

# Can the Windward Islands Survive Globalization?

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## INTRODUCTION

“**M**aybe these islands just can’t sustain a real economy anymore. Maybe we will all have to move abroad and make enough money that we can have vacation houses here and come back for holidays.”

These sentiments, expressed by a Windward Islands export promotion specialist, parallel those of a British diplomat. “We have to start to ask ourselves,” he remarked, “if the only solution might be for the U.S. to hand out green [resident alien] cards to the populations of those Caribbean countries that can’t adjust to globalization.”

Both proposed solutions are equally unfeasible. No country has been depopulated other than by violence, natural disaster, or disease in the modern era, and the United States is unlikely to hand out resident alien cards freely. However, the two remarks do exemplify the despondency that occasionally overwhelms observers of the Windward Islands’ efforts to adjust to globalization. The small size, geographical isolation, and limited natural resources of these four eastern Caribbean countries—Dominica, Grenada, Saint Lucia, and Saint Vincent and the Grenadines—make coping with the challenges of free trade excruciatingly difficult. These islands are also held back, both internal and external critics claim, by an antientrepreneurial “culture of entitlement” entrenched during three decades of preferential trade with Britain, the former colonial power.

Yet if solutions are not found, if the populations rendered jobless by the competitive pressures of free trade do not find legal employment in their home region, the implications for these and neighboring societies are ominous. Not only will job-seeking residents travel, legally or illegally, to nearby countries (including the United States), but drug traffickers in the supplier countries to the south and the consumer countries to the north will find it increasingly easy to tempt income-hungry Windward Islands private citizens, government officials, and companies into illicit activities. Similar, if less visible, threats are posed by organized crime strategists and others looking for remote, laxly regulated financial centers in which to launder profits.

Over the long term, the penetration of Windward Islands societies by criminal elements could threaten these nations’ democratic systems and reputations for stability, rendering it difficult if not impossible to reestablish legitimate economic activities in the future.

This paper explores some possible solutions to the challenges facing these four countries, including agricultural diversification, information technology, financial services, and tourism. It concludes with a look at the possible consequences of failure and some musings on the implications of events in the Windward Islands for the long-term sustainability of globalized capitalism.

## THE PROBLEM

The single most pressing problem for the Windward Islands is the phaseout of banana trade preferences by the European Union (EU). Over the last six years, the World Trade Organization (WTO) has consistently upheld the U.S. position in Washington's suit against the EU's preference system.

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The Windward Islands have historically been dependent upon a succession of single crops, suffering dislocations as shifts in world trade have rendered each in turn uncompetitive. The islanders began to cultivate bananas as the sugar industry declined in the mid-nineteenth century. From the outset, the banana industry evolved in a protected environment, benefiting from British support.

The current round of banana problems began as an intra-European conflict. As the EU moved toward a single market in 1993, the interests of those European countries which provided trade preferences for banana imports from former colonies (Britain, France, and to a certain extent Spain) conflicted with the concerns of Germany and a few other northern European states that traditionally imported cheaper, blemish-free (although some would argue less tasty) Latin American bananas (colloquially termed "dollar fruit"). Britain was particularly concerned about protecting its Caribbean banana arrangements. Caribbean farms are small (mostly two to five acres), unmechanized, largely unirrigated, mountainous operations employing primarily family members as labor. Latin American farms are large, highly mechanized, flat plantations run by major multinational corporations and employing cheap peasant labor. Consequently, the production costs for Latin American bananas historically have been about half those of their Caribbean counterparts.

As those European countries providing preferences prepared to merge their markets with those buying nonsubsidized Latin American bananas, an effort was made to accommodate the conflicting interests of shippers, importers, and consumers in both sets of European nations. The solution involved a complex system of licenses and quotas whereby importing a given amount of low-profit-margin Caribbean fruit gave one the right to import a certain amount of high-profit-margin dollar fruit. In addition, EU importation of dollar bananas was effectively limited to 2 million tons per year. Most important, 30 percent of the rights to import Latin

American bananas were transferred from the U.S. companies that traditionally handled these products to trading organizations in the EU and their ex-colonies in the African, Caribbean, and Pacific (ACP) regions.<sup>1</sup> In the words of Paul Sutton, one of the foremost experts on banana-trade issues, "The rationale [was] that this would act as a cross-subsidy to improve the viability of. . . operations with respect to ACP/EU bananas."<sup>2</sup>

Predictably, consumer prices in those European countries which traditionally imported dollar fruit went up, and the EU now pays 39 percent more than the world average for its banana imports.<sup>3</sup> Although the new arrangement preserved some degree of preference for Caribbean bananas, it was somewhat less beneficial for the region's producers than the previous bilateral preferences.

The two U.S. firms that are major players in the global banana trade, 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. Chiquita did not, and its EU market share dropped from 25 percent to 18.5 percent between 1991 and 1994.<sup>4</sup>

In September 1995, following a request by Chiquita, the Clinton administration brought a WTO suit against the EU preferences. Chiquita had donated generously to the Clinton campaign, and some observers believe this accounted for the administration's action. In April 1997, the WTO ruled in favor of the U.S. position and struck down an EU appeal five months later. Europe was given until January 1999 to come up with an alternative system compliant with WTO rules. The Caribbean was not particularly happy with the arrangement eventually presented by the EU, because it subjected their bananas to much greater price competition from Latin American fruit.

The revised EU preference system was then immediately challenged by the United States, which claimed that it was causing US\$520 million a year in damage to U.S. companies. Washington began to establish retaliatory tariffs of up to 200 percent on a number of EU products sold in the United States. In April 1999, the WTO ruled that the new EU arrangements did not comply fully with WTO rules, although it reduced the amount of retaliatory tariffs that Washington could impose to US\$194.4 million. Since then, the EU and the United States have proposed and counterproposed a variety of mechanisms to resolve the dispute, but none have been approved by both parties. Under the latest (December 2000) EU proposal, banana import rights into Europe would be granted as

ships arrive at port, in what has been described as a “first come, first served” system, with quotas remaining in place. Caribbean countries have opposed the idea. In December 2000, Byron Blake, an assistant secretary-general of the Caribbean Community (CARICOM), remarked that “this is bad news for us, very bad” and predicted that ships from Latin America would make it first to the EU.<sup>5</sup> As of late December 2000, Washington’s position was that there was “no circumstance” under which a first-come, first-served system would be acceptable to the United States.<sup>6</sup>

Some observers wonder why the United States has been so insistent on challenging European preferences, when in 1997 the Caribbean accounted for just 0.35 percent of world banana production and just 3.8 percent of European banana imports.<sup>7</sup> Although Washington’s stand may initially have been instigated by concern for the welfare of an important U.S. corporation (and Clinton campaign contributor), the banana suit soon evolved into a symbolic assertion of the United States’ ability to defend its interests in the new globalized economic order, and thus took on political weight out of proportion to the actual commercial interests at stake.

This analysis is supported by U.S. negotiator Peter Scher’s April 1999 argument before the WTO, in which he said that the U.S. complaints had been brought to ensure that WTO rules would be respected and that the WTO would not lose its credibility as a mechanism to halt protectionism. Shortly thereafter, David Jessop, executive director of the (EU-affiliated) Caribbean Council for Europe, noted that the statement was “eerily resonant of the language being used by NATO over Serbia” and added, “In other words, Scher was confirming that bananas were never the issue.”<sup>8</sup>

As it became increasingly clear that the WTO would rule in favor of Washington, a backlash against the United States developed in the Caribbean’s banana-growing countries. There were calls for a boycott of goods originating in the United States and popular demands that drug-enforcement cooperation with Washington be canceled. (Indeed, in early March 1999 the CARICOM heads of government meeting in Suriname agreed to “immediately review the Bridgetown Accord [which includes a commitment to increased antinarcotics collaboration] to determine the basis for continued cooperation.”)<sup>9</sup> Renwick Rose, the coordinator of the Windward Islands Farmers’ Association, stated that “The WTO challenge is not about bananas. It is about U.S. domination over the rest of us.”<sup>10</sup>

Perplexed by the vigor of the anti-American sentiment generated by the banana issue, U.S. representatives made some conciliatory gestures. After the April 1999 WTO decision, in words clearly meant to assuage Caribbean feelings, Peter Scher remarked, “The United States remains open to a negotiated resolution. Our conditions remain simple—a WTO consistent regime and one that enables vulnerable Caribbean countries to continue to export their bananas.” (Of course, this may be impossible. Once the WTO-incompatible license provisions are eradicated, European importers may well lose all incentive to import the more expensive Caribbean fruit.)<sup>11</sup>

European negotiators, in turn, continued to point out the harm being done to “small Caribbean farmers” by “pro-big business” U.S. policies. Their argument had more than a grain of truth, but it was also self-serving. Only about 10 percent of the subsidy entailed in the preference system actually goes to producers. The rest is absorbed primarily by European middlemen, wholesalers, and retailers, whose profit margins are twice those of U.S. retailers. Editorials and opinion pieces in the London-based *Financial Times* newspaper have highlighted this fact. The toughest of these commentaries was perhaps provided by columnist Martin Wolf, who wrote on 24 March 1999:

Anybody who argues that the best way to help a group of developing countries is for the EU to bear a consumer cost of at least \$2 billion, transfer \$1 billion to a few trading companies and provide benefits of under \$200 million to the favored countries has some screws missing.<sup>12</sup>

An editorial leader published two weeks later by the same paper remarked, “the U.S. has been influenced by one dominant banana distributor and the EU by its fruit traders; [it is] a straight commercial conflict. . . .”<sup>13</sup>

As this paper went to press, another problem emerged for the Windward Islands. In late 2000, the EU made a controversial offer to accept “everything but arms” from forty-eight least developed countries (LDCs), without imposing either quotas or tariffs. According to a statement issued by the embassies of the Windward Islands and other eastern Caribbean countries, “with the market already over-supplied, any further increase in imports would aggravate the situation, leading to price deterioration and . . . loss of income and even of the market itself.”<sup>14</sup> In addition to the obvious impact on bananas, Caribbean sugar and rice exports to the EU would also be affected.

## CONDITIONS IN THE WINDWARD ISLANDS

While the United States and Europe have been occupied in blaming each other for the banana war, the Windward Islands have suffered. According to the Eastern Caribbean Central Bank, as of 1993, when European preferences began to decline, bananas accounted for 34.96 percent of total Windward Islands exports. By 1997, this figure had dropped to a still hefty but significantly reduced 27.78 percent. The number of active farmers in the four islands fell by almost a third from 1993 to 1998, while revenues from banana exports fell by 32 percent.<sup>15</sup> Banana exports fell an additional 4.1 percent by weight in the first half of 1999. As of February 2000, only a third of the Windward Islands farmers cultivating bananas eight years earlier were still in the sector.<sup>16</sup>

The social impact of these economic developments is now becoming apparent. As of 1995, about a third of total employment in Dominica, Saint Lucia, and Saint Vincent and the Grenadines was still banana related,<sup>17</sup> and therefore about a third of these countries' households are or soon may be experiencing significant dislocation. Saint Lucia experienced two episodes of social unrest, in 1994 and 1996, as farmers reacted to prices that were dropping below the cost of production. Unemployment in Saint Lucia and Dominica is estimated at between 15 and 20 percent<sup>18</sup>; in Saint Vincent and the Grenadines the official figure is 30 percent but the actual percentage could well be much higher.<sup>19</sup> Under these circumstances, drug trafficking is becoming an increasingly tempting option.

Moreover, the impact of the loss of preferences is likely to extend to the portion of the Caribbean in which banana growing is not a major activity. Hubert Hughes, chief minister of the relatively prosperous British overseas territory of Anguilla, remarked in April 1999:

To allow them [the Americans] victory would have a knock-on effect across the Caribbean. Higher unemployment would see people coming to islands like this where there is high employment—but not enough for job seekers from across the region.<sup>20</sup>

While the banana crisis was evolving, the Windward Islands also found themselves losing leverage with the developed world in aid negotiations. Since 1975, the European countries have provided aid to their ex-colonies in the ACP regions via a succession of Lomé Conventions. With the end of the cold war, however, newly democratizing (and newly capitalist) countries of eastern Europe began to compete with the Caribbean for aid funds. Simi-

larly, during the cold war the Windward Islands could trade strategic location and anticommunist United Nations votes for aid funds. In the post-cold war period, these bargaining chips held far less value, and in the mid-1990s the U.S. Agency for International Development closed most of its programs in the Windward Islands. At a May 1997 summit in Barbados, the United States did promise additional aid to the Windward Islands and four months later announced a US\$4.7 million aid package to facilitate economic diversification.<sup>21</sup> However, these funds have been disbursed remarkably slowly. In September 1997 the EU funded a major recovery program for the Windward Islands and in 1999 provided additional resources to assist the region's banana industry.<sup>22</sup>

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Windward Islands efforts to adjust to these challenges have been hampered by more than the physical factors of small population, limited land area, geographical isolation, poor infrastructure, and modest natural resources. Perhaps even more seriously, the islands have been held back by such psychological factors as a tradition of expecting answers to problems to be provided by outside powers, unease with risk-taking in business, and their own (and their larger Caribbean neighbors') reluctance to move rapidly to form a single Caribbean market capable of driving tough bargains in the world's increasingly bloc-structured trade negotiations. Moreover, political parties in the Windward Islands (as in other countries struggling with globalization) have developed constituencies whose interests would be gravely threatened by internal economic reform. Even leaders fully aware of the need for radical change are reluctant to venture too far ahead of their political bases.

## AGRICULTURE

Because it appears increasingly unlikely that the banana war in the WTO will be won by the Windward Islands or their European allies, the region must both increase the efficiency of its banana industry and diversify its agricultural sector. These goals, however, are turning out to be extremely difficult to accomplish.

