social advantage over high-technology activities because a given investment provides more jobs suited to the existing skills of Caribbean residents.

*Offshore finance* is a two-edged sword for the Caribbean. The same labor and infrastructural characteristics that make the region suitable for information technology activities provide it with strong competitive advantages in the offshore finance industry. Several Caribbean countries have already developed great expertise in this area, and as traditional economic activities become less profitable under the pressure of globalization, the offshore finance sector is attracting newcomers. However, along with the flow of legitimate money seeking offshore services is a growing wave of illicit profits, not only from Latin American drug smugglers but also increasingly from Russian organized crime. Newcomers to the sector, seeking to maximize their competitive position relative to the established operations, are tempted to impose only lax regulations, thereby leaving themselves open to penetration by money launderers.

*Agricultural diversification* is clearly key to Caribbean adaptation to the new global economy. In most islands, however, geography makes it difficult to achieve the economies of scale required to be competitive with Latin American growers. There are good market opportunities in the United States for a wide variety of Caribbean-grown conventional and exotic produce, but the small family-based farms prevalent in the most vulnerable parts of the region are not accustomed to conducting the marketing efforts required to identify sales opportunities abroad. Traditional farmers are reluctant to switch crops unless the new item is guaranteed to produce a stable income, and exporters have difficulty complying with U.S. labeling, packaging, and sanitary requirements. Many islands are served only by small airports unable to accommodate large jets, while the lack of competition in the transport sector means that shipping costs are so high that local farmers find it hard to compete with Latin American suppliers. The interests of entrenched elites have sometimes blocked new agricultural initiatives. The failure of past efforts to form a common brand name, due to mutual distrust and poor coordination, has hindered cultivation of Caribbean brand loyalty in the United States. There are concentrations of persons of Caribbean origin in the United States and Canada who conceivably could provide market-based partners for Caribbean agricultural export operations, but few such ventures have materialized. Beyond all this is the sheer difficulty of identifying exactly what is in demand where at any given time.

Despite all the emphasis on the importance of the foreign and domestic private sectors, *Caribbean governments* remain a critical factor in helping the region adapt to the new global economy. They need to maintain their long-standing role of ensuring that the private sector behaves in a manner compatible with social needs, that laws are transparent and impartially enforced, and that the educational and infrastructural systems are appropriate for the new demands of the international marketplace. In a few countries, governments have been able to act as sources of innovation for the private sector.

**II-B. Special and Differential Treatment for Small States and Territories?** There is intense debate as to whether the region's economic difficulties are primarily related to factors within or outside the control of the Caribbean's people. The position taken on this issue determines views on the appropriateness of special and differential treatment for small states and territories. Some observers argue that much of the Caribbean's difficulties in adapting to the new international circumstances relate to immutable characteristics and that the region therefore deserves permanent special treatment in trade arrangements. Analysts from the World Bank and the United States counter that most if not all of the sectoral difficulties could be overcome through better economic policies and more dynamic entrepreneurial activities. To provide ongoing special treatment, they insist, would not only be unfair to other countries facing similar challenges, but would delay Caribbean adjustment that eventually must occur. The gap

between these two positions remains wide, and the evolution of international trade regimes is strongly influenced by those of the latter view.

**II-C. Regional Integration.** Regardless of the position adopted on the differential-treatment topic, there is wide agreement that Caribbean adaptation to the global economy requires rapid progress on regional integration. In order to defend its interests in an era of trade blocs and to attract investment to its relatively small markets, the region must not only adopt coordinated negotiating stances, but must lower intraregional barriers to trade, investment, and movement of workers. Although the Caribbean made relatively good progress on political and functional cooperation in the past, with the establishment of the Caribbean Community (CARICOM) and the subregional Organization of Eastern Caribbean States (OECS), momentum has now slowed, particularly on the critical issue of establishing a common market. CARICOM's unanimity rule makes it difficult to reach agreement, and when accords are signed they frequently are not fully implemented. There have also been some difficulties in integrating the CARICOM countries with the nonanglophone Caribbean. The effort to form a comprehensive Association of Caribbean States initially raised expectations. The ACS embraces over 202 million people, in comparison with CARICOM's 13 million. However, to date the ACS has had only limited success in promoting economic integration.

### III. SECURITY/STABILITY ISSUES IN THE CARIBBEAN

The Caribbean is being forced to adapt to the new international context at a time when it is already facing formidable threats to its own security and stability.

**III-A. Major Security Issues.** One of the main security threats to the Caribbean is *narcotics trafficking*. According to U.S. officials, 40 percent of all drugs reaching the U.S. mainland now pass through the Caribbean, four times the percentage of a decade ago. The corrupting influence of this trafficking has become a significant danger to the democratic traditions of the region and has strained relations with Washington.

The U.S. practice of "certifying" whether the region's governments are sufficiently committed to antinarcotics efforts, the pressure on Caribbean countries to "share sovereignty" by allowing U.S. security forces to enter their territory in hot pursuit of criminals (as in the so-called "ship-rider" agreements), the lack of U.S. reciprocity in intelligence sharing, and Washington's inability to control domestic drug demand are among the Caribbean's chief complaints.

The U.S., in turn, argues that Caribbean governments do not have sufficient resources to combat drug smuggling on their own, and that mechanisms such as the ship-rider agreements actually enhance Caribbean sovereignty. Recently Washington has adopted a more tactful tone regarding narcotics issues, has pledged to do more to reduce domestic drug demand, and has expressed willingness to include some multilateral consultation in certification decision making. Nonetheless, narcotics smuggling remains one of the main threats to both regional and U.S. security.

As organized crime has grown both in Latin America (due to the drug cartels) and in eastern Europe (due to the rapid growth of the Russian Mafia), international demand for *money-laundering* services has escalated. The Caribbean offshore finance facilities are ideally suited to provide this service, and, wittingly or unwittingly, several have been drawn into criminal activity. Training efforts supported by both the United States and Europe are enhancing the region's indigenous anti-money-laundering expertise, though more needs to be done in this arena.

One of the most contentious issues between the Caribbean and Washington concerns *weapons trafficking*. Caribbean security officials assert that many of the guns used in criminal acts within the region originate in the United States. Washington maintains that much of the weaponry is legally exported from the United States to a given Caribbean entity and that it is not Washington's fault if the weapons are then illegally resold.

Most observers agree that a major weakness in Caribbean security efforts is the system for *apprehending criminals*. The region lacks secure facilities capable of resisting the persuasion techniques employed by wealthy mobsters, while intimidation of witnesses and judges hinders prosecutions. The United States also complains that Caribbean governments are insufficiently cooperative on extradition issues and unresponsive to requests that Caribbean residents who commit crimes against the United States at least be prosecuted in their home country.

The Caribbean, in turn, is concerned by rising U.S. *deportations of criminals* who have completed their sentences in U.S. jails and the insufficient warning provided by Washington regarding deportees' arrival dates. The United States has recognized the legitimacy of this complaint and has pledged better cooperation with Caribbean security authorities on this matter.

**III-B. The Interaction Between Caribbean Economic and Security Issues.** Many security experts now assert that there is a worrying interaction between economic and security issues in the region. They contend that trends in world trade are exacerbating the Caribbean's vulnerability to both preexisting and new security threats. Faced with declining economic opportunities, some population groups may opt for massive illegal migration.

Furthermore, the superficial employment and income-generation benefits of cooperation with organized crime may be hard for some Caribbean countries to resist if the alternative appears to be poverty. But any such "benefits" are short-term in nature. The long-term economic impact of uncontrolled criminality is severely negative, as tourists and legitimate businesses are driven away.

## CONCLUSION

The world has survived transition pains before. In past instances, each actor involved in a major shift of the world economy has struggled to defend its own interests, sometimes via diplomacy and economic competition, and sometimes through violent confrontation. The same approaches could be used now. However, the security costs of an uncoordinated free-for-all would be high, not only for the Caribbean but also for the United States and Europe. Illegal migration, environmental damage, and organized crime are all inherently disrespectful of territorial borders. Once they become serious problems in the Caribbean, they can quickly affect both nearby and distant partners.

During the cold war, the United States and Europe saw a clear value in investing in allies both near and far in order to make them less vulnerable to "Communist subversion." Western security continues to depend on the stability of friendly countries. Therefore, it is in the interests of the United States, Europe, and the Caribbean itself to ensure that difficulties in Caribbean adaptation to the new global economy do not engender security problems dangerous to all concerned. Among the elements of such cooperation, termed an "Alliance for Stability" in this paper, might be:

- ◆ An agreement by all parties to conduct a "security impact study" before any major economic decision relevant to the region is taken. This would guarantee that decision makers are at least aware of the security implications of trade and other economic policies, and lessen the incidence of unintended security consequences.
- ◆ Provision of carefully targeted foreign assistance to help the region bridge those gaps between new economic realities and old societal expectations that, if neglected, could threaten regional and extraregional stability. For example, funding and expertise could be provided to retrain workers left unemployed by various free-trade initiatives so as to decrease the likelihood that they would resort to illegal migration or criminal activity.
- ◆ A joint Caribbean-U.S.-European campaign to counteract donor aid fatigue. The most important participant in such a campaign would be the Caribbean. Leaders in Washington and Brussels will not be able to deliver the necessary support unless the Caribbean sheds its current reputation, deserved or not, for expecting bailouts. It is up to the region to create a context conducive to greater external support. A necessary but not sufficient condition for such a campaign to succeed would be implementation by Caribbean countries of the policy agenda described below.
- ◆ A firm Caribbean commitment to make those adaptations to the new international context that, although perhaps politically painful, do not entail security risks. This would both render long-term economic benefits to the region and, by demonstrating the Caribbean's determination to become more self-reliant, significantly further the battle against donor aid fatigue. It would be up to the Caribbean societies themselves to decide what adjustments are appropriate, and they obviously would not embrace uncritically the suggestions of outsiders. However, there is already a consensus growing within the region that certain changes, among them adjusting educational systems to suit modern employers' needs and making real progress toward regional integration, would help the Caribbean rise to the challenge of globalization without jeopardizing security.

In closing, the reader is reminded that the world is embarking upon an entirely new era. Just as Allied leaders engrossed in winning World War II permitted the Soviet Union to occupy Berlin in a manner that appeared rash in the subsequent cold war era, by the first quarter of the twenty-first century the current focus on securing maximum trade benefits without considering the wider social and security implications of economic policies may appear equally shortsighted.

## INTRODUCTION

You hear a lot about the problems of transition in eastern Europe. The U.S. seems to understand how difficult it is for that region, because it realizes there is not only an economic change but an ideological change. The countries of the Caribbean are undergoing an economic transition of equal or perhaps even greater magnitude than that of eastern Europe. And the Caribbean is undergoing a very difficult ideological shift as well. The U.S. does not appreciate this fact.

This remark, made to the author by Caribbean Development Bank President Sir Neville Nicholls in a February 1997 interview, is more than an interesting perspective on U.S. policy. It also illustrates a theme that can be applied more broadly. *All* of the nations currently interacting in the Caribbean are, to a greater or lesser extent, undergoing transitions with obvious economic dimensions and less overt but equally complex ideological, political, bureaucratic, and cultural components. The manner in which each country or region reacts to each of the topics discussed in this paper reflects not only economic concerns but also noneconomic factors. In virtually all cases, there is a considerable time lag between the changed economic demands made by the international marketplace and the adjustment of the other practices of a society. Just as habits left over from the feudal era clashed with, and slowed the growth of, capitalism in the sixteenth century, so social legacies from the cold war/postcolonial era are currently slowing adjustment to the globalization of world trade. This is true for the United States and Europe as well as the Caribbean.

That said, societies differ greatly in their abilities to absorb the costs of shedding cherished practices no longer compatible with the new world economy while still providing an adequate degree of protection to vulnerable social elements during the transition. Although the United States and Europe are suffering from globalization-related dilemmas that are quite similar in content to those of the Caribbean, the latter region has far fewer resources to finance a humane implementation of the changes that must be made.

Quite understandably, each geographical entity tends to be preoccupied with its own transition problems. Each is inclined to underestimate the degree of domestic turmoil economic adjustments are creating in partners, and the manner in which that turbulence limits both its partners' policy options and the space available for international consensus. Because the United States and Europe have the most influence on the structuring of the new rules for global trade, they tend to ensure that domestic constituencies are protected, while often addressing the Caribbean's domestic problems as an afterthought or not at all.

## THE CARIBBEAN TRANSITION

Of the economic transitions currently under way in Europe, the United States, and the Caribbean, the last is perhaps most obvious in nature. As Harvard scholar Jorge Domínguez argued in a 1995 essay, the "freedom and peace" associated with the end of the cold war may actually be "threatening Caribbean prosperity."<sup>1</sup>

The thawing of cold war tensions has reduced the bargaining value of both the Caribbean's strategic geographic location and its tradition of democratic stability. No longer able to demand rewards for supporting the West in its conflict with communism and in less of a position to warn that neglect might lead to social conditions conducive to anticapitalist revolution, the Caribbean finds itself holding fewer and fewer cards in the international game.

At the same time, the economic globalization accelerated by the end of the cold war is rapidly dismantling the trade preferences granted by departing colonial powers that, in order to secure reliable sources of supply, created markets for agricultural exports whose competitiveness is now questionable.

These acknowledged economic challenges are accompanied, as Sir Neville reminds us, by less obvious but nevertheless real ideological confusion. After decades of bartering strategic location and stability for trade and aid, the Caribbean faces demands that it abruptly become "lean and mean," that it dismantle industries and agricultural patterns deemed inefficient, that it ally with countries possessing unfamiliar cultures and languages in order to acquire enhanced leverage in international trade battles. The shift from close alliances with larger powers to arms-length cordiality, from negotiating trade preferences to responding to pressure for internal reforms said to enhance efficiency, from a focus on independence and sovereignty to creation of the regionwide political and economic alliances thought necessary to compete in the new bloc-based world economy, all require herculean shifts in ideology.

Just as in eastern Europe, the new "rules of the game" are demanding that the people of the Caribbean conceive of themselves and their role in the world completely differently. And just as in eastern Europe, both participants and observers in the transition are finding it easier to propose economic blueprints than to alter patterns

of thought ingrained for generations. Yet unless those ideological adjustments are accomplished, new strategies, no matter how technically refined, are likely to fail.

Other factors, often but not always related to ideology, also constrain the ability of the Caribbean to adjust to the new global environment. Political parties have developed constituencies whose interests will be gravely threatened by internal economic reform, and even leaders fully aware of the need for change are reluctant to venture too far ahead of their political bases. The relationship between Saint Lucia's banana growers (who rioted in 1996 due to grievances relating to payment systems) and their political representatives is perhaps the most extreme example of this constraint, but it is evident throughout the region. Bureaucratic institutions have an interest in maintaining the status quo, and often subtly rein in reform. Cultural legacies, in particular the traditional British disdain for those "in trade" and respect for civil-service occupations, hinder the ability both to downsize government and to generate the entrepreneurial energy necessary for the exploitation of new market opportunities.

Any entity put under pressure to make uncomfortable adjustments tends to look for an "easy out," a way to render past behavioral patterns compatible with new circumstances. In the Caribbean, a set of nonstate actors stands ready with just such a remedy. Drug smugglers and money launderers offer opportunities for individuals in both the state and private sectors to survive and even thrive in the new global economy (at least in the short term). The increasing availability of this option, given the daunting nature of the economic and ideological adjustments required for lawful adaptation to the new world circumstances, places the people of the Caribbean in a precarious position. The long-term political and economic consequences of the growth of organized crime, for both the countries concerned and the West as a whole, are sufficiently grave that no one, within or outside the region, can afford to exacerbate gratuitously the underlying economic and ideological tensions.

Many in the Caribbean and in Europe claim that this is precisely what the United States is currently doing--aggravating a difficult situation and thereby opening the door even wider to organized crime in a manner that will eventually hurt U.S. interests. While the United States, Europe, and the Caribbean argue about what lawful products are sold to whom at what price, preference, and tariff level, critics claim, organized criminals are entering quietly through the back door, occupying economic, social, and even political space from which they will not easily be dislodged.

## **THE U.S. TRANSITION**

Just as U.S. observers tend to overlook the ideological factors constraining Caribbean adjustments to the new world circumstances, Caribbean observers of the U.S. policy process are similarly unaware of the ideological confusion the new world order has generated in the United States. Perhaps even more seriously, the United States itself seems to be unaware of the ideological dimension of its own adjustment.

The details of U.S. adaptation to globalization are well known and require only a brief summary. The United States no longer dominates the world economy and must share its leadership role with both Europe and Asia. Its economic health relies more than ever on exports, yet it faces growing competition from abroad, including from countries to which it provided assistance until fairly recently. In an effort to win easier access to markets, it is encouraging (some would say pressuring) the rest of the international community to adopt free-trade policies. Aware that its competitive edge is dependent upon establishing trade pacts with neighbors the United States has signed the North American Free Trade Agreement with Canada and Mexico, and the White House hopes to broaden that arrangement to include additional Latin American and Caribbean countries.

These economic challenges are well known, but the ideological issues they have raised are seldom acknowledged. Although the interests of the United States are increasingly intertwined with the fate of other countries, its people often still think and act as if it were a self-sufficient, isolated entity. Even though it no longer has an overwhelming economic lead over the rest of the world, the United States still perceives itself as the most advanced nation, entitled to dominate global affairs. This generates tension with Europeans who believe themselves to possess equal or near-equal status, and expect Washington to negotiate rather than dictate solutions to conflicts.

Political, bureaucratic, and cultural factors add to the burden of slow ideological evolution. Political leaders requiring the support of important economic actors pursue policies without necessarily thinking through whether the policy promotes long-term U.S. adjustment to the new global system. Some would argue that the Bush and Clinton administrations' confrontation with Europe and the Caribbean over the elimination of Lomé Convention banana preferences, apparently at the behest of the Chiquita corporation, is an example of just such an error. The scarcity of development aid and the relative prosperity of antinarcotics departments has led to awkward efforts to dress up development initiatives as antidrug measures, illustrating how bureaucratic factors can distort the policy process. Finally, a popular culture that matured when the United States was increasingly dominating the world has enormous difficulty coping with the rise of economic alliances of near-equal size.

Like the Caribbean, the United States has a tendency to look for an "easy out." Critics claim that Washington, which lacks a comprehensive policy regarding the Caribbean capable of accommodating the needs of both the United States and the region, has focused on narrow, "undiplomatic" antinarcotics campaigns. The apparent obsession with the drugs issue is perceived as an "easy out" because it is readily sold to Congress, yet fails to address what many Caribbean and European leaders see as the root causes of drug trafficking: uncontrolled demand in the United States and economic decline, with accompanying unemployment, in the Caribbean.

The United States, therefore, suffers from difficulties similar to those affecting the Caribbean. Its ability to adapt to globalization is constrained by political and cultural factors. It is occasionally tempted by ineffective, perhaps even counterproductive, "easy outs." Although the magnitude and urgency of the U.S. transition may not match that of the Caribbean, the shift is far more difficult than most U.S. and foreign observers acknowledge. Most important for the topic under discussion in this paper, the internal struggles associated with the transition occasionally cause the United States to act in a manner that restricts the ability of Caribbean and European leaders to overcome the constraints imposed by their own economic transitions.

### **THE EUROPEAN TRANSITION**

Of the three regional transitions under consideration, the economic transition in Europe has perhaps gone the farthest. Because of the relatively small size of individual national markets, European governments began to explore the advantages of regional trade agreements four decades ago, with the signing of the European Economic Community (EEC) treaty in 1957. Under the 1992 Treaty on European Union, economic and trade integration was significantly accelerated.

Like the United States, Europe has a strong interest in expanding global free trade to facilitate its access to new, nontraditional markets. Brussels's primary concern, like Washington's, is to ensure that negotiations over the character and pace of globalization cause minimum disruption of existing domestic and international alliances.

The recent collapse of socialism in the Eastern bloc has also presented Europe with particularly urgent challenges. If the transition in eastern Europe goes poorly, Europe will be presented with severely destabilizing migration, and one European Union (EU) nation, Germany, could well face internal social unrest.

Like the transitions in the Caribbean and the United States, the economic changes in Europe have had profound ideological ramifications. Many countries have found large sectors of their populations uneasy with the demand that EU members surrender ever-increasing degrees of sovereignty over their own internal affairs. The role of the monetary union issue in the May 1997 British elections is the most recent evidence of this phenomenon. The resistance of French farmers (and some consumers) to EU agricultural policy, which threatened to render culturally cherished farming traditions unprofitable, is another example.

The gap between new economic interests and traditional ideological values is particularly evident, and troublesome, in relations with those ex-colonies that attained their independence fairly recently. Many Europeans value their cultural ties with former colonies and feel an ongoing sense of responsibility for these nations' welfare. In addition, some European bureaucracies and private-sector concerns have developed economic interests in maintaining preferential trade arrangements. (Since 1975, the Lomé Convention, in its successive incarnations, has been the primary vehicle through which these mechanisms have been administered in relation to European ex-colonies in the African, Caribbean, and Pacific [ACP] regions.)

These practices, which still find strong support in Europe, are not entirely compatible with Europe's new economic needs. As the 1995 introduction to the text of the revised version of the fourth Lomé Convention tactfully pointed out, parties to the revision negotiations had recognized that "the re-emergence of Eastern Europe into the free world would lead to increased competition for international aid." Similarly, a November 1996 EU Green Paper on relations with the ACP countries noted:

The world is now a very different place [than it was when the first Lomé Convention was signed in 1975]. New challenges have arisen and both we and our partners have new preoccupations. In a world now multipolar, the Union must make its presence felt in all regions of the world. It is striving to forge its external identity through a more effective and more global common foreign and security policy. . . .<sup>2</sup>

Furthermore, Europe is not immune to the "easy out" syndrome. Both Caribbean and U.S. critics accuse Europe of sometimes adopting a paternalistic style that provides false reassurance to Caribbean leaders. These critics cite as one example Europe's failure to point out bluntly and definitely to its Caribbean partners that traditional trade arrangements will be subject to severe pressure from the new World Trade Organization (WTO) rules. In addition, European mechanisms to help Caribbean countries cope with economic challenges are extremely slow and

cumbersome, and some observers argue that these mechanisms have not been updated to respond to the new world context.

There is an ongoing strain between the policies suitable to protecting European interests in an era of global economic competition and the social and political legacies of the past. This tension complicates European relations with both the Caribbean and the United States. The Caribbean has its hopes for increased support alternately raised and dashed as ties based on nostalgia and entrenched interests compete, with varying degrees of success, with policies based on Europe's need to adapt to the global market. The European desire to retain or only gradually phase out many cold war-era mechanisms leads to repeated confrontation with one of its most important trade partners, the United States.

## **SECURITY IMPLICATIONS**

In sum, Sir Neville's complaint, that the United States does not understand the magnitude and ideological complexity of the transition facing the Caribbean, is an accusation that can be legitimately voiced by all nations interacting in the Caribbean against all counterparts. The world is now too interdependent for conflicting parties simply to ignore areas of disagreement. The increasing strength of international organized crime, and its ability to identify and swiftly exploit vulnerable societies, means that ongoing stalemate in resolving international questions involving the Caribbean would have a high price for all concerned. Although the price would undoubtedly be highest for the Caribbean region itself, the impact on the United States and Europe could also be serious.

## **CHAPTER I CARIBBEAN ECONOMIC ISSUES: THE INTERNATIONAL CONTEXT**

The above-described simultaneous transitions under way in the United States and Europe have provoked concrete changes in some Caribbean-relevant trade rules and generated uncertainty concerning the future of others. The result is not only a Caribbean sense of simultaneous "abandonment" by both partners, but also significant European-U.S. tensions. All actors in the Caribbean situation are expressing concern about three major components of the swiftly changing international context: post-Lomé IV negotiations; Free Trade Area of the Americas negotiations; and the impact of the North American Free Trade Agreement. Within each of these arenas, there are sharply divergent approaches regarding the speed with which preferential arrangements are modified and WTO-compatible reciprocal arrangements are phased in.

### **I-A. NEW TRADING ARRANGEMENTS: POST-LOMÉ IV, FTAA, AND NAFTA PARITY**

**Post-Lomé IV.** As Dr. Anthony T. Bryan, director of the Caribbean Studies Program at the North-South Center of the University of Miami, points out in a recent essay, the "principle of partnership" is an important feature of EU-ACP relations. Whereas other multilateral agencies have pursued a "donor-driven approach to development assistance," Bryan remarks, "Lomé cooperation has been based on the principle of cooperation between partners and a joint approach to development cooperation."<sup>3</sup> Therefore, a number of institutions have been formed to facilitate dialogue and trade structured without insistence on reciprocity. The current (fourth) Lomé Convention (Lomé IV) covers a wide range of cooperation issues, including environmental, cultural, and social concerns, as well as aid and trade.

The principle of partnership is cherished by both European and Caribbean leaders, who believe that it both distinguishes European policy from and improves on U.S. aid policies, which are perceived by some observers as "unilaterally determined." Baroness Young, president of the West India Committee (a British nonprofit organization), reflected this sentiment when she remarked in the House of Lords recently that Europe tends to see "the region's problems as development issues to be resolved through consensus" whereas the United States tends to see Caribbean problems "in the context of trade advantage, security and stability."<sup>4</sup>

Similarly, observers point out that the European approach to trade negotiations is conditioned by the recent internal European integration experience, whose participants, recognizing that smaller European countries might be hurt by certain aspects of the integration process, established special arrangements concerning free movement of labor to offset "polarization of benefits." There is no comparable influence on the so-called "Washington consensus" under which integration in the Americas is conducted.

Finally, Caribbean commentators have long lauded the predictability of the Lomé process, which eases planning for both the public and private sectors, and contrast this with the perceived tendency of Washington to alter aid and trade policies abruptly when the winds of domestic public opinion shift.

Critics of the Lomé arrangements argue that the system is slow and bureaucratic, some programs are designed to respond to the interests of European companies rather than Caribbean partners, and the Lomé initiatives are not preparing the Caribbean for the radically changed international trading conditions associated with the new WTO rules.