### **Legacy of the Past**

In 1993, when Windward Islands bananas first began to be exposed to international competition,

the difference between Caribbean and Latin American production costs were huge. For example, it cost Vincentian farmers 73 percent more to produce a forty-pound box of bananas than it cost a Latin American producer.<sup>23</sup> Although Windward Islands banana quality has improved and production costs have dropped somewhat since then, in the year 2000 both remained significantly behind the standards set by Latin American competitors.<sup>24</sup>

A number of factors contribute to the Windward Islands' low productivity. A large part of the cost-of-production disparity is due to the difference between Windward Islands and Latin American wages (labor makes up a little more than half of Windward Islands production costs).<sup>25</sup> Furthermore, most Windward Islands farms produce eight to ten tons per acre, compared with an average twenty tons per acre in Latin America.<sup>26</sup> The majority of farms on the islands are between two and five acres in size, hindering any exploitation of economies of scale. Cooperatives, a mechanism that has overcome this problem elsewhere, have largely failed in the Windward Islands. In part this may be due to a tradition of fierce commitment to individual enterprise (a local saying asserts that "a partnership is a leaky ship"). Another factor, according to at least one farmer with experience in failed cooperatives, is that if members of the cooperative are not allied with the same political party, they tend not to work well together.<sup>27</sup>

Steep terrain also hinders banana-farming efficiency. Many of the roads in these islands are only one lane wide, poorly paved or unpaved, and so twisting that some visitors have to take antinausea pills to traverse them. Poorer farmers are relegated to areas with no roads whatsoever and share the travails of a group of Vincentians who term themselves "Women in Agriculture Lauders Group" (Lauders is a village in Saint Vincent and the Grenadines). "We have to carry the bananas on our heads down steep trails. Inevitably, they get bruised," a representative commented to the author in April 1999.

Banana farmers have long been bedeviled by lack of credit. Traditional financial institutions usually require evidence of creditworthiness that the average farmer simply does not have. Although various funds have been set aside for microenterprise development, farmers who are nominally eligible for such funds often have great difficulty in obtaining them, especially if they lack the appropriate political or personal connections. Even when loans are made, the local financial institutions often manage them in a heavy-handed fashion. In the words of a Dominican observer,

The private sector is full of shop keepers, not entrepreneurs. They are all involved in distribution and not in production. Banks and businessmen reject investment opportunities not because of risk but because of sluggishness. In many cases, they will reject a flawed but fundamentally sound business plan rather than help the person develop it. Creditors also fail to be pro-active once the loan is given, often preferring to foreclose rather than provide advice and assistance to struggling businessmen.<sup>28</sup>

Yet another problem is a shortage of affordable labor. Traditionally, farms have been cultivated with family labor, but as educational levels have risen the younger generation has sought more lucrative employment. The expansion of the tourism industry and the related construction boom have provided particularly stiff competition, offering wages that small farmers cannot match.

Moreover, the long era of subsidies has promoted inefficient business habits on the part of farmers. From the beginning of the banana industry until the mid-1990s, inputs such as fertilizer, pesticides, and packing boxes were provided at subsidized prices by the Banana Growers Associations (BGAs), which were established during the colonial era as nonprofit "mutual assistance" organizations. The BGAs purchased fruit from the banana farmers at prices that were guaranteed and stable, and their quality demands were lax. Many farmers did not keep track of input costs and treated cash flow as profit, setting nothing aside for future repairs or improvements. In fact, when the previously mentioned group of women farmers in Lauders actually calculated their costs (including the cost of their own labor at the average hourly manual-labor rate) for the first time, they discovered that they were losing money with every box of bananas they delivered.<sup>29</sup>

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Being nonprofit organizations, the BGAs were expected to use any surpluses generated from banana exports for the benefit of the farmers. When banana prices were good, the BGAs used their surpluses to subsidize inefficient farmers. When prices declined, those subsidies continued, placing the BGAs ever deeper in debt. This helps explain why from 1989 to 1995 the Saint Lucia BGA spent slightly more per pound of bananas that it exported than it received, thus losing money. Because the

governments guaranteed the BGAs' debts, some of these associations acted as if they had an infinite supply of blank checks.

The manner in which some BGAs recouped input costs nicely illustrates their attitude. Until recently, farmers could acquire banana packing boxes from the BGAs at no cost and then use the boxes however they wanted, be it for banana exports or something else. When the BGA purchased a farmer's crop, it deducted from the payment an amount per exported box to compensate for previously supplied inputs. Therefore the farmer who acquired a hundred boxes and used them all to export bananas was subsidizing the farmer who acquired a hundred boxes and used eighty of them in his henhouse.

Although many of these problems have been recognized and are now being addressed, they have left a legacy that impedes the development of entrepreneurship. Furthermore, because the banana industry was one of the largest employers in each of the Windward Islands, the BGAs acquired sufficient political power to dissuade would-be reformers from challenging them. The associations developed paternalistic attitudes, sought to keep the maximum number of farmers beholden to them, and had little regard for efficiency or the need to reward the most capable. The BGAs did not regard it as being in their own interests that farmers become independent-minded, innovative problem-solvers—the mentality now required for survival in the new globalized era.

### Efforts to Increase Efficiency

As preference erosion became first a threat and then a reality in the 1990s, the Windward Islands banana industry made technical and policy innovations to enhance efficiency and quality.

The two primary technical adjustments involve irrigation and tissue culture. In much of the banana lands, yields are good during the wet season and poor during the dry season. These fluctuations coincide unfavorably with cycles in international banana prices. The abundant wet-season bananas hit the market when prices are low, whereas supplies are limited during the dry season when prices are higher. In the mid-1990s, experimental irrigated plots produced yields of twenty-five tons per acre, triple the Windward Islands average. The EU is now financing the installation of irrigation on a mass basis, initially focusing on the well-drained soils of Saint Vincent.

However, doubts have been expressed about the program's success. Some agronomists believe that the most appropriate irrigation technique is the

Israeli system of waist-high metal nozzles, but EU procurement rules prevent the use of equipment originating in Israel. Therefore, perforated drip irrigation hoses have been installed that are vulnerable to damage by farmers' machetes. Farmers who have received the equipment are worried about how to pay for its maintenance. In terrain with poor drainage, irrigation can sometimes make things worse, because accidentally overirrigated banana plants quickly rot.

In addition, there are complaints that larger farms and proprietors with political connections have received more than their fair share of irrigation facilities.

The other technical innovation, tissue culture, has disadvantages too. Mature plants grown from these laboratory-cloned seedlings can produce extraordinarily high yields, as much as double those of conventional plants. Tissue-culture banana plants require much more tending than their more robust relatives, however, and initially produce a crop only every nine months. Because most small banana farmers have come to depend on the weekly income from their consistently yielding conventional plants, they find the required economic adjustment difficult. A Vincentian small farmer who had experimented with and then abandoned tissue culture remarked, "They may do well in a plantation situation, but they really aren't suited for our conditions."<sup>30</sup>

The policy reforms have also had a rocky road. As preferences declined, the Windward Islands began a certification program to provide incentives to those capable of producing higher-quality bananas. If sufficient quantities of quality bananas were available, direct contracts could be signed with European supermarkets, which pay as much as twice the price offered by the traditional wholesale buyers.<sup>31</sup> In order to be certified, a farmer had to

- consistently receive a 90 percent or higher quality score for his produce;
- remove all debris from his fields (including dead vegetation and discarded plastic bags used for protecting plants from insects);
- build a packing shed with a metal roof;
- dig a pit into which to dump waste water from the banana washing process.

Once certified, the farmer was entitled to a higher payment per box (if quality scores dropped, the certification could be revoked). The precise mechanism varied by country. In Saint Vincent and the Grenadines, premium noncertified fruit received ten Eastern Caribbean (EC) cents more per pound than nonpremium, while premium fruit

from certified growers received an additional nine cents per pound as well.

Reaction to the certification scheme was mixed. Although the price for a certified crop was higher, many farmers found the difference insufficient to offset the costs of qualifying for certification. In particular, paying the labor costs for field cleanup and shed construction was beyond the means of many small cultivators. Predictably, there were accusations of political bias in certification decisions and allegations that large farmers were being favored.

Certification and the policy of paying higher prices for quality produce also brought into the open the unresolved question of whether the institutions in the banana industry had primarily social or economic objectives. In Saint Lucia, where the BGAs had a populist history, a premium of ten EC cents per box was initially introduced for high-quality bananas, financed by the higher price paid by the supermarket buyers. However, the distress of those not enjoying the price premium helped bring about a change in BGA leadership in 1996. Shortly thereafter, the premium was reduced to three cents per box, with the remaining seven cents used to subsidize growers of lower-quality fruit. Not surprisingly, deliveries of high-quality bananas declined and the ability to fulfill supermarket contracts was compromised. Eventually the full ten-cent quality-fruit premium was restored.

Although the conflicts between high- and low-quality banana farmers did not reach such a pitch in the other Windward Islands, Saint Lucia's problems illustrate a social strain running through the entire region. Many banana farmers believe that everyone should be paid equally regardless of results. Banana payments are seen almost as a social right, and politicians who challenge that assumption are fearful of electoral punishment.

The other policy innovation, BGA privatization, ran into controversies with similar roots. Governments decided that in order to stop the budget-hemorrhaging loan guarantees and to encourage a more efficiency-oriented outlook, the BGAs should be converted into normal private companies. There was much argument about who should pay the old BGAs' debts so that their privatized successors could start life with a clean slate. Many farmers believed that the debts had nothing to do with them and that they should not be required to contribute to their repayment.

There was also tension over voting rights as privatization plans were drawn up. Some high-yield farmers wanted voting power to be distributed according to production, whereas others,

including many low-yield farmers, wanted one vote for each farmer. The former category tended to be dominated by large farmers, and the latter by small ones. Farmers with high production levels asserted that one-vote-per-farmer would simply lead to the same cross-subsidies from efficient to inefficient as before.

Compromises were reached in most of the BGAs, but in Saint Lucia some of the more efficient farmers split off and formed their own banana marketing company. The Saint Lucia BGA (SLBGA) and the breakaway Tropical Quality Fruit firm became bitter rivals and developed opposing political allegiances. Subsequently, the Agricultural Commodities Trading Company (ACTC), led by a former SLBGA general manager, also began marketing Saint Lucian bananas. Then the SLBGA (renamed the Saint Lucia Banana Corporation [SLBC] after privatization) split yet again and a fourth marketing entity, the Banana Salvation Company, was established.<sup>32</sup> Complicating the situation even further, in early 2000 the SLBC decided to stop selling bananas via the regionwide exporting company, WIBDECO (Windward Islands Banana Development and Exporting Company), undermining the latter's ability to negotiate with buyers.<sup>33</sup> Political differences, personality clashes, contrasting leadership styles, and outright opportunism have all contributed to this confusing scenario.

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Although there are considerable differences of opinion about how best to enhance banana industry efficiency, all experts seem to agree on one worrisome conclusion: only about half of the region's farmers will be able to produce bananas of sufficiently high quality and low price to survive in the new globalized market conditions. What, then, is to be the fate of the rest?

### **Diversification**

Diversification into other crops is an obvious alternative, albeit a difficult one. Diversification has been the region's watchword since the late 1970s, but despite a number of well-financed diversification programs, the islands as of 1990 were actually more dependent on bananas than they had been a decade earlier. As scholar C.P. Timmer stated in his 1992 paper on "Agricultural Diversification in Asia,"

Agricultural diversification is a much broader process than simply finding new

crops to grow. . . . It involves the entire rural community and entails broadening and maintaining the income sources of rural households. The process extends from introducing new crops into traditional farming systems to developing off-farm jobs in small-scale rural industries and eventually to the exit of a significant proportion of the rural work force from agriculture (though not necessarily from the rural area) as part of the structural transformation of the economy.<sup>34</sup>

Perhaps the most significant obstacle to diversification is the human resistance to change. The entrenched interests of certain elites in maintaining banana dependency acts as a brake on diversification, as does political culture.

Virtually all observers who have analyzed the region's predicament have advocated both tapping the emerging "niche" market for exotic items and exporting tropical products to Caribbean-origin communities resident overseas. Efforts to implement these strategies have consistently encountered certain problems.

The most frequently cited problem is transportation bottlenecks. Many opportunities have been forfeited for this reason. In one case, a major demand for root crops among the Asian communities of California was identified, but transportation constraints meant that the produce would arrive a day or two after its prime, and the effort was abandoned.

With a few exceptions, only farms located close to large international airports have made a success of exporting niche products to Europe and the United States. For example, a number of loosely affiliated farmers near Vieux Fort in southern Saint Lucia ship fresh herbs and hot peppers to Miami, using the cheap cargo space in the large tourist airliners that land at the island's nearby international airport.

Even this gateway has been threatened, however. American Airlines, the main carrier between the United States and the Windward Islands, claims that the region does not have sufficient tourist traffic to justify regular flights, and in 1998 demanded (and received) annual payments of US\$1.5 million from Grenada and Saint Lucia (as well as Antigua) to continue flights.<sup>35</sup> Even though the payments were made, jet service to Grenada and Saint Lucia was canceled in 1999, leaving only the smaller "American Eagle" flights with connections in San Juan. These flights have higher freight rates and smaller capacities.<sup>36</sup>

Farmers in Dominica and in Saint Vincent and

the Grenadines are limited to small airports with short runways that cannot serve large jets. Consequently, freight rates are high and capacities are limited. For example, freight rates for fresh produce from Saint Vincent and the Grenadines to Miami are 68 percent higher than fees for equivalent produce originating in Costa Rica. Even the small Amerijet freight service can carry only half its potential cargo due to the shortness of the runways, and Vincentian produce is occasionally left on the tarmac.

The government of Saint Vincent and the Grenadines initially thought that it would cost about US\$80 million to build a new airport and planned to move ahead on construction. In 1998, consultants reported to the government that the cost would be more like US\$600 million, and therefore more studies are now under way.<sup>37</sup> Likewise, the new government in Dominica has canceled the previous administration's plan to expand the nation's tiny international airport. The projects in both countries are highly controversial, with political parties manipulating cost estimates and other information to suit their short-term agendas.