The current Lomé Convention is due to expire in 2000, and negotiations concerning a successor arrangement are scheduled to begin in September 1998. Europe is approaching these discussions with a set of interests markedly different from those that conditioned past negotiations.

Due to shifting post-cold war security and trade concerns, Europe is increasingly preoccupied with the former Eastern bloc, nonmember Mediterranean countries, Latin America, and Asia. In accordance with these new priorities, the EU agreed in 1992 to increase aid to non-ACP countries out of the regular EU budget, and now needs to make savings elsewhere. Aid to ACP recipients is financed only by the European Development Fund (as opposed to the regular budget) and therefore is a possible candidate for austerity.

Like the United States, Europe has suffered aid fatigue, and the domestic constituencies that support foreign assistance budgets have contracted. Furthermore, the anticipated expansion of the EU means that aid and trade decisions will increasingly be influenced by countries with no traditional connections to the Caribbean.

As Europe seeks to expand into new markets, its interests will be served by success on the part of the new World Trade Organization in promoting free trade, yet many traditional EU-Caribbean trade mechanisms appear to violate WTO rules. In addition, Europe's development philosophy has recently shifted and now places greater emphasis on private-sector-led development.

Each of these evolving interests has serious (generally negative) implications for the Caribbean. The increased preoccupation with other regions, combined with aid fatigue, means that the Caribbean's traditional friends in Europe--in particular Britain, the Netherlands, France, and Spain--are now showing markedly less interest in the region. As Bryan notes, "The former colonial powers, which always have been willing to negotiate measures to shield the Caribbean from the dislocations of international market forces, are retreating from that commitment."<sup>5</sup> In addition, current EU members without Caribbean ties are already arguing that the principal beneficiaries of EU aid should be the world's poorest countries, regardless of former colonial ties to Europe. New EU members are likely to adopt the same stance. Because the Caribbean is doing relatively well in comparison with other developing areas such as Africa, it is likely to receive a shrinking portion of the aid pie.

This need-based aid distribution philosophy may also lead to significant adjustments in the ACP grouping, which lumps together a diverse assortment of African, Caribbean, and Pacific ex-colonies whose levels of development are far from uniform. The EU Green Paper lists four options. Options one and two maintain the ACP grouping, with either differentiated trade provisions according to development level (option one) or country-by-country bilateral trade agreements (option two). Option three involves the "[b]reak-up of Lomé IV into regional agreements" and the extension of cooperation "to all the countries of the Caribbean basin," perhaps via the Association of Caribbean States. (The United States would be uneasy with the ACS route because Cuba, which Washington wishes to isolate, is an ACS member.) Option four involves a cooperation agreement with the least-developed ACP countries, perhaps also including non-ACP least-developed countries. "[O]ther types of agreements" would be made with more-developed ACP states (most of the Caribbean would fall in this category). Under each of these scenarios, benefits for the Caribbean would be unlikely to increase, and under some scenarios they would decrease.

Also ominous for the Caribbean is the possible impact of WTO rules in the context of the EU's new need-based aid philosophy. The Green Paper indicates that the EU is considering changing "the system of non-reciprocal discriminatory preferences currently granted to all the ACP countries" to ensure compatibility with WTO rules. These preferences might then be renewable only for the least-developed countries, while "new arrangements" would be "examined" for other ACP states. Because few Caribbean states are in the "least-developed" category, the Green Paper suggests that the region would lose at least some of the trade preferences upon which so many of its members have come to rely.

Caribbean trade advantages will also continue to be eroded, regardless of the outcome of the post-Lomé IV process, because of evolving relations between the EU and other parts of the world. In line with its overall policy of economic liberalization, Europe is reducing tariffs on imports from many non-Caribbean sources, thereby reducing the value of Caribbean preferences. Furthermore, the completion of the Single European Market means that goods imported into one EU member can move fairly freely to others. As Dr. Christopher Stevens of the University of Sussex (UK) has pointed out, "The Caribbean is not in a position to take advantage of this increased market opportunity because it cannot increase its supply. Instead, it just faces tougher competition from the traditional suppliers of other EU markets in its own traditional backyard."<sup>6</sup>

The new EU emphasis on private-sector-led development suggests that the Lomé Convention's government-to-government character will change. The Green Paper insists that "our development framework should be extensible to fresh areas of cooperation and other agents of development in civil society, especially the private sector." This prospect is disturbing to a number of influential Caribbean leaders who mistrust the region's private sector, asserting that it is dominated by a few large companies and often reflects expatriate interests. These leaders insist that a strong Caribbean government role in EU-private sector collaboration is necessary to safeguard important social and environmental interests. Some European observers, in contrast, assert that private-sector programs receiving EU funding should not be subject to direct government oversight. Professor Bishnodat Persaud, the Caribbean Community's (CARICOM's) chief coordinator for international economic negotiation, outlines what might be a feasible compromise in a recent essay:

The convention already provides for direct support to the private sector, but through governmental approval. While support for the sector must be within a frame-work of governmental priorities and have governmental blessing, there is a need for designing government involvement in a way which allows overall guidance, but without the substantial and detailed control which delays project implementation.<sup>7</sup>

Preliminary discussions concerning post-Lomé IV arrangements also suggest that the successor agreement will feature stricter conditionalities, because the EU wants the Caribbean to adopt policies that its experts believe will help the region survive in the future without substantial European aid. There will be pressure to make regulatory mechanisms more transparent and comprehensible, to use aid funds more efficiently, to increase respect for human rights, and generally to enhance "good government." Growing conditionality has prompted fears on the part of some Caribbean countries and European nongovernmental organizations (NGOs) that the Lomé principles of partnership and joint management will be undermined.

One way to address the post-Lomé IV period would be for the EU to establish a free trade agreement (FTA) with the Caribbean. An FTA would involve reciprocity, and FTAs are generally favored by the WTO in terms of granting waivers. An FTA might appeal to some of the more prosperous Caribbean states and those wishing to integrate into the Free Trade Area of the Americas (FTAA, discussed in the following subsection). As Bryan notes, "A simultaneous approach toward an FTA with the EU and toward the FTAA process would ensure that there is Caribbean compatibility with both processes."<sup>8</sup> Some countries might find it difficult, however, to meet deadlines for full reciprocity under WTO rules. Several experts have therefore suggested that trade aspects should be removed from any post-Lomé IV arrangement and a new parallel trade agreement should be established. That trade agreement could extend Lomé preferences, perhaps in modified form, for five years, and an FTA could be established in 2005.

Many Caribbean officials are uneasy with this proposal. In his previously cited paper, Caribbean Community official Persaud remarks that past erosion of Lomé preferences "renders hollow the case for reciprocity" and adds:

[T]he issue of [FTA] reciprocity must also face the question of the added burden it would impose on already fragile manufacturing sectors in the ACP countries from increased EU competition arising from reduced tariffs on EU products.<sup>9</sup>

Whatever happens in the post-Lomé IV negotiations, the Caribbean is adamant that it be compensated for deterioration of terms of trade. In Persaud's words, "Any result from the re-negotiation which has the effect of accelerating the process of preference erosion should result in compensation either through deepened preferences in other areas or through increased financial assistance to compensate for its loss and its adjustment requirements."<sup>10</sup>

In addition to causing EU-Caribbean strains, the preparations for the post-Lomé IV period are also causing tensions between Europe and the United States. As is described in more detail below, Washington has pressed for a faster phaseout of nonreciprocal preferences than Europe considers appropriate. European leaders say that their policy is motivated by a desire to ensure that Caribbean countries dependent upon exports not be abruptly deprived of such preferences. They claim that the U.S. administration is not really interested in free trade, but is merely acting at the behest of the powerful corporations whose interests would be better served by a rapid phaseout of preferences. U.S. critics, in response, claim that Europe is really just protecting the interests of its own shippers and distributors and that alternative WTO-compatible tariff arrangements would adequately protect vulnerable Caribbean economies. Some U.S. officials also assert that Lomé development assistance to the Caribbean does not encourage the changes in trade policies required for the region's practices to become WTO-compatible.

Another source of alarm for Washington is the possible inclusion of Cuba in a post-Lomé arrangement. Although progress toward establishing a formal EU cooperation agreement with Havana stalled in early 1996 due to concern about the slow pace of change on the island, European companies have not been discouraged by their governments from investing in or trading with Cuba. This reflects the deep differences between Europe and the

United States over how best to promote peaceful democratic change in Cuba. Washington continues to favor isolation and pressure, while Europe favors communication and engagement.

The March 1996 passage of the U.S. Helms-Burton Act has exacerbated this strain. Europe perceives the legislation as an illegal effort to extend the U.S. embargo against Cuba in an extraterritorial manner that violates European sovereignty. (See box for details.) Although European companies do not yet have significant stakes in Cuba, Europe is unwilling to let Washington establish the principle that the United States has the right to determine what European companies may do and where they may do it. Moreover, some European companies are interested in developing a strong foothold in the relatively small Cuban market now, while U.S. competitors are excluded by the embargo, so as to have a competitive edge after the embargo is lifted and the Cuban market grows. As Europe and the United States enter a new phase of both competition and cooperation, in which access to markets and trade ties play prominent roles, Cuba has taken on both symbolic and substantive significance.

Given current U.S. behavior, Europe suspects that Washington may not agree to a waiver for whatever parts of the post-Lomé IV arrangements are incompatible with the WTO. (The United States agreed to such a waiver for Lomé IV when the WTO was first established.) U.S. officials respond that Washington is open to the idea of some post-Lomé IV tariff preferences for the Caribbean and is willing to cooperate with the EU to ensure coordination of post-Lomé IV and FTAA trade provisions. However, U.S. officials imply that they will vigorously object to nontariff preferences, which in some cases are as important as tariff preferences.

Although not specifically related to post-Lomé prospects, overall aid issues have also contributed to triangular Caribbean-U.S.-European strains. According to an EU official, the United States is now the natural market for many, if not most, Caribbean exports, yet the EU is hesitant to finance initiatives that would help the Caribbean exploit those market opportunities, because "we are under pressure to ensure the money we spend rebounds to the benefit of Europe."<sup>11</sup>

Related problems have arisen due to what one European Commission official has termed "the U.S. effort to use other countries' assistance to promote its own policy agenda."<sup>12</sup> The U.S. budget for aid to the Caribbean is considerably smaller than Europe's, this official argued, yet Washington is trying to make the granting of European assistance conditional upon Caribbean acceptance of U.S. political and trade conditions. A particularly acute version of this problem apparently arose at the preparatory meetings for the 1996 World Bank meeting on Caribbean aid coordination.

In sum, the European transition is simultaneously complicating and accelerating the Caribbean transition. Europe is adopting policies that radically change the Caribbean's trade situation and force the region's policymakers to contemplate sweeping changes. Although relations are still close, and Europe clearly has a strong interest in protecting Caribbean economic and political stability, the region is lower on Europe's list of priorities than previously.

**Free Trade Area of the Americas.** Like Europe, the United States is seeking to protect its post-cold war trade and security interests by structuring a new relationship with the developing world. Washington's strategy involves establishment of free-trade agreements that facilitate U.S. access to markets, labor, and raw materials. The North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States, which came into force on 1 January 1994, is envisaged as a first step. At the December 1994 Summit of the Americas in Miami, involving all states in the Western Hemisphere except Cuba, participants agreed to construct a Free Trade Area of the Americas (FTAA) in which trade and investment obstacles would be gradually eliminated by the year 2005. The FTAA would make the Western Hemisphere a trading bloc larger than the EU. The former would have a combined GDP of over \$7.7 trillion and 745 million people, whereas the corresponding numbers for the latter are \$7.2 trillion and 370 million people.

At the time NAFTA was introduced, the Caribbean enjoyed (via the Caribbean Basin Initiative [CBI]) preferential access to the U.S. market for many goods, although some extremely important items (including petroleum, sugar, textiles, apparel, and footwear) were excluded. The U.S. program for Production-Sharing Agreements (the "807 Program"), however, did permit U.S. producers to ship partly finished goods, such as cloth cut for clothing, abroad for assembly and then reimport the finished items. A duty of 19 percent was (and still is) paid only on the value added abroad.

These arrangements helped the Caribbean increase its apparel exports to the United States. According to the World Bank, "between 1989 and 1994, apparel exports from the Caribbean to the United States increased by about 94 percent in current dollars, while total U.S. imports of such products went up by only 49 percent."<sup>13</sup>

When NAFTA came into force in 1994, firms producing apparel under the 807 Program suddenly faced a choice between establishing operations in the Caribbean (and paying 19 percent duty on the value added) or setting up in Mexico (and paying no duty at all). The World Bank's 1996 *Caribbean Economic Overview* document summarized the dilemma succinctly:

To offset the disparity in duty treatment. . . Caribbean assembly operations must make themselves more attractive than Mexico in other ways--production, quality and speed, transportation costs, local costs of production, and transaction costs.<sup>14</sup>

In the first year of NAFTA, the volume of apparel exports from Mexico grew by 41 percent, compared with 8 percent for apparel exports from the Caribbean. U.S. global imports of apparel grew by 11 percent, so the Caribbean was clearly falling behind. Since 1994, Mexican textile exports have grown three times as fast as those of the Caribbean. According to the Caribbean Textile and Apparel Institute, from 1995 to 1997 more than 150 apparel plants closed in the Caribbean and 123,000 jobs were lost "as a direct result of trade and investment diversion to Mexico."

Whereas Caribbean observers usually blame this slump in exports and associated unemployment on NAFTA, Washington critics claim that the problem is actually a Caribbean business climate not conducive to investment. U.S. officials point to lengthy delays in obtaining permits and licenses, as well as wage and exchange-rate policies that, they argue, make Caribbean exports relatively uncompetitive.

Not all Caribbean nations have suffered equally in the wake of NAFTA. For the period from November 1995 to November 1996, Saint Lucia's apparel exports to the United States declined by 34.8 percent, Guyana's by 9.7 percent, Jamaica's by 6.6 percent, and the Dominican Republic's by only 1.3 percent.

The experience of the Dominican Republic bears further examination. The country has experienced less difficulty than its neighbors, in part, domestic sources say, because productivity is higher than in Mexico due to a better record in yards produced per hour, less absenteeism, and a lower level of worker turnover. This does not mean that the Dominican Republic has been unscathed by the combined impact of NAFTA and the recent devaluation of the Mexican peso. The annual growth rate of apparel exports to the United States has fallen from a pre-NAFTA value of some 20 percent to a slightly negative figure. "We aren't losing factories to Mexico," Dominican Ambassador to the United States Bernardo Vega recently remarked. "Those which were in the Dominican Republic largely remained. We just aren't getting much new investment in this sector."<sup>15</sup>

The case of the Dominican Republic shows that providing a competitive business climate can offset some but not all of the Mexican duties advantage. It remains to be seen whether additional business-friendly measures contemplated by President Leonel Fernández will succeed in leveling the playing field.

Even if the Dominican strategy were to succeed entirely, however, many other Caribbean countries would be hard-pressed to emulate it. The Dominican Republic has a population accustomed to far lower wages and social services than those expected on many other islands. A small-island government that attempted to pursue the Dominican strategy might not remain in power for long.

One mechanism to rectify the competitive disadvantage caused by NAFTA would be Caribbean participation in the planned FTAA. Some regional leaders believe that this possibility deserves higher priority than CBI enhancement or NAFTA parity. Caribbean Development Bank President Sir Neville Nicholls has argued that NAFTA has, and by implication the FTAA could have, "several safeguard provisions for transitional arrangements. If these provisions are well understood and negotiated, reciprocity. . . would not be as devastating as it might appear on the surface." He argues that via the FTAA route there would be bilateral, or perhaps even multilateral, negotiations, and the agreement would be permanent. Under CBI enhancement or NAFTA parity, on the other hand, the U.S. Congress would unilaterally make a "take it or leave it" offer that might be of limited duration.<sup>16</sup>

FTAA prospects are currently somewhat unpromising, however. The U.S. administration would be in a better position to move forward with the FTAA process if it had "fast track" trade-negotiating authority from Congress, but U.S. domestic concern about the employment effect of NAFTA helped block passage of the needed legislation in 1997.

There is also some ambivalence about the FTAA elsewhere in the Americas. Mexico would like to move slowly, while the other NAFTA partner, Canada, would like to move swiftly. Brazil, and the Southern Common Market (MERCOSUR) in which it plays a leading role, provide what some see as an attractive alternative to the FTAA. Brazil wants to wait until MERCOSUR is further consolidated, ideally leading to a South American Free Trade Agreement (SAFTA), before moving ahead with FTAA negotiations, presumably so as to increase its leverage with the existing NAFTA grouping. Some analysts forecast that a U.S.-led bloc will eventually negotiate with a Brazilian-led bloc, with Caribbean countries fighting to avoid being left out by both.

Even if FTAA negotiations do move forward, countries that have made more progress in trade liberalization and adopted more far-reaching internal economic reforms will be considered for inclusion before the Caribbean states. Domestic politics plays a large role in the region's lack of readiness for full integration into an FTAA. Acceptance of the range of free-trade and market-friendly policies required for FTAA accession entails uncomfortable changes in such sensitive items as exchange-rate policies that indirectly subsidize social safety nets. In the words of David Lewis, deputy executive director of the nonprofit private organization Caribbean/Latin

American Action, "Caribbean countries won't go through blindly in the belief that free trade is good for all of us, because these are politicians who respond to constituencies, and their constituencies aren't yet sure free trade is good for them."<sup>17</sup> The cynicism generated by the slow pace of FTAA negotiations and the lack of strong U.S. leadership only strengthens this impediment. Several Caribbean diplomats expressed the opinion to the author that the FTAA idea will die with the end of the second Clinton administration--an expectation that obviously discourages efforts to introduce politically risky free-market policies.

The Caribbean could experience substantial economic harm from participation in free-trade agreements that lack adjustments to accommodate the region's special vulnerabilities. In the words of one Caribbean diplomat, "Our economies would be swamped with U.S. products if we opened up to free trade entirely. We would lose all our manufacturing base, and perhaps much of our agriculture."<sup>18</sup> Many, indeed perhaps most, European and Caribbean commentators believe that the region's economies could not survive the pressure.

The general U.S. position regarding special provisions for small, vulnerable economies is outlined in Section II-B of the next chapter. Suffice it to say that Washington generally frowns on any exceptions to free trade, and when exceptions are made insists that they be narrowly drawn and clearly justified. In January 1997, the FTAA Working Group on Small Economies agreed that *during negotiations* on FTAA accession various measures can be worked out, on a *case-by-case* basis, to facilitate the adjustment of smaller economies. Arrangements can be made for a region, a sector, or an individual country. Among the measures that can be adopted are longer periods for implementing FTAA obligations. This language represented a compromise between the Caribbean states (which initially had sought broad agreement [as opposed to a case-by-case approach] on special measures for small economies before the start of [as opposed to during] formal FTAA accession negotiations) and the United States (whose negotiators believed that any "a priori" concessions in the FTAA negotiations would meet vigorous congressional opposition).

The countries of the region exhibit varying degrees of enthusiasm about joining the FTAA. As international relations consultant Henry S. Gill notes in a recent essay, "the larger countries of CARICOM, particularly Jamaica and Trinidad and Tobago, have been adapting far more aggressively to the present demanding international environment," have expressed interest in joining trade pacts "even on an individual basis," and have "shown impatience with the rest of CARICOM, claiming that they cannot be expected to advance at the rate of the slowest."<sup>19</sup> Perceived export opportunities associated with FTAA membership and the need to protect existing manufacturing from competition by rivals who would be members are partly responsible for this interest on the part of the larger Caribbean countries.

As indicated earlier, the smaller countries in the region are more apprehensive than eager about joining the FTAA, fearing that the foreign competition it would bring could prove economically devastating. Because the FTAA is not particularly relevant to tourism, the mainstay of many smaller Caribbean countries, these states see membership as offering little in the way of advantages that would justify such a risk.

The poor prospects for Caribbean accession to the FTAA evoke a mixed reaction in Europe. On the one hand, many European leaders would like the United States to make a larger contribution to Caribbean economic development, believe that Caribbean participation in the FTAA would enhance U.S. investment in the region, and therefore are disturbed by the slow pace of FTAA negotiations. Yet many of the very same leaders are anxious to retain a closer relationship with the Caribbean than the one between the region and the United States, and therefore are somewhat relieved that Washington is being indecisive.

Concern has been expressed about how the post-Lomé and FTAA processes might mesh, or clash. For one thing, the various Lomé Conventions have stipulated that the Lomé partners must grant Europe trade terms no worse than those offered to other states. Consequently, if the Caribbean were to join the United States in an FTAA, it would have to extend the same privileges to Europe. Caribbean markets would therefore have to open up to two huge economic powers at once.

Some European and Caribbean commentators have called for agreement on an explicit timetable to harmonize the post-Lomé and FTAA processes. These observers emphasize the need to have some Lomé preferences "rolled over" until 2005, and then only gradually phased out as part of the FTAA process. The United States does not seem opposed to such an idea in principle, although it generally wants preferences to be narrow in scope and more meticulously justified than does Europe, and it still insists on WTO compatibility or at least steady movement toward compatibility.

Another concern (see box) is the planned exclusion from the FTAA of various non-independent Caribbean countries (NICCs) and territories, including the six British dependent territories, the two Dutch associated territories, and the U.S. Virgin Islands. Only Puerto Rico, which is within the U.S. customs zone, is included in the FTAA process.

Some observers believe that FTAA participation would have a toughening effect on the Caribbean mind-set and that the associated risks would have to be faced sooner or later in any case. Dr. Anthony T. Bryan, for example, argues that "free trade is inevitable" and "integration into the global economy is the only reasonable route for Caribbean countries." Therefore, "preparations for hemispheric free trade would be part of a process of erecting a framework to move Caribbean countries from protected, inward-looking arrangements to a system that will improve their chances in dynamic global markets in the Western hemisphere, Western Europe, Asia and elsewhere."<sup>20</sup>

Dr. Persaud, the CARICOM chief coordinator for international economic negotiations, seems to agree, urging that the region not simply focus on negotiating transitional FTAA arrangements, which he believes "might not be forthcoming," but also "look at ways in which Caribbean economies could put themselves in a better position to take on the obligations of an FTAA."<sup>21</sup> In other words, the region should go beyond seeking a gentle transition to free trade and energetically prepare for it. A major element of that preparation, according to virtually all commentators, is creation of a single market and economy within the Caribbean in order to speed development through free movement of goods, services, capital, and labor. As described in more detail in Section II-C, progress in that area remains slow. There is also a widely recognized need to involve the Caribbean business sector in a more detailed consultative process within the FTAA preparations.

In sum, the post-cold war transition processes under way within and outside the Caribbean are both providing an impetus among all partners for rapid progress toward an FTAA and creating domestic circumstances that hinder such progress.

**Free-Trade Enhancement.** A variety of other mechanisms have been devised to rectify the Caribbean region's post-NAFTA competitive disadvantage. The most frequently discussed are "NAFTA parity," "CBI Enhancement" or "Caribbean Trade Enhancement," and "Caribbean Trade Partnership."

All of these proposals have a similar basic formula. The U.S. Congress would unilaterally extend fixed-term trade benefits to the Caribbean, with at least some degree of conditionality attached. The differing labels reflect changing perceptions about the best method to "market" the mechanisms to Congress and the administration's desire to highlight the growing interest in free-trade negotiations, rather than significant adjustments in approach.

"NAFTA parity" was the first buzz phrase. Such parity has been rejected by Congress several times since 1994. Under this mechanism, many of the trade benefits accorded to Mexico would be extended to the Caribbean, possibly for a limited period of time.

Due to declining congressional enthusiasm for free-trade agreements and the hostility in some U.S. quarters toward NAFTA, the term "NAFTA parity" was discarded in favor of "CBI Enhancement," a proposal for expanding the CBI agreement to include more products. At the May 1997 summit in Barbados, President Clinton promised to submit to Congress a "Caribbean Basin Trade Enhancement Act that would extend tariff preferences essentially equivalent to those Mexico receives under NAFTA to all the products that are currently excluded from the Caribbean Basin Initiative program."<sup>22</sup>

There was considerable confusion during the preparation of the promised bill. Given the prior congressional rejections of similar legislation, the U.S. administration apparently perceived this as its last opportunity to propose the unilateral extension of trade benefits to the Caribbean. Consequently, the administration wanted wholehearted, unified support from the U.S. textile and apparel industries, which had therefore been asked to submit a report on their views by mid-March 1997. Internal industry disagreements caused that deadline to be missed, as was the subsequent Barbados summit deadline. The divisions primarily arose from the fact that some firms have set up operations in the Caribbean while others are primarily U.S.-based.

There were also serious disagreements within the administration. The State Department has long favored CBI enhancement, while the Office of the U.S. Trade Representative was initially uneasy. The USTR officials were reportedly anxious to ensure that all countries receiving trade benefits from the United States were making serious attempts to bring their trade and business practices up to WTO standards. Therefore, the USTR reportedly wanted to move cautiously on free-trade enhancement and to attach quite serious conditionality to it.

Eventually, two bills were introduced, one reflecting industry concerns and the other reflecting administration concerns. The former had modest conditionality, provided benefits that in some respects were better than NAFTA's, and was valid for only one year. The latter had tough conditionality and would initially offer only half the tariff benefits of NAFTA. The administration bill provided that countries "would be eligible for increased preferences up to the full tariff benefits equal to NAFTA" after a three-year waiting period only if they met conditions with respect to "(1) compliance with the rules of international trade set forth in the WTO agreements; (2) intellectual property rights; (3) investment; (4) market access for certain goods; (5) workers' rights; (6) environmental protection; (7) narcotics enforcement; (8) anti-corruption; (9) tax information exchange; (10) government procurement; (11) customs valuation; and (12) the provision to certain products of the United

States tariff treatment no less favorable than that afforded by a CBI country to other countries under any new free trade agreement."<sup>23</sup>

Caribbean officials were not entirely happy with either proposal. They argued that they could not convince an investor to come to their countries rather than Mexico if there were only one year of NAFTA parity (as with the industry bill) or if there were no guarantee that the tariff would drop to zero after three years (under the administration bill). Many Caribbean leaders were also uneasy about the administration bill's conditionality. If they were going to have to accept conditionality, some concluded, they might as well fight for the long-term, wider range of benefits involved in a free trade agreement. Indeed, some Central American CBI beneficiaries made public their preference for FTAs with the United States over trade enhancement legislation with tough conditions, somewhat undermining congressional support for the latter.