Some exporters of diversified agricultural products have resorted to shipping their goods by sea to Barbados, where they can be placed on large jets carrying U.S. and European tourists. The freight cost of shipping fresh produce to New York via Barbados amounts to only about 70 percent of the cost of using Amerijet.<sup>38</sup> Some risk is involved, however, because freight may be left behind in Barbados if a plane has a larger than usual passenger load.

Efforts have been made to get fresh produce to Europe by exploiting the underutilized capacity of banana boats en route to that continent. These experiments have not worked well, however, in part because the nonbanana produce requires different handling and storage conditions.

Inadequate marketing is another barrier to successful diversification. Attempts to create a common brand name for produce from several islands, in order to build brand loyalty among consumers, have largely failed due to mutual distrust and poor coordination. There are populations of Caribbean origin in the United States, Canada, and Europe who conceivably could act as partners for Caribbean agricultural 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 (OECS), linking supply

with demand quickly enough to exploit sudden opportunities remains a daunting task.

Even when market information is accurate and reaches the producer in a timely manner, failures are rampant. A few years ago, for example, agricultural experts in Grenada urged farmers to respond to what was perceived to be a growing market for Julie mangoes in the United States. Some farmers rose to the challenge, planted the trees, fertilized, weeded, and trimmed for the four years it takes the tree to mature, only to discover that the market niche had disappeared. Most of the mangoes were left to rot on the ground.<sup>39</sup> Similarly, farmers on Dominica located a market demand for ginger in Asia and geared up to fill it, only to discover that the Asian market had collapsed due to that region's economic woes.

Yet another problem is that the services offered by the Windward Islands' export institutions leave much to be desired. Exporters are often unwilling to band together to increase their mutual efficiency (e.g., by renting a boat for distribution of produce to the regional market). In Saint Vincent and the Grenadines, for instance, a marketing officer associated with the country's Agricultural Diversification Plan secured an order for one hundred thousand pounds of mangoes, and farmers were identified who could supply an adequate quality of fruit. However, the exporters refused to purchase the fruit and send it abroad to fill the order, on the grounds that they did not have the cash available to pay the farmers. When a revolving loan was offered to the exporters if they would form a cooperative or a single entity, the exporters refused. They insisted that the funds be distributed on an individual basis, and the mango order was lost.<sup>40</sup>

Exporters' effectiveness is also limited by well-founded farmer distrust. In Saint Vincent and the Grenadines, exporters paid farmers seventy EC cents per pound for hot peppers, but received six EC dollars per pound from the purchaser. Understandably, farmers doubted that the entire difference could be justified by shipping costs and resented what they perceived as an exorbitant profit retained by the exporters.<sup>41</sup>

The informal "traffickers" have functioned as exporters for the regional market, although relations with farmers are often strained. Traffickers are individual businesspeople who pick up small quantities of produce at the farm gate, transport it to another market in the region, and then pay the farmer once they return to the home country. Dealing with traffickers can sometimes be problematic. According to Janice Piccinini, an independent consultant, "Such informal arrangements fre-

quently result. . . in claims that the produce rotted during the trip or was damaged by a storm."<sup>42</sup> Moreover, traffickers can impede farmers' efforts to diversify by bringing back with them from other countries in the region agricultural products that undercut the local price. This complaint is most often heard with regard to items brought back from Trinidad and Tobago.

Yet traffickers have also been undeniably helpful to Windward Islands farmers. "They have made a tremendous contribution to marketing farmers' produce in markets stretching from Trinidad in the south to the Virgin Islands in the north, pioneering many new opportunities in the process," remarked Windward Islands Farmers' Association Coordinator Renwick Rose in June 2000. Furthermore, he pointed out, the fall of the Trinidad and Tobago dollar and the reluctance of Windward Islands banks to change more than a limited amount of such currency "leaves traffickers with little choice but to purchase not just agricultural but non-agricultural goods in Trinidad. . . for resale."

Just how effective a good exporting institution can be is illustrated by a success story in Saint Lucia. A large commercial farm has been exporting fresh produce to the United States and Europe for some time. It has begun to offer an export service to surrounding small farms on marginal land. Farmers deliver their products to the large enterprise, which ships them with its own produce. If the small farmers' items require fumigation, the large farm pays the expense. Small farmers are paid for their crop one week after delivering it to the large farm. They obtain a price lower than that received by the commercial farm from the U.S. purchaser, but the small farmers apparently accept this because all shipping costs and inspection risks are borne by the larger partner.<sup>43</sup>

Without the services of an experienced and honest exporting entity, the products of many Windward Islands farmers are turned back at the border of the intended destination country due to inspection problems. Indeed, the prevalence of the fruit fly in some countries means that their crops cannot even be considered for admission to the United States.

Another obstacle to agricultural diversification is the way in which some Windward Islands institutions can undercut their own farmers. Marketing boards often encourage farmers to plant a certain product, but then refuse to buy it when it is harvested (and sometimes even import it cheaply from elsewhere). The local market is then flooded with this product, and the prices received by the farmers do not cover the costs of production. The tendency

of marketing boards to be staffed via the patronage system is allegedly part of the problem. Some observers believe that marketing boards should be provided with sufficient capital to enable them to buy the full crop grown by any farmer who planted it on the board's advice. Otherwise, after one bad experience farmers may be afraid to pursue new diversification opportunities.<sup>44</sup>

A particularly egregious case of institutional cross fire occurred in Saint Lucia. The Ministry of Agriculture encouraged farmers to purchase young flowering plants from the ministry, for export sale at maturation. The ministry itself then undercut the farmers by selling the same plants at a lower price. In some countries, Ministry of Agriculture extension officers have their own small farms and sometimes act more as competitors than facilitators of the farmers they are mandated to support.

The tendency of farmers to resist change is a theme that constantly emerges in the course of research on Windward Islands diversification. Because of an ingrained aversion to risk, farmers often plant too little of an unfamiliar crop to be competitive and then conclude that such crops are not profitable.<sup>45</sup> The same strong individualistic culture that inhibits the development of cooperatives also leads farmers to expect to grow, distribute, and market all of their own produce. The reluctance to give up control of the postproduction elements of the sales process is rooted in a deep suspicion that business partners will exploit rather than add value.

Bad experiences with past diversification efforts have led to a mood of defeatism in large sectors of the farming community. This is reflected in the sad comment of an adviser to a rural enterprise program in Dominica, who concluded: "The situation is that anything you can think of growing, someone else can grow cheaper."<sup>46</sup>

### Case Studies

Despite all of the problems described above, the Windward Islands have seen a number of diversification success stories.

Among other activities (discussed later in the subsection on eco/heritage tourism), Saint Lucia's Mamiku Gardens produces tropical flowers, which are both sold to visiting cruise ships and marketed via an Internet Web site to clients in Europe, Canada, and the United States. (The service is not particularly competitive in Britain because that country imposes a value-added tax on the purchaser.) Flowers purchased by remote customers (who pay by credit card) are shipped out by Federal Express and usually arrive in good condition

within four days. The enterprise gets a discount if it sends out more than thirty boxes per month via FedEx. Mamiku Gardens is loosely affiliated with other flower growers in the Windward Islands engaged in similar business. Because all participants in this affiliation have agreed to use the same type of box, their resulting ability to make bulk purchases has enabled them to bargain for low prices from the box supplier. All flowers are dipped in a pest-controlling solution before shipment, and as a result there have been few problems with U.S. customs. Certificates permitting the boxes to leave the country must be obtained from the Saint Lucian Ministry of Agriculture, but these are relatively easy to get. The Ministry also conducts intermittent spot checks of produce.

It may not be easy for other entrepreneurs to duplicate this enterprise's success. The family concerned had ready access to Internet skills because one of its members was a computer hobbyist, and financing the undertaking was facilitated by the fact that the flower experiment was part of a larger creditworthy enterprise.

Small farmers would also not find it easy to duplicate the success of Hadley Blooms in Saint Vincent and the Grenadines. The operation, previously a large banana plantation, exports anthurium flowers to markets in Europe and the United States. These are delicate flowers requiring an expensive irrigation and shade infrastructure as well as constant vigilance against disease. The proprietor of Hadley Blooms was able to bear this expense because the Hadley farm had been in business for several generations, still had substantial acreage despite being reduced from its original large proportions shortly after independence, and had cash reserves. Indeed, the proprietor himself recommends that small farmers seeking to diversify out of bananas not go into anthurium flowers, even though they fetch high prices abroad, because of the high investment and technical skills required.

One of the major challenges facing Hadley Blooms has been shipping costs. The firm pays forty-two U.S. cents per pound to ship to Miami, whereas a competitor in Costa Rica would pay only twenty-five cents. Flowers sent to Europe usually have to be transhipped via New York. Because there is only one airfreight firm serving Saint Vincent and the Grenadines, growers cannot bargain on freight rates. At Christmas (the time of highest demand for cut flowers), the planes often fill up with cargo elsewhere and leave the Vincentian exports behind. Because flowers and agricultural products are classified as perishable, it is nearly impossible to make claims against the

shipper for spoilage caused by delays.

Unlike some other exporters of fresh produce to the United States, Hadley Blooms has been able to overcome U.S. customs problems and, with only one exception, all its cut-flower shipments to the United States have met sanitation requirements.

One success story that *could* be duplicated by small farmers is that of Paul Jeremiah in Grenada. Jeremiah began his career in agriculture growing traditional crops on his family's five-acre farm. Using a combination of tiny loans and personal savings, he subsequently purchased two additional acres and began experimenting with cut flowers and exotic fruits.

Finding buyers for his crops was not difficult, in part because Jeremiah was only producing small quantities. He simply approached businesses and individuals with whom he already had an acquaintance (an extensive network in a small island with a high percentage of lifelong residents). By the time he was producing larger quantities, Jeremiah was already being approached by hotel and cruise ship agents.

One constraint on growth has been limited access to credit, which Jeremiah attributes to bankers' discomfort and unfamiliarity with nontraditional businesses. He has dealt with financing barriers by expanding only slowly. Jeremiah notes that if adequate finance had been available, in three months his business could have reached the level of growth that ultimately took him three years to achieve.

Jeremiah notes that many farmers too are wary of departures from familiar patterns of production, preferring traditional crops that provide a small but regular cash flow over new crops whose potential returns are much higher but which may require new skills and a willingness to accept delayed payoffs. Some family members, for example, considered him crazy for cutting down a mature nutmeg tree in order to plant pineapples, although the latter involved little risk and were much more profitable over the long term.

Jeremiah believes that attitudes can be changed by actively demonstrating the profitability of diversification to other farmers. He has already convinced four of his neighbors to cultivate small plots of cut flowers, overcoming their initial skepticism by telling them of his own success and offering to provide assistance. All are increasing their involvement in diversified crops, which he says could be the case throughout the country if the government made a greater effort to walk farmers through the initial stages of the process. The key to Jeremiah's success seems to be his huge self-confi-

dence and unwillingness to accept "no" as an answer.

Another diversification success story involves a Saint Lucian farmer with twenty-eight acres. He has some in bananas, and four acres are irrigated via a series of catch ponds. Among the diversified crops produced are grapefruit, mahogany, oranges, limes, cashews, guava, and coconuts. His ambitions are to stock his irrigation ponds with fresh-water fish and to raise pigs on bananas rejected due to low quality. His sales are primarily to all-inclusive hotels in Saint Lucia. (At all-inclusive hotels, guests pay a set fee and no additional food, beverage, or room charges are exacted. The fee includes all expenses incurred at the hotel, regardless of consumption.) This farmer's biggest headache is labor. He has six permanent workers and hires an extra two or three at harvest time. Workers are both inefficient and hard to keep, he asserts. This farmer's success seems to be based on his high level of motivation, strong personality, and willingness to spend virtually every waking hour energetically supervising his workers.

Although these examples show that diversification is possible, even on very small plots of land, there have also been many cases of failure, including the following:

- On a large farm in Saint Lucia, an attempt to diversify into pineapple (in high demand in hotels and on cruise ships) was stymied by an expensive-to-eradicate disease.
- The proprietor of a two-acre farm in Saint Vincent and the Grenadines ventured into alternative crops and started to move away from bananas. However, because her fields (like those of many small cultivators) are located some distance from her house, she was unable to maintain adequate security and much of the diversified production was stolen. Theft did not affect her banana crop, because the fruit is ubiquitous. After losing her harvest of alternative crops, this farmer returned to planting bananas only.
- An export promotion adviser in Saint Vincent and the Grenadines identified a large U.S. market for dasheen (a root crop); the usual supplier, Fiji, had encountered disease problems that will take some years to rectify. Dasheen is popular among Asian-origin residents in California and Caribbean-origin residents in Miami and New York. It has a long shelf life and can be transported by ship, making it an ideal export crop. Vincentian producers were unable to produce the quantities required, however, and local export companies were unwilling to finance the bulk purchases

entailed by the U.S. purchase orders. Although Saint Vincent is well placed in terms of geography and climate to fill the gap in the dasheen market, it is being overtaken by others.

- A Vincentian farmer decided to experiment with arrowroot production. Although Saint Vincent has ideal soil (and indeed used to be the world's largest producer of arrowroot), the farmer failed, in part because he could not find sufficient labor to harvest the crop during the period of highest starch content. Inefficiencies at the government-run mill then caused the crop to lie in the sun too long, losing still more starch content. Even though there is a growing niche market for arrowroot as an ingredient in health food and in some high-technology paper supplies, this farmer will not be able to respond to the demand. In early 2000, the European Union announced that it would provide EC\$10 million over three years to assist the development of the arrowroot industry, but the results will not be felt for some time.<sup>47</sup>
- A farmer in Saint Lucia with forty acres primarily in bananas tried to diversify into grapefruit, to no avail:

The supermarket is willing to pay ten EC cents per pound for grapefruit, presumably because that is the price on imported grapefruit. I need four times that to cover my labor costs. Before the construction boom, grapefruit was profitable, but wages went up when the hotels were being built and stayed high after the boom passed.<sup>48</sup>

The same farmer has also experimented with cocoa, coconuts, coffee, mangoes, and dasheen. His latest attempts to cultivate vegetables for the hotels have been hindered by the unreliability of the water source for his irrigation system and by attacks of the diamondback moth. He located a chemical in Trinidad that controls the pest, but it is not yet available in Saint Lucia. He has tried to establish a cooperative with neighboring farmers to purchase required technology jointly, but finds them resistant, primarily because of political differences. Asked about the future, he laments, "I have tried just about everything and have concluded that I just have to stay with bananas."

### Niche Bananas

In addition to diversifying out of bananas, there are also opportunities to diversify within bananas, specifically in the organic and "fair trade" specialties.

According to a February 1999 study ("The Market for 'Organic' and 'Fair Trade' Bananas") by the

UN Food and Agriculture Organization (FAO), the market for organic bananas is booming. Sales of overall organic products increased by more than 20 percent per year in major markets over the preceding fifteen years. Although organic bananas accounted for only twenty-seven thousand tons out of total banana imports of 11 million tons in 1998, imports of organic bananas have reportedly been growing by approximately 30 percent per year. The Dominican Republic is the biggest supplier. According to the FAO report, "In all major markets, the prospects for further growth of organic banana sales appear to be good. The limiting factor is the lack of supply."

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**[T]here are also opportunities to diversify within bananas, specifically in the organic and "fair trade" specialties.**

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The FAO report claims that organic bananas are particularly well suited for small and medium-size farms, because of the labor-intensive character of this enterprise and the benefits of intercropping. Organic bananas fetch 50 percent to 200 percent more than their conventional competition at the retail level, although the price premium paid to the producer is estimated at 37 percent. The main constraints limiting organic banana production are black sigatoka fungus (for which there is no organic treatment), crown rot, expenses associated with redesigning farms, and shipping costs. The latter are high because organic banana volumes tend to be small. The Windward Islands are uniquely placed to exploit the organic market, because (as in the Dominican Republic and southern Brazil) the black sigatoka is either absent or not too prevalent.

Renowned ecologist and social activist Atherton Martin of Dominica believes that organic produce of all types is the most promising diversification option for the region as a whole. He estimates that farmers could make "twice as much money from half the quantity of produce" if they entered the organic sector. The Irish distributor Fyffs and Britain's Sainsbury supermarket are both eager to obtain organic bananas from the Windward Islands, and the EU has expressed interest in funding pilot organic plots in the region.<sup>49</sup> Nonetheless, only a handful of Windward Islands operations are attempting to grow organic produce.

Farmers are more familiar with the "fair trade" sector. The fair trade mechanism initially began in the 1970s with cane sugar and coffee. Advocates see it as a way to help small producers in developing countries benefit from more profitable and stable trade. The basic components of fair trade are direct links with producers in developing countries,

guaranteed minimum prices and price premiums, credit allowances or advance payments, and long-term relationships. In the case of fair trade bananas imported into Europe, there are also requirements that “sustainable” cultivation systems be used. By eliminating most intermediaries, the fair-trade movement seeks to help growers capture a greater proportion of the final retail price.

About US\$400 million of fair trade products are sold worldwide each year. Retail prices of fair trade bananas are about 20 percent higher than those of their conventional counterparts. Windward Islands farmers have shown great interest in fair trade bananas. According to Oxfam UK and Ireland, a recent survey shows that 74 percent of EU citizens would buy certified fair trade bananas if they were sold at the same price and were of the same quality as conventional bananas. Oxfam estimates that 40 percent to 50 percent of Windward Islands farmers would be able to meet the standards required, and many more would comply if they had additional resources.<sup>50</sup>

Among the major constraints limiting the success of fair trade bananas are high transportation costs (due to the small volumes shipped) and marketing difficulties. As the previously mentioned FAO study remarks,

Contrary to criteria for organic production, which are underpinned by scientific evidence, the social criteria used by fair-trade operators generate less consensus and having them accepted at the international level is likely to be more difficult.

Within the EU there is the additional problem of import licenses. Importers of fair trade bananas must compete for the 8 percent of licenses available to all “newcomers” in the EU market. In 1999, each “newcomer” only received a license for 276 tons. Fair trade importers must therefore buy licenses from others, paying a premium of more than 30 percent of the banana price.<sup>51</sup> Oxfam has urged the EU to make special provision for fair trade bananas in its import licensing system and to allocate a global fair trade banana quota, although there are some doubts as to whether such an arrangement would be compatible with WTO rules.<sup>52</sup>

Despite all these problems, a successful pilot marketing exercise has been carried out in Germany, in which sixty small farmers from Saint Vincent and the Grenadines have sold fair trade bananas. The farmers hope that this will soon evolve into regular, long-term contracts.<sup>53</sup>

In the organic and fair trade sectors, as in the case of diversification into other crops, an unhappy conclusion is increasingly voiced by agricultural

experts in the Windward Islands. An expert on agricultural diversification summarized a widespread sentiment when he remarked at a 1998 conference:

We assumed that marginal farmers would drop out of bananas and diversify. That is not happening. It turns out that the farmers who are able to modernize and remain competitive in the banana sector are also the ones capable of diversifying.<sup>54</sup>

This has ominous implications for unemployment rates and social stability in the region.

### Food Processing

Increased production of processed agricultural goods might provide additional foreign markets for Windward Islands farmers and also help them penetrate the tourism sector, which has a high demand for such products. (See the “Tourism” section of this paper for a more detailed discussion of the links between agriculture and tourism.) Processed goods can more easily be rendered unique (via special seasoning and packaging). Transportation is facilitated by their longer shelf life and better resistance to rough handling. Because value is added by domestic processing, a greater proportion of the product’s final price goes to the country of origin. The Caribbean headquarters of the Inter-American Institute for Cooperation on Agriculture (IICA), located in Trinidad, has recently decided to shift its emphasis from food production to food processing, reflecting the growing interest in this sector.

Thus far, little processing has developed in the Windward Islands, due to a variety of obstacles. Food processors need a regular supply of a consistent product of predictable quality. Although processors will accept some blemished goods, they can be demanding regarding price. The cost of the raw material has to be low if the final processed product is to be profitable, and Windward Islands farmers often will not accept the prices offered by local processors. For example, two processors in Saint Lucia found it cheaper to import tomatoes, spices, and other inputs than to purchase Saint Lucian crops. Imported ginger, for example, is half the price of the local equivalent. One processor pays a higher price to farmers if they deliver supplies regularly, but still imports 60 percent of his fresh produce because he cannot get regular supplies locally.<sup>55</sup>

One processor solved this problem by offering shares in the business to farmers who supplied the raw material. Even though the farmers received a relatively low price for their raw product, they

knew that this would permit the final product to be competitively priced, and they would earn more dividends from their shares as sales increased. The mechanism worked extremely well.

Finance is another difficulty. Most food processing operations are small family-owned affairs, reluctant to risk much capital. When a foreign investor capable of financing expansion shows an interest in a local processing enterprise, it is often rebuffed for fear that the foreigner, in the words of one processor, "will gobble us up."<sup>56</sup> Local banks tend to avoid start-up processing operations; when finance is provided, the interest rates are usually high. The Chamber of Commerce in Saint Vincent and the Grenadines is aware of a number of aspiring food processors with apparently viable products who have not been able to start operations due to the scarcity of finance. The previously mentioned "Women in Agriculture Lauders Group" consists of six women who have a small makeshift factory in which they produce pepper sauce, seasoning, and vanilla extract. The women each work three days in the factory and the rest of the time in the fields tending the crops from which the products are processed. Their total production is about sixty pounds of finished product per week. In order to expand, they need to purchase pots, large containers, blenders, a stainless steel mill, bottles, labels, and seals. The minifactory is located in a remote village served by a poor road, and the women have fairly limited educational backgrounds, although they are highly motivated and possess considerable entrepreneurial discipline. To date, they have been unable to interest a bank or the National Development Foundation in their plan, because they cannot convince potential creditors that they would repay their debts promptly, and they have little collateral.<sup>57</sup>

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**One processor [offered] shares in the business to farmers who supplied the raw material.**

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A related issue is government fiscal policy. The import duty on processing equipment is quite high. Some observers argue that the best way to help farmers diversify would be to allow processors to import their equipment duty free. Furthermore, according to a World Bank study, the higher the level of processing the less protection from export taxes the product generally enjoys.<sup>58</sup>

Enterprises wishing to export need to establish a distribution mechanism in the destination country. Most distributors in the closest major market, the United States, find Windward Islands operations too small to be worthwhile partners. One Saint

Lucian processor has partially solved this problem by marketing some of its produce over the Internet. It creates distinctive, attractive "gift packages" which are sold for quite high prices. It markets both to individuals and to upscale boutiques.<sup>59</sup> Another firm solved the problem by arranging for family members in the United States to handle distribution duties.<sup>60</sup>

Packaging and transportation are also critical. One processor interviewed by the author considers packaging to be even more important than advertising; in addition to being attractive, it must also feature a bar code, nutritional information, and an expiration date.<sup>61</sup> A fruit juice processor in Saint Vincent and the Grenadines reports that the major obstacle to moving into export markets is labeling, and in particular obtaining all the information necessary for the nutritional component.<sup>62</sup> For some islands, transportation is the main barrier to export. An entrepreneur in Grenada wishes to export pepper, nutmeg, guava, passion fruit, and rum products to the regional market, but cannot find the necessary transportation by sea, and air transport is nine times more expensive.<sup>63</sup>

Processors supplying the regional market also complain of stiff competition from Trinidadian products. These often undercut the price of Windward Islands products, due to economies of scale in Trinidadian plants and unfavorable exchange rates between the EC dollar and the Trinidad dollar.

Finally, processors can be bedeviled by technical problems. The production process provides many opportunities for spoilage and contamination, which can require expert technical assistance to resolve. An effort to produce a sorrel product foundered in part because the traditional drying technique could not keep up with demand and the enterprise had insufficient financial resources to purchase the equipment that would have accelerated the process.<sup>64</sup>

Despite these problems, a number of enterprises in the Windward Islands have survived and even thrived. One example of a successful small start-up firm, Benjo's Seamoss in Dominica, is described in the accompanying box. The larger and more established firms of Baron Foods and Viking Foods in Saint Lucia both produce a wide variety of processed goods for the local, regional, and U.S. markets. Cristobal Samuel's firm in Saint Vincent and the Grenadines employs twelve women who produce mango drink, papaw nectar, mango jam, tamarind syrup, and guava jelly. They received some start-up funds from the local community development organization and some from a Canadian grant. They sell to supermarkets, shops,

### **Benjo's Seamoss and Agro Processing Co. Ltd of Dominica**

Founded in 1993 by John and Deborah Robin, Benjo's Seamoss produces a bottled version of a Dominican beverage that traditionally had been prepared by homemakers in their own kitchens, using as the main raw material a type of seaweed common in the oceans surrounding Dominica. The Robins' experience demonstrates the importance of access to training and credit in establishing a successful processing operation.

John Robin developed the business plan for his enterprise as part of his university work in Canada, where he studied marketing and small business administration. Robin notes that without this education, he could never have developed such a plan, much less implemented it. When he returned to Dominica, Robin presented his business plan to the state-sponsored Agricultural and Industrial Bank, whose staff helped him to refine the proposal to address all the bank's concerns. The bank approved a loan of EC\$150,000, which the Robins combined with personal savings to cover start-up costs.

Research was a key component of the company's success. Because the Robins were starting a new enterprise with a limited budget, they needed to select a product with an existing demand that would not require an expensive promotional campaign. A traditional recipe of Caribbean kitchens that had never been commercialized in Dominica, the seamoss beverage fit this description perfectly.

The beverage entered the market at a time when Dominicans remembered drinking traditional seamoss in their youth, but had decreasing free time to prepare their own batches at home. Convenience has thus become a key selling point. The enterprise did have some technical problems at the beginning, when successive batches of the product inexplicably spoiled quickly once bottled. The firm lost three hundred thousand EC dollars before it discovered that the problem was not due to bacteria, as originally believed, but to faulty machinery.

Competing with mass-produced soft drink brands would appear difficult, because Benjo's small scale and use of expensive imported inputs makes the firm's production costs relatively high. Nevertheless, the company has thrived by emphasizing the unique nature of its product and keeping the price as low as possible. Indeed, one of Benjo's biggest problems thus far is that production cannot keep up with demand.

For the first six months of production, Benjo sold solely to the Dominican market, perfecting its production and marketing processes while avoiding the complications of exporting. The firm subsequently began selling in five other Caribbean islands and now earns almost half its revenues from exports. The Caribbean Development Bank sponsored a comprehensive regional marketing assessment to guide Benjo's expansion within the Caribbean region.

Robin believes that there is strong potential for further expansion, including exports to the United States, and is in pursuit of additional financing to make that possible. As of 2000, the firm was developing six products to international standards and expected to launch them before the end of the year.

As the enterprise has grown, John Robin has continued to seek training and advice. In 1999 he took a course on process control at the Mona campus (Jamaica) of the University of the West Indies and completed a one-month course on agriculture in Taiwan. He is currently contemplating enrolling part time in a business management master diploma program in Dominica. Consultants from Jamaica and Britain are assisting the company in research and development and in locating necessary equipment. The National Development Corporation of Dominica is working with Benjo's to secure a piece of land on which to build a larger manufacturing plant.

individual households, and hotels, and would expand further if they could find additional storage space for their products.

In sum, food processing could represent a major opportunity for both farmers and businesspeople. However, until a system is developed that permits farmers to supply large amounts of cheap produce on a regular basis, the capacity of the sector to provide an alternative to banana income will be limited.