In addition to the mixed signals coming from abroad, Congress was also influenced by the strong position against the legislation taken by textile unions and environmental groups. In addition to fearing a loss of jobs to the Caribbean, the unions worry that the Caribbean will become a transshipment route for extremely cheap Asian textiles. Environmental groups opposed the industry bill, arguing that it provided NAFTA benefits without requiring NAFTA-level environmental safeguards. (The administration bill did provide such safeguards.)

Furthermore, many members of Congress asked why they should extend unilateral benefits to an area that they believe has many practices that are not in the interests of the United States, especially with regard to market access, drugs, and intellectual property. Politically, there is a sense that the Caribbean is not living up to its current obligations, and therefore there should be greater, rather than lesser conditionality.

In the end, the industry bill was attached to the budget proposal, but failed to survive the subsequent congressional bargaining process, and was not included in the final budget. In late September 1997, a considerably watered-down version of the administration's proposal was approved by the Senate Committee on Finance, but its course through the rest of the congressional process is unlikely to be smooth, in part because money to compensate for the modest tariff revenue losses envisaged in the bill would have to be found through cuts to other programs.

## **I-B. DIVERGENT APPROACHES TO TRADE LIBERALIZATION: THE TRANSITION FROM PREFERENTIAL TO RECIPROCAL TRADE**

The world has clearly embarked upon a transition from preferential to reciprocal trade. Most observers in the Caribbean, the United States, and Europe agree that this transition can be slowed and in some cases temporarily diverted, but not stopped.

The reduction of preferences will have a particularly acute impact on the Caribbean. Dr. Stevens points out that in the past, preferences for bananas, rum, and sugar provided by certain European states permitted some Caribbean countries "to sustain a standard of life. . . that would not normally be expected." Because "production of undifferentiated primary products is not a strong basis for high income earning," the Caribbean will suffer as preferences are reduced unless it succeeds in diversifying its economies.<sup>24</sup>

Strategists within the region largely accept the need to pursue diversification, but argue that steps must be taken to ensure that the transition in the Caribbean is extremely gradual. Indeed, the issue of timing is the central controversy of the preferences debate. As was noted in the Introduction, various political and cultural factors hinder the international community's effort to agree on the pace and content of transition mechanisms. The current debate focuses primarily on the banana issue, and is becoming increasingly acrimonious.

**Bananas.** The background to the banana conflict is fairly simple. As Caribbean countries approached independence, Britain and France wanted both to guarantee a supply of fruit for their own markets and to create a stable export crop capable of earning the Caribbean partners money with which to purchase European products. Because banana plants ripen year round (providing a steady income for producers) and bounce back quickly following hurricanes, they were considered an ideal crop.

Caribbean bananas were (and still are) more expensive than Latin American bananas for several reasons, including the structure of banana production and higher shipping costs due to the region's geographic fragmentation. Latin American bananas are grown on large plantations using wage labor (paid at low rates) and sophisticated irrigation systems, while Caribbean bananas are grown on small and often hilly family plots, often using only modest technology.

Nonetheless, Britain, France, and to a certain extent Spain found it in their interest to provide protection for Caribbean bananas, and this tradition became deeply ingrained. Producers became accustomed to delivering bananas of sometimes questionable quality to a single always-present buyer and receiving a set price. The farmers had no idea how their crops compared with those grown by foreign producers, from whom they were geographically isolated and economically protected. Many observers believe that the predictability of this arrangement and the lack of incentives to improve productivity and quality exacerbated preexisting Caribbean inefficiencies.

In 1993, as part of its ongoing effort to establish a single European market, the EU implemented a new regime for bananas. Negotiations between the various European states were complex. Nations protecting Caribbean bananas had little in common with those, such as Germany, accustomed to cheaper Latin American produce (colloquially termed "dollar fruit"). In an effort to accommodate the various interests of shippers, importers, and producers, a complex system of licenses was introduced under which traditional importers of ACP and DOM (France's *départements d'Outre-mer*) bananas were allowed to import a certain amount of Latin American bananas. By linking the importation of dollar fruit to importation of ACP fruit, this arrangement guaranteed importers of Caribbean bananas a significant part of the EU market. Simultaneously, EU importation of dollar bananas was effectively limited to 2 million tons per year.<sup>25</sup>

Three firms dominate the global banana trade—Chiquita, Dole, and Del Monte. The first two are U.S. firms and the latter is Jordanian. Chiquita and Dole followed different strategies to cope with the new European restrictions. Dole began purchasing firms that had the required licenses as a (successful) strategy to expand its market share. Del Monte also expanded its market share. Chiquita did not follow the same approach, and its share of the EU market dropped from 25 percent to 18.5 percent.<sup>26</sup> A report by Arthur D. Little International ascribed the drop to the company's previous policy of oversupply (designed to improve the firm's share of the European market at the time the new banana arrangements were being negotiated) rather than to the EU preferences.<sup>27</sup>

In September 1995, following a request by Chiquita, the Clinton administration brought a WTO suit against the EU preferences. Washington was concerned that the WTO might rule that the U.S. administration did not have standing to bring such an action because the United States itself does not export any bananas to Europe. Therefore, the Clinton administration encouraged the governments of Ecuador, Honduras, Guatemala, and Mexico to join the suit, which they did. According to sources close to the U.S. administration, this has severely limited the United States' ability to settle the case. Whereas Washington, left to itself, might well have settled for a return to the pre-1993 European practices (with Caribbean preferences being provided by Britain, France, and Spain rather than the whole EU), the Latin American partners in the WTO case are not likely to accept such a compromise. In April 1997, the WTO ruled in favor of the U.S. position.

Caribbean leaders' hopes that President Clinton would use the occasion of the Barbados summit in early May 1997 to announce an adjustment to the banana policy were not fulfilled. Clinton did acknowledge the region's concern, and argued that the WTO suit was aimed at European practices rather than Caribbean farmers, but no concrete solution emerged. The president simply agreed to "work with the European Union to develop a WTO-consistent alternative to the current EU banana regime for the Caribbean."<sup>28</sup>

Another blow against banana interests was struck in September 1997, when the European appeal against the April WTO decision was denied. Under WTO rules, the EU then had thirty days in which to respond to the appeal denial, and it did so by vaguely stating that it would "comply" with the ruling. It now has fifteen months, beginning from October 1997, in which to come up with a mechanism to implement such compliance. Observers close to the negotiations expect that Europe will move quite slowly on this matter, for two reasons. First, negotiations with the ACP countries concerning the Lomé Convention will start in September 1998, and because adjustments to the banana preferences will inevitably be part of that process it would be undiplomatic to present ACP partners with a *fait accompli*. Second, Uruguay Round negotiations on agriculture are scheduled for early 1999, just about the time implementation of the WTO banana decision is due. Europe presumably does not want to give a major concession to the United States in advance of those negotiations. If it waits until the Uruguay agriculture talks are under way, it will be in a better position to negotiate a *quid pro quo*.

The reaction in the Caribbean to the WTO decision has been intense. Jamaica, Belize, Suriname, Dominica, Saint Lucia, and Saint Vincent and the Grenadines are the region's major banana producers. Although all would suffer, the latter three are particularly vulnerable. About a third of Dominica's workforce, and a quarter of Saint Lucia's, is employed in the banana sector. A 1994 World Bank report predicted that this sort of "compression of the banana industry could deprive up to 50 percent of the farmers of their livelihood."<sup>29</sup>

Even with preferences still in effect, Caribbean banana revenues have declined. In 1994, Windward Islands banana exports stood at \$80 million, lower than at any point over the previous decade, due to a combination of falling prices and hurricane damage.<sup>30</sup> Although earnings rebounded in 1995 to \$88.9 million, they fell again to \$83 million in 1996 due to lower export volumes and prices.<sup>31</sup>

The drop in banana revenues triggered social unrest in Saint Lucia. The island's banana industry had thrived in the late 1980s and early 1990s; the Banana Growers Associations (BGAs) paid out bonuses on a regular basis. As one former NGO representative remarked to the author, "people felt that bananas would be here forever." Prices then fell in the mid-1990s, and Saint Lucia's BGAs reacted with what the NGO representative described as "mismanagement and complacency." In 1994, two farmers were killed in disturbances; in 1996, when prices dropped below the cost of production, the farmers again reacted with rage. According to the NGO representative,

"They weren't used to the idea of fluctuating prices, and when the BGAs claimed they had no money, farmers suspected corruption."<sup>32</sup> Although this time no one was killed, there was extensive property damage.

Clearly, resolving the banana preference controversy is critical to maintaining stability in the Windward Islands. Various mechanisms have been suggested. For example, there is a proposal that the European import licenses be phased out and replaced with a tariff structure under which dollar bananas would face a higher EU duty than Caribbean bananas. The tariff proceeds could then be used to compensate Windward Islands banana farmers and/or fund agricultural diversification. Some observers, however, argue that many European banana distributors would have no incentive to buy any Caribbean bananas at all if the license system (and its "cross subsidy" from dollar bananas to Caribbean bananas) were eliminated.

The "New Banana Regime," as the current arrangement is termed, is due to expire in 2002. At the time of the WTO decision, European and Caribbean planners were in the process of working out a plan to deal with the likely decrease in banana preferences after that date. This is often referred to as the "Cargill" plan after the consultancy company that conducted a major study of the Windward Islands banana industry. Among its many elements, the plan includes provision of agricultural extension facilities, other forms of technical assistance, training, land reallocation, and irrigation. The WTO decision means that the transition may now have to be carried out in a fraction of the originally anticipated time frame.

**Other Commodities.** The banana issue is just one example of the problems posed by the shift from preferential to reciprocal trade. Caribbean sugar exports are also threatened by the trend.<sup>33</sup> Although the EU provides guarantees concerning quantities of Caribbean sugar that can be exported, it offers no guarantee on prices, which are likely to be squeezed due to a decline in domestic EU prices.

The Lomé Sugar Protocol is different from the banana arrangement in three respects, all of which make it more likely to survive (albeit with unstable prices). First, it is an agreement of unlimited duration, and cannot be abrogated unilaterally. Therefore it will not be subject to renegotiation when Lomé IV ends. Second, uncertainty about the stability of sugar prices in the coming years gives the EU a good reason to defend the Sugar Protocol energetically should a WTO suit be initiated. Third, the Protocol is intertwined with the EU's internal sugar policy and is highly valued by EU cane-sugar refining interests.

An unexpected problem has recently arisen over rum. At a December 1996 WTO conference in Singapore, the United States and the EU came to an agreement concerning information technology. As a "quid pro quo," the United States offered the EU an arrangement whereby all duties on white spirits (including gin, vodka, and rum) would be removed by the year 2000. This would effectively destroy the competitive advantage that Caribbean rum producers have enjoyed under the CBI and Lomé. Some commentators believe that it would lead to the complete demise of the Caribbean rum industry. However, Sir Neville Nicholls, president of the Caribbean Development Bank, told the author:

Caribbean rum producers should have realized that this was going to happen. They had been told many times that there is no constituency in either the U.S. or Europe for rum preferences. They should have been building up brand loyalty with advertising emphasizing the unique taste and mystique of Caribbean rum. This would help them weather any future reduction of tariff protection.<sup>34</sup>

The Caribbean gained a limited reprieve in March 1997, when the European Council College of Commissioners approved an EU-U.S. memorandum of understanding that allows rum to be treated in a different manner than white spirits up to 2003. Caribbean rum could still enter the United States duty-free under the CBI after 2000, but a similar arrangement has not yet been established for Europe. Therefore the rum question remains open.<sup>35</sup>

**In Sum.** The issue of preferences versus reciprocity is one of the thorniest aspects of Caribbean relations with the United States and Europe. How this problem manifests itself in a specific country depends on the details of the economic transition under way there and the role of a given preference in that transition. Jamaica, for example, has already diversified sufficiently that an erosion of banana preferences would not be catastrophic, whereas Dominica, which has terrain suitable for few crops other than bananas, would suffer immensely. The interaction of marketing and producer interests, and the tendency of the former to prevail over the latter due to the greater economic and political resources that they can mobilize, hinders the Caribbean's ability to negotiate its way through the preference transition process. World Bank economist Steven Webb summarizes the dilemma as follows:

New doors must open faster than old ones close if the region is to avoid a spiral of stagnation and social instability, and to grow fast enough to reduce poverty. . . . The decline of official trade preferences and aid from the industrial countries to the Caribbean seems unavoidable and in the long run desirable, but it could derail the development process unless the decline is predictable and moderate enough in pace so that the economies have time to adjust.<sup>36</sup>

## CHAPTER II CARIBBEAN ECONOMIC ISSUES: THE REGIONAL CONTEXT

According to the World Bank, Caribbean annual economic growth (excluding Haiti) was slightly higher, at 2.4 percent, from 1991 through 1995 than it had been in the 1980s, when it averaged 1.8 percent. In per capita terms, however, growth was only 1 percent from 1991 to 1995, and if Haiti is included the figure would be negative. This compares with per capita GDP increases over the same period of "7.6 percent in East Asia, 2.0 percent in South Asia, 1.3 percent in high-income countries and 1.1 percent in Latin America," according to the Bank.<sup>37</sup>

The World Bank argues that although external factors such as hurricanes, lower sugar prices in Europe, and adjustments to EU banana regulations partially account for the difficulties, "economic factors did not seem to persist as much as the effects of economic policy and of private sector entrepreneurship."

As indicated in Chapter I, many U.S. officials share this view, laying the primary blame for Caribbean economic troubles on poor management and a lethargic private sector, rather than the policies of foreign powers. Although officials and observers in Europe and the Caribbean acknowledge that the region has much responsibility for its own problems, they argue that special social, geographic, climatic, and political conditions in the Caribbean present particularly severe challenges, which even the most competent and politically courageous leadership would find difficult to meet. This chapter will explore both perspectives.

### II-A. STRATEGIES TO ADAPT TO A GLOBAL MARKET ECONOMY

The Caribbean region is contemplating and implementing a variety of strategies as it seeks to adapt to the global market economy. Although some of the strategies are producing remarkable success, others are accompanied by undesirable side effects and still others are producing few results whatsoever. Furthermore, domestic political considerations have caused the region to place less emphasis on certain strategies than is wise.

**The Business Environment.** The business environment and how it is perceived abroad have become increasingly relevant to Caribbean economic fortunes, for as foreign aid has fallen, private capital flows from abroad have become proportionately more important. From 1982 to 1994 the amount of grants and net loans from foreign donors and lenders received by Caribbean governments fell from \$1.4 billion to \$341 million. Although net annual foreign direct investment rose from an average \$500 million during 1988-1992 to \$1.2 billion in 1994, the World Bank considers that overall investment rates in the Caribbean are below the level required to fuel growth. According to the Bank's April 1997 report on *Prospects and Challenges for the Caribbean*, "Given the greater global availability of capital in the world, compared with a decade ago, the stagnation in the Caribbean mostly reflects a lack of demand and opportunities for private investment, rather than shortages in the aggregate supply of financing."<sup>38</sup>

The relatively small size of the Caribbean market makes obstacles to investors particularly worrisome. An official at the USTR has noted that when U.S. firms encounter investment problems in South America, they immediately appeal to the USTR for assistance and work hard to solve the difficulty. However, when such a firm faces a similar obstacle in the Caribbean, the USTR never hears about it because "the investor just goes somewhere else." The markets are simply not large enough to retain business attention once the investment path becomes rough. European officials have reportedly encountered the same situation.

Most business-knowledgeable people in the region are aware of these difficulties. Indeed, some of the most vigorous critics of the business climate are Caribbean government officials, development experts, and entrepreneurs themselves. All three groups constantly describe the business environment as both inhibiting foreign investment and constraining the development of local entrepreneurship. Many such individuals have told the author of cases in which licenses and permits had been held up for periods of months to years. A successful entrepreneur in one of the Windward Islands remarked that there seemed to be a knee-jerk response from government officials. "Whenever you ask for their advice or support to embark upon something new, they automatically tell you it is not possible and you should not even attempt to launch the business," he remarked.<sup>39</sup> A Caribbean agronomist said that his efforts to increase exports of nontraditional crops were severely hindered by the lack of a dynamic private sector:

There is a shortage of people with entrepreneurial spirit. The wealthy private sector which does exist tends to be tightly integrated with the political elite. That elite has an interest in ensuring that any alternative agricultural exports benefit its own group, and this sometimes causes otherwise viable proposals to be blocked.<sup>40</sup>

An official in a government-affiliated agricultural marketing board suggested that his country's political philosophy of rewarding "both the capable and the incompetent" had dampened entrepreneurial spirit. "We have not encouraged a consciousness of self-reliance and independence. We need to shift to private-sector-led development, and that shift is not yet under way here."<sup>41</sup>

A banker from the region lamented the shortage of venture capital and added:

Much of the business, particularly on the smaller islands, is family-owned and tends to already be heavily indebted. These firms will need to embark upon joint ventures to obtain the cash with which to finance survival and expansion strategies. It is difficult to convince the management of a family-type business to bring in partners from outside the family.<sup>42</sup>

Picking up on the same theme, the World Bank's Webb has noted that "many politicians and local business firms find comfort, and sometimes corruption, in the traditional nontransparent ways of granting licenses and favorable tax treatment. Often the existing private sector sees little need for change and perhaps prefers not to face the wider competition that a more transparent regime would bring."<sup>43</sup> Some Caribbean NGOs say that the "nontransparent" rules and procedures cited by Webb also tend to block the growth of microenterprises, which many development experts believe are an ideal mechanism for providing employment and stimulating economic growth. (The May 1997 Barbados summit reaffirmed "the importance of developing viable credit institutions" to serve microenterprises.)

In addition to lamenting the impact of government regulations on the business climate, a wide range of Caribbean sources energetically criticized the failure of the region's educational systems to keep up with the demands of the labor market. Although all were proud of the high levels of university education achieved, most persons interviewed felt that the typical curriculum was designed to prepare students for civil-service or academic occupations rather than integration into the private sector.

One manager scornfully reported that when his firm offered to provide a scholarship in computer science, the local branch of the University of the West Indies (UWI) said that it had no "qualified students" and declined the proposal. When questioned about the reported lack of harmony between labor-market needs and education, a department head at the campus in question responded that the University's role was to engender in students awareness of and pride in the nation and its culture, and implied that labor issues would take care of themselves once students graduated. One Caribbean official is sufficiently concerned about the educational situation that he is contemplating establishing a variety of advanced training schools separate from the traditional university system.

Despite this willingness to be self-critical about business-environment issues, the Caribbean sources consulted by the author tended to be less enthusiastic about one major policy recommendation by foreign advisers. In its 1996 report on the Caribbean, the World Bank argued:

The immediate cause of the difference [between Caribbean performance and that of other regions] seems to be that countries with early successful liberalizations made and sustained a real depreciation of the exchange rate, which played a crucial role in stimulating and reorienting growth.<sup>44</sup>

Most Caribbean sources believed that significant exchange-rate adjustment would be politically difficult and might lead to social unrest if the cost of living rose sufficiently.

Although there is a high degree of consensus about many aspects of the business climate, there is less agreement about the appropriate role of foreign-investment regulations. Officials at the office of the USTR approvingly highlight a recent Ernst and Young study that criticized

- ◆ time-consuming registry and authorization procedures;
- ◆ restrictions on economic sectors where investment is permitted;
- ◆ restrictions on access to and two-tiered taxation of land;
- ◆ limitations on the repatriation of capital and dividends, tax deduction rates, and withholding taxes on payments;
- ◆ restrictions on the participation of foreign capital in local companies;
- ◆ restrictions on access to domestic credit; and
- ◆ work permit requirements for foreigners.

The same study criticized the financial systems of the region, which it said are plagued with inefficiencies such as

- ◆ high cost of credit,
- ◆ high margins of financial intermediation,
- ◆ excessive reliance on overdraft facilities as a financing mechanism,
- ◆ lack of medium and long-term funds for investment purposes,
- ◆ high legal reserve requirements, and
- ◆ inefficient supervision and regulatory structures.<sup>45</sup>

The World Bank's previously cited April 1997 study similarly criticized the cost of doing business in the Caribbean:

Some countries have preserved the colonial tradition of cumbersome controls to prevent abuses, but in the fast-moving global business world today, this often

prevents decisions that are prompt enough to facilitate economic development. . . . The old culture of control, permission, and favors should give way to a new attitude of providing service to facilitate internationally competitive production.<sup>46</sup>

Although most Caribbean sources agree that regulations need to be streamlined and refined, some are uneasy with the scope of changes urged by foreign observers. There is particular concern regarding the impact of business-friendly measures on social inequality.

**Manufacturing.** Although manufacturing on the larger islands (particularly the Dominican Republic, Jamaica, and Trinidad and Tobago) has some potential for growth if access to the U.S. market is expanded, the sector's prospects are considered bleak on many of the smaller islands. The reasons cited include the need to avoid crowding factories (and their possible pollution) onto small islands that need to market their clean beaches as a tourist attractions; the difficulties new manufacturing operations face now that the import-substitution policies under which past enterprises were established are being phased out; the pending implementation of the region's Common External Tariff (CET), which will reduce tariff protection for many local manufacturers; and the tendency of foreign investors to maintain manufacturing operations only for the period during which they benefit from special government-provided incentives.

That said, some manufacturing enterprises are innovating and are optimistic about their prospects. One such firm is the Barbados Shipping and Trading Company Limited (BS&T), involved in a wide variety of manufacturing and retail activities. Its chairman, David Bynoe, explained that it did well in the days when there was no tariff on imported raw materials and duties of up to 150 percent on finished goods. As the firm prepared to face a 35 percent CET, management decided to sell most of its small-scale manufacturing operations and to concentrate on the larger operations capable of competing with imports. (Retail operations were poised to prosper, because the reduction of tariffs would enable the firm to offer a wider range of competitively priced goods to consumers.) BS&T teamed up with other companies in the Caribbean to manufacture each other's product lines in order to benefit from economies of scale. BS&T also established joint distribution with those same partners. Bynoe emphasized that the firm has a built-in advantage over new foreign competition because "people are accustomed to our product."<sup>47</sup>

In order to compete, the firm has downsized considerably, but Bynoe argues that "it is better to have 30 percent of our employees lose their jobs, and save the jobs of the remaining 70 percent, than to go out of business altogether."<sup>48</sup> In operations that were not closed, introduction of new technology necessary to maintain competitiveness has occasionally led to major job reductions. For example, BS&T's new high-technology brewery employs three people to do the work that previously occupied twenty. The firm is also branching out into nonmanufacturing operations, such as tourism and financial services. The company would like to expand into informatics, but has yet to find the right foreign partner for such an enterprise.

Changes in European and U.S. policy would enhance manufacturing opportunities in the Caribbean. If the EU's rules of origin were adjusted, so that a product could qualify as manufactured in the Caribbean (and therefore be eligible for the tariff schedule afforded ACP countries) even if a considerable portion of inputs were of non-Caribbean origin, both foreign and local investors would have a stronger incentive to establish manufacturing operations in the region. If the U.S. Congress were at last to provide some sort of NAFTA parity arrangement that removed the competitive disadvantage some Caribbean products are experiencing relative to Mexico, manufacturing would have a more hopeful future. However, few observers expect manufacturing to be the engine of growth for the entire region.

**Information Technology and Related Computer Services.** Commentators within and outside the region agree that the Caribbean is well suited to move into information technology and related computer services. Among the comparative advantages often cited are a population with a relatively high level of education; wage rates that, although high in comparison to other developing regions, are low in comparison with the United States; proximity to the U.S. market where demand for such services is strong; sharing of the same, or close to the same, time zone as the east coast of the United States; widespread use of English (the dominant language of the computer world); and a good telecommunications infrastructure.

Close examination of this sector reveals a number of problems, however. Although the Caribbean population is relatively well educated, the region's computer training curricula are woefully outdated. The British firm Cable & Wireless has indeed helped build an impressive telecommunications network, but it enjoys a monopoly and high telecommunications charges place the region at a competitive disadvantage. Some Caribbean governments have a significant equity stake in the telephone operations in their country and therefore have an incentive not to pressure rates downward. In the lower-technology data-processing sector, the Caribbean is facing tough competition from new entrants to the market that have lower wage rates.

The difficulties encountered by an entrepreneur in Dominica exemplify how these obstacles have limited the growth of the sector. The entrepreneur has been trying for some time to set up a data-processing operation. However, he has not been able to find a reliable U.S. partner capable of providing marketing services under acceptable conditions ("they wanted us to sign a grossly unreasonable contract which would not allow us to make any profits in the foreseeable future"). The telephone charges are also an obstacle. Although the entrepreneur senses that the phone company would probably provide a lower rate if the firm began using a large volume of telecommunications services, the initial high rates make it difficult to get started:

These charges seem to have been designed with the intention of negotiating with a very large, high-volume foreign investor. These rates were not designed with the local entrepreneur in mind.

Even if sufficient contracts and acceptable communications charges can be negotiated, the entrepreneur is concerned that he might not be able to locate sufficient local personnel with the skills he requires.<sup>49</sup>

Another (happier) case study is Total Technology Solutions Limited (TTSL) in Barbados. A subsidiary of PRT Group Inc., headquartered in New York City, TTSL was incorporated in Barbados in February 1995. The parent company already had a thriving business in the United States providing software engineering services to a variety of "Fortune 500" banks and financial institutions. The firm was aware that the shortage of U.S.-based computer specialists with the requisite skills was keeping the prices for such services extremely high and wished to establish a foreign subsidiary capable of providing the same service at a lower cost. Ideally the firm wanted a site with a technical infrastructure comparable to that of the United States, a workforce possessing the required skills at a price lower than that of equivalent U.S. workers, widespread use of English, a government that understood the importance of developing its computer-services sector and was therefore willing to provide attractive investment incentives, good air transport connections, and a location in the same time zone as New York City.