### **INFORMATION TECHNOLOGY\***

At first glance, information technology (IT) would appear to be an ideal activity for the Windward Islands. The population has a relatively high level of education, the nearby United States is a major consumer of IT services, the islands share the same time zone and language as that potential client, the telecommunications infrastructure is world class, and wage rates are low in comparison not only with the United States, but regional competitors as well. Data entry wages in Saint Vincent and the Grenadines, for example, are a fifth of those in Barbados.

This conclusion was shared by the Eastern Caribbean Investment Promotion Service (ECIPS) when it organized a tour of the United States for businesspeople from the region to explore opportunities in the sector. The visits to Chicago, Dallas, Atlanta, and Florida indicated that a large number of U.S. companies were interested in outsourcing data processing activities.

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**One of the few firms that have registered success [in information technology] is U.S. owned.**

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However, Windward Islands firms that have tried to enter this sector have encountered a myriad of problems. One of the few firms that have registered success, NetData Services, is U.S. owned. The obstacles include costly infrastructure, inadequate training, lack of finance, government ambivalence, difficulties with U.S. partners, and competition from other geographical regions.

### **Infrastructure**

The British firm Cable & Wireless has helped build an impressive telecommunications infrastructure in the Windward Islands, but it has long enjoyed a monopoly that has only recently begun to

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\*Alexa Khan, research manager of the Institute of Business, Saint Augustine Campus (Trinidad and Tobago), University of the West Indies, contributed virtually all the research material, and much of the text, for this section.

be eroded by the entry of a few new competitors. Therefore, high telecommunications charges have put the region at a competitive disadvantage. The head of a start-up firm in Saint Lucia reported that the cost of a dedicated Internet line from Cable & Wireless, at EC\$1,500 per month, was prohibitive. An entrepreneur in Dominica complained of the same problem. He sensed that the telephone company would probably provide a lower rate if the firm began using a large volume of telecommunications services, but the high initial charges made it hard to get started.

Cable & Wireless has expressed its intention to reduce the costs of Internet access as well as data transmission rates by 50 percent over the next few years. The firm also asserts that high international charges have subsidized domestic calls, and if international rates are to be significantly lowered to facilitate information technology businesses, domestic charges will have to go up. An official at the Vincentian Ministry of Communications believes that Cable & Wireless bases its charges on what it thinks a firm can pay, not on the actual cost of providing the service.<sup>65</sup>

Firms have also found it difficult to lease a line with desired technical characteristics. Once a line is promised, installation can take a long time. An IT enterprise in Saint Vincent and the Grenadines, for example, had to wait three months for a high-speed T1 line to be installed.<sup>66</sup> (Without a T1 line, firms are limited to ordinary dial-up Internet access, which is much slower and more cumbersome.)

One entrepreneur in Saint Lucia who needed to establish consumer databases for clients was so frustrated with Cable & Wireless's high costs and delays that he finally purchased and installed his own digital switch.<sup>67</sup> Most entrepreneurs, however, do not have the technical skills to perform their own installations.

Locating adequate physical space to house IT operations is sometimes difficult. Saint Lucia built a number of factory shells in a special industrial park intended for IT. Potential foreign and domestic entrepreneurs were heavily pressured to purchase these shells, at prices the firms deemed prohibitive. Several Saint Lucian start-ups opted to use cheaper offices in the rural areas and suburbs. NetData Services had planned to invest in Saint Lucia, because that country offered the best duty-free concessions on imported equipment, but chose Saint Vincent and the Grenadines instead because of the pressure and high prices associated with the Saint Lucian factory shells. NetData Services is now encountering new problems, however. It needs more space to expand, but its landlords pay a 45

percent tax on rental income, so that those with available buildings do not find it in their interests to spruce them up and rent them out.

### Training

Training is a problem for all IT entrepreneurs. Low-end data entry jobs are fairly straightforward, but there are still some shortages of workers. The more sophisticated information technology jobs in which more value is added (and therefore more profits are generated for a firm) require more training. Two firms in Saint Lucia, Caribdata and CSSL (Computer Systems and Supplies Limited), discovered that Saint Lucia does not have a ready pool of workers capable of fourteen thousand keystrokes per hour, as required by data entry firms in the United States. Both companies had to absorb the cost of training workers who could barely type twenty-five words per minute. Caribdata trained twenty people in ten weeks. It is worthwhile to remember that only 60 percent of Saint Lucian children go on to secondary school, and the figures are comparable in the other islands.

The lack of trained workers was the primary reason why one of the oldest and largest family-owned businesses in Saint Lucia decided not to get into IT. One of its managers went on the 1994 ECIPS-sponsored tour of the United States, and realized that many U.S. firms were interested in contracting out primarily to large firms in the Caribbean capable of employing at least two thousand workers, because the volume of work would require this human resource base. The Saint Lucian firm concluded that this volume of workers simply was not available to it on the island, partly as a result of the educational system, and therefore decided not to enter the sector.

NetData Services in Saint Vincent and the Grenadines initially did not have too much difficulty training staff and was able to hire secondary-school graduates. However, the supply of secondary-school graduates willing to perform the work is now running low, and the firm anticipates that it will have to start its own training operation. Saint Vincent's community college has a computer training course, but no computers, so its students are ill prepared.

The Ministry of Education in Saint Lucia intends to embark upon a "millennium" project (which is being funded by the European Union and a large contribution from Cable & Wireless) that envisages incorporating information technology in all schools by 2002 through the introduction of multimedia in the curriculum. Another Saint Lucian effort, the Computer Based Learning Center, began eleven

years ago and is providing some training in computer skills.

Another labor difficulty is the high turnover rate. Data entry work is low in status, pays relatively low salaries (at one Saint Lucian firm the average take-home pay was US\$186 per month), and requires concentration on a tedious task for long stretches of time. Workers who have improved their typing skills through data entry training can often find a more attractive job after a few months.

Some Saint Lucian entrepreneurs have tried to overcome the turnover problem by locating their operations in the rural areas. Their casually dressed, largely female work force does not have to spend money on business clothes or commuting to the city. They can also go home for lunch, which permits the workers to avoid cafeteria costs and keep an eye on their domestic responsibilities. Although some of the rural workers require more training than their urban counterparts, once trained they tend to stick with the job longer.

### Financing

Established and would-be information technology firms report that commercial banks tend to be unwilling to lend for this type of business unless a signed contract with a client is presented. In addition, from the banks' perspective, the rapid depreciation in the prices of used computers resulting from continuous advances in technology means that the computer hardware owned by an IT firm would not serve well as collateral for use in recouping a bank's "investment" in the event that the loan fell into default. In the case of Caribdata, a Saint Lucian businessman invested half of the capital required and the three partners invested the rest from personal savings. CSSL was financed entirely through the contributions of family members. Significantly, even after three years in business, financing continues to be an obstacle to the expansion plans of Caribdata in particular. Company leadership believes that the firm must expand to survive, for only through expansion will it be able to handle larger contracts, offer better salaries, and benefit from economies of scale. In addition, management believes that "big U.S. companies do not like to deal with small businesses."

One option recently made available through the Saint Lucia Development Bank is venture capital financing. However, the scheme only matches the funds put in by the entrepreneur. In addition, the dominance of family-owned businesses in Saint Lucia has engendered a distrust of "outsiders." Entrepreneurs are fearful of loss of control of their business in any scheme involving sharing of equity.

As a result, venture capital is not well utilized. In one case, an entrepreneur was willing to go the way of venture capital, but found that his partners were adamantly opposed to the idea.

Some observers claim that the real problem is not absence of finance, but poor management decisions in accessing finance. Nonetheless, one IT firm lost an excellent opportunity to close a deal on a large contract because it was competing against firms located elsewhere in the world and was unable to obtain the necessary credit in a competitive time frame despite its best efforts.

### Ambivalent Government Attitude

Some entrepreneurs perceive that the Windward Islands' governments are ambivalent about the role of information technology in the region's economy, and that therefore they are not receiving the degree of support they need. One government official interviewed for this publication said that he did not see the sector as a significant part of the solution for the region because IT firms tend to employ only about fifty people on average, and that the region needs firms that are employing 250 to 500 people each in order to address unemployment problems. This attitude, that IT is not an essential part of the economic strategy, seems to be widely shared by Windward Islands officials. Whereas outside observers believe that the best economic benefits derive from accessing the high end of the sector, most government officials consulted expressed little interest in facilitating the growth of firms beyond basic data entry and information processing activity (now prevalent in the local IT sector).

Some IT entrepreneurs apparently came away extremely disillusioned from discussions with government offices officially tasked with responsibility for helping them get off the ground, and one dubbed the local National Development Corporation "Now Disaster Cometh." Many firms have in fact been warned by government offices to stay away from the sector entirely on the grounds that they are "too small."

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**... one [IT entrepreneur] dubbed the local National Development Corporation "Now Disaster Cometh."**

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Governments are not always helpful to start-up IT enterprises in the area of import duties. When a Saint Lucian firm needed to import a large amount of equipment to fulfill a potential contract, it was told that it would have to pay the full duty. (This occurred despite the fact that potential foreign investors in Saint Lucia are told they will receive favorable duty-free concessions on imported equip-

ment.) In contrast, when a foreign firm investing in Saint Vincent and the Grenadines needed to import equipment, it received a 100 percent waiver of duty on computer equipment and a 75 percent waiver of duty on other imports (e.g., office furniture).

### Foreign Alliances and Rivalries

Experience suggests that a Windward Islands-based IT firm will have difficulty growing without a close relationship with a foreign partner. Firms need a facilitator abroad, usually a broker or a joint venture partner, to locate clients and transmit the information to be processed. (One Windward Islands firm pays a middleman US\$1,200 per month to source contracts.) Without such a partner, the Windward Islands firm would have to establish its own marketing office abroad, a luxury that most cannot afford. Bill collection from foreign clients has also proved onerous, if not impossible, without the assistance of a partner located in the country concerned. (Bill collection accounted for a full 20 percent of the operating costs of a Saint Lucian firm.) Finally, clients abroad are usually reluctant to assign work to a small firm, and partnership with a larger foreign entity resolves this image problem for the local entrepreneur.

However, relationships with such partners can be thorny. On two separate occasions, U.S.-based facilitators have become dissatisfied with the work produced by their respective Windward Islands partners and set up rival firms to which work was diverted. One Windward Islands manager reported that a U.S. partner believed that, in return for its 28 percent stake, it should have the right to dictate wage levels for employees and other matters that seemed to go beyond the influence justified by the equity share; the manager thought that his local peers would be well advised to avoid such alliances. However, the few firms that have done particularly well point to their solid connection with the U.S. market as their prime strength and tend to be largely or wholly foreign owned.

Local entrepreneurs are divided about how to handle this problem. Some complain bitterly that their governments provide more concessions to foreigners than to their own citizens, demand a change in attitude, and advocate for the establishment of strong independent local firms. Others say that one simply has to recognize that the local firm cannot function without being structurally integrated into the operation of a foreign partner, and that IT start-ups in the Windward Islands have no choice but to accept the terms offered by their larger foreign partners, however unfair those terms may seem.

The Windward Islands also face stiff competition from other countries. According to one entrepreneur, the Philippines, Belize, and the Dominican Republic all offer clients lower wage rates and better-qualified work forces. If the region's firms were able to move out of the low-end data processing activities and into the more sophisticated IT activities, they could remain competitive despite their wage rates. However, that would require solving the ongoing difficulties with training discussed above.

The fledgling IT industry of the Windward Islands is in a race against time. The nature of electronic communications is such that a client can switch from a contractor on one side of the world to a rival in the other hemisphere virtually at the touch of a button. Although Cable & Wireless's fees are coming down as the firm's monopoly expires, it is not clear that the region's IT operations will survive long enough to benefit from the reduction. The region remains in catch-up mode with regard to training. Because new IT systems are introduced into the market at an ever-accelerating rate, it is not clear if the gap can be closed without major government initiatives and considerable budget expenditure.

### FINANCIAL SERVICES

The very same characteristics that could make the Windward Islands attractive for information technology—a relatively well-educated population and a good telecommunications infrastructure—might place the region in a competitive position in the financial services industry. The governments of the Windward Islands are well aware that some of their small island neighbors have derived significant revenues from this source. The global offshore industry is estimated at over US\$5 trillion. The Cayman Islands, with US\$500 billion in deposits, is now the fifth largest financial center in the world, and the British Virgin Islands receives about 45 percent of its revenues from offshore financial activities.<sup>68</sup> Both territories are comparable in size and resource base to the Windward Islands states.

Financial services comprise a wide range of activities, including banks, funds, trusts, and other companies established and legally domiciled in a foreign jurisdiction in order to benefit from local fiscal, legislative, or regulatory advantages, while targeting customers located outside that jurisdiction. Each of the Windward Islands has recently introduced legislation establishing or relaunching the sector:

- **Saint Lucia.** The government established an

Offshore Financial Services Unit in January 1998 to conduct licensing, supervisory, and regulatory functions. The Organization for Economic Cooperation and Development (OECD) now considers Saint Lucia to have significant offshore financial activities.