After exploring potential sites in the United States, Canada, Europe, and the Caribbean, management eventually settled on Barbados, which fulfilled all but one of the above criteria--it did not have an adequate pool of workers with the appropriate skills. In addition to providing investment incentives (including the promise that no equivalent company would be allowed to invest in the country for five years), the government of Barbados agreed to provide work permits for skilled computer engineers from India.

Financed in part with payments from existing PRT U.S. clients (provided as advances on future services), the company invested an initial \$7 million and expects total investment by the end of 1997 to reach approximately \$27 million. The initial workforce totaled 135 people and 400 were expected to be on the payroll by the end of 1997. In February 1997, company personnel reported that of the 140 computer engineers employed, 4 were Barbadians, 3 were from elsewhere in the Caribbean, and 1 was from Nigeria. All the rest were from India.

The company has pledged to increase the number of employees from the Caribbean region and is also actively recruiting in the various Caribbean communities abroad. Computer skills of UWI graduates are currently considered inadequate because students are trained to use computers rather than create software. The company is seeking to soften resentment of the high percentage of Indian software engineers on its staff through community outreach, including free Internet training sessions.<sup>50</sup>

The TTSL example shows that the Caribbean can be an attractive investment site for high-technology firms. However, it also suggests that unless the educational system is reformed, those investments may not lead to a significant increase in jobs for local residents. In any case, social scientists and government officials concerned about employment believe that the information-technology sector would not be able to absorb the large number of graduates coming into the Caribbean job market. These observers see tourism as a far more promising source of employment.

Information technology enthusiasts counter that because the world may need as many as 1 million additional engineers and programmers by the end of 1998, the employment-generating capacity of the information-technology sector should not be underrated. They further argue that the economic activity generated by a thriving Caribbean version of Silicon Valley would stimulate the retail, hospitality, and service sectors, creating ample spin-off employment.

There are two apparently lucrative information technology opportunities for the Caribbean on the horizon: the "Year 2000" problem and the ECU (European Currency Unit) problem. The first concerns computer programs that work with only the final two digits of a year and would therefore interpret the year 2000 as the year 1900. The total cost of revising the world's software to recognize the years after 1999 is estimated at \$600 billion. About 60 percent of that cost, or \$360 billion, is expected to be spent on testing.<sup>51</sup> After a program is rewritten (a task requiring experienced engineers), it must be tested (a time-consuming process that can be carried out by less-experienced engineers). The Caribbean could potentially use the testing of "Year 2000" programs both to generate immediate jobs and to provide experience for engineers who would subsequently be poised to move on to more

sophisticated tasks. Similarly, many computer programs will have to be revised as Europe switches to a common currency (the ECU) and that project will continue well beyond the year 2000.

U.S. demand for these computer software services is said to be so high that the Caribbean should not be overly concerned about competition from other countries. U.S. companies could get the same service for less in India, but in the Caribbean they are still paying half the U.S. rate while benefiting by having the contractor in the same time zone and just a short airplane trip away. Availability and quality, more than cost, reportedly drive U.S. firms' decisions regarding selection of information-technology contractors.

In order to exploit these new opportunities, industry experts advise the region to follow the example of India's Institutes of Technology. The Indian government put enormous resources into a network of such institutes, and the subcontinent is now the second largest software power in the world.<sup>52</sup> Such sources also say that the Caribbean needs to equip its hotels with Internet access, upgrade intellectual property laws, and be more open to migration of skilled workers both within and from outside the region.

Concerning the problem of high telecommunications charges, the case of the Dominican Republic is held up as a model solution. In 1990 that country eliminated the private monopoly that had dominated its system for sixty years. Rates immediately dropped significantly and the telecommunications sector's share of GDP rose.

Although this example is inspiring, it will be hard for the anglophone Caribbean to replicate. Officials from the latter countries complain that in the past, multilateral institutions successfully pressured the region's governments to sell a portion of their phone systems and provide a twenty-year license to Cable & Wireless. Those governments now cannot legally extricate themselves from the agreement without paying substantial compensation.

There may be a compromise solution. The Caribbean has far more fiber-optic cable capacity than it can use in the intermediate and perhaps even long term. Most of it is currently unexploited "dark fiber," and it would be reasonable to request that more capacity be provided for current fees. This could be done at very low cost to the cable's owners, for the capacity is already installed.

Some government officials and businesspeople seeking to chart strategies for future integration with the global economy see the information-technology sector not just as one of several possible options, but rather as the key to solving the Caribbean's economic problems. Philip Goddard, a Barbadian businessperson who now serves as his country's minister of international trade and business, has an eloquent expression that summarizes this approach. Caribbean planners, he argues, have a tendency to "focus on the future of the economy rather than the economy of the future." He claims that it is the revolution in technology, rather than the specific details of new trading arrangements, that is fundamentally changing the economy of the world, and that in order to participate in that revolution the Caribbean must create a "digitally literate" society and a robust, competitively priced telecommunications system. He adds that intellectual capacity is going to be the source of wealth for nations and corporations in the future, and therefore the primary job of government is to create that intellectual capital. In this sphere, he argues, the small size of Caribbean populations is actually an advantage, for it is easier to redesign the educational system of a small nation than a large one. The Caribbean can become, in Goddard's words, "a frigate in an ocean of aircraft carriers," able to adjust to new economic circumstances faster than larger countries and regions.<sup>53</sup>

**Tourism.** Tourism is playing an increasingly important economic role. It was the only sector of the region's GDP that consistently increased its share of total income in the 1980s. According an associate professor of business environment at Florida International University Dennis Gayle, by 1990 "the Caribbean tourist industry was generating \$96 billion in gross expenditure per annum and provided employment to over 400,000 people." Gayle also reports that "tourism generates more foreign exchange and tax revenues per dollar of investment than any other industry."<sup>54</sup> The region is widely considered more dependent on tourism than any other part of the world, with tourism receipts accounting for about a quarter of total exports.

Some observers believe that tourism is the only sector in which the Caribbean has a genuine comparative advantage and that whereas industries such as information technology might produce "a few hundred jobs," tourism can create "thousands." Tourism is considered by some as perhaps the only feasible alternative to banana farming in the Windward Islands (apart from drug cultivation and trafficking). These high expectations are not unreasonable, given that tourism is expected to be the largest industry worldwide in the next century.

The region's sun, sand, culture, and proximity to the United States all make it attractive. As Caribbean nations struggle to adapt to the global economy, those with tourism investments are seeking to make them more profitable, while those new to the sector are belatedly trying to launch their own tourism industries.

A 1996 report prepared for the Caribbean Development Bank listed eight circumstances that should stimulate further tourism growth in the region:

- ◆ strengthening of the U.S. market economy and the interests of U.S. tourists in exploring a destination, and, increasingly, eco-tourism;

- ◆ growth in the European market where longer stays and more spending in the Caribbean is [*sic*] the norm;
- ◆ a strategic location next to the "sleeping giant" of South America;
- ◆ resort market trends which are placing more emphasis on the integrity of the product, authentic experiences, and environmentally sensitive destinations;
- ◆ the consumer's desire to learn about a destination and explore its diversity;
- ◆ a growing and changing eco-tourism market that is beginning to go "mainstream";
- ◆ more consumer flexibility to take shorter, special interest trips, of which events and festivals are an important component;
- ◆ a growing dive market.<sup>55</sup>

Despite these favorable trends, there are some impediments to the growth of traditional tourism in the region. Countries such as Barbados, which have a fairly advanced tourism sector, are running out of environmentally appropriate sites for new hotels. In the words of an official of Saint Vincent and the Grenadines, new entrants to the market find that there are "many competitors offering the same or a similar product at a lower price due to greater economies of scale." Another problem is the lack of strong connections in many cases between the tourism sector and the rest of a country's economy. Tourism-based businesses tend to import rather than purchase products locally, and the increasing popularity of cruise tours and all-inclusive hotels is curtailing the portion of revenues from tourism that goes to the host country.

Among other things, the late arrivals in the tourism game must struggle with inadequate airports. This is particularly troublesome for Dominica and Saint Vincent and the Grenadines. Neither has runways that can support large jets. The prospect of adding another transfer onto an itinerary deters many would-be visitors, who head instead for islands that accommodate direct flights. Little financing is available to fund the expensive infrastructural development that would be needed to rectify this situation.

Two types of tourism hold significant promise for both new entrants and established operations: health tourism and eco-tourism.

Relatively few visitors are likely to have major health treatments in the Caribbean because insurance companies usually cover such treatments in the home country but not abroad. There are also concerns about the quality of Caribbean health services. However, the region may well be able to market its retirement homes and spas to individuals who are not gravely ill and need support that their own insurance does not cover, such as home help, transportation services, and certain types of physical therapy.

A recent World Bank study (the 1996 Caribbean Group for Cooperation in Economic Development *Prospects for Service Exports from the English-Speaking Caribbean* report) had a fairly negative evaluation of the outlook for this sector. It cited the short supply and perceived low quality of private health-care facilities in the region, barriers to the licensing of foreign doctors, and concerns about personal security.<sup>56</sup> However, experts in the region are more optimistic, and claim the Caribbean is ideally situated to provide postoperative recuperation facilities to visitors. They believe an arrangement could be established with the U.S. Medicare system under which patients could continue to receive Medicare benefits while using a Caribbean recuperation service. One enthusiast remarked:

If we can provide this service at a lower cost than counterparts in the U.S., we can simultaneously help the U.S. budget, generate employment and income for ourselves, and provide a lovely recuperation environment for patients.<sup>57</sup>

As noted earlier, the Caribbean is well placed to benefit from the increasing popularity of eco-tourism. Late entrants to the tourism market, such as Dominica, have pristine environments featuring impressive biodiversity. Eco-tourists are usually relatively prosperous and are often willing to put up with the inconvenience of an extra flight transfer to see unusual and untouched wilderness.

However, eco-tourism also tends to be small-scale, and there certainly is not enough demand to rescue the economies of new entrants overnight. Governments are therefore tempted to combine mass tourism with eco-tourism in order to generate fast cash flows. This may prove unfeasible on many of the region's smaller islands, where the mass tourists could end up driving away the eco-tourists.

Overall, the previously cited report prepared for the Caribbean Development Bank recommended that Caribbean countries adopt the following measures in order to stimulate the tourism industry:

- ◆ Develop "a broad and holistic vision of the impact of tourism and. . . create brand and country images that both promote tourism and exports of related goods and services."
- ◆ ". . . focus on the preservation and maintenance of the natural environment, cultural events, heritage attractions and coastal conditions as part of extending tourism impacts. This process could include the imposition of user fees or charges that would ration the use of these resources and fund needed repairs and maintenance."

- ◆ ". . . seek to offset the destabilizing effect of seasonal fluctuations and cruise visitor inflows by developing facilities and targeting ratios that better balance these impacts."
- ◆ Facilitate cooperation between "governments and private groups. . . in the creation of strategic plans and joint actions. . . . Aligning tourism product development with entrepreneur development programs can create the environment for business formation in areas ranging from tour guides to arts, crafts and entertainment."
- ◆ Place "more local workers in senior management and ownership positions."
- ◆ Treat business suppliers to tourism "as exporters for tax and other purposes. Opportunities for promotion and marketing. . . that are available to foreign suppliers should be sought for local businesses."<sup>58</sup>

Finally, tourism-sector optimists note with some concern that CARICOM has established Standing Committees on every sector except tourism. This sector would benefit from greater attention by policymakers, these observers argue, including establishment of country-specific development plans.

**Offshore Finance.** The Caribbean's competitive advantages in the offshore financial sector are some of the same factors that make the region attractive for information-technology investors: a relatively well-educated population and a good telecommunications infrastructure. The growth of international business and capital flows is fueling the demand for legitimate offshore financial services, while rising organized-crime profits, emanating both from drug cartels and eastern Europe's new Mafia, is heightening the demand for illicit services.

Although offshore finance is an attractive business opportunity well suited to Caribbean circumstances, it faces a serious problem: distinguishing legitimate from illegitimate customers is often difficult, and a few revenue-strapped Caribbean governments may choose to disregard the less-than-legitimate origin of some deposits. And Dr. Anthony Maingot of Florida International University argues in his essay on "The Offshore Caribbean" that even when host-government intentions are good, offshore finance is too vulnerable to illegality to be a reliable basis for development:

the small economic gains in white collar employment and stamp and tax revenues [generated by offshore financial services] do not outweigh the risks involved. The most serious of these are the corruption of state institutions and personnel, and, deriving from this, the loss of credibility of the state and society.<sup>59</sup>

Some observers share Dr. Maingot's concern about the relatively low levels of employment produced by certain types of financial-service activity. Others insist that offshore financial services can be an important development pillar, that with good regulations and transparency offshore such operations can be conducted in a legitimate manner, and that all Caribbean governments are conscientiously cleaning up this sector. Proponents of the industry's utility assert that no Caribbean government would knowingly encourage money-laundering activities, regardless of limitations on other sources of revenue.

In any case, many Caribbean countries are either establishing or expanding offshore financial sectors, and governments are subject to the strong temptation to offer somewhat more lax regulation than their competitors. In one country that has recently launched offshore financial services, observers believe that the strategy will be to regulate fairly loosely at the outset in order to entice a client base. It is expected that a subsequent "cleanup" would then eliminate the illicit money. This strategy is risky. The illicit clients might acquire sufficient influence to prevent the planned cleanup. In addition, potential legitimate clients might be scared away by the initial loose policy, fearing that any association with such a country might cause their home government to look on their legal financial practices with suspicion. Caribbean opponents of the "develop business and then clean up" approach insist that the better regulated a country is, the more business it will attract over the long run.

It is conventional wisdom that the colonies and dependencies in the Caribbean find it somewhat easier to keep the sector clean than do the independent countries. The colonial link is believed to be an obstacle to corruption and a guarantee of political and social tranquility. However, financial-service experts in such territories say that their policy of seeking only clean business, rather than their constitutional status, is the basis of their success.

Most observers of the offshore finance sector agree on one conclusion, which can be summed up in the aphorism "people in glass houses shouldn't throw stones." Money laundering and fraud occur in all financial centers. Although outsiders may contest the assertion by Caribbean proponents of offshore finance that their region has a record no worse than that of the developed world, foreign critics are certainly not in a position to be sanctimonious.

**Agriculture.** For several Caribbean countries, enhancement of the efficiency of existing agricultural operations and agricultural diversification are absolutely essential elements of any strategy to adapt to the global economy. This is particularly true of countries dependent upon banana preferences.

Banana production in the Caribbean currently averages between four and six tons per acre per year, well below the world average of fifteen tons per acre. Indeed, some Latin American growers have achieved thirty tons per acre. Costs of production are also far higher in the Caribbean, in part due to better wages, but also due to

mountainous, rocky terrain, poor roads, small farms ill-suited to achieving economies of scale, and limited irrigation facilities. Historically, Caribbean producers have been able to sell their bananas for prices at least double those received by Latin American producers, but market forces will force prices down as preferences are phased out, and indeed prices are already declining.

Many of these factors are immutable, but improvement is possible in some aspects. For example, the implementation of new pruning and cutting techniques at an experimental farm in Saint Vincent and the Grenadines established by a local businessperson resulted in yields of twenty-two tons per acre per year, well above the world average. The Saint Vincent Banana Growers Association is now establishing ten demonstration farms along the same lines, and the EU is providing finance for the required irrigation equipment.

One of the greatest difficulties encountered in such efforts is a casual attitude about quality on the part of Caribbean farmers. As an agricultural specialist remarked,

Our farmers are used to doing things a certain way. Their bananas have always had a few marks and bruises. They have not seen bananas as they appear in the supermarket shelf in the U.S. or Europe, so they have no idea what they are up against. Much of the packing work is done by children, working alongside their families.<sup>60</sup>

Providing farmers with opportunities to travel abroad and observe the competition is deemed absolutely necessary to the quality-control process.

Renwick Rose of the Windward Islands Farmers' Association believes that most of the banana farmers under the age of forty can be trained either to farm bananas more productively or to move into alternative crops or even nonagricultural employment. However, the average age of the Windward Islands banana farmers is quite high, in part because their children have enjoyed other opportunities. Thus, even with a maximal training effort, he believes that there is likely to be a large group of farmers who can neither adapt to new banana market conditions nor start new careers. If a quarter of the population on his island becomes unemployed, as he fears may happen following the phaseout of preferences, the resultant deterioration in the island's social atmosphere could scare away tourists, further damaging the economy.<sup>61</sup>

Some participants in the banana industry believe that the management structures of both WIBDECO (the region's banana marketing group) and its affiliated Banana Growers Associations (BGAs) alienate farmers, making it hard to engage them in training and innovation. An NGO leader remarked:

The BGAs are not voluntary organizations. All bananas have to be exported through the BGAs and WIBDECO. These are essentially companies in joint ventures with the governments which issue top-down instructions to the farmers. The farmers would like to have share certificates in WIBDECO. They need to feel empowered, that they have some say about their own future.<sup>62</sup>

Clearly, the banana farmers' first choice would be to continue to grow their traditional crop. However, they know that this option is disappearing and are interested in producing alternative crops. For many years, there have been efforts throughout the banana-dependent islands to diversify, but only Grenada has accomplished much (although even that country faces fierce competition from large farms in West Africa and Asia that can achieve greater economies of scale).

A variety of problems hinder the agricultural diversification effort:

Some NGO sources believe that government ministries responsible for such efforts are unenthusiastic because they have vested interests, both bureaucratic and financial, in keeping the number of banana growers high.

Transportation is another barrier. Surface shipment is too time-consuming given the need to maintain product freshness, but many of the presently banana-dependent islands do not have airports large enough to accommodate jets with direct connections to New York and Miami, the main destinations for Caribbean fruits and vegetables other than bananas. Such service as is available involves many connecting flights and is expensive, in part because of a lack of competition in the transport sector.

Marketing is also a major problem. Attempts have been made to create a brand name for produce from several islands, in order to build brand loyalty among consumers and supermarket managers abroad, but most have failed because of mutual distrust and poor coordination. There are concentrations of persons of Caribbean origin in the United States and Canada who conceivably could provide market-based partners for Caribbean agricultural export operations, but few such ventures have materialized. Moreover, identifying exactly what is in demand where at any given time is difficult. Despite the intense efforts (and some successes) of the Agricultural Diversification Coordinating Unit of the Organization of Eastern Caribbean States, linking supply with demand quickly enough to exploit sudden opportunities remains a daunting task.

Payments are another headache. Farmers are cautious and do not want to produce a new, unfamiliar, crop if they are not certain they will get paid for it. Foreign aid, and particularly the U.S. Agency for International Development, has in the past financed revolving funds through which the farmer is paid for a crop upon delivery to the warehouse in the farmer's home country. The fund is then replenished when the payment arrives a few weeks later from the foreign importer. The reduction of USAID facilities in the region has curtailed the finance available for such mechanisms.

Many Caribbean exporters also complain bitterly about what they perceive as a conscious effort by U.S. customs to exclude Caribbean produce. Tales abound of mangos being excluded because "their fructose level was too high" or hot peppers turned back because "they had too much sheen," criticisms Caribbean exporters find absurd. However, one farmer interviewed in Saint Vincent and the Grenadines insists that the customs process is not an insurmountable problem; with only one exception, he says, all his cut-flower shipments to the United States have been cleared as meeting sanitation requirements.

In addition to the growing of different crops, food processing is being explored as a banana alternative. Although the demand for processed tropical goods is growing, again there are obstacles. Foreign entrepreneurs have not been attracted by the small scale of opportunities available in the Windward Caribbean, and few local entrepreneurs are willing to take the risk. Labeling and health requirements are perceived as barriers, as is the high cost per unit of packaging purchased in the small lots that start-up firms would require.

**The Role of Government.** The decade of the 1990s has been marked by calls for the mass privatization of public-sector enterprises and for the reduction of obstacles to private-sector initiatives (which are often lauded as the future engine of development). At the same time, however, fears abound that reduction of the role of government will lead to distortion of Caribbean economies to suit the needs of foreign investors and a few local entrepreneurs, potentially resulting in corruption and widespread impoverishment. All this points to the following question: Does government still have a role, and if so, what is it?

The views of Caribbean economists, social scientists, and government officials range from an insistence upon immediate and broad liberalization to a belief that social costs can only be contained through a socialist-style approach. There is a general consensus, however, that government must retain an important, if somewhat different, role in the new global circumstances.

Even the most energetic advocates of liberalization agree that removing obstacles to investment does not mean dismantling all regulations. They declare that the Caribbean still needs, perhaps now more than ever, government-enforced laws designed to ensure that the private sector behaves in a manner compatible with social needs and national development priorities. As World Bank official Steven Webb put it in his 1997 study, "Some regulation and taxation needs to be retained or even strengthened in order to preserve the fairness of competitive markets and to provide the state with the necessary fiscal resources."<sup>63</sup> In addition, these liberalization enthusiasts argue that the laws must be transparent and impartially enforced; development-hindering problems occur, they assert, when government policy contains a vague statement about a regulatory process, but provides no clear, preset criteria to guide decisions.

Most pro-liberalization advocates also agree that Caribbean governments are correct to be concerned about the distributive capacity of investment in the region and should discriminate in favor of projects deemed most suitable to social needs, but again in a transparent manner.

A few liberalization enthusiasts also see the public sector as a source of innovation. Caribbean governments, they argue, have occasionally created environments that have encouraged or even forced the private sector to pursue new entrepreneurial initiatives. As Barbadian Minister of International Trade and Business Goddard has remarked:

Without the stimulation and direction from the public sector, the private sector would be adrift and without a rudder. In fact, quite often I find the private sector unresponsive to change, too dependent upon protection, too comfortable with the status quo. They need a catalyst. I recognize that lack of transparency and poor documentation of the business process inhibits investment, and this does need to be strengthened. However, there is a halfway position in this game.<sup>64</sup>

One point on which virtually all commentators agree, regardless of their position with regard to liberalization, is the role of the state in education and infrastructure.

The competitiveness of a nation is increasingly determined by the intellectual development of its workforce and by the speed with which shifts in demands for certain skills are reflected in the educational process. As was noted earlier in this chapter, Caribbean governments have been slow to adjust their educational policies to respond to the huge demand for software engineers. The government of India, in contrast, did rapidly adjust to that challenge, and its university graduates are now industry leaders. Other market shifts will inevitably occur in the

future, and government is the only institution able to orchestrate a countrywide (or regionwide) educational response.

Similarly, virtually all observers agree that government is the most appropriate body to set the direction for infrastructure development, particularly in the areas of transportation and communications. As these two crucial links between people and markets grow in importance, government decisions will acquire more weight.

Some Caribbean NGO leaders openly doubt whether current Caribbean political structures are capable of formulating effective strategies to adjust to the new global conditions. Previous efforts by some governments to promote development have failed, such commentators assert, because the relevant policies were divorced from grassroots realities. They fear that such failures will recur until the political structures change to accommodate greater citizen participation.

The debate about the role of government in the adjustment to a global market economy is not unique to the Caribbean. Throughout the world, people are asking whether their political systems are capable of guiding their nations through the necessary changes. Because of their small size and limited resource base, however, Caribbean states perhaps have less margin for error than most others.

## **II-B. SPECIAL AND DIFFERENTIAL TREATMENT FOR SMALL STATES AND TERRITORIES?**

One of the most acrimonious issues dividing the Caribbean and the United States concerns the question of special and differential treatment for small states and territories. Caribbean leaders argue that, although they know they must adapt to the new global economy, European and U.S. trade partners should make allowances for the challenges associated with the islands' small size and geographic location.

Among the characteristics that make it difficult for Caribbean countries to compete on a "level playing field" are the following:

- ◆ small markets that limit the ability to attract investors and achieve economies of scale;
- ◆ expensive duplication of infrastructure (each island needs, for example, a seaport, an airport, a water treatment facility, and a telecommunications network; each such facility serves a relatively small number of people, making the cost per capita high);
- ◆ vulnerability to natural disasters (e.g., hurricanes, volcanoes);
- ◆ complex, delicately balanced ecosystems;
- ◆ wide diversity in language and cultures, which makes regional integration more difficult;
- ◆ mountainous terrain on some islands that inhibits irrigation and transportation.

Contrary to the common perception in the region, the United States does concede that small size presents special problems and that consideration should be given to mechanisms that help small entities from being overwhelmed by larger ones. Nevertheless, Washington is far less willing than Europe to make adjustments to trade policies to accommodate small states and territories.

The issue has become particularly acute in Caribbean negotiations with the United States concerning the FTAA (see Section I-A). U.S. officials insist that free trade benefits participants of all sizes and that although some countries may benefit more than others, this primarily reflects differences in internal policies rather than size. Most worrying for Caribbean leaders, U.S. officials, although conceding that temporary special transitional arrangements may be needed for some smaller economies on a case-by-case basis, often follow up with the assertion that the FTAA should not have any permanent special or differential treatment arrangements.

In response to the Caribbean argument that generous allowances should be made to compensate for geographic circumstances, Washington asserts that the region is relatively prosperous in comparison with other parts of the developing world, including some Latin American countries.<sup>65</sup> Caribbean analysts retort that Caribbean countries should not be asked to accept a decline in their per capita incomes to the levels of their least well-off Latin American counterparts. It is no coincidence, Caribbean and some European commentators remark, that the Caribbean has been relatively stable whereas the Latin American countries cited by the United States have been unstable. The difference in political performance, they claim, can in part be traced to special and differential treatment. Instead of allowing the Caribbean to be leveled down to the status of its Latin American competitors, therefore, Washington should help those competitors to be "leveled up."

Furthermore, per capita income may sometimes be an inaccurate barometer of prosperity. Some Caribbean islands have impressive per capita incomes because they possess a strong financial-services sector, but much of this money is repatriated. For example, Lorna Smith, permanent secretary to the chief minister of the British Virgin Islands, says that her territory (a British dependency) has a per capita income of \$23,000 and financial-services earnings in excess of \$200 million per year, yet because of income repatriation "we are unable to provide the important infrastructure and intellectual resources needed for sustainable development. . . . What our high per capita

[income] indicates is that a relatively few earn a lot of money, but this does not make a sufficiently significant impact on our median household income."<sup>66</sup>

Smith and some other officials advocate the use of "Human Development Indicators" (HDI) rather than per capita income in measuring the competitive ability of small states and territories. HDI methodology involves the application of UN Development Program (UNDP) criteria to measure social factors such as education and health standards.