- **Grenada.** In 1997, Prime Minister Keith Mitchell announced his hope to attract investors to Grenada by turning it into an offshore tax haven and collecting bank fees on secret accounts. In December of that year, he said:  
 We are convinced this is the way to go. . . .  
 We are quite aware of the possibility for misuse and money laundering, but we—like many other countries—will do everything possible to get the business. Let's face it, bankers and people with lots of money want to diversify. They don't want to concentrate their investments in one particular area.<sup>69</sup>
- **Dominica.** The island entered the financial services sector in 1996 by passing enabling legislation. It exempts licensees from all taxes and duties for "offshore business carried on in Dominica or elsewhere. . . , [on] any securities or assets pertaining to the offshore banking business owned by another licensee or by a person who is not a resident, [and on] all income earned from its offshore operations." In December 1999, Dominica placed its offshore banking sector under the supervision of the Eastern Caribbean Central Bank. According to Dominica's then-finance minister, Julius Timothy, the move was meant to strengthen the regulatory provisions of the offshore banking sector. Previously, inspections and examinations of offshore banks were conducted by the supervisor of financial institutions in the finance ministry.<sup>70</sup>  
 Since 1991, Dominica's "economic citizenship" program has allowed foreigners to obtain a Dominican passport by purchasing seventy-five thousand U.S. dollars worth of fifteen-year redeemable bonds at simple 2 percent interest or by making a direct cash payment of fifty thousand U.S. dollars. In January 2000, amid concerns that criminals were using this option to travel under assumed names, the island's new government declared its intention to phase out the policy.
- **Saint Vincent and the Grenadines.** The first of the Windward Islands states to enter the financial services arena, this country established enabling legislation in the early 1980s. Initial regulation was rather lax, and when the rules were tightened the financial services sector underwent a

serious contraction. In 1996 came passage of a new set of legislative initiatives, which the government hopes will provide protection against fraud and illegal activities while still attracting investors. Recent promotional materials for the Saint Vincent Trust Service, which conducts 90 percent of the offshore business on the island, assert that the firm can provide company registration in one day via e-mail "where encrypted electronic data is exchanged efficiently and securely."<sup>71</sup> The government boasts that its "Confidential Relationship Preservation Act" is "one of the most restrictive confidentiality acts in the world today" and will protect offshore clients by "sanctioning unauthorized disclosure of information relating to clients."<sup>72</sup> The country is currently implementing an economic citizenship program. In February 2000 the government announced that it had hired three new staffers to strengthen supervision of the offshore sector.

There is some debate about just how effectively financial services can promote the kind of development that the Windward Islands need as they face the phaseout of banana preferences. The sector does not produce large amounts of employment, and those jobs that do emerge are generally white collar, rather than the working-class jobs so urgently needed to offset the impact of the banana crisis. Financial services do provide government revenues in the form of fees and taxes, however. For example, in 1999 Dominica received almost EC\$10 million in direct revenues related to financial services, even though the sector only employed seventy-one Dominicans.<sup>73</sup> Grenada's governmental income from offshore firms' licensing fees increased by almost a factor of five in the 1998-1999 period, and in 2000 some 2,200 companies were expected to pay a total license fee bill of US\$32 million. This amounts to almost a tenth of the nation's gross national product.<sup>74</sup>

Because bank secrecy laws make it hard for the authorities to determine exactly what funds are flowing through the offshore facilities, governments tend to impose only a fixed-sum tax, so that revenues received by the government from a given firm do not grow in proportion to that firm's activities. The government instead has an incentive to increase its revenues by approving a large number of operations, a trend that could have undesirable security implications. (See the discussion of crime in the section on "Consequences of Failure.")

On the other hand, financial services firms do provide some fee income, rental income, clients for local lawyers, and high salaries for a small number of experts resident on the islands. Because the

Windward Islands are relatively new to the activity, most of the highest-paid managers are expatriates. However, these foreigners make some “trickle down” contributions to the local economy by purchasing expensive houses, engaging in a relatively lavish lifestyle, and employing locals in domestic and office jobs. In countries with a thriving financial services sector, the construction industry has benefited, improvements have been made in health, educational, and physical infrastructure, and links have emerged with the tourism and information technology sectors. There is also the hope that local people will gradually become expert in the financial services sector and move into the high-paying posts.

Financial services experts in Saint Vincent and the Grenadines believe that the presence of offshore banks provides the country with an extra edge in the competition for foreign investors. The banks have connections with potential investors, and these links have already led to consideration of a tourism and a shipyard investment in the country. To date, however, offshore activities in Saint Vincent and the Grenadines have not generated much fee revenues or employment.

One emerging financial services area in which the Windward Islands could quickly become competitive is Internet gambling. In Saint Vincent and the Grenadines, one such firm (employing thirty women) has already been established; another's application for a license has been rejected. Saint Lucia recently reversed its long-standing position against gambling, opening the possibility of involvement in this area. Internet gambling can be highly lucrative for a host country, but U.S. experts believe that it is particularly vulnerable to money launderers.

Indeed, virtually all aspects of financial services can be exploited by international criminals, and this concern has caused some ambivalence concerning the suitability of the sector to Windward Islands needs. Throughout the Caribbean, countries are finding it increasingly difficult to ensure that illicit funds are not laundered through offshore services transactions. In January 2000, the Caribbean Financial Action Task Force, comprising twenty-two Caribbean countries, reported that US\$60 billion of drug money is annually laundered in the Caribbean, out of a world total of between US\$300 and US\$500 billion. Small countries with strict secrecy laws are particularly attractive to money launderers, the report noted, and these states are under pressure to tighten regulations and monitoring.<sup>75</sup>

The Windward Islands are in a particularly difficult position with regard to money laundering.

Most are newcomers to the financial services sector and will have to attract a client base. It is hard to be competitive if rules are perceived as significantly less “friendly” than those of one's rivals. Even some advocates of the financial services route concede that it is hard for the sector to thrive and stay legitimate unless a country has a high level of indigenous technical knowledge, an international airport with direct flights to the United States and Europe, and a strong infrastructure. Saint Vincent and Dominica lack the airport requirement, and all four Windward countries have both shortages of technical personnel and infrastructures that are not quite up to the level of their more established Caribbean rivals.

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**... it is going to be extremely difficult for any Windward Islands government to avoid expansion of the [financial services] sector.**

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Recently, the Windward Islands' financial services sector received a significant blow.<sup>76</sup> In June 2000 the OECD listed all four Windward countries among the 35 nations that were given a year to amend their financial services industries' transparency and supervision or face international sanctions.<sup>77</sup> The OECD originally planned to impose sanctions in July 2000. Due in part to protests from the Caribbean, sanctions have now been postponed until July 2001. Nonetheless, as of 2000, the United States was already considering rules that would establish a “blacklist of tax havens” and specify reporting requirements for U.S. persons making certain payments to such jurisdictions.<sup>78</sup>

The prime minister of Barbados, Owen Arthur, has reportedly argued that the OECD does not have the legal authority to determine methods of taxation employed by sovereign states.<sup>79</sup> Trinidadian scholar Anthony T. Bryan accurately summarized Caribbean sentiment when he recently wrote:

Caribbean countries with offshore jurisdictions fear that, as earnings from traditional industries such as bananas and sugar. . . fall and protected markets in Europe disappear, the crackdown on tax havens will hinder their efforts to develop new businesses. [The] current assault by the OECD and the U.S. has led even the most moderate of Caribbean leaders to cast the U.S. and Europe as being quite unconcerned and curiously punitive toward the region.<sup>80</sup>

Similar sentiments were voiced by Calvin Wilson, the Caribbean's chief anti-money laundering official, who in June 2000 remarked, “Caribbean

countries feel there is a second agenda. . . to claw back revenues coming to the offshore centers because of their competitiveness."<sup>81</sup>

Despite all the problems associated with financial services, it is going to be extremely difficult for any Windward Islands government to avoid expansion of the sector. The region has relatively few development options, and when it finds itself with a comparative advantage, it will be pressed to exploit it. The challenge will be to find mechanisms to attract clean money rather than dirty and to build a reputation for aboveboard dealings. It is all very well for outsiders to recommend curtailing of the industry, but when politicians survey their terrain and realize just how many additional services their constituencies need, and how tightly government budgets already are stretched, most, regardless of political affiliation, will embrace the sector. As a Vincentian fully cognizant of the sector's pitfalls commented to the author, "We will be as careful as possible, but with the pressures of globalization we simply have to take some risks."<sup>82</sup>

## TOURISM

According to scholar Martha Honey, in the 1990s "tourism vied with oil as the world's largest legitimate business." By mid-decade, US\$3.4 trillion was being spent on travel annually, and the figure was expected to reach US\$4.2 trillion in 2000. Tourism is the world's largest employer, producing one out of every ten jobs worldwide.<sup>83</sup>

The industry has long played an important role in the Windward Islands. From 1993 to 1997 the number of stay-over arrivals rose from 396,600 to 489,600, a 23 percent increase. As of 1999, however, these four nations still accounted for only 2.97 percent of the region's stay-over arrivals.<sup>84</sup> Furthermore, in 1996 spending per tourist in the Windward Islands, corrected for length of stay, averaged only US\$93, compared with US\$145 in the Bahamas, US\$171 in Cuba, US\$216 in Puerto Rico, and US\$421 in the U.S. Virgin Islands.<sup>85</sup> Much of the money received from tourists is spent on imported items that the tourists require, and thus immediately flows right back out of the islands' economies. Entrepreneurs in Saint Lucia estimate that the foreign exchange leakage is 40 percent to 70 percent, depending on the sector involved.

Saint Lucia has the most advanced tourism industry of the four Windward Islands. As of the mid-1990s (the latest period for which the author could find relevant statistics), tourism was the country's largest contributor to foreign exchange earnings, providing a net contribution of almost

EC\$200 million per year. Hotels and restaurants contributed just over a tenth of GDP, and employed just over a sixth of the labor force.<sup>86</sup>

Throughout the Windward Islands, there is considerable public skepticism about the ability of the tourism sector to provide a meaningful number of good jobs at decent pay. This sentiment may be contributing to the "tourist harassment" problems that have emerged in some areas and less frequent incidents of violence against visitors.

These security concerns, together with other business considerations, have caused the tourism industry to turn to two options that leave exceptionally few development benefits in their wake—"all-inclusive" resorts and cruise tourism. In 1998 about 60 percent more cruise ship passengers than stay-over visitors passed through Saint Lucia<sup>87</sup> and in 1994 two-thirds of Saint Lucia's major hotels were all-inclusive,<sup>88</sup> although the proportion has dropped somewhat since.

In both these forms of tourism, the visitor is physically separated from the host country population for much of the time and tends to purchase entertainment, food, and souvenirs from the tour operator or someone approved by that operator. This drastically decreases the "spin-off" effect of tourism in the local economy, because domestic tour guides, hotels, and restaurants find it harder to locate and engage the visitor. Author Polly Pattullo writes that

Dissent about all-inclusives has united Saint Lucia. A popular perception is that it has not just been the informal sector and the poor who have lost out in the scramble for dollars, but also the local elite who normally reap the benefits from tourism.<sup>89</sup>

A renowned Saint Lucian calypso song about all-inclusives, "Alien," includes the following lines:

For Saint Lucians to enter  
For lunch or dinner  
We need reservations, passport, and visa  
And if you sell near the hotel  
I wish you well  
They will yell and kick you out to hell.<sup>90</sup>

As if this were not bad enough, recently cruise lines have threatened to take Windward Islands destinations off their itineraries unless certain concessions are provided. The lines have pressured Saint Lucia and Saint Vincent to build additional cruise-ship berths, at great expense. Several of the new berths are designed to handle the extra-large ships that are now entering the market, even though passengers on the larger ships actually spend less per person on local goods and services

than passengers traveling on the smaller vessels, presumably because the huge ships are able to satisfy more of the passengers' desires on board. These developments may help explain why Saint Lucia has experienced an increase in visitor arrivals recently, but a decrease in per-person receipts.<sup>91</sup>

The cruise ship firms try to play one island off against another, threatening to abandon a destination unless fees are lowered. The most egregious recent case is that of Grenada. In November 1999, Carnival Cruise lines, which has the largest luxury cruise vessels in the Caribbean, stopped its ten-year practice of letting off two thousand visitors a week for six hours in Grenada. The cruise line had complained that the cruise ship levy of US\$3 per person and an additional environmental levy of US\$1.50 per person, applied in 1998, were too high. Grenada was forced to impose the environmental levy as part of its OECS membership obligations, to cover the cost of disposing of solid waste associated with the cruise ship industry. Imposition of the environmental levy was a condition of a more than US\$50 million World Bank loan to finance a solid and ship-generated waste management project. Carnival accounted for about half of Grenada's annual cruise passenger revenues of EC\$9 million.<sup>92</sup>

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**[T]he islands are trying to design strategies to keep more of the tourism dollar in the region. . . .**

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A major impediment to developing more land-based tourism in Dominica and Saint Vincent and the Grenadines is the absence of an airport that can take large international jets. Long-distance tourists do not like to change planes on a neighboring island and complete their journey in cramped quarters. As mentioned earlier in this essay, both countries have considered expanding their airports, but the costs are daunting. Meanwhile, American Airlines' 1999 decision to cut large-jet service to Saint Lucia and Grenada has reduced these countries' appeal to international visitors.

How, then, can the Windward Islands develop tourism into a sufficient supplier of jobs and revenues to offset the impact of globalization in the agricultural sector? Unlike larger countries, these islands cannot simply expand the number of visitors indefinitely, even if they could compete successfully with other destinations. They are just too small, and the environmental and social impact of a huge mass-tourism sector would soon erode the quality of the tourism product itself. Therefore, the islands are trying to design strategies to keep more of the tourism dollar in the region, with a minimum impact on the environment.

### **Linking Agriculture with Tourism**

One way to increase the economic benefits from tourism would be to arrange for more of the items used by tourists to be produced within the host country (rather than outside the region, as is currently often the case). Saint Lucia, the Windward country with the largest tourism industry, imports EC\$66.5 million of agricultural goods per year.<sup>93</sup> According to the food and beverage manager of a major all-inclusive resort in Saint Lucia, local farmers only provide 10 to 15 percent of his hotel's fruit and vegetable needs, yet he believes that Saint Lucia is capable of providing a full 50 percent of requirements.<sup>94</sup> Cruise ships tend to purchase supplies in bulk from warehouse operations on Saint Thomas in the U.S. Virgin Islands. That island does not produce any of the items itself, but it has an efficient procurement, warehouse, and loading facility that provides goods of the appropriate quantity and quality on a consistent, timely basis at a competitive price.