U.S. officials tend to believe that many inefficiencies blamed by Caribbean analysts on size could be overcome by better management. In the words of a 1996 USTR report,

Several studies, some paid for by the Caribbean countries themselves, have shown that the small islands of the Caribbean can become significantly more competitive. . . . New opportunities could be created, in activities ranging from high-valued agricultural goods to various services. Instead, the EU's current method of protection is strangling any incentive these nations have [to become more efficient and economically diversified].<sup>67</sup>

One example that some might cite in support of the U.S. position is the previously mentioned inability of Caribbean vegetable and fruit exporters to agree upon and then sustain a common brand name in order to build brand loyalty and facilitate marketing. This reluctance to pool efforts may find its roots in local culture, rather than being an immutable consequence of geographic smallness.

On the other hand, geographic reality does create authentic obstacles to successful participation in the global economy. One such handicap is the inability of small scattered markets to attract inexpensive transportation services capable of meeting the needs of would-be exporters.

The problems encountered by new entrants into the information-technology sector due to high telecommunications charges provides justification for both perspectives. Cable & Wireless was able to negotiate high prices because it argued, with some reason, that the smallness of Caribbean markets meant that the cost of building telecommunications infrastructure would have to be spread over relatively few consumers, so the charge per call would have to be high. Under such circumstances, it is easy for a firm to request and obtain a monopoly. On the other hand, some experts in the telecommunications sector claim that the Caribbean governments have not lobbied nearly as hard as they might against the high charges, in part because they often have a stake in the phone operation themselves.

Both the United States and Europe argue that the Caribbean must move more rapidly toward regional integration so as to reduce some of the disadvantages associated with smallness. Outside observers frequently voice impatience at the slow rate of progress on establishing a genuine common market in the region. If the Caribbean chooses to let "petty squabbles" stall integration efforts, the argument goes, then the rest of the world should not be expected to continue to make accommodations for problems that integration would help resolve.

However, it must be recognized that the Caribbean has made some progress in the regional integration area. As described in more detail in Section II-C, the recent decision by CARICOM to admit Haiti and the effort to coordinate policies via the Association of Caribbean States are, in the words of David Lewis, "important initiatives, which, although late, show that the region is realizing the need to advance on wider integration. . . ."<sup>68</sup>

In assessing the propriety of granting special and differential treatment to small Caribbean states and territories, one should keep in mind that such demands are not unique to the region. Requests for special treatment occur wherever difficult transitions are under way. The smaller, less developed states of Europe demanded such special consideration as part of their European Union accession process, and continue to do so. Similarly, individual states within the United States with limited populations, geographic sizes, or resource bases expect and often receive special consideration by the federal authorities. In both Europe and the United States, threatened economic sectors often receive special exceptions from regional trade rules and/or specific subsidies, to the detriment of trade partners.

## **II-C. REGIONAL INTEGRATION**

The world no longer has time to deal with little specks. The world has told us to get our act together, and we will have to do so.<sup>69</sup>

With this rather blunt language, a Caribbean diplomat recently described the urgency of the regional integration issue. His reasoning is shared by most observers of international trends. The growth of trade blocs means that small countries are increasingly negotiating with groups of nations rather than individual states. Small size is therefore becoming an increasingly serious disadvantage. Furthermore, with the reduction of preferences and the growth of free trade, the region will find it difficult to attract much-needed investment if prospective partners are not guaranteed access to a significant population pool.

For a time, the Caribbean was making admirable progress toward integration. In the English-speaking Caribbean, both CARICOM and the subregional Organization of Eastern Caribbean States (OECS) achieved considerable reduction of trade barriers, coordination of foreign policy, agreement on free movement of people, and (in the case of the OECS) establishment of a common currency.

However, many observers believe that the rate of integration now falls far short of the pace required for Caribbean adaptation to the global economy. As David Lewis points out in his essay on "Intra-Caribbean Relations: A Review and Projections":

[T]he Caribbean Basin is in danger of being relegated to the secondary, if not tertiary, level of the new hemispheric integration and cooperation agenda. . . . [T]he international emergence of regional trading blocs is likely to precipitate the economic and political marginalization of the region unless regional governments can create growth and competitiveness through establishing a region-wide Caribbean Basin single market. . . with genuine free movement of capital, labor, production, and resources.<sup>70</sup>

**CARICOM.**<sup>a</sup> The Caribbean Community (CARICOM) was formed in July 1973 as a successor to a less structured grouping, the Caribbean Free Trade Association. Following the July 1997 decision to admit Haiti, CARICOM now includes fifteen countries (Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago) with about 13 million people. (Before Haiti's admittance, CARICOM contained just under 6.2 million people.) The Community has three objectives: foreign policy coordination, promotion of functional cooperation, and economic integration of member states through establishment of a common market.

The organization has performed reasonably well in the first two areas. Functional cooperation has been quite successful in the sectors of communications and information, education, meteorology, disaster preparedness, standards development, energy development, science and technology, health, culture, drug issues, environment, and legal and institutional development. Foreign policy coordination has been just slightly less successful. CARICOM has carried out a well-coordinated reaction to U.S. policy concerning Cuba, energetically resisting U.S. pressure to halt overtures to the island. Members have also coordinated effectively in negotiating successive Lomé Conventions and trade arrangements with the United States. On the other hand, discussions with the United States in 1996 and 1997 concerning the controversial "ship-rider" agreements (which permit U.S. authorities to enter the territorial waters and airspaces of Caribbean states in pursuit of drug traffickers) were not dealt with via the CARICOM machinery, as many Caribbean diplomats interpreted the CARICOM treaty as mandating, but rather in a bilateral manner, in part due to U.S. pressure.

CARICOM's efforts toward economic integration have been less successful. Although almost all trade within the region is free of restrictions prohibited under CARICOM agreements, some members continue to apply discriminatory measures or prohibited licensing requirements and impose fees on sales personnel from other CARICOM countries. After much controversy and many delays, CARICOM has agreed upon a Common External Tariff, and the process of tariff harmonization was scheduled to be complete by 1 January 1998.

In 1989, CARICOM members agreed to establish a single market and economy. This goal (whose achievement requires free movement in goods, services, capital, and labor) has not yet been fulfilled, and progress is likely to remain slow. Harmonization of rules of origin and customs documentation is incomplete. A Caribbean Investment Fund was formed in 1994, but its poor liquidity has hindered operations. Eight CARICOM members have signed double-taxation agreements, but domestic tax regimes remain uncoordinated. Efforts to achieve free movement of labor have been only partially successful. There is no multilateral financial clearance facility, and direct convertibility among local currencies is not always smooth.

CARICOM's effectiveness has been hindered by two structural problems. As Henry S. Gill states in a recent essay,

First, the community is hamstrung by the unanimity rule which places the entire membership at the mercy of a single dissenter. Second, CARICOM integration is thwarted by the practice of non-implementation of decisions.<sup>71</sup>

An effort to establish a CARICOM Commission that would facilitate implementation of decisions was rejected on the grounds that it would encroach on member governments' authority.

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<sup>a</sup>. This section draws heavily on Gill, "CARICOM and Hemispheric Trade Liberalization."

As noted in Chapter I, the larger, richer countries of Jamaica and Trinidad and Tobago are becoming impatient with CARICOM's pace. Business leaders are increasingly dissatisfied with the limited progress on establishment of a single market and their lack of inclusion in the formation of negotiating strategies. Many commentators fear that CARICOM is on the verge of being bypassed by events.

Although it is unlikely that CARICOM will soon admit more members in the wake of Haiti's entrance, the Community is associated with two other organizations that play a role in regional integration. The older of these groups is the Caribbean Forum (CARIFORUM) of African, Caribbean, and Pacific states, established under the Lomé IV agreement to disburse EU regional funds. CARIFORUM was created in part due to Europe's interests in fostering regional cooperation beyond the limits of CARICOM, and includes all CARICOM countries with the exception of Montserrat, as well as the Dominican Republic. Before Haiti was admitted to CARICOM, its membership in CARIFORUM facilitated its participation in regional integration in a manner that would not otherwise have been possible.

The newer regional organization in which CARICOM plays a role is the Association of Caribbean States.

**The Association of Caribbean States (ACS).** In the late 1980s, many Caribbean observers began to realize that if the Hispanic Caribbean and Haiti were somehow brought together with the "traditional" British, French, and Dutch Caribbean states and territories, the size of the Caribbean market would be vastly increased, along with its strength in negotiating with other trade blocs. However, because most of the potential candidates for joining CARICOM were each larger than all the Commonwealth Caribbean countries combined, CARICOM was reluctant to embrace them. CARICOM leaders have feared that, in the words of Gill, "the center of gravity of the integration process" would shift away from CARICOM "not just economically but also politically and culturally."<sup>72</sup> There was also extensive concern that nonanglophone countries' institutions and practices would be incompatible with those of CARICOM. The organization therefore wanted to "deepen" its own integration process before "widening" its relationship with additional states.

The governments of Cuba and the Dominican Republic, however, were extremely enthusiastic about integration with a wider Caribbean grouping. Cuba saw it as a way to break out of isolation, while the Dominican Republic was frustrated that a decision on its 1989 application to join CARICOM had been long postponed. The de facto government in Haiti (in power until 1994) appeared uninterested, although Jean-Bertrand Aristide's government in exile was enthusiastic.

CARICOM reluctance was overcome by the pledge that it would remain intact and perform its past role within a wider economic regional grouping. The Association of Caribbean States, which finally came into being on July 24, 1994, dwarfs CARICOM in terms of population and resources.<sup>b</sup> The former includes over 202 million people, in comparison with the latter's 13 million (including Haiti). Despite the efforts of the ACS's larger members to promote economic integration, however, the new grouping has not made much progress in this arena. Its inclusion of Cuba caused considerable consternation in the United States, and Washington has held the organization at arm's length. A 1996 U.S. academic study of the ACS lists eleven political factors that could have an impact on ACS effectiveness:

- ◆ defining ACS operational space;
- ◆ strategies regarding third parties, particularly concerning NAFTA and WTO-mandated changes to banana trade patterns;
- ◆ impediments to intraregional trade (lack of trade liberalization, entrenched monopolies and oligopolies, problems in financing and transport);
- ◆ national sovereignty (border disputes among the Latin American members and preoccupation with this issue among small Caribbean states);
- ◆ group dynamics (including CARICOM members' fear of being overwhelmed numerically and culturally by the Latinos);
- ◆ differing political systems;
- ◆ institutional commitment (or lack thereof);
- ◆ social impact of trade liberalization;

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<sup>b</sup>. The following countries are ACS members: Antigua and Barbuda, the Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Venezuela. [GGC: is this currently correct?]

- ◆ civil society and decision making;
- ◆ cultural, linguistic, and ethnic heterogeneity;
- ◆ member country upheavals.<sup>73</sup>

Some observers have proposed that a joint CARICOM-Central American-ACS secretariat be established with staff from public- and private-sector representatives from both subregions and various subregional groupings. There is reluctance within the region to form yet another institution, however, and instead the focus is on improving collaboration between the ACS and other institutions through existing mechanisms.

Whether the ACS is successful or not, the Hispanic Caribbean and Haiti will probably play an important role in the region. Among the challenges and opportunities likely to present themselves over the coming decade are the following:

**Cuba.** The Caribbean has reached out diplomatically to Cuba over the last few years, not only by including it in the ACS, but also by admitting it to the Caribbean Tourism Organization, despite vigorous U.S. disapproval. As Havana's market-oriented economic reforms move forward (albeit at a snail's pace), Cuba will gradually come to compete with the anglophone Caribbean in tourism and provision of services. The short-term threat is modest, because Cuba's inefficiencies make that country a weak rival, but many Caribbean businesspeople are concerned about the consequences of eventual normalization of relations between the United States and Cuba. Already the Super Club hotel enterprise of Jamaica has invested in tourism facilities in Cuba, not because it expects to make large profits over the short term, but because it wants to hedge against a possible shift of market share to Cuba when U.S. tourists are finally permitted to visit the island. For similar reasons, a ship-repair facility in Curaçao has established a joint venture with a Cuban counterpart in Havana's harbor.

Some Caribbean manufacturers have also shown interest in the Cuban market for consumer goods. Until recently, Dominica Coconut Products conducted a profitable business providing soap to the Cuban hard-currency shops. Although the sales ceased following the firm's acquisition by Colgate-Palmolive, the experience proves that Cuba can be a worthwhile market for small Caribbean manufacturers.

Some export-promotion officials in the anglophone Caribbean have expressed great frustration at the pressure put on them by the United States (especially in the wake of the Helms-Burton law) not to explore business opportunities in Cuba. An initiative to provide in-flight meals to airlines operating out of Havana's José Martí airport was apparently scuttled due to concern about negative reaction from Washington. An exploration of the provision of printing, publishing, architectural, and engineering services to Cuba was abandoned for the same reason.

**Puerto Rico.** Puerto Rico has long had an ambivalent relationship with the rest of the Caribbean. In part, this reflects its own ambivalence over its sovereignty status. Those who favor statehood are uneasy about greater integration with the Caribbean, preferring to focus their attention on the mainland. The fact that the pro-statehood party is now in power makes formal Puerto Rican participation in regional integration unlikely, although business and civil-society organizations are actively engaging the rest of the region.

Although many argued that the implementation of the Caribbean Basin Initiative in 1984 would erode Puerto Rico's advantage in the U.S. market relative to Caribbean neighbors, in reality the CBI resulted in joint-venture coproduction operations linking businesses in Puerto Rico and counterparts in the rest of the Caribbean and Central America, leading to greater export competitiveness in the U.S. market for both sets of partners.

Puerto Rico's relationship with the region has also been complicated by the U.S. Congress's recent decision to phase out the "Section 936" tax measure, which provided significant incentives for mainland investment in the island. When that measure was previously threatened in the mid-1980s, Puerto Rican leaders cleverly exploited the high strategic priority accorded the Caribbean by the Reagan administration by pointing out that Section 936 produced millions of dollars of capital in Puerto Rico that could potentially be invested in the Caribbean Basin. According to David Lewis, Section 936 resulted in the establishment of 127 production projects throughout the region, totaling \$1.32 billion in new investments with Section 936 funds and resulting in 37,000 new jobs. In 1992 alone, Lewis says, this program funneled more investment into the English-speaking Caribbean than the combined investment of the World Bank and the Inter-American Development Bank.<sup>74</sup> With the congressional phaseout of the Section 936 mechanism, however, this source of investment funds will disappear.

Another congressional initiative, the "Young Bill," also places the island's future in question. Drafted by Representative Don Young (R-Alaska), who serves as chairman of the House Resources Committee, the bill would require Puerto Ricans to vote in a plebiscite by 31 December 1998 to state their preference for statehood, independence, or the current commonwealth status.

Concern about future growth occasioned both by the phaseout of Section 936 and the Young Bill is leading businesses located on the island to look outward to the rest of the Caribbean for opportunities. Puerto Rico is perceived by some as an ideal base for providing a wide variety of services to the region and is touted as the future "business hub of the Caribbean," to the consternation of many anglophone Caribbean leaders. The island is already

serving as a central hub for Caribbean-U.S. air transportation. Government strategists believe that it could provide a wide range of other services for neighbors and also be a source of manufactured products.

**Dominican Republic.** The relationship of the Dominican Republic with the rest of the Caribbean has historically been ambivalent. Prior to 1996 the Dominican Republic was perceived as unlikely to take into account the interests of other Caribbean states when deciding on international policies. It appeared to distance itself from CARICOM's overtures toward Cuba and seemed relatively uninterested in its neighbors. In the mid-1990s, some CARICOM governments became convinced that the Dominican Republic was violating its 1989 promise not to use its then-pending membership in the Lomé Convention to compete with anglophone Caribbean bananas in Europe. After the Dominican Republic was admitted to Lomé in December 1989, its perceived bad faith on the banana issue was responsible for many of the obstacles in CARICOM-Dominican cooperation. Relations with Haiti have traditionally been tense, marked by a history of distrust and controversy over migration issues.

When President Leonel Fernández took office in August 1996 this image began to change, for he seems genuinely committed to greater integration with the region. The Dominican Republic recently established consular relations with Cuba, and establishment of full diplomatic relations is under discussion. Relations with Haiti, which already were beginning to improve following the departure of Haiti's military rulers in 1994, now are a high priority. President Fernández has also encouraged rejuvenation within his own country's government through promotion of younger, more entrepreneurial leaders. For the first time, the public and private sectors agree that the country needs an outward-looking vision that includes close relations with the rest of the Caribbean. The EU is anxious to facilitate improvement of CARICOM relations with the Dominican Republic, as evidenced by its decision to distribute regional aid via CARIFORUM.

However, the Dominican Republic's relatively low wages create concern that it will attract manufacturing and assembly operations away from other parts of the region. Caribbean leaders also worry that the Dominican Republic seems to identify more with Central America than with CARICOM. Such doubts were underscored by President Fernández's May 1997 decision to send his foreign minister to represent him at the Barbados summit with President Clinton, while Fernández himself joined his Central American colleagues at the Costa Rica summit. (When considering such criticism, one should keep in mind that CARICOM has shown no interest in acting upon the Dominican Republic's request to join the regional grouping, and CARICOM's invitation to the Barbados summit arrived after Fernández had already accepted the Costa Rican invitation.) Dominican strategists also reportedly believe that, with 8 million people, the country has more in common with the similarly sized economies of Central America than with its much smaller anglophone Caribbean neighbors. Central America's interest in moving forward relatively swiftly with free trade also seems more compatible with President Fernández's outlook than does the anglophone Caribbean's nostalgia for nonreciprocal preferences.

**Haiti.**<sup>c</sup> In the aftermath of the difficult 1991-1994 period of de facto military rule and international trade sanctions followed by an international military intervention, Haiti is making great strides toward political and economic integration with the rest of the Caribbean while grappling with the difficult challenge of rebuilding a society devastated by decades of authoritarian rule. Haiti's 1997 accession to CARICOM membership is a potentially significant step toward its greater regional integration, particularly with Commonwealth Caribbean member states, many of whom sent troops to Haiti in the mid-1990s as part of the multinational force that helped restore constitutional government. Although Haiti, with a population of about 7 million, more than doubles CARICOM's population base, the full political and economic implications of its membership are far from clear. (A regional committee is now working on the technical details of entry, including common market requirements, language usage, and budget contributions.) In addition to its new CARICOM membership, Haiti has been a member of the Lomé Convention since 1989 and is a member of the ACS.

A top priority for Haiti's democratic government has been the improvement of relations with the Dominican Republic. Although recent years have witnessed increased contact between leaders on both sides of the border, problems linked to unregulated cross-border trade, Haitian migration to the Dominican Republic, the repatriation of Haitians by the Dominican government, and the deeply rooted, historical animosities between the two countries all represent continuing challenges to improved Haitian-Dominican relations.

Since 1994, the governments of Presidents Aristide and René Préval have extended Haiti's presence more broadly in the region. Haiti established relations with Cuba in February 1996. Over the past three years, Haiti has participated at a high level in regional and subregional summit meetings, including the December 1994 Miami

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<sup>c</sup>. The Haiti material was written by Georgetown University Haiti Program Coordinator Robert Maguire.

Summit of the Americas and the May 1997 Barbados summit with President Clinton. In 1995, Haiti hosted the annual meeting of the Organization of American States.

In the past, Haitian manufactured goods and agricultural products did not penetrate regional markets; those not destined for domestic consumption were exported to North America or Europe. Today, Haiti's regional presence remains limited. Economic sanctions imposed during military rule had a particularly deleterious impact on Haiti's manufacturing sector. In the aftermath of sanctions, Haiti's productive capacity has continued to decline as less expensive goods penetrate Haiti's markets and crowd out local products. A historical lack of investment in agriculture and agricultural producers, particularly within the dominant small-farmer sector, as well as deterioration of the natural resource base, have limited Haiti's ability to provide for itself, let alone respond to regional markets.

The major exception to Haiti's lack of regional market presence has been handicrafts, which have been increasingly exported to the region. Economic sanctions also hurt this sector, and what presence was maintained was achieved either by Haitian informal-sector traders or through shifts of production from within Haiti to beyond its borders, particularly by Haitian artists who migrated to the Dominican Republic. With the removal of trade restrictions, a dynamic Haitian handicraft production and marketing sector could rebound to regain and expand market presence.

Interisland trade of agricultural products with the Turks and Caicos and the Bahamas remains a small and localized, but vibrant, activity dominated by informal traders. Traditionally, Haiti's regional presence has been characterized more by migrating labor than by manufactured goods or agricultural products. Prospects for Haitian migration elsewhere in the region, even if promoted by the Haitian government appears exceedingly limited.

**Impact of Extraregional Actors.** Although the Caribbean itself has primary responsibility for facilitating regional integration, decisions by extraregional actors can either facilitate or hinder indigenous efforts. By distributing regional aid through CARIFORUM, for example, the EU encouraged CARICOM contacts with the Dominican Republic and Haiti respectively, perhaps contributing to CARICOM's eventual decision to admit Haiti as a full member.

The United States, however, is perceived to be less helpful than some other outsiders in promoting regional integration. As noted earlier, when Washington was trying to convince Caribbean governments to sign the ship-rider agreements, it approached those governments on an individual rather than a regional basis, thus making it harder for them to resist U.S. pressure for fast signature (and possibly flouting CARICOM rules concerning such negotiations). Such behavior is seen by some regional leaders as inconsistent with the stated U.S. policy of favoring integration.

Lack of coordination between different parts of the U.S. government, which often attempt to impose conflicting demands on Caribbean nations, is also highlighted as an obstacle to regional integration. Sir Neville Nicholls, president of the Caribbean Development Bank, has remarked, "If the U.S. genuinely supports integration then the U.S. government itself must have an integrated and holistic approach to Caribbean issues."<sup>75</sup>

U.S. officials readily concede that this is a justified criticism. One U.S. official has frankly recommended, "Those in the Caribbean need to understand that each agency is a tail trying to wag various other dogs in the U.S. government, and we are very unlikely to coordinate our actions in perfect harmony."<sup>76</sup>

Caribbean observers did notice a major improvement of U.S. policy coordination in the preparations for and implementation of the May 1997 Barbados summit. This, they say, created a context conducive to a more coordinated regional reaction to U.S. initiatives. U.S. officials agree that often "trips drive policy" in the U.S. bureaucracy. Before the trip of the president or a high-ranking official, departments have to prepare coordinated policy papers and briefing documents for that individual. They are temporarily forced to put aside their own rivalries to hammer out a coordinated U.S. approach to the country or region to be visited. Therefore, those concerned about the Caribbean should be pleased by the announcement at the Barbados summit that the U.S. secretary of state will meet with his or her Caribbean counterparts on an annual basis.

**Coordination Among Nonstate Actors.** Ironically, regional coordination among certain nonstate actors seems to be moving more briskly than coordination among governments. Nongovernmental organizations, particularly those in the environmental movement, have been particularly anxious to link up with counterparts elsewhere in the region. Commercial interests are also gradually moving in this direction. There is a growing consensus within the region that nonstate actors should play a leading role in integration efforts, although final integration decisions should remain in the hands of the sovereign governments.

### CHAPTER III SECURITY/STABILITY ISSUES IN THE CARIBBEAN

The divergence in international perspectives on the Caribbean has been particularly acute in the area of security/stability issues. The May 1997 Barbados summit and the consultations that preceded it seem to have reduced somewhat the acrimony between the United States and the Caribbean in this sphere. Whether this improved atmosphere will lead to genuine consensus on policy issues, however, remains open to question.

Underlying recent mutual recriminations have been basic differences in the interpretation of the concepts of security and sovereignty.<sup>77</sup> The United States has traditionally approached security issues from a military mind-set, concerned about interstate conflicts and internal uprisings that might favor the interests of one or another international actor. Over the last two decades, it has also increasingly considered narcotics trafficking and illegal migration to be security threats. Washington has tended not to consider social and economic issues such as full employment, access to markets, health care, and education as falling under the "security" category.

Many Caribbean leaders, however, have always included these social and economic issues in their definition of security. Without full employment, access to markets, and strong health and educational systems, they fear, their countries' tranquility will be threatened.

When international criminal elements--particularly money launderers and drug smugglers--began to increase their exploitation of opportunities in the Caribbean region in the late 1970s and early 1980s, the United States' initial response reflected its traditional mind-set. It sought to combat such criminality with militarized security mechanisms, such as sea and air patrols and eradication of drug crops by military or paramilitary groups. This was accompanied, in the words of a European antinarcotics expert, with an "ugly American" approach:

The U.S. had the money to help combat these threats, but it was rude. Washington's idea of regional cooperation on security issues was that everyone else had to cooperate with Washington, and Washington did not have to reciprocate.<sup>78</sup>

According to Dr. Ivelaw L. Griffith, a professor in the Department of Political Science at Florida International University, the election of Ronald Reagan in 1980 "heralded a different foreign and security policy" that included "a willingness to use force without much compunction, and an unapologetic pursuit of American preeminence in global political, economic, and military affairs." Reagan also "displayed. . . a preference for bilateral dealings that enabled the United States to exercise more leverage."<sup>79</sup>

Even in the mid-1990s, with the cold war over, U.S. behavior often perceived as heavy-handed continued unabated and interacted with new U.S. trade and aid policies in a manner that infuriated Caribbean leaders. On the one hand, Washington wanted Caribbean nations to permit U.S. officials wide latitude in implementing anticrime initiatives in the region. On the other hand, Washington's antipreference trade policies and its decision to curtail regional aid significantly following the disappearance of the Communist threat were seen as exacerbating the very social and economic difficulties that made the region vulnerable to money launderers and drug smugglers in the first place.

Adding to these tensions was a dispute over the meaning of sovereignty. Perhaps because their countries attained independence relatively recently, many Caribbean leaders take a traditional approach to sovereignty, insisting on the sanctity of national border controls, economic policy, and military decision making. The United States, in contrast, wanted to "share sovereignty" through agreements permitting U.S. forces to enter other countries' national waters and airspace in hot pursuit of criminals (the ship-rider agreements, discussed in more detail below). Washington argued that small island states with modest resources and tiny or nonexistent security forces could not protect their sovereignty on their own, and that by "sharing sovereignty" with the United States each individual state's overall sovereignty would be enhanced.

The disagreement concerning sovereignty occurred while the U.S. Department of Defense was initiating an eighteen-month phased shift of responsibility for its Caribbean operations from the Atlantic Command, based in Norfolk, Virginia, to the Southern Command, now based in Miami. This shift, completed in 1997, entails the risk "that the Caribbean will get short shrift in the balancing of security relations between the U.S. and countries in Central and South America, and those in the Caribbean, which are smaller and relatively less important."<sup>80</sup>

The issue of corruption played a role in U.S.-Caribbean tensions. Washington observers have voiced growing concern about the penetration of organized crime into certain Caribbean societies. Caribbean political leaders have been understandably sensitive about these accusations, believing that a few "bad apples" are causing the United States to discredit the entire region.

Europe was also concerned about Caribbean security, not only due to cultural and economic ties, but because the region has become a major conduit for the smuggling of hard drugs to Europe and the laundering of

criminal profits, an increasing by-product of the transition in eastern Europe. Europe was quite sympathetic to Caribbean complaints and was disturbed that Washington seemed willing to put money into anticrime initiatives while expecting Europe to carry much of the burden for Caribbean economic and social development. European security experts differed from their U.S. counterparts in agreeing with the Caribbean belief that social and economic factors had to be addressed if the region's conditions were to become less conducive to crime, but tended to agree with Washington that the Caribbean could not combat the growing security threats on its own and that the issue of sovereignty needed to be rethought. One European commentator believed that much of the tension over sovereignty was due simply to a lack of tact on the part of the United States:

We try to listen to the concerns of the region, be respectful, and respond to what they say. The U.S. doesn't know how to listen. It dictates. It could obtain a far more satisfactory result on sovereignty matters if it would be more diplomatic.<sup>81</sup>

Two events then contributed to a U.S. rethinking of security issues and a narrowing of the divide between Washington and both the Caribbean and Europe. First, the U.S. intelligence and military apparatus increasingly concluded that U.S. trade and aid policies really were contributing to the deterioration of security in the region and thereby threatening U.S. interests. "Trade officials may be solving their own problems, but they are creating enormous headaches for us," remarked a U.S. official responsible for analyzing security issues.<sup>82</sup>

Second, President Clinton's decision to meet with the region's leaders at the May 1997 Barbados summit brought Caribbean security issues to the attention of the White House just as the U.S. security establishment was rethinking its approach. During the summit preparations, the interaction between security and economic issues was much discussed. The 10 May 1997 joint "Declaration of Principles" stated that the United States and the region's leaders "recognize the inextricable link between trade, economic development, security, and prosperity in our societies." The same declaration announced the parties' intention to "establish Joint Committees on Justice and Security, and Development, Finance, and Environmental issues. . . to facilitate an increasing and effective level of communication, coordination, and follow-up among our Governments."<sup>83</sup>

The "Plan of Action" produced by the summit states that both the United States and the Caribbean are "aware that the vast wealth of international criminal organizations may be used to corrupt public officials." The document recognizes that "the laws of many Caribbean States do not provide an adequate legislative basis to prevent the corruption of public officials" and the parties agreed to "cooperate in the development of appropriate measures" such as "the drafting of model legislation" and "the provision by the United States of training and technical assistance to Caribbean States on enforcement mechanisms to combat corruption."<sup>84</sup>

Much remains to be done, however. The threats to the region from international crime remain strong and the domestic U.S. political situation is placing major obstacles in the path of White House efforts to adjust aid and trade policies so as to reduce economic pressure on the Caribbean region.

### III-A. MAJOR SECURITY ISSUES

#### **Narcotics Interdiction.**

Nothing poses greater threats to civil society in CARICOM countries than the drugs problem. The damage. . . to democratic society itself from the drug problem is as great a menace as any dictator's repression. . . . CARICOM countries are threatened today by an onslaught from illegal drugs as crushing as any military repression.<sup>85</sup>

With these words, the West Indian Commission a nonprofit organization that completed a detailed study on the future of the Caribbean summarized the drug problem in its 1992 report. As of 1997, the situation has deteriorated. U.S. officials currently estimate that 40 percent of all drugs reaching the U.S. mainland pass through the Caribbean, four times the percentage of a decade ago. The eastern Caribbean islands are increasingly popular transshipment points for drugs headed for Europe.

Caribbean complaints concerning U.S. antinarcotics policy are numerous, and whether or not they are well founded, they have inhibited cooperation on this issue. They include the following:

- ◆ The unilateral U.S. process of "certifying" whether Caribbean countries are cooperating in drug interdiction has not been transparent or consistent. "You are tried, convicted and sentenced without any right to appeal," remarked Jamaican Prime Minister P.J. Patterson recently. "That process is not accorded the most notorious drug trafficker, who must have his day in court."<sup>86</sup> There should be a more multilateral approach to the certification process.
- ◆ Whereas Caribbean countries wanted to negotiate the ship-rider issue on a regionwide basis, the United States insisted on a bilateral approach, reminiscent of the Reagan era, whereby it would deal with individual small states poorly positioned to resist U.S. pressure.

- ◆ Ship-rider was presented to each state as a finished document, on a take-it-or-leave-it basis. No effort was made to tailor each agreement to the specific concerns of each state.
- ◆ To make it easier to convince Caribbean populations that the sharing of sovereignty entailed in ship-rider was worthwhile, the United States should have offered significant aid as a quid pro quo. As it is, many governments which did sign are now being criticized for driving an insufficiently hard bargain.
- ◆ The United States intends to use the enhanced powers provided by ship-rider only to protect its own interests. Contrary to Washington's claims, the United States will not help a signatory when U.S. interests are not directly threatened.
- ◆ The United States sought to "blackmail" governments that resisted ship-rider by threatening to publicly name high government officials in the Caribbean states concerned as drug traffickers.
- ◆ The United States used economic retaliation against countries that resisted ship-rider. For example, the government of tourism-dependent Barbados found it odd that a team from the U.S. Federal Aviation Administration issued a warning to travelers at the peak of the ship-rider controversy declaring the country's airport unsafe.
- ◆ The United States concentrates on the drug supply issue and is doing far too little to reduce its own domestic demand.
- ◆ It is not fair for the United States to ridicule Caribbean governments' setbacks in antinarcotics operations when two Caribbean islands under U.S. jurisdiction, the U.S. Virgin Islands and Puerto Rico, are among the main drug conduits to the mainland. If the U.S. government cannot control such smuggling in its own territory, it should not criticize the problems encountered by governments with far fewer resources.
- ◆ Whereas the United States wants Caribbean security forces to supply it swiftly and efficiently with intelligence concerning narco-trafficking, the United States refuses to reciprocate. It denies Caribbean countries access to U.S. information on operations about to take place there.
- ◆ The U.S. position on trade preferences, and the snail's pace of FTAA preparations and free-trade enhancement initiatives, are all increasing the pressure on the population of the region to turn to drug cultivation and trafficking as a means of economic survival.
- ◆ U.S. policy does not take into account the Caribbean cultural heritage, which causes members of Caribbean societies to view marijuana use quite differently than does Washington.  
(Note to reader: Please bear in mind that the foregoing are Caribbean complaints expressed by various Caribbean sources. Not all sources agreed with all complaints.)

The U.S. response, again whether justified or not, has included the following points:

- ◆ Caribbean governments suffer from increasing corruption, and therefore the United States is entitled to be cautious about sharing intelligence information.
- ◆ The accusations of high-level corruption were well founded and were not blackmail.
- ◆ Although Jamaica and Barbados did finally agree to U.S. entry into their airspace and waters in hot pursuit of criminals, they did so under conditions that those same countries are not willing to accept in trade matters. It was agreed that Jamaican and Barbadian security forces will have the same right to enter U.S. territory as U.S. forces have to enter Jamaican and Barbadian territory. This reciprocity principle, however, is not offered on trade issues and therefore is hypocritical.
- ◆ The sovereignty argument is often used by Caribbean governments as an excuse for inaction.
- ◆ Multilateral approaches to certification would be slow and cumbersome, and could very well lead to an "I'll scratch your back if you'll scratch mine" syndrome in which no consensus could ever be reached for decertification. Furthermore, the certification process is mandated by a domestic U.S. law that requires Congress to account for the expenditure of U.S. resources and therefore cannot be turned over to a multilateral mechanism.
- ◆ The Caribbean as a whole is too prickly and touchy.

The United States has recently become more sensitive to Caribbean (and Latin American) concerns about the certification process. At the 29 April 1997 meeting of the Council of Freely Elected Heads of Government on "The Agenda for the Americas for the 21st Century," House Speaker Newt Gingrich (R-Georgia), Senator Paul Coverdell (R-Georgia), Director of the U.S. Office of National Drug Control Policy Barry McCaffrey, and Chairman of the House International Relations Committee Benjamin Gilman (R-New York) "all recognized the need for a new approach to this issue."<sup>87</sup> Speaker Gingrich termed the certification policy "offensive and senseless" and called for a hemisphere-wide approach to the issue. Although the United States will not abandon the certification process, Washington will probably consult and cooperate with other countries as it makes its certification decisions.

Some U.S. officials with antinarcotics responsibilities, including individuals with an extremely hard-line image, have also begun to argue that a more wide-ranging relationship with the region is needed if antinarcotics efforts are to succeed. One such official remarked:

If every time we talk to them all we do is harp on drugs, it will be hard to fully engage Caribbean leaders in the antinarcotics effort. We need to have a broader relationship, in which we discuss cultural, trade, and political issues. Drugs would then be one more item within a broad, constructive relationship. It is hard for me to do my job if other parts of the U.S. government are not creating an atmosphere of mutual concern and support.<sup>88</sup>

Caribbean commentators noted with approval that in the "Plan of Action" produced by the May 1997 Barbados summit, the United States, along with the Caribbean countries represented, agreed that there was a "need to reduce both demand and supply" and that there should be a "comprehensive multilateral strategy" to deal with the narcotics problem. The document also includes a U.S. pledge to spend \$5.5 billion on a domestic demand-reduction campaign.

Although Caribbean leaders have been the most disquieted by U.S. drug policy, Europe also has some differences with the U.S. approach. Many European antinarcotics experts maintain that the United Nations, with its lack of an image as an overbearing, meddling actor, is a particularly good channel for coordinating drug interdiction efforts; they believe that Washington should make larger contributions to the UN International Drug Control Program. In addition, the 1996 EU Experts Group report on "The Caribbean and The Drugs Problem" criticized U.S. efforts to eradicate marijuana in the Caribbean:

Given the already over-stretched police and customs resources in the Caribbean, we sympathize with the views expressed to us that such limited resources should be targeted towards dealing with the most serious aspects of the drugs problem. Therefore, we give our support to the recommendation that the eradication of ganja [marijuana] and the arrest for simple possession of ganja should be given a lower priority compared with the other law enforcement efforts against the drugs problem, particularly those related to the trafficking of cocaine.<sup>89</sup>

**Money Laundering.** In his essay, "The Offshore Caribbean," Dr. Anthony Maingot remarks that "the growth of the offshore banking business was fueled by the phenomenal increase in cash from the U.S. drug trade as well as from capital flight." The drug traffic of the late 1980s reportedly led to \$85 billion being laundered each year.<sup>90</sup>

In the 1980s, Britain became concerned about money laundering in the Caribbean and facilitated a crackdown in several territories with which it retains constitutional ties. This led to the introduction of training courses in regulating offshore banking and detecting money laundering, which have been well received by some governments.

The danger, according to a British expert resident in the region, is that in some countries money launderers have been able to buy influence in financial regulatory decision making. They are able to sit down with government officials, suggest a regulation with a loophole, and promise the officials a percentage of future profits.<sup>91</sup> Although many officials resist the temptation, some accept. (As Dr. Maingot remarks in his previously cited essay, "The risk appears to be in the beast itself and not necessarily related to any particular Caribbean propensity to corruption."<sup>92</sup>) The sophistication and determination of the criminal element involved adds to the difficulty in controlling money laundering. Maingot mentions the "resigned realism" of those who administer offshore banks, quoting the governor of Anguilla, who remarked after a crackdown on money laundering:

I wish I could put my hand on my heart and say we won't have any more trouble. But the crook will always be one step ahead of law enforcement. And how much clean business is there out there?<sup>93</sup>

These problems notwithstanding, Caribbean countries have made significant coordinated efforts to stem the flow of illicit cash. In 1990, representatives of twenty islands signed a forty-point anti-money-laundering program drafted by the Group of Seven, as well as a plan tailored to the Caribbean context. However, some governments have been reluctant to follow through on needed implementation measures. For example, Antigua and Saint Vincent have signed anti-money-laundering agreements, but have refused to adopt Mutual Legal Assistance (MLA) accords (which obligate a country to share information with others). The above-mentioned British expert remarked:

Because the Caribbean is part of a complex chain that extends all over the world, you have to have sharing of information to catch the criminal. For example, a Russian sold stolen Uzbekistan coins in New York and banked the

money in Saint Lucia. The case couldn't have been broken if information had not been shared.<sup>94</sup>

Countries without MLAs usually do not entertain an inquiry from a magistrate or grand jury. They will only give information if the named individual is already being tried.

Caribbean, U.S., and some European anti-money-laundering experts report that they work together fairly smoothly. Cooperation with the French and the Dutch is apparently less well coordinated, because those governments wish to work primarily within their own jurisdictions and focus on short-term results. The main weakness in U.S. efforts is an occasional lack of coordination between the Drug Enforcement Administration (DEA), the Federal Bureau of Investigation, and the U.S. Customs Service. For example, the Customs Service sent an agent to the Cayman Islands without telling the DEA, which began its own investigation of the individual.

Most governments involved in the anti-money-laundering efforts agree that the region needs to develop indigenous anti-money-laundering expertise. The United States, Britain, and the EU have agreed to help fund the Caribbean Financial Action Task Force's efforts to train local investigators, prosecutors, judges, and banking officials. In the "Plan of Action" released at the May 1997 Barbados summit, Washington promised to "cooperate with other donors" to implement a number of anti-money-laundering projects, including establishment of a "Caribbean Continuing Legal Education Institute" at the University of the West Indies to provide training on detecting and prosecuting such crimes, development of minimum regulatory standards for the domestic and offshore banking sectors and other financial institutions, and enhancement of the capacities of the region's customs sectors in the conduct of money-laundering investigations.

**Weapons Trafficking.** Several Caribbean countries have recently expressed concern over the perceived increase in weapons smuggled into the Caribbean from the United States. According to some officials, part of the traffic is due to the activities of ex-convicts deported back to their home countries after completing sentences in U.S. prisons. These ex-convicts have connections with gunrunners in major U.S. cities and set up business smuggling weaponry to the region.

A U.S. official familiar with the issue says that Caribbean governments share part of the responsibility for this problem. Some of the weaponry in question is legally exported to the region and then illegally shipped from one Caribbean country to another. When the United States provides a permit for the export of a weapon, that weapon is not supposed to be reexported. The United States wants Caribbean countries to establish their own weapons-marking system, so as to better track the resale of weapons. A recent Jamaican request that the United States provide a list of all U.S. handgun owners is unlikely to be met with a positive response.

The Barbados summit produced some agreement on this matter. The "Plan of Action" endorsed by President Clinton acknowledges that the United States "has been a significant country of origin for firearms illegally diverted to other nations. Illegal trafficking in firearms facilitates criminal activity including drug trafficking in these countries as it does in the United States." The summit participants agreed to nine points of cooperation, including improved information exchange on weapons trafficking, identification of "a national contact point in each country" to facilitate cooperation against weapons trafficking, continued provision by the United States of assistance to law enforcement agencies for the control of arms trafficking, and establishment of joint training projects and exchange programs for law enforcement personnel.

**Apprehension of Criminals.** Among the criminal-apprehension problems cited by U.S., European, and Caribbean officials were the following (not all items were cited by all sets of officials, although most were):

- ◆ Many Caribbean countries do not have secure facilities in which to detain criminals. With vast resources at their disposal, drug traffickers and money launderers often find ways to compromise prison security.
- ◆ Because of organized crime's ability to intimidate witnesses, prosecutors, and judges, Caribbean states have difficulty sustaining prosecutions. Although witness protection programs are under way, they are not yet strong enough.
- ◆ The economies of some Caribbean countries have become so dependent upon funds brought in by criminal elements that governments may be subject to pressure from legitimate businesspeople not to extradite an accused criminal. Legitimate businesses fear that such an extradition might cause many individuals wealthy enough to be valued customers to leave the country. This was recently a problem in Saint Kitts and Nevis, where purchases in the main shopping area virtually ceased while an important extradition case was under consideration. When the extradition was denied, the missing consumers returned from their "holidays" elsewhere and shopkeeper receipts recovered.
- ◆ Because of legal traditions inherited from colonial times, several Caribbean countries (in particular the Dominican Republic) refuse to extradite to the United States nationals whose acts (either there or elsewhere) cause criminal damage in the United States.

- ◆ The United States complains that some countries refusing to extradite residents who have committed crimes abroad fail even to prosecute those individuals themselves. Caribbean countries retort that as sovereign states they have the right to decide who to prosecute, and the United States should not attempt to dictate such decisions.

The Barbados summit "Plan of Action" addresses some of these concerns. The document includes a pledge to work together "towards the establishment of a Criminal Justice Protection Program that would facilitate cooperation in the confidential protection of witnesses" and others involved in prosecutions.

**Deportation of Criminals.** As indicated in the weapons-trafficking section, the United States is increasingly deporting ex-convicts to their countries of origin once they complete their prison terms. Although Caribbean law enforcement officials agree that the United States has the right to do this, they complain that they are not given sufficient advance warning about the individual's arrival or detailed information concerning his or her past crimes.

U.S. officials have been sympathetic to the Caribbean's concerns, have pledged to provide better advance notice and information, and have underlined this intention in the Barbados summit "Plan of Action." Some officials admit in private, however, that the Immigration and Naturalization Service may not always have the administrative capacity to follow through. The coordination task is complicated by the fact that the majority of the deportees are released from state prisons rather than federal institutions.

**Criminality and the Caribbean Transition.** Despite the differences of opinion regarding the nature of the security threat to the Caribbean and actions appropriate to defend against that threat, there are two themes on which most parties are in general agreement:

- ◆ Economic globalization, the emergence of a powerful new organized crime network in the former Soviet Union, and rapid improvements in communications technology mean that Caribbean countries, no matter how honest their governments or dedicated their law-enforcement authorities, are likely to be faced with growing pressures from narcotics traffickers, money launderers, gunrunners, and other criminals.
- ◆ The increasingly international nature of the criminal threat means that law enforcement will become increasingly ineffective if it does not involve cross-border cooperation.

Research conducted for this paper suggests that the diplomatic tact with which that cooperation is pursued, and the extent to which even small partners can feel that their views have been respected, will have a significant impact upon the effectiveness of the final measures adopted.

### III-B. THE INTERACTION BETWEEN CARIBBEAN ECONOMIC AND SECURITY ISSUES

Economic and security issues in the Caribbean interact in three ways. First, economic problems can create conditions conducive to the security threats of drug trafficking, money laundering, general crime, and illegal migration. Second, some of the security threats themselves, at least over the short term, can create deceptively "positive" economic results. Third, over the long term these security threats can undermine a country's economic base.

**Economic Conditions Conducive to Security Threats.** The EU "Experts Group" report of April 1996 listed among the "major factors . . . intimately linked with the drugs problem in the Caribbean" the "vulnerable economic situation, demographic imbalance, widespread poverty and social exclusion" characteristic of the region.<sup>95</sup>

The U.S. response to such claims is mixed. Officials and experts focusing on drug and trade issues often discount the assertions, saying they are simply veiled blackmail, a tacit threat that Caribbean governments will lessen their antidrug efforts if outside partners do not provide more trade and aid support. Other U.S. officials, particularly those involved in diplomatic and security issues, are more sympathetic. One such official recently commented:

The U.S. does accept there is a linkage between economic and security issues, but translating that linkage into appropriate resource allocation decisions is difficult. As a practical matter the U.S. relies on bureaucracies with functional responsibilities. Trade and drug issues will still be run by separate institutions with responsibility for the respective issues. The issues are intertwined, but the U.S. bureaucracy is not, except at very high levels of government.<sup>96</sup>

One of the most-discussed Caribbean economic-security linkages is the banana-drugs nexus. If Lomé IV banana preferences are indeed abruptly phased out, and inadequate adjustment transition support is made available, the argument goes, resulting unemployment and economic depression will cause farmers and others to turn to marijuana growing and narcotics smuggling. The land in some Windward Islands banana-growing areas happens to be ideal for both banana and marijuana growing, and considerable problems have been encountered in the search for alternative crops.

A U.S. "Eminent Persons Group" that visited Jamaica, Dominica, and Saint Lucia in December 1996 reported, "The delegation heard from numerous farmers in all three countries who worry that the younger generation, already struggling to make ends meet in the banana industry, could be easily lured into the drug trade." The same report claims that the abrupt loss of preferences would lead to "sharply increased legal and illegal immigration" and cites as substantiating evidence the fact that "when banana prices hit a 22 year low [in 1995], at least 4,000 illegal immigrants from these densely populated islands landed on the shores of the U.S."<sup>97</sup>

Recent events in Cuba illustrate that migration motivated by economic problems can become a real or perceived security threat to neighbors. When over thirty thousand Cuban refugees poured across the Straits of Florida in the summer of 1994, largely fleeing economic deprivation (which was worsening) rather than political repression (which was serious but stable), the United States reacted to the event as a security threat and reversed long-held asylum policies. Contingency plans were reportedly drawn up for a military "blockade" of the Straits of Florida that could be implemented if the Cuban government intentionally unleashed another refugee outflow.

Although no other Caribbean country currently has economic problems of a magnitude likely to provoke a similar wave of migration, some are fairly close to that level of distress. Progress in generating sustained growth throughout the Haitian economy, for example, is sufficiently slow that a migration crisis involving that country cannot be ruled out. One should also remember that a country does not need to be near economic collapse to become a major source of illegal migration. A relatively prosperous country that is unable to provide opportunities commensurate with the expectations of its people can also create illegal migration problems for neighbors.

**Temporary Economic "Benefits" of Security Threats.** The best recent work on the superficial short-term economic benefits offered by the drug trade and money laundering is Griffith's *Drugs and Security in the Caribbean*. Griffith details some of these windfalls as follows:

- ◆ **Employment:** Farmers, pilots, laborers, engineers, drivers, accountants, lookouts, and guards are among the workers who find employment in the drug trade and money laundering. Government programs to fight these forms of crime also provide legitimate employment in a range of occupations.
- ◆ **Income Generation:** Some individuals in the public and private sectors benefit from bribes paid by organized crime. Marijuana growing enhances participating farmers' incomes. For example, in Jamaica the income of small growers fell from 84 percent to 18 percent above the national average following a marijuana eradication program.
- ◆ **Investment Capital:** Organized crime invests some of its profits in formal financial institutions, and in Jamaica these resources reportedly provided better access to capital for black middle-class entrepreneurs who had difficulty breaking into the big-business sector, which was dominated by ethnic minorities. Drug dollars also provided finance for imports at a time when Jamaica had tight foreign-exchange controls. In Guyana, dollars generated by drug operations strengthened the official exchange rate of the local currency.
- ◆ **Enhancement of Government Revenues:** Although those involved in organized crime may not pay income taxes, they do contribute to state coffers when their profits are spent legally, for example via value-added, property, and sales taxes. Licensing fees for offshore banks used to launder illicit profits also strengthen government revenues, as do fines and seizures of assets.
- ◆ **Community Development:** Like sophisticated legitimate businesspeople, organized criminals have realized that it is in their interests to provide social benefits to communities whose open or tacit support they need. Playgrounds and medical clinics are built, school supplies purchased, and individual charitable needs fulfilled with illicit profits.

**The Long-Term Economic Threat of Organized Crime.** Despite the above-listed short-term benefits, the long-term economic impact of uncontrolled criminality is severely negative.

Tourism, which is critical to so many Caribbean islands, can be seriously damaged by the violence associated with the drug trade and money laundering. Frequent murders, gun fights, and suspicious disappearances are likely to deter potential visitors.

The garment industry, important to the economies of Jamaica, the Dominican Republic, and some states of the eastern Caribbean, has been damaged when smugglers have hidden drugs within garment containers. Griffith cites a case in which Hanes, Jamaica's largest garment manufacturer, temporarily suspended shipments in 1994 after 200 pounds of marijuana was found in a shipment of apparel from Jamaica. Hanes normally provides employment for about 50,000 people in Jamaica.<sup>98</sup>

Fines against airlines and shipping lines upon which drugs are found also hurt the Caribbean. Under U.S. law, fines of \$500 to \$1,000 per ounce are payable by the carrier involved. Such fines have economically damaged Guyana Airways, Air Jamaica, and Eastern Airlines, as well as a number of shipping lines.

The costs of bolstering law enforcement and judicial systems to cope with the increased caseload stemming from drug smuggling and money laundering is yet another part of the overall economic price of these security threats.

Finally, an atmosphere of criminality tends to drive away mainstream businesses. Legitimate offshore financial institutions, for example, do not want to remain on an island gaining a reputation for money laundering, for fear that their own client base will be scared off.

**Create an "Alliance for Stability"?** European commentators note that during the cold war the United States made a direct connection between the economic health of its neighbors and its own security. Washington considered it worthwhile to provide economic assistance to various countries, including those located far from its shores, believing that this would render their governments less vulnerable to leftist revolutions triggered by social deprivation. Such commentators assert that the European Union is now applying the same principle in the post-cold war era, investing in the welfare of its neighbors so as to protect its own long-term security. Wolf Grabendorff, director of the Institute for European-Latin American Relations (IRELA) in Madrid, summarized this sentiment as follows: "The Alliance for Progress was the best security investment the United States ever made, but there is no sign Washington is prepared to take a similar approach to security issues in the Caribbean."<sup>99</sup> (The Alliance for Progress was President Kennedy's program to strengthen U.S. economic and political ties with Latin America.)