Several factors cause the tourism sector to avoid local goods. Existing cartels of foreign suppliers have a stranglehold on some parts of the industry, particularly in the cruise sector, and fight hard to prevent any indigenous suppliers from encroaching on their market. Some local suppliers have been able to break through, however, so the obstacles are clearly surmountable.

The primary problem is that the local farmers do not supply what the tourism sector wants. Food and beverage managers require specific fruits and vegetables, of certain sizes, often prepared to precise standards (e.g., diced rather than whole carrots), at internationally competitive prices and quality, delivered in the desired quantity on a regular basis. The majority of Windward Islands farmers fail to meet one or more of these criteria. Interviews with a number of farmers who are supplying the tourism industry show that with technical training, fierce determination, and sufficient access to credit, most of these obstacles can be overcome. However, even the most motivated and well informed farmer finds it extremely difficult to offer prices that are competitive with imported goods.

This is largely due to labor costs. Farmers are victims of tourism's own success. Wages for low-skilled labor have gone up due to the boom in hotel and cruise ship berth construction. Farmers therefore have to pay more than their competitors elsewhere to obtain farm labor, and higher wages lead to uncompetitive prices for their products.

A variety of solutions have been implemented or proposed, with mixed results. One of the most

promising was the “Adopt a Farmer” initiative, launched in the early 1990s through the efforts of Richard Michelin, then the president of the Saint Lucia Hotel and Tourism Association. Michelin realized that banks were unwilling to lend funds for crop diversification without evidence of a guaranteed market for the farmers’ produce. He also realized that farmers were unaware of what to produce, when, and in what quantities. He therefore designed a mechanism by which a hotel would select a farmer who had a proven track record of meeting production deadlines and quality checks. The hotel then contracted with the farmer to plant specific crops, in specific quantities, of predetermined quality, and according to an agreed six-month schedule. The hotel guaranteed the farmer a minimum and maximum price. The farmer took the contract to the bank to secure the loan required to increase diversified production.

Some of the large hotels became involved with the program. Club Saint Lucia, where Michelin is general manager, was one of the first to implement the program, and another hotel went so far as to supply farmers with seeds. However, the program has now lost some impetus. In the late 1990s, pink mealy bug infestation destroyed a large portion of the vegetable crop and caused some hotels to return to imported produce. The program collapsed at some hotels when new managers replaced the ones who had become involved. Some government entities opposed the program, and competition among farmers led to interpersonal difficulties.

Several hoteliers interviewed by the author believed that establishment of an intermediary between the farmers and the hotels would be useful, but to date few such mechanisms have arisen. Farmers historically tend to distrust middlemen and prefer to handle marketing directly. There are exceptions, however. In Saint Lucia, the Sunshine Harvest Cooperative and the Belle Vue Farmers Co-op represent groups of farmers who have pooled their resources and produce crops specifically for certain hotels.<sup>95</sup>

A proposed solution that has not been implemented with much vigor yet is for farmers to produce unique, upmarket, personalized products for the visiting tourists. The argument is that if an item is unique it cannot be replaced with a cheaper foreign equivalent. For example, one entrepreneur in Saint Vincent and the Grenadines has suggested that farmers and beauticians join together to open skin care salons close to the cruise ship berths. Arriving tourists could treat themselves to massages and facials using unique local herbs and fragrances, and purchase such products for future

use.<sup>96</sup>

Efforts to promote the local cuisine in restaurants (and thereby create a higher demand for local products) have met with mixed success. As University of the West Indies professor Adrian Frazer has remarked, “We tend to think that the tourist wants food from home. We don’t exploit the tourists’ natural curiosity about local food.”<sup>97</sup> The proprietor of a small hotel and restaurant in Saint Vincent and the Grenadines reported that she tries to get her chefs to cook creole food, but meets resistance.

Despite all these problems, there are several success stories in which farmers were able to break into the tourism market. For example, after its management spent years attending hotel and cruise trade shows at great expense, meeting personally with procurement officers, and writing endless letters, the previously mentioned Mamiku Gardens in Saint Lucia (see box) recently began to supply flowers to visiting cruise ships.<sup>98</sup> Another famous success story is that of Dominica Coconut Products, which was able to supply coconut soap to cruise ships after a personal conversation with a top cruise-line official by the proprietor circumvented the blockages presented by lower officials at the same enterprise.

Although both of the foregoing enterprises are fairly large by Windward Islands standards, tiny enterprises have also been able to break through. A group of women in Saint Vincent and the Grenadines processes and bottles a variety of fruit juices from local production. Their product is extremely popular with the hotels, being far fresher and sweeter than the imported equivalent. An added advantage is that when the tiny processing plant runs out of labels and cannot sell to the supermarkets, the hotels happily accept bottles lacking labels, because the product is served to the customer in a glass.<sup>99</sup> Medium-sized farming enterprises in Grenada and Saint Lucia have also successfully provided fresh produce to hotels on a regular basis, but these entrepreneurs’ willingness to devote virtually every waking hour to their farms makes them somewhat unusual.

Although many unexploited agricultural opportunities exist in the tourism sector, one unhappy conclusion remains. Those marginal farmers who are having difficulty surviving in the banana sector are not going to be able to cope with the rigorous demands of the tourism sector. To succeed, the farmer needs to plan and budget carefully, have access to credit, and meticulously live up to the terms of his or her contracts. If the marginal farmers had these skills and support structures, they would not be marginal in bananas. Therefore, the

tourism sector is not going to prove the salvation of many struggling banana cultivators.

### Eco/Heritage Tourism

Another way in which the Windward Islands could obtain greater benefits from tourism is by catering to visitors who want to experience the local flora, fauna, history, and people in an environmentally sustainable and culturally sensitive way. The islands have already made considerable progress in this direction, but there is far more that could be done.

The Ecotourism Society defines ecotourism as "responsible travel to natural areas that conserves the environment and improves the welfare of local people."<sup>100</sup> The market for this type of tourism is growing; a 1995 survey by the Travel Industry Association of America found that 83 percent of travelers are willing to spend extra for travel services designed to conserve the environment.<sup>101</sup>

In addition to the well-established concept of ecotourism, a new term has emerged in the Caribbean in recent years: "community-based heritage tourism." According to the concluding document from a 1995 conference organized by the Caribbean Natural Resources Institute (CANARI),

ecotourism, as the term is generally understood, may not be an appropriate model for much of the Caribbean. . . . [P]recisely because most Caribbean countries cannot compete with the more spectacular regions of the world for the nature or adventure tourist, they have the opportunity to develop a different kind of tourism, one which gives prominence and value to the region's unique and fascinating cultures, whose vitality, and even survival, have been threatened by the forms of tourism currently promoted.<sup>102</sup>

Efforts to develop ecotourism and community-based heritage tourism in the Windward Islands have encountered the following difficulties:

**"Green Washing."** According to ecotourism expert Martha Honey, throughout the world "[m]uch of what is marketed as ecotourism is simply conventional tourism wrapped in a thin veneer of green."<sup>103</sup> Travel writer Arthur Frommer agrees with this assessment, remarking that travel-related companies often claim to support the principles of ecotourism, but "in many cases, they really don't. The evidence they cite includes such trivial steps as using recycled-paper menus and stationery or putting biodegradable soap in guest bedrooms."<sup>104</sup>

**Compatibility with Mass Tourism.** Because the

Windward Islands are small places, the ambience that eco/heritage tourists desire may be marred by unwanted encounters with masses of conventional tourists (e.g., cruise ship passengers). Ken Dill, a Dominican tour operator who specializes in hikes to the interior and nature tours, told author Polly Pattullo:

If you promote ecotourism and then go to a site and find 250 other people there, our sort of ecotourist gets annoyed. . . . If cruise ships develop to four or five a day and four or five days a week, it will be a turn-off for the ecotourists.<sup>105</sup>

**Financing.** Many would-be entrepreneurs have great difficulty financing their operations. According to one successful entrepreneur in Dominica, banks tend to be more familiar with agricultural projects and have financing mechanisms already in place to fit that sector. Eco/heritage tourism borrowers need to explain their projects better and ask bankers to redesign arrangements, he asserts. Many find this a difficult task. An eco/heritage operation might not make a profit for the first three to five years and then could be extremely profitable, unlike the agricultural projects better known to bankers, which usually produce level streams of income throughout their lives.

CANARI says that soft loans and small grants do exist in the region, "but information about them is not easily accessible at the community level."<sup>106</sup> In 1998, the European Union did launch a three-year initiative to help Saint Lucia finance and develop a nature/heritage tourism offering that would be integrated with rural communities.

The proprietor of Mamiku Gardens, one of the most interesting eco/heritage tourism efforts in the Windward Islands, found that commercial banks

### Laborie Heritage Tourism Project

In 1991, some residents of the small Saint Lucian town of Laborie were invited to participate in launching a program for parks and protected areas in their region. They subsequently formed the Conservation and Heritage Group of Laborie. Their first initiative was to build a raised platform on a hill high above the village, from which visitors can view the surrounding countryside and sea, and on a good day actually see the distant silhouette of the island of Saint Vincent. Plans have been made to set up a picnic area and kiosks selling various local foods and crafts in the vicinity of the viewing platform. Tour guides are available to escort visitors to the platform and can also take them to a long beach from which traditional fishing operations are carried out.

The Laborie group is trying to obtain funds with which to maintain some eighteenth-century houses and an old Catholic church located in the town. A small-scale information center is also planned. The local population has been consulted at every phase of the project.

## Mamiku Gardens

Mamiku Gardens is an eco/heritage establishment that combines a botanical garden, the ruins of a late-eighteenth-century estate house, a small informal restaurant designed in a traditional manner and serving traditional food, and a gift shop featuring local handicrafts. It is the passion of Veronica Shingleton-Smith, a British theater scenery designer who became a landscape architect when she moved to Saint Lucia in her twenties. By the mid-1990s, her family found it increasingly difficult to make their five-hundred-acre estate pay its way, especially as the banana business began to founder. Intrigued by the idea of converting the family estate into an eco/heritage establishment, she had a professional feasibility study conducted and consulted comparable establishments in Barbados and Martinique. The proprietors of these establishments were helpful and willingly shared details about their operations with her. She then approached potential sources of financing. After repeated rejections from commercial banks, she obtained a loan for 52 percent of the construction cost from the Saint Lucia Development Bank, making up the remaining 48 percent by tapping family savings and cashing in her life insurance policy, which had matured when she reached age sixty-five. Construction began in February 1997, and the initial phase, comprising twelve acres, opened in December of that year.

The gardens comprise twenty-three acres carved out of an existing woodland on the estate. Flower beds featuring both endangered and nonendangered plants were fitted into the woodland in a natural manner. Seven men who formerly worked as banana farmers joined the effort and now tend the flowers full time. All garden furniture is made by local craftspeople, and the fencing is constructed using a traditional weaving technique that the grandfather of one of the gardeners had used. The small restaurant was built in a traditional West Indian style, although it has modern toilet facilities.

Mamiku Gardens also features the ruins of an estate house built in the late eighteenth century by the Baron de Micoud, a colonel in the French army and a former governor of Saint Lucia. Legend has it that the word "Mamiku" derives from the title of the baron's wife, a creole woman. When the British took possession of the island, they prohibited French citizens from owning land, and the baron apparently put the estate in his wife's name. "Ma" was then the prefix traditionally used when addressing a nonwhite woman—hence "Ma Micoud."

The estate was a military outpost during the wars between the British and the French in Saint Lucia, in the course of which the estate house was burned to the ground. Some excavation of the ruins has taken place and many late-eighteenth-century items have been found. Ms. Shingleton-Smith hopes eventually to raise enough funds to present these objects in a small museum and offer an "interpretation" tour of the ruins themselves.

The first years of the enterprise were quite difficult. In December 1999, Ms. Shingleton-Smith commented, "[We] were totally unaware of the importance of marketing when the Gardens were first opened and valuable time was lost." The enterprise has now spent far more than originally planned on a Web site (at <http://www.mamiku.com>), videos, maps, brochures, flyers, radio and television features, and road signs.

Ms. Shingleton-Smith has also targeted the cruise ship market, and two cruise lines now have Mamiku Gardens in their brochures and shore excursion lists. She is working hard to interest six more cruise lines. Based on her experience, it takes "two years or more" for a cruise line to become interested. Cruise line and tour operators "can't be bothered with anything new," and because Saint Lucia's main attractions are located on the west coast, tours are reluctant to venture up the east coast where Mamiku is located. Also, she has discovered that some of the tour operators own exclusive rights to many of the existing tours and are therefore reluctant to send visitors elsewhere.

Ms. Shingleton-Smith says that Mamiku's main source of income comes from

the independent traveler who wants to do his own thing. They come by taxis, self-drive cars, motor bikes, on foot, and by public mini buses. . . . These travelers are full of enthusiasm for Mamiku, they love it, and leave very reluctantly. Their praises are what keeps us going. They give us the courage to somehow survive.