Should the United States consider such a mechanism (which for the purpose of this discussion we will term an "Alliance for Stability")? Just as the cold war-era support to neighbors provided by the Alliance for Progress was considered a legitimate investment in the struggle against the "Communist security threat," support to neighbors through a post-cold war "Alliance for Stability" could be considered a legitimate investment in the struggle against today's security threats of crime and illegal migration. This notion is discussed in more detail in the next chapter.

## **CHAPTER IV CONCLUSION**

As noted in the Introduction, the Caribbean region, the United States, and Europe are all undergoing major transitions with both economic and noneconomic dimensions. The world has survived such transition pains before. In past instances, each actor involved in a major shift of the world economy has struggled to defend its own interests, sometimes via diplomacy and economic competition, and sometimes through violent confrontation. The same approaches could be used now in the Caribbean-U.S.-European interactions. However, the costs of an uncoordinated free-for-all would be higher than in the past. With modern transportation and the international mobility required by the global economy, massive illegal migration flows are harder to contain. Industrial and agricultural practices can cause environmental degradation that pays little respect to borders, and modern societies are more aware of these dangers than previously. Perhaps most important for the Caribbean, the phenomenal growth of new, sophisticated organized crime groups, particularly the drug traffickers of South America and the rapidly expanding Russian Mafia, means that the corruption of small Caribbean societies facing economic hard times could take place with unprecedented swiftness. The security implications for the United States and Europe would be considerable and immediate.

So, what is to be done? The research conducted for this paper suggests two solutions, one concerning style and one concerning substance. The former solution is more easily implemented, but can only ameliorate the crisis. The latter is difficult to implement, but could yield more significant results.

### **HELP YOUR PARTNER HELP YOU**

The first, methodology-focused, solution almost seems too simple to be worth stating, and yet is used sufficiently seldom in the current U.S.-Caribbean-European interactions that it bears emphasis. It is:

Be highly informed about and sensitive to the domestic obstacles limiting your partner's ability to respond to your wishes, and to the greatest extent possible avoid actions that exacerbate those domestic obstacles.

For example, if the United States desires greater Caribbean cooperation in fighting crime, it needs to make sure that proposed measures do not appear to damage the Caribbean people's sense of control over their own territories and destiny. Similarly, if the Caribbean wishes the United States to be more cooperative on trade preference and other "special treatment" issues, it would be wise not to appear to be hinting at blackmail through rhetoric and action that could be interpreted as signaling "nonalignment" on the issue of narco-trafficking. This inherently requires a society to educate its own people about the domestic political situation of its partner, for otherwise domestic imperatives will frequently force a government to violate this principle.

Although this message is relevant to Europe, that partner is also well placed to help the other two partners implement it. In general, European officials, academics, and journalists understand better than do their counterparts in Washington or the Caribbean the domestic political pressures at play in the respective capitals. However, Europe's ability to be a bridge-builder will be undercut if it becomes, or is perceived to have become, overly preoccupied with protecting certain sectors of its own societies that have vested interests in cold war/postcolonial-era practices.

### **THE "ALLIANCE FOR STABILITY"**

The second solution, substantive but more difficult to implement, builds on the idea put forward by Wolf Grabendorff described at the end of Section III-B. Through an "Alliance for Stability"--a redesigned version of the cold war-era Alliance for Progress--the United States would make investments in neighbors to avoid the security threats of the modern globalization era just as it did to avoid the security threats of the cold war era.

To reflect the changed post-cold war world and to make such an initiative politically sustainable, the "Alliance for Stability" would need to move away from the bilateral U.S. donor-Third World recipient structure of the Alliance for Progress. Both Europe and the Caribbean countries themselves would have to be deeply involved. (In light of Canada's interest in the region and recent performance in Haiti, Canadian participation in the Alliance also deserves consideration.) The involvement of these parties, and that of the United States, could entail (1) participation in the structuring of Alliance goals and procedures and (2) broadly defined "investments," such as provision of expertise, training, and financial resources as well as implementation by recipient and donor countries of sometimes politically difficult policy adjustments. Depending upon the choices made by the participating countries, the architecture of the Alliance could be anything from separate initiatives with loose coordination and agreement on a general set of principles to a more formal and integrated collaborative effort.

The elements of an Alliance for Stability program might include the following:

1. *Establishment of both intra- and intergovernmental consultative mechanisms to guarantee that security implications of proposed economic policies are thoroughly examined before final decisions are reached.* These "security impact statements" would be analogous to the "environmental impact statements" commonly required before permission for land development is granted.

The mechanisms for internal consultation within a government could be as, if not more, important than intergovernmental mechanisms. For example, if such a mechanism had been in place in Washington when Chiquita lobbied U.S. trade officials to bring the WTO suit against EU banana preferences, those portions of the U.S. government responsible for combating illegal migration, narcotics trafficking, and organized crime would at least have had the opportunity to air their views on the problems that populations deprived of banana incomes might cause for U.S. security interests.

Because the Alliance would involve independent, sovereign governments, the intergovernmental consultative mechanism would have only an advisory effect, but at least decision makers would be fully informed about the security implications of whatever actions they were considering. Thus, the incidence of economic decisions that generate unintended and unanticipated security consequences would be reduced.

2. *Provision of carefully targeted foreign assistance to help the Caribbean region bridge those gaps between new economic realities and old societal expectations that, if neglected, could threaten regional and extraregional stability.* For example, funding and expertise could be provided to retrain workers left unemployed by various free-trade initiatives so as to decrease the probability that they would resort to illegal migration or criminal activity.

It might be appropriate for Alliance-member donors to pick up a share of the aid bill roughly proportionate to their security interests in the region. This would mean an increase in the U.S. obligation. Because the aid would be designed explicitly to deflect security threats, some donors might choose to provide part of the required funds from their drug interdiction and other security-related budgets.

In light of increasing concern in both Europe and the United States that a significant portion of aid be spent on purchases of the donor nation's goods and services, the various aid programs probably could not be lumped together into a single fund, though the programs could be coordinated. To ensure the appropriateness of assistance projects for the societies concerned, not only Caribbean governments but also Caribbean NGOs and business groups could play a major role in designing Alliance for Stability-funded projects.

3. *A joint Caribbean-U.S.-European campaign to counteract donor aid fatigue.* The most important participant in such a campaign would be the Caribbean. Leaders in Washington and Brussels will not be able to deliver the necessary support unless the Caribbean sheds its current reputation, deserved or not, for expecting bailouts. It is up to the region to create a context conducive to greater external support. A necessary but not sufficient condition for such a campaign to succeed would be implementation by Caribbean countries of the policy agenda described in item 4.

Leaders in the donor countries would also have to make a concerted effort to explain to their own populations the close link between facilitating Caribbean adjustment to the global economy and donor-country security. Doing so should not be too challenging in Europe, where the link is generally acknowledged and the legacy of the colonial era includes an attenuated but still-evident sense of solidarity with the region.

The task will be far more difficult in the United States, where isolationist popular sentiment is rising. It will take a major public relations campaign, featuring not only the president but also prestigious figures from the business, defense, and security establishments, to have much effect.

4. *A firm Caribbean commitment to make those adaptations to the new international context that, although perhaps politically painful, do not entail security risks.* This would both render long-term economic benefits to the region and, by demonstrating a determination to become more self-reliant, significantly further the battle against donor aid fatigue mentioned in item 3. It would be up to the Caribbean societies themselves to decide what adjustments are appropriate, and they obviously would not embrace uncritically the suggestions of outsiders. However, there is already a consensus growing within the region that certain changes, such as adjusting educational systems to suit modern employers' needs and making real progress toward regional integration, would help the Caribbean rise to the challenge of globalization without jeopardizing security.

Because many of the changes will cause social dislocation, such restructuring would need to be accompanied by a genuine and thorough series of grassroots consultations that would include all sectors of civil society. The consultation process would help identify what changes can be made with the least ill effect and, in cases where unpalatable changes appear unavoidable, serve as a conduit for explaining why the measures are necessary.

In some cases, a change required for adjustment to globalization might cause political problems for a given Caribbean government but not create a security problem for the region. For example, a Caribbean country's decision

to allow free movement of labor might sufficiently damage a certain constituency to push a party out of power, but not be dislocating enough to trigger illegal migration or participation in organized crime.

In such a situation, donor members of the Alliance for Stability are likely to resist appeals for funds to resolve the social dislocation that would accompany the proposed change. Unlike their cold war predecessors, donor policymakers are not particularly worried about the possibility that an alternative party might come to power, for there is no rival superpower with which that alternative party might ally. Uncompassionate as it might seem, any U.S. or European leader is going to be reluctant to risk complaints from his or her constituents about an aid decision that is hard to justify in terms of donor national security even if the aid might help resolve the political problems accompanying needed changes in a Caribbean country.

This does not mean that a Caribbean country cannot sometimes choose to sacrifice economic efficiency for the sake of social concerns in a situation where doing so cannot be justified on regional-security grounds. It simply means that such a government cannot expect fellow members of the Alliance for Stability to finance that decision. Demanding aid under such circumstances would simply strengthen the trend toward aid fatigue and make it harder for the Caribbean to obtain assistance for policy decisions that do have a genuine security component.

### **A NEW ERA**

In closing, readers are asked to consider the following proposition. Twenty years from now, the next generation may find it as hard to understand why an "Alliance for Stability" was not established in the Caribbean as we now find it to understand why the Western Allies did not appreciate the danger of allowing the Soviet Union to occupy Berlin in the closing days of World War II. The West was focusing on the most immediate goal--defeat of Nazi Germany as quickly as possible with the minimum loss of European and U.S. lives. Given that goal, letting the Soviets take Berlin was entirely rational. However, in light of the era the world was about to enter, the decision was open to criticism. Similarly, the United States, Europe, and the Caribbean are currently focusing on how to outmaneuver each other in trade negotiations and placate domestic constituencies, with insufficient thought given in many (although not all) countries as to how their economic and security interests are interconnected. It is ironic that Washington, which likes to congratulate itself for being the "victor" of the conflict of the past era, is particularly reluctant to connect economic and security policies in the manner the coming era appears to require. Should the economic problems of the Caribbean create a context increasingly conducive to drug trafficking, other forms of organized crime, environmental degradation, and chaotic illegal migration, by the first quarter of the twenty-first century the failure to establish a Caribbean-focused "Alliance for Stability" may appear as inexplicable as Western complacency over Soviet occupation of Berlin appears to us at the end of the twentieth century.

## APPENDIX I

## LIST OF CONFERENCE PARTICIPANTS

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Young  
President  
West India Committee  
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## APPENDIX II

### IDEAS DEEMED WORTHY OF FURTHER DISCUSSION

When the original draft of the preceding briefing paper was in the research phase, a wide array of individuals in Europe, the Caribbean, and the United States were asked to make consensus proposals that they felt could be supported by all parties involved in the Caribbean. A large number of proposals were made, and though many contradicted each other, all were submitted to the conference participants for consideration. The participants were encouraged to eliminate or modify items on the original list and add new proposals as they saw fit.

In the end, the conference participants concluded that there was not sufficient agreement to identify any consensus proposals as enjoying unanimous support. Some participants profoundly disagreed with one or more items, and many, as government representatives, were not authorized to enter into consensus agreements of any sort. However, the participants did deem a number of ideas "worthy of further discussion." In other words, although all conference participants did not agree with each proposal, they felt each either moved the debate forward in a constructive manner or for some other reason should continue to be discussed. It is expected that these ideas will be reexamined at future Georgetown University Caribbean Project meetings both in Washington and in the region.

#### I. CARIBBEAN ECONOMIC ISSUES: THE INTERNATIONAL CONTEXT

##### A. New Trading Arrangements: Post-Lomé IV, FTAA, and NAFTA Parity

1. Until it is demonstrably proved to the populations of the United States and the Caribbean that free trade will actually benefit them, free trade agreements will face formidable domestic political obstacles.
2. The United States and Europe should coordinate their initiatives on new trading arrangements to ensure there are no disruptive conflicts between post-Lomé IV mechanisms and any FTAA or free-trade enhancement initiatives. The Caribbean region itself should also adopt a coordinated response to new trading arrangement initiatives from extraregional actors.
3. New trading arrangements should ensure that the private sector in the Caribbean receives direct funding, albeit within national priorities agreed between Caribbean governments and multilateral or bilateral aid agencies. This is necessary because the private sector will play a major role in the adjustment of the region to new trading arrangements. It is also worthwhile to remember, however, that private-sector involvement is no guarantee of success, for the private sector also makes mistakes.
4. While the Caribbean has benefited from the economic activities of large enterprises, and there is an ongoing need for such businesses, the region would also benefit from a much stronger base of micro, small and medium enterprises. In addition to promoting such indigenous business, the Caribbean needs programs to attract small and medium-sized investors. The incentives do not need to involve large amounts of money, and they can prove key to a potential investor's decision.

##### B. Divergent Approaches to Trade Liberalization: The Transition from Preferential to Reciprocal Trade

1. The United States should establish an interdepartmental team of mid-level officials from all executive branches of government. Relevant officials in each Caribbean government should be provided with the phone, fax, and e-mail contacts of these U.S. individuals, and vice versa. These connections should serve as an informal "hot line" for crisis preemption. Whenever one of the officials, of Caribbean or U.S. nationality, anticipates a problem or controversy concerning trade liberalization, the informal hot line should be activated.
2. When seeking to help the Caribbean diversify away from preference-dependent activities, the private and public sectors in the United States and Europe should, in addition to maintaining dialogue with Caribbean governments, establish direct contacts with Caribbean businesspeople.
3. It is difficult to impose specific regionwide time frames for the phasing out of preferences due to the region's diversity. A deadline that is fair to one country may be quite unfair to another.
4. The region must be clear regarding that toward which it is "transitioning." For many small Caribbean countries the transition means moving from "certainty to certainty." For example, people will resist abandoning banana cultivation unless there is a secure replacement or substitute crop.
5. The Caribbean has been concentrating on the "future of the economy," when in reality it should concentrate on preparing for the "economy of the future." In addition to worrying about how to salvage existing economic activities, the Caribbean needs to devote as much or more attention to determining what the world "economy of the future" will look like and developing new activities compatible with that economy.

## II. CARIBBEAN ECONOMIC ISSUES: THE REGIONAL CONTEXT

### A. Strategies to Adjust to a Global Market Economy

1. The weakness of the Caribbean private sector is a major obstacle to economic growth and policies to strengthen that sector are required. Governments have a role to play in collaboration with the private sector to encourage new patterns of investment based on creative application of technology.
2. There is considerable room to improve the business climate in the Caribbean without encroaching on cherished values and institutions. The region's leaders need to take more responsibility for making those adjustments that are politically sustainable. Conversely, foreign partners should be sensitive to the domestic pressures that make it extremely difficult to implement some recommended business reforms.
3. Improvement of the quality of the human resource base is essential if the Caribbean is to participate effectively in the global economy. Educational priorities should be adjusted in line with labor-market needs. Computer, science, and mathematics training should be strengthened so that opportunities can be grasped in the information technology age. Education programs also need to keep up with the evolving personnel demands of "niche" tourism and the increasingly sophisticated offshore financial sector.
4. Access to global communications and information networks is critical for supporting the services sector. In this connection, high telecommunications charges are hindering development.
5. In light of the difficulty encountered by countries seeking to export agricultural products to the United States, the U.S. Department of Agriculture should establish a small office at each airport in the Caribbean where such a facility does not already exist. USDA inspection of U.S.-bound agricultural produce could therefore be made before shipment, not only saving freight costs for items turned back, but also improving the flow of information back to the farmer concerning requirements and techniques to meet them.
6. Increased investment is critical to support the adjustment process. In particular, foreign direct investment and the building of cross-border alliances, which lend themselves to transfer of technology and access to distribution channels and markets, are critical to fostering growth in the region.
7. Basic needs programs designed to support the poorer segments of the population as Caribbean countries adjust to the global economy are fundamental for supporting the social fabric and maintaining stability.

### B. Special and Differential Treatment for Small States and Territories?

1. In any discussion of trade liberalization, but particularly in discussions regarding small states and territories, all parties potentially affected by a given policy decision should be consulted and permitted to express their views.
2. Dependent territories and other non-independent Caribbean countries (NICCs) are a "special breed" and are not well understood by the international community. It is assumed that via their relationship with a larger entity they are automatically "taken care of" and do not need to be included in trade consultations. This is inaccurate, and it would be useful if dependent territories and other NICCs could be included as observers in all relevant international trade discussions.
3. Neither per capita income nor absolute size should be used as the sole indicators of which countries deserve aid and which do not. Instead, other factors, such as "Human Development Indicators," should be taken into account. (HDI applies UN Development Program [UNDP] criteria that measure social factors such as educational and health standards.) This would be more fair to those countries and territories in which per capita income is high but wealth is concentrated in one segment of the population. It would also deal fairly with situations in which much of the ostensibly high per capita income is repatriated to residents abroad.
4. One of the major reasons for the political stability of the Caribbean region has been the economic stability in part supported by special and differential treatment in trade and aid arrangements.
5. Trade preferences for small states and territories should not pertain forever and should be gradually dismantled, but this needs to be done in a responsible way involving careful strategic planning, good faith, and establishment of clear objectives and goals.
6. Progress on negotiations concerning preferences is rendered particularly difficult when a private-sector firm or group of firms wields disproportionate influence over negotiators. This undermines the credibility of negotiators and may lead to the neglect of other equally or more important national/regional interests.
7. The United States is concerned that blanket special and differential treatment demanded by an entire group of countries will damage U.S. interests by providing equal benefits for both those countries that genuinely need exemptions to free trade and those that do not. However, any U.S. effort to negotiate special treatment bilaterally with individual Caribbean countries would be rejected by regional leaders fearful of the power imbalance inherent in such a process. Consequently, there is a key role for CARICOM and CARIFORUM in FTAA negotiations. These

organizations could spearhead a multilateral effort in which a regional group negotiates special considerations for a limited, clearly identified, and justified set of countries and/or sectors.

### **C. Regional Integration**

1. It is extremely important that extraregional involvement consistently support regional integration initiatives. If extraregional powers wish the Caribbean region to move more swiftly toward regional integration, they should avoid as much as possible circumventing existing regional mechanisms for communication and negotiation.
2. Regional integration would be facilitated by greater coordination not only between CARICOM, the ACS, and Central America, but also between those groups and the Sistema Económico Latinoamericano (SELA [Latin American Economic System]), the UN Economic Commission for Latin America and the Caribbean (ECLAC), the Organization of American States, the private sector, labor organizations, and nongovernmental organizations (NGOs). However, the region should not establish a new secretariat to accomplish this coordination. Rather, each institution should make a special effort to coordinate more closely with the others.
3. Nonstate actors are capable of playing a major role in regional integration, and should be encouraged to coordinate their actions with integration efforts.
4. It would be helpful to the regional integration process if U.S. government departments themselves were to have an integrated and holistic approach to Caribbean issues, which they currently lack. In U.S. policy-making, a major trip or meeting involving a principal government actor often causes government departments to coordinate their policies more closely. The agreement arrived at during the May 1997 Barbados summit that the U.S. secretary of state will meet annually with her Caribbean counterparts bodes well for future U.S. policy coordination. Additional meetings with similarly high-ranking officials are advisable to build on the policy coordination momentum.
5. Haiti's future relations with the rest of the Caribbean should not be primarily based on Haiti's ability to provide cheap labor. Efforts to integrate Haiti into the region are in the interests of all parties and should be supported.
6. The Dominican Republic is historically, culturally, and economically linked to both Latin America and the Caribbean. Because Central American nations are closer to its size than are Caribbean nations, the Dominican Republic tends to see greater opportunities for free trade with the former than with the latter. However, Dominican initiatives in the insular Caribbean and Central America can be structured in a complementary manner and need not be mutually exclusive.
7. The evolution of U.S. domestic politics and the related reduction of tax incentives for businesses located in Puerto Rico mean the island will have to become more closely connected with the rest of the Caribbean. There are potential mutually advantageous opportunities in Puerto Rican-Caribbean cooperation in the areas of financial services, communications, transportation, scientific research, and engineering. Relations between Puerto Rican NGOs, research organizations, and businesses and their counterparts elsewhere in the Caribbean are already advanced. Paradoxically, these civil society connections are not matched by public-sector involvement in the region.<sup>d</sup>

### **III. SECURITY/STABILITY ISSUES IN THE CARIBBEAN**

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<sup>d</sup>. Although the conference participants did not propose a specific "idea worthy of discussion" concerning Cuba, some participants voiced the opinion after the conference that it was inappropriate to leave Cuba out. Therefore, the author, on her own responsibility, puts forward the following idea, though its "worthiness for discussion" has not been endorsed by conference participants:

European and Caribbean countries maintain that it is their sovereign right to make their own decisions concerning Cuba, and resent U.S. pressure to isolate that country. Washington policymakers, in turn, feel that friends of the United States have an obligation to take into account U.S. concerns on an issue of such importance. Although these two views are unlikely to be reconciled soon, it can be agreed that such tensions over Cuba erode transatlantic and regional goodwill necessary for resolving other matters of perhaps greater mutual concern, and therefore it behooves all parties to devote greater attention to resolving Cuba-policy conflicts.

### **A. Major Security Issues**

1. If extraregional powers invite Caribbean countries to negotiate the manner in which sovereignty and security cooperation will interact, rather than present Caribbean governments with pre-prepared documents, future antinarcotics agreements will be reached with less acrimony than was the so-called "ship-rider" accord.
2. The Caribbean is entitled to request reciprocity in narcotics interdiction and money-laundering agreements (although it must be borne in mind that the Caribbean embraces reciprocity less fully in the trade sphere). Although the United States sees reciprocity in drug interdiction issues as a political rather than a practical issue, over the long term reciprocity will go a long way to reduce the sensitivities aroused by the sovereignty issue.
3. U.S.-European-Caribbean coordination on security matters has improved considerably recently, but still needs to be further enhanced.
4. It will be hard for any extraregional power to engage Caribbean leaders in an ongoing drug interdiction effort if that is the only, or the primary, issue on which communication is established. Drugs collaboration needs to be part of a broader relationship that includes cultural, economic, and political issues. (Participants agreed on this principle, though they disagreed on the extent to which various extraregional powers had already engaged the region in the cultural, economic, and political arenas.)
5. Some Caribbean cultures have a different approach toward marijuana than that of the United States. Though one might not find a given cultural attitude toward marijuana correct, for drug interdiction efforts to be successful there needs to be greater understanding of the cultural and economic aspects of marijuana cultivation and use in the region.
6. Demand reduction both in the United States and elsewhere must be an important part of any antinarcotics effort.
7. The U.S. use of the "certification" procedure needs to be adjusted. Although it is unlikely that the United States will abandon the certification procedure entirely, it is advisable that certification decisions involve a greater degree of multilateral consultation.<sup>e</sup>

### **B. The Interaction Between Caribbean Economic and Security Issues**

1. Economic and security issues in the Caribbean are very closely intertwined. Economic stability may turn out to be even more important for security than political factors, and, indeed, unless consideration is given to the Caribbean's special economic needs, the region's democratic tradition could be threatened. The European Union and the United States cannot realistically expect vigorous Caribbean collaboration on security matters if they do not show consistent and sincere interest in Caribbean economic welfare.
2. There needs to be a new multilateral approach that links economic and security issues. Just as some developed countries have sought to justify on the grounds of national security measures that appear to violate free trade (specifically, the United States has cited national security as justification for aspects of the Helms-Burton law that the EU says violate free trade), it is reasonable for the Caribbean to request exceptions to free trade on security grounds. In order to avoid undermining Caribbean economies in a manner that makes them vulnerable to security threats from international crime, special and differential treatment of Caribbean countries should be permitted in the negotiation of new trading arrangements. Exceptions to free trade should be permitted for a limited duration and in a sectoral manner in the context of transitional aid.
3. Economic difficulties, and particularly high unemployment, lead to social problems that both promote illegal migration and can make certain population sectors susceptible to recruitment by international criminals. Those social problems and their underlying economic causes require more attention and remedies.
4. In some parts of the Caribbean, smuggling has been a recurrent historical tradition, making eradication of smuggling behavior difficult except in the context of new employment opportunities in other sectors and the provision of additional social services.
5. Critical U.S. policy decisions have sometimes failed to reflect the intertwined nature of the economic and security issues of the region, as a consequence of the lead U.S. agency not taking the functional, policy, and political concerns of other agencies into account.
6. The security impact of a phaseout of banana preferences requires intensive study. While some banana-dependent areas will be able to shift to alternative activities, others may encounter grave difficulties. In the latter case, the danger that unemployed banana workers will turn to security-damaging activities cannot be ruled out.

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<sup>e</sup> Although at the conference itself participants did not propose a specific "idea worthy of discussion" concerning deportation of criminals, one participant suggested the following "worthy idea" (which has not been endorsed by the other participants) after the conference:

The United States should slow down the rate of criminal deportations to the Caribbean in order to avoid disrupting the receiving societies.

## APPENDIX III

### TEXTS OF SELECTED CONFERENCE PRESENTATIONS

#### A. Finding a Special Place for Small Caribbean States in the Global Trade Environment

The Right Honourable Baroness Young  
House of Lords, United Kingdom  
17 June 1997

Ladies and gentlemen, it is a great honor and a pleasure to be asked to speak at this important conference. And I would like to begin by thanking Gillian Gunn Clissold for organizing it. This conference is one of the very few occasions in Washington when public and private sector representatives from the United States, Europe, and the Caribbean can meet in private to consider how we might all work more closely together to deepen our cooperation in the future development of the region.

Traditionally, governments have met here to consider Caribbean Basin issues on a transatlantic basis. More recently, they have done so on a multilateral basis, within the Caribbean Group for cooperation in Economic Development, in order to discuss matters of common concern. Rarely do such gatherings have sufficient practical input from members of the business community, from the region, or from Europe and the United States.

I say this because the last few years have been dominated by a recognition on the part of governments that the critical factor for future Caribbean stability will be the region's ability to compete in increasingly liberalized markets and to diversify into new areas of production or services.

Despite this, the commonly accepted belief that the private sector is the motor for development has not been widely reflected in gatherings of this kind. Rather, such meetings have tended to concentrate on issues having to do with security and stability without recognizing that the region's underlying problems could be resolved through the development of sound economic structures within which the private sector can thrive.

This concentration on strategic issues stems from the cold war. Many of the newer ideas on the role of the market have their origins in the thinking of those in government in the United States and in the United Kingdom in the 1980s. They recognized that the process of globalization offered new challenges and opportunity for their own countries and much of the developed world. They also realized that many of the larger nations in the developing world could benefit from such ideas. However, they did not, for understandable reasons, try to relate these questions to small island states that were dependent either on single crops such as bananas or on a service sector such as tourism. And without a sound economic base, countries cannot prosper and thrive. Stability and security are set at risk.

Today, trade negotiations within this hemisphere and with Europe will make urgent the need to determine whether small states are to have a special place in the global trade environment or will be written off as the losers.

I therefore hope that this conference marks the point at which the Caribbean ceases to be seen first and foremost as a security concern. The Caribbean needs a significant period of adjustment during which time its economies can be made more competitive within a multilaterally agreed five-to ten-year framework of special and differential treatment. The Caribbean is not short of ideas on how to achieve this.

By the year 2005, we will all have a better picture of the environment within which the Caribbean will have to live. By then, a post-Lomé arrangement will be put in place and the shape of the Free Trade Area of the Americas (FTAA) will be known. There will, by then, probably be significant changes in the structure of Europe. The balance of power between European Union (EU) member states may have changed and almost certainly the Union will have been enlarged to embrace the now free and independent nations of eastern Europe. A new transatlantic relationship will most probably be emerging as a result of the transatlantic dialogue on trade and other issues. The much deeper EU relationship with MERCOSUR (the Southern Common Market), Mexico, and other important players in this hemisphere, that is now under construction, will be a reality.

The challenge for the Caribbean will be to develop a coherent strategy with a clear objective and time-table in mind. This will not be easy, because the region will have to deal with the complex negotiating processes of both FTAA and the post-Lomé arrangement, as well as responding to significant changes in the transatlantic relationship and the global economic environment. Above all, Caribbean negotiators will have to obtain from Washington and Brussels viable arrangements that ensure a secure economic transition in a manner that also ensures the retention of a high degree of sovereignty. That is something we all want to see. It has been touched on a number of times today.

May I voice my concerns? The first is that the U.S. administration and, to a much lesser extent, some of Europe's member states have not recognized that their present approach may not facilitate this but rather create problems. This may result in high levels of economic and political instability, especially in the Organization of

Eastern Caribbean States—the more so if policies are developed and implemented on the basis of short-term trade advantage or domestic concerns about economic refugees or narcotics interdiction.

If instability occurs in the Caribbean region as a result of poorly thought-through measures aimed only at encouraging trade liberalization, this may well lead to a direct threat to both U.S. and European interests. My fear is that if the United States and Europe do not play a more active role in supporting, on a multilateral basis, a more creative but gradual approach to economic transition, both will lose the economic benefits they derive from the region and may, at worst, come to preside over an area of instability.

What do I mean by this? There are a number of recent developments that challenge the wisdom of the present approach.

First, the Free trade Area of the Americas and any post-Lomé emphasis on eventual full reciprocity may make some of the smallest island states in the eastern Caribbean economically unviable. This is a serious charge. But this policy may result in our having to recognize that these states require permanent, special, and differential treatment. Present U.S. trade policies, especially in respect of bananas, toward the eastern Caribbean are not, if I may say so, in the region's best interest.

My second area of concern is that a precipitate end to existing arrangements for these commodities may cause the region's economies to fail before they can change to newer industries such as tourism, information technology, manufacturing, and the service sector. Bananas, rice, rum, and sugar—through price—are already under threat. If global trade liberalization causes these industries to collapse, it may become impossible to achieve a stable economic transition.

The third area of concern is the isolation of Cuba. This, in my view, is counterproductive, and I base this statement on the three visits I have made to Cuba, the most recent in last October. If the approach of the U.S. Congress causes an implosion in Cuba, the Caribbean and the southern United States will come to reap the whirlwind of refugees, crime, narcotics trafficking, and even terrorism. These are the hallmarks of an unstable or violent transition from a centralized economy. History does not suggest that democracy would rise like Phoenix from the ashes.

On the other hand, despite this, Cuba will in time assert its economic power and together with the Dominican Republic compete aggressively for the market share presently held by the anglophone Caribbean countries in tourism, services, and agriculture.

Fourth, new industries require stability. Tourism (the single largest industry within the Caribbean region), the financial sector, and information-technology-based industries can only flourish and attract investment against a background of economic certainty. Achieving this requires significant amounts of external support.

Fifth, narcotics trafficking and associated criminal activities will fill any vacuum left by collapsed industries.

I therefore believe that the United States and Europe, for reasons of economic and political self-interest, need to develop now new approaches toward the future development needs of the Caribbean in conjunction with the private sector, which whether in the Caribbean, North America, or Europe, has substantial commercial interests at risk.

Specifically, there are number of difficult questions that need urgent resolution, ideally on a multilateral basis, with like-minded Caribbean governments. However, much more needs to be done.

First, the United States needs to consider with the EU how the mechanics of transition within a post-Lomé arrangement and the FTAA can be harmonized. It is in the interests of both the United States and the EU to ensure a coordinated and well-phased economic transition.

Second, there is the need to find ways to foster the growth of newer industries in the Caribbean while broadening the economic base through the creation of schemes that encourage small and medium-size enterprise and microenterprises. In this context, there is the need to develop new financing mechanisms that assist in underwriting economic transition through establishing intermediaries that can work closely with the private sector without the constraints of government.

Beyond this, there is a need to recognize that the British and Dutch dependent territories and the French *départements d'Outre-mer* make these three European nations, plus the United States, special partners in the region. These remote parts of Europe and the territories of the United States offer options that to date have not been explored or understood.

There are also many other areas in which there might be closer cooperation and coordination.

If the Caribbean is truly to benefit from the special relationship it enjoys with both Europe and the United States, there has to be a holistic approach that recognizes that the best prospect for stability lies in working in a consistent manner over a five-to-ten-year period with governments and the private sector in the region to ensure a measured economic transition.

May I end with a personal observation? In the course of twenty or so years in public life, I have seen two occasions when small islands have caused disproportionate and very serious difficulties. The first was the Falklands war. The second was Grenada. Small islands are vulnerable, and the small islands of the Caribbean need and deserve our support.

## B. The Caribbean Security Landscape: A Reality Check

Dr. Ivelaw L. Griffith  
 Professor, Department of Political Science  
 Florida International University  
 18 June 1997

International diplomatic history is replete with blunders that dramatize the veracity of a statement made six decades ago by British statesman Sir Anthony Eden: “There is nothing more dangerous than a foreign policy based on unreality.” Needless to say, this statement holds true for security policy as well. Hence, statesmen and scholars need periodically to undertake reality checks. It is to such a task that I devote my attention.

Meaningful appreciation of the nature of the Caribbean’s security reality obliges us to probe aspects of the context of that reality. Thus, I will extend my remarks beyond *content reality* to *context reality*. Moreover, since this conference is policy oriented, I consider it essential also to suggest a few aspects of the *countermeasures reality*. This presentation, then, would focus on my interpretation of the Caribbean’s security reality in terms of content, context, and countermeasures.

### ***Content Reality***

As we are reminded by Voltaire’s admonition to “define your terms” before engaging in debate or analysis, it is important to clear the definitional minefield as regards the conception of security.

Scholars and statesmen around the world are progressively replacing the traditional realist conceptual lenses used to examine security with other, nonconventional, ones. Yet, for scholars of the Caribbean, nonconventionality itself has long been the convention. Security in the Caribbean has not been viewed merely as protection from military threats. It is not just military hardware, although it involves this; not just military force, although it could involve it; and not simply traditional military activity, although it certainly encompasses it.

For me, and for Caribbean scholars generally, security is multidimensional, with military, political, economic, and environmental dimensions. Moreover, it is not concerned only with protection from actual and potential external threats; the internal arena is very much part of the security purview. Further, the state is not the only unit of analysis. Nonstate actors are equally important. Indeed, some nonstate actors own or can mobilize more economic and military assets than some states in the region.

With security viewed in this way, the nature of the security landscape would be reflective of both traditional and nontraditional concerns. Territorial claims and disputes (notably Venezuela-Guyana, Guatemala-Belize, Suriname-Guyana, Venezuela-Colombia, France-Suriname, Venezuela-Trinidad and Tobago) and geopolitics are the core traditional concerns. Drugs, instability, migration, and environmental degradation are the chief nontraditional bugbears. There is no uniformity in the importance states ascribe to these concerns, but a comparison of the two categories—traditional and nontraditional—would reveal that more countries place a higher premium on the nontraditional area now. Some states, of course, have no traditional security concerns; some also have no overt external threat from other states.

Without a doubt, the foremost nontraditional threat pertains to drugs. What is generally called “the drug problem” is really a multidimensional dilemma with four problem areas: drug production; consumption and abuse; trafficking; and money laundering. Yet the drug phenomenon does not constitute a security matter simply because of these four problem areas. It does so essentially because:

- ◆ These operations have multiple consequences and implications—such as marked increases in crime, systemic and institutionalized corruption, and arms trafficking, among other things;
- ◆ The operations and their consequences have increased in scope and gravity over the last decade;
- ◆ They have dramatic impact on agents and agencies of national security and good governance, in military, political, and economic ways; and
- ◆ The sovereignty of many countries is subject to infringement, by both state and nonstate actors, because of drugs.

A few vignettes will suffice to give a sense of the drama of drugs:

- ◆ Cocaine seizures in 1993 for just five Caribbean countries—the Bahamas, Belize, the Dominican Republic, Haiti, and Jamaica—totaled about 3,300 kilos. The 1995 seizures for those same nations amounted to almost 6,000 kilos—an 82 percent increase.
- ◆ Operation Dinero, an international money-laundering sting operation conducted out of Anguilla from January 1992 to December 1994, led to the seizure of nine tons of cocaine and \$90 million worth of assets, including expensive paintings, one of which was Pablo Picasso's *Head of a Beggar*.
- ◆ In 1995, Puerto Rico had the highest per capita murder rate in the United States, with 64 percent of the 680 murders related to drugs. Murders in 1996 totaled 868, and 80 percent of them were drug related.
- ◆ In June 1993, there was a strange shower over Demerara River in Guyana: 364 kilos of cocaine and twenty-four thousand dollars. The shower came from a plane making an airdrop, part of a Colombia-Venezuela-Guyana-United States drug network.
- ◆ Between 1993 and 1996, more than 5,000 Jamaican deportees were returned to the island, most of them for drug-related crimes committed in the United States, Canada, and Britain. In 1993, the number was 923; in 1996, it was 1,158.
- ◆ Earlier this year, the Netherlands ambassador in Suriname reported to Suriname's foreign minister, Faried Pierkhan, that 195 drug couriers from Suriname were arrested during 1996 at the Schiphol International Airport near Amsterdam, compared to 51 in 1995.

### **Context Reality**

The content reality portrayed above, one with traditional and nontraditional threats and apprehensions, exists within, and in many respects has been influenced by, a larger geopolitical and geoeconomic panorama—the context reality. It is important to examine context reality because context factors influence the nature of the security landscape (the content reality) as well as what can be done about that landscape (the countermeasures reality). Although time precludes extensive commentary on the wider geopolitical-geoeconomic panorama, some aspects must be mentioned.

Part of the panorama is the dramatic change and turbulence that the world witnessed as the 1980s gave way to the 1990s. The collapse of the world communism and the concomitant end of the cold war have seen the bipolar character of global military-political power replaced by the reemergence of a multipolar global system. This post-cold war structural-operational transformation at the global level has at least two major implications for the Caribbean, both of which pertain to the realities of U.S. geographic proximity, economic and military power, and foreign policy and security interests.

The first is that U.S. policy and action toward the Caribbean is now shorn of the previous East-West ideological cloud, thereby altering the character, if not the scope, of U.S.-Caribbean relations. The previous East-West military-political fixation of the United States not only colored its relations with Caribbean countries on a bilateral basis, but influenced multilateral relations as well.

The second implication is related to the U.S. military presence in the region. The nature and scope of the U.S. military deployments and posture in the Caribbean, part of the U.S. geopolitical game plan for countering the former USSR, have already begun to change. This is contributing to a lesser U.S. military presence, reduced IMET (International Military Education and Training program) assistance, and reduced arms supplies and sales to countries that were either U.S. allies in the East-West conflict or considered otherwise important to U.S. national interests. The transfer of responsibility for the Caribbean from the U.S. Atlantic Command (USACOM) to the U.S. Southern Command (SOUTHCOM) on 1 June this year is further evidence of change. This move is a reflection of U.S. budgetary pressures, policy rethinking about matters geopolitical, and cost-efficiency calculations about fighting drugs, which are also a nontraditional threat to the United States.

Allied to the post-cold war military-political changes are alterations in the structure and operation of economic power relationships. The formation of economic blocs around the world is one important manifestation of global economic power alteration. One appreciable consequence of this megabloc phenomenon for the Caribbean is the potential reduction or even loss of economic assistance, foreign investment, and preferential trading arrangements. Regarding the North American Free Trade Agreement (NAFTA), for example, concern was voiced three years ago that the anticipated increase in trade resulting from the removal of trade barriers in Mexico would help displace U.S. trade with Caribbean countries and reduce the benefits of tariff preferences under schemes such as the Caribbean Basin Initiative. The experience of Jamaica and some eastern Caribbean countries regarding the garment industry over the last year suggests that the fears were justified.

In addition to the post-cold war military-political changes and the megabloc phenomenon, another context factor is the policy reevaluation by nations that once considered the Caribbean to be important to them. In tangible terms, reevaluation has meant reduced aid, aid reallocation, preferential trade readjustment, reduced foreign investment guarantees, and diplomatic downgrading of some Caribbean countries. In sum, the Caribbean has

witnessed a diminution in its relative importance. Curiously enough, the only redeeming factor insofar as many countries are concerned is the very preeminent threat that the region faces: drugs. The only “card” the region now has to play is the drugs card. It is precisely the combined effect of this diminished geopolitical and geoeconomic importance and the advocacy of neoliberal international economics (a reflection of changing economic power relationships) that precipitated the action against Caribbean countries in the World Trade Organization (WTO) by the United States and several other countries in the Americas over the EU banana regime.

**U.S.-Caribbean Summit.** The banana conflict notwithstanding, the posture and action of the United States remain an important part of the context reality of the Caribbean’s security, not least because the United States is a critical actor in both the content and the countermeasures aspects of the region’s security reality. The United States is both part of the problem—whether for bananas or for drugs—and part of the solution—whether in giving trade access or in boosting the counternarcotics capability of countries in the region. And in the context of U.S.-Caribbean relations, the 10 May 1997 summit in Barbados deserves to be seen for what it was: a landmark that can set the stage for both the attenuation of problems and the acceleration of assistance.

Since May, several people have asked me whether the summit was merely posturing by Bill Clinton, Owen Arthur, P.J. Patterson, and the other leaders. Was it merely about symbolism, or was there substance?

Summits, even ones involving states with dramatic power disparities such as those represented in Bridgetown, are never about either symbolism or substance. They are always about symbolism and substance, both of which are important in the conduct of foreign and security policy, irrespective of the size of the nations involved. Of course, there are summits where, sometimes by design, sometimes by default, there is so little substance that symbolism is made to become the substance. Thus, the real question about the Barbados summit is, how much of it was symbolism, and how much was substance?

In terms of symbolism, the meeting was significant just in being held: it was the first time that a U.S. president traveled officially to the Caribbean to meet with regional leaders. And Clinton did so despite having to move around on crutches, confounding observers who expected him to postpone that leg of his “trip down South.” To the credit of Clinton and his advisers, the summit involved the leaders of all the independent nations in the area (Cuba excepted, of course) and was not merely with a “representative group,” as was done a few years ago in Washington, which generated considerable resentment within the region—both toward President Clinton and the leaders with whom he had met.

The summit was itself a reality check for Washington, helping it to learn, rethink, and unlearn in its efforts to resolve what appears to be a dilemma that results from the combined consciousness of the importance of hemispheric partnerships and confusion about desired postures toward some states in the hemisphere. But the reality check should have extended beyond the U.S. learning curve. Part of the substance value of the summit should have been its facilitation of an appreciation of the various existing vantage points and definitions of realities, thereby aiding the learning curves of both Caribbean and U.S. statesmen and diplomats.

For the Caribbean leaders, however, there should have been one additional reality check, one directly connected with possible tangible outcomes of the talks: that “checks and balances” in the U.S. political context operate in ways that often affect the president’s ability to offer the kind of assurances and guarantees often thought to lie within the power of the leader of the world’s sole superpower; that Congress, especially one not dominated by the president’s party, is a powerful foreign policy actor, although sometimes a confused one, which is all the more reason that presidents often have to sound and act tentative.

But the substance of the U.S.-Caribbean summit goes beyond this to its two main products: the Partnership for a Secure and Prosperous Caribbean and the Plan of Action. The Plan of Action is the more substantive of the two. It deals with two clusters of issues: trade, development, finance, and the environment, and justice and security. Some things in the thirty-page Plan of Action hinge on U.S. congressional action, but there is also considerable scope for the executive branch to initiate and to deliver on its own and thereby testify that substance—and not merely symbolism—was both part of the summit game plan and its endgame. Indeed, the Clinton administration’s submission to Congress of a draft Caribbean Basin Trade Enhancement Act yesterday (17 June) is evidence of both summit follow-up and summit substance.

Both in symbolic and substantive terms, and for both the United States and the Caribbean, the Barbados summit pointed to the utility of multilateralism, and to the necessity for nations in the hemisphere to act collectively to deal with common problems and challenges. It also signals a new phase in U.S.-Caribbean relations. Pragmatism should be a core element of the new U.S.-Caribbean matrix, though. For not only can unrealistic expectations of the fruits of multilateralism be dashed—and for a variety of reasons—but it would be foolhardy for Caribbean leaders to think that this “new” multilateralism will witness an abandonment by the United States of unilateral or bilateral action in the region, or in the hemisphere. U.S. national interests do not permit such. And Caribbean leaders should be mindful that people who make and execute U.S. foreign and security policy pay obeisance to the words of

General George Washington, uttered in 1778: “It is a maxim, founded on the universal experience of mankind, that no nation is to be trusted farther than it is bound by its interests, and no prudent statesman or politician will venture to depart from it.”

It remains, then for us to examine a few aspects of the countermeasures reality.

### ***Countermeasures Reality***

Given the nature of the region’s security landscape and the hemispheric and global context in which it exists, the countermeasures reality is one in which countermeasures have to be multidimensional, multilevel, and multiactor.

In relation to drugs, for example, they need to be multidimensional because drug operations and their impact are multidimensional, multilevel (national, regional, and international) because drug operations and many of the problems they precipitate are both national and transnational, and multiactor for the two above reasons plus the fact that states lack the necessary individual capabilities to meet the threats and challenges facing them. Hence countermeasures need to see the reaction and proaction not only of governments, but also of corporate bodies, nongovernmental organizations, and international governmental organizations, and international governmental organizations, such as the Caribbean Regional Security System (RSS), the Organization of American States (OAS), and the UN International Drug Control Program (UNDCP).

Insofar as regional and international cooperation are concerned, there are some subtextual realities that warrant consideration. Some of them surfaced within the region over the past year as Caribbean countries engaged in antidrug partnerships with the United States. One of them was mentioned earlier, but in relation to the United States.

Caribbean leaders should recognize that the adoption of multilateral security measures does not preclude the adoption of bilateral measures. Indeed, bilateral measures may very well be more desirable from the standpoint of political expediency, given that generally they can be designed and implemented more quickly, which means that policymakers can showcase their efforts to “solve” problems and “get results.” Moreover, from a bureaucratic standpoint, there may be budgetary imperatives to act quickly; “if you don’t use it, you’ll lose it,” as is said in the public policy world.

However, this very reality makes it incumbent on policymakers to:

- ◆ Determine what combination of measures best suits their national interests, bearing in mind the nature and salience of the threats/issues, their capabilities, the efficacy of proceeding individually or collectively, and the time factor;
- ◆ Pursue bilateral measures that do not contradict or undermine multilateral efforts initiated earlier (of course, there is the right to revisit multilateral game plans); and
- ◆ To be cognizant of the institutional capacity requirements of initiating numerous bilateral mechanisms or several combinations of bilateral and multilateral ones, considering that bilateral and multilateral initiatives outside the security area will also have been initiated and be in need of implementation.

It should also be remembered that the necessity for cooperation should not mask the reality that cooperation often carries the germ of conflict—conflict in relation to capability and sovereignty, among other things. The capability challenge does not arise merely because of the actual money, equipment, and other constraints. It does so also because inherent in the capability disparities of cooperating states is the need for those with less limitations to give relatively more to the cooperative effort. This is not always achievable. Sometimes political leaders in the relatively better-off states in the partnerships are unwilling to commit to collective efforts because they are unsure that there will be commensurate national interest returns. Often, domestic factors, such as political leadership changes and public opinion, make it difficult for states to honor pledges or to make new commitments.

As regards sovereignty, the capability disparities among countries in any group themselves are a reflection of power asymmetries within the group. Sovereignty tends to be more closely guarded by the smallest and least powerful states in a group, for understandable reasons. Thus, it behooves the larger partners to be mindful of sovereignty sensibilities in dealing with the group, in relation to both project decision-making and implementation.

### ***Conclusion***

For all this, though there is a supreme challenge facing the Caribbean as we head into the new century: the survival of some of its states as political and economic entities with more than just a mere modicum of sovereignty, as more than security basket cases.

In July 1984, Sir Shridath Ramphal, former Guyanese foreign minister and Commonwealth secretary-general, made an observation in addressing the Commonwealth Study Group on the Vulnerability of Small States in London that still aptly captures the reality of Caribbean and other small states: “Sometimes it seems as if small states were like small boats pushed out into a turbulent sea, free in one sense to traverse it; but, without oars or provisions,

without compass or sails, free also to perish. Or perhaps, to be rescued and taken aboard a larger vessel." For some Caribbean nations, a critical question in the new century will be, what will be that larger vessel?

### **C. Helms-Burton and Its Aftermath**

The "Cuban Liberty and Democratic Solidarity (Libertad) Act" (often called "Helms-Burton") became law on 12 March 1996. (The text of this legislation is available on the Internet at <http://www.usia.gov/regional/ar/us-cuba/libertad.htm>.) Although President Clinton and moderate elements in Congress had initially expressed concern about the impact of Helms-Burton on relations with allies, domestic outrage triggered by the Cuban Air Force's 24 February 1996 shooting down of two civilian U.S. planes led to the bill's swift passage. Titles I and II of the law specify the conditions under which the United States would recognize a future government of Cuba and establish guidelines for provision of future assistance. These provisions have been criticized on the grounds that they condition aid and recognition on Cuban policy changes that should be decided by the island's people and because they prohibit improved relations with any Cuban government that includes Fidel or Raúl Castro.

President Clinton has repeatedly suspended Title III of the Act, which permits suits against foreign firms deemed to be "trafficking" in Cuban property that was confiscated from U.S. citizens or from Cubans who subsequently became U.S. citizens. Each suspension is only valid for six months, and at the end of each period a new waiver is required. The president must certify that such a waiver is in the interests of promoting democratic change in Cuba. The most recent waiver was signed on 16 January 1998.

Title IV requires the U.S. authorities to deny visas to executives of such "trafficking" firms, as well as their families. To date, only a small number of executives have been denied visas, and there is growing pressure from the conservative element of the Cuban American community to enforce the provision more strictly.

Europe and Canada, as well as many Latin American countries, have vigorously protested the Helms-Burton law. Caribbean leaders voiced their disapproval at the May 1997 Barbados summit with President Clinton, and recently there have been increased diplomatic contacts between Cuba and its Caribbean neighbors. CARICOM is considering a proposal to establish a free trade agreement with Cuba, although several CARICOM members seem apprehensive about U.S. reaction. The late July 1997 introduction in the U.S. House of Representatives of a bill to withhold foreign assistance to Caribbean Basin Initiative (CBI) countries that support CARICOM-Cuba links suggests that the apprehension may be justified, although as of the time of writing there was no indication that the bill would pass.

### **C. Exclusion of Non-Independent Caribbean Countries**

From the FTAA Process by Dr. Carlyle Corbin  
Representative for External Affairs of the U.S. Virgin Islands and Chairman of the "Working Group of  
Non-Independent Caribbean Countries" of the Economic Commission for Latin America and the  
Caribbean.

In spite of the vibrancy of the economies of the Non-Independent Caribbean Countries (NICCs), concern has consistently been expressed over the present exclusion of these countries from the FTAA process, resulting in a significant part of the regional economy being omitted from hemispheric trade liberalization and other integration activities currently under way pursuant to the multifaceted plan of action of the Summit of the Americas.

The NICCs comprise over 4 million people with combined GDP exceeding \$30 billion, almost double the GDP of twelve independent CARICOM states (excluding Suriname) of \$15.8 billion. Further, although many of the Caribbean independent countries are making the difficult transition to more service-oriented industries such as financial services and tourism, this transition has progressed most rapidly in the NICCs, many of which have achieved virtual self-sufficiency.

If a Free Trade Area of the Americas emerges that excludes the NICCs, it would have an adverse effect on the continued competitiveness of NICC economies. The inclusion of these countries would serve to increase the likelihood of success of the FTAA.

As democratically elected governments, these NICCs are often projected to the international community as "essentially self-governing," but ironically it is their very lack of sufficient political autonomy is being used to preclude them from the FTAA and other Summit of the Americas activities.

Accordingly, the elected leaders of the NICCs have called for NICC participation in the FTAA deliberations and other Summit activities. They have requested observer status in the high-level meetings and conferences, the standing working groups, and meetings of the ministerial and vice ministerial bodies. This is

consistent with their formal association with a number of hemispheric and regional organizations, including the Economic Commission for Latin America and the Caribbean, the Caribbean Development and Cooperation Committee, the Pan American Health Association, the Caribbean Community, and the Association of Caribbean States.

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### Introduction

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