Mamiku is also a founding member of Saint Lucia's Heritage Tourism Association, and its services recently began to be marketed through the association's HERITAS tour company. Over the eleven months ending 1 December 1999, almost 7,500 people visited Mamiku Gardens, up from just under six thousand in 1998, and the enterprise hoped to attract just over twelve thousand visitors in 2000.

she approached "thought I was mad." She eventually financed about half of her project with a loan from the Saint Lucia Development Bank and the rest by drawing on family savings and cashing in personal assets, essentially gambling her future on the project. Not all would-be entrepreneurs have had to go that far. Another Saint Lucian initiative, the Laborie Heritage Tourism Project (see box), received initial financing from a British university and subsequently obtained additional assistance from a local all-inclusive hotel, the local credit union, the local taxi association, and a few other nongovernmental organizations (NGOs). It received matching funds from CANARI and the Inter-American Foundation. (The IAF no longer covers the Caribbean in its activities, so this finance will not be available to Windward Islands entrepreneurs in the future.)<sup>107</sup>

**Infrastructure Costs vs. Profits.** Concerns have been expressed that, given the likely costs of building the infrastructure necessary to make potential

sites accessible to visitors, the eco/heritage tourism sector cannot be made sufficiently profitable to provide a genuine economic alternative for the region. One observer remarked that the four hundred thousand EC dollars it cost for one ecotourism entrepreneur to bring electricity to his remote establishment would have earned the proprietor far more if it had simply been invested in the local electric company.<sup>108</sup>

Commenting on this issue in relation to heritage tourism, CANARI remarked, "Government assistance is required in the provision of such infrastructure as adequate roadways, water and electrical connections, garbage removal, restroom facilities and signage." The Caribbean Development Bank can also be a source of infrastructure finance, although the institution tends to disburse funds slowly. Dominica did obtain a CDB loan in the mid-1990s to finance infrastructure for a series of nature tourism sites.<sup>109</sup>

**Training and Education.** According to CANARI,

"The knowledge and skills needed to implement heritage projects are often not available within rural communities. Governments can assist communities by providing access to training in critical skills, and by assuring that public education is relevant to local needs and available to all."<sup>110</sup>

The Windward Islands also suffer from a lack of awareness of the importance of their own people as an attraction that tourists might wish to experience. Ken Boyea, a successful Vincentian businessman, remarked to the author, "We are seen as, and often see ourselves as, a second-class people in a first-class country. But we have to remember, we *are* Mustique [one of the most exclusive and prestigious Vincentian islands]."<sup>111</sup>

Claire Keizer, the head of the Organization of American States (OAS) heritage tourism project based in Saint Vincent, reported a similar lack of self-awareness in an anecdote concerning a school poster competition to promote heritage tourism. The posters submitted by students featured beaches, hotels, and rivers, with no people. "The children did not see themselves as part of the attractions of Saint Vincent," commented Keizer.

**Land Ownership and Tenure.** The land ownership issue is particularly problematic for heritage tourism sites. In some cases, government assistance "may be needed to clarify or regularize land ownership issues, to assist in the negotiation of agreements with local landowners, or to authorize the community use of public lands. . . ."<sup>112</sup>

**Marketing.** One of the biggest difficulties eco/heritage tourism entrepreneurs, and indeed small domestically run hotels in general, have experienced concerns marketing. A small hotel proprietor in Saint Vincent and the Grenadines told the author, "We really need a bigger airport so that we will get a few really big hotels to invest here. Then they will feature Saint Vincent in their advertising, and attract enough visitors that we will get some too."<sup>113</sup> Mamiku Gardens' proprietor has concluded that one of the major misjudgments she made when establishing her plan was to underestimate the cost and time adequate marketing would require.

One possible solution to this dilemma, enthusiastically endorsed by a number of small eco/heritage tourism entrepreneurs, is electronic marketing. The type of visitor likely to be attracted to eco/heritage tourism often prefers to book his or her own itinerary without passing through a tour company. Independent travelers are increasingly relying on the Internet to explore potential destinations, and eco/heritage entrepreneurs who do not have a Web site will gradually lose out. Of course, lack of access to computer technology and skills will be an ob-

stacle for many entrepreneurs. The OAS Caribbean Innkeeper Project has in the past provided training in electronic marketing via the OAS's NetCorps program. The latter essentially functions as a "Peace Corps for computer specialists" whereby computer experts volunteer for six-week stints in the Caribbean, providing training to small entrepreneurs.

Some eco/heritage proprietors in the Windward Islands also believe that they should market their product jointly and present a common brand name. They view the "tourism trails" of small hotels and guest houses in rural Britain as a model. A group of Windward Islands entrepreneurs could agree to a common theme and name, and offer a "trail" whereby the visitor would visit several establishments (perhaps on different islands), experiencing a consistent thematic focus and style of hospitality. Establishment of an affordable, trustworthy accreditation mechanism for small eco/heritage establishments would be useful in connection with a tourism trail initiative, because the accreditation system would reassure prospective visitors that each component of the trail was indeed environmentally sound and offered an acceptable standard of care.

Saint Lucia has already made considerable progress in group marketing. EU funding has helped develop several heritage sites in the countryside, and the site operators have formed an association and their own tour company (called HERITAS), which began operations on 15 November 1999. HERITAS has sales booths in two popular tourist locations and plans to open a third. Out of the fee for each tour sold via HERITAS, a 10 percent commission is deducted for the association and a 5 percent incentive goes to the salesperson. The commission is held in an interest-bearing bank account and will be tapped once the EU funding for the program is phased out at the end of 2001. The association demands a high standard from its members and provides ongoing tour guide training.<sup>114</sup>

**Business Mentors.** Throughout the Windward Islands, people interviewed by the author have stressed the need for enabling small eco/heritage entrepreneurs to benefit from the advice of more experienced businesspeople and other specialists. One observer remarked, "What we really need is a tourism extension service, similar to the [long-established] agricultural extension services."<sup>115</sup> The previously mentioned CANARI report endorsed this recommendation, stating:

[Heritage tourism] efforts have been organized and stimulated by "outside"

facilitating institutions or individuals that were able to provide or arrange for both financial and technical support. The role of these facilitators is sometimes hidden or discounted, but the evidence suggests that it is in fact central and indispensable. . . . It must also be acknowledged that the development of technical capacity to manage heritage tourism at the community level will often take many years, and various forms of technical support must be available throughout this period.<sup>116</sup>

**Handicrafts.** The ability of eco/heritage tourism to channel additional tourism dollars into Windward Islands communities would be much enhanced if local handicrafts were stronger. Although some local workmanship is exquisite (the basketwork of Dominica's remaining Carib Indians being a prime example), in general skills are tending to die out. Elderly craftswomen interviewed in Saint Vincent and the Grenadines reported that they had provided training to young school leavers via government-supported programs, but their trainees quickly left the sector when they realized that remuneration would be low. Although the Mamiku Gardens enterprise seeks to promote local crafts in its gift shop, the selection is fairly sparse. Many small establishments must resort to importing items actually made in Central America or Asia. A gift shop proprietor in Saint Vincent and the Grenadines reported that she simply could not sell local items because the quality and supply was inconsistent, and visitors considered the prices too high.<sup>117</sup>

Claire Keizer reports that craftspeople are generally perceived as having low status, and therefore young people are not attracted to the sector. Furthermore, Keizer asserts, to provide products at economical prices craftspeople will have to give up their practice of personally executing all stages of the craft process, including planting, harvesting, and cleaning the raw material. This recommendation was endorsed by the elderly craftswomen mentioned above, who said that if they could purchase a supply of already prepared inputs, they could accelerate production and earn a better living.

A final barrier in the handicraft sector is the reluctance of craftspeople to adjust their designs. If local crafts were modified to function as packaging for a processed food item, for example, this would enhance the marketability of both the food item and the craft product. Because the majority of craftspeople are fairly set in their ways, they tend to resist such innovations.

### Tourism Is Not a Panacea

In sum, tourism development clearly will be an important component of the Windward Islands' effort to adjust to globalization. However, it is a complex industry capable of undermining the very characteristics that make the region an attractive destination in the first place, and in its conventional mode it leaves a relatively small proportion of revenues in the hands of local residents. Even if expertly managed, tourism alone is unlikely to salvage the region's economies.

### CONSEQUENCES OF FAILURE

The Windward Islands' predicament is clearly grave. Banana income, which has traditionally sustained the bulk of the rural population, is steadily declining in all four countries. A new development strategy is clearly needed, but each of the obvious alternative paths seems strewn with obstacles. To recapitulate:

- Agricultural diversification efforts face formidable financial, marketing, infrastructure, transportation, and training problems; must be launched within a culture that is often reluctant to give up the comfort of familiar ways; and are occasionally sabotaged by vested economic interests.
- Given their relatively high educational levels, modern telecommunications infrastructure, and linguistic and time zone compatibility with the United States, the Windward Islands might seem to be ideal candidates for success in information technology. On closer inspection, however, it is evident that high telecommunications costs, trained-labor shortages, financial constraints, ambivalent government attitudes, and tense relations with foreign partners will limit the IT sector's growth for some time to come.
- Financial services have been the economic savior of small, resource-poor countries elsewhere, but the Windward Islands are entering the field late. Even if the sector grows significantly, the impact on employment, particularly in the depressed banana-growing regions, would be modest.
- Although tourism has expanded dramatically in the Windward Islands, the sector's ability to serve as the engine of economic growth is in doubt. The islands are too small to accommodate an ever-increasing mass tourism sector. The shift from land-based to cruise tourism is leaving a decreasing share of the tourism dollar in local hands. Eco/heritage tourism prospects are promising, but the sector must grow slowly if it is to be sustainable.

Given enough time and creative leadership, all these strategies for coping with the impact of globalization may succeed. But time is short, and although creative leadership is evident in all four countries, as yet it has not been able to override the legacy of colonial-era attitudes and the expectation that solutions are to be obtained abroad rather than within the society itself. Observers therefore must contemplate the consequences of failure. What will happen in these countries if new economic activities do not emerge quickly enough to provide a livelihood to those displaced by the decline of the banana trade and to compensate for the associated slump in government revenues? What will be the implications for the region's immediate neighbors, including the United States?

### Drugs

If Windward Islands populations cannot maintain their standards of living through legal activities, at least some will be tempted to do so through illegal ones. Marijuana has long been grown in the Windward Islands for local consumption and relatively modest regional exports. Since the 1980s, however, drug activities have escalated markedly.<sup>118</sup> According to a May 1998 report by the UN International Drug Control Program, smugglers are using the small islands of the eastern Caribbean to transship drugs to North America and Europe. Antigua and Saint Kitts and Nevis are the most affected by this new trend, in part because of their location close to Puerto Rico and the United States, but large seizures of stockpiled drugs have also been made in Saint Lucia and Saint Vincent and the Grenadines.

Of the Windward Islands countries, Saint Vincent and the Grenadines perhaps has been the hardest hit, although a significant amount of cocaine trafficking (often transshipment) is also taking place in the other three nations.<sup>119</sup> Anthropologists, sociologists, and counternarcotics agents consulted by U.S. journalist Mark Fineman estimated in early 2000 that illegal marijuana sales and exports account for close to a fifth of the gross domestic product of Saint Vincent and the Grenadines, are the driving force in the economy, and are more important than the traditional banana crop.<sup>120</sup> A representative of a Vincentian NGO called Alternative Development for Advancement of the People (ADAP, formerly known as the Concerned Marijuana Growers' Association) told this author in April 1999 that the employment of 75 percent of Saint Vincent's rural population was linked either to marijuana cultivation or to the cocaine trade (this figure is hotly disrupted by both official and inde-

pendent sources). The ADAP spokesperson also expressed the belief that most marijuana farmers would like to leave the sector. The marijuana growers suffer from intermittent police destruction of their crops. Moreover, because the product is illegal, the growers have no recourse when middlemen refuse to pay them following consignment sales. As the marijuana trade becomes increasingly intertwined with the cocaine trade, the occupation is becoming more hazardous, and there are a disturbing number of unsolved murders in the marijuana-growing regions.<sup>121</sup>

It is hard to discern the exact extent to which the deterioration in employment prospects and personal incomes associated with globalization has contributed to the region's drug problems, but there clearly is some connection. Marijuana is ideally suited to the Windward Islands' climate and soil, requires little irrigation, bounces back after hurricanes, and fetches high prices. Any worker finding himself/herself without employment is going to know that he or she can make quick money from either cultivating or helping to transport drugs. Not all unemployed workers will choose this course of action, but it is a constant temptation to which a rising number of Windward Islands residents are succumbing.

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### **Among the most controversial antidrug actions have been the intermittent marijuana eradication campaigns.**

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Windward Islands governments are increasingly concerned about the impact of the drug trade on their societies and are also pressured by the international community to collaborate in antidrug activities. All four governments have implemented antidrug programs. Among the most controversial antidrug actions have been the intermittent marijuana eradication campaigns. The degree of domestic resistance these campaigns generate may be an indicator of the extent of rural dependence upon marijuana cultivation. (According to the previously cited ADAP spokesperson, 50 percent of the marijuana crop in Saint Vincent and the Grenadines was destroyed in the 1998 campaign, and shortly thereafter telephones in the country's rural areas began to be cut off at an accelerated rate, presumably because the loss of an important source of income meant that residents could no longer pay their telephone bills.)

The significant U.S. role in these campaigns also points to future problems for Washington if the region's rural people continue to shift from banana to marijuana cultivation. After a recent campaign, a local grower complained,

If the Americans destroy all the marijuana in Saint Vincent, they'll destroy Saint Vincent. It's the backbone of the economy. It's our livelihood. Now that the Americans have killed us on bananas, we have no other choice.<sup>122</sup>

A group calling itself the United Front for Progress has picketed Parliament and circulated a petition stating in part that the UFP "strongly condemns the use of foreign troops on our soil, the militarisation of Saint Vincent and the Grenadines, and calls for an immediate halt to the U.S.-led eradication exercises."<sup>123</sup>

### Money Laundering

In the manner of a balloon that responds to constriction in one area by bulging in another, recent modest progress in the drug sector has been accompanied by a sharp increase in money laundering activities. In a February 2000 interview, Jean-Luc Lemahieu, program manager of the UN International Drug Control Program's Caribbean Coordination Mechanism, reported that drug traffic through the eastern Caribbean had declined by 30 percent over the preceding two years because of greater participation in antidrug efforts, "but we see more sophisticated money laundering." A report issued by Lemahieu's office in the same month warned that the countries of the eastern Caribbean are particularly vulnerable to becoming involved in laundering the more than US\$60 billion in dirty funds that pass through the Caribbean each year, because of the lax regulation, lenient tax laws, and secrecy they offer banks and insurers. According to the report, investigators are particularly worried about Internet gambling; "the proposed establishment of a stock exchange for the eastern Caribbean may also present opportunities for money laundering."<sup>124</sup>

Each of the Windward Islands except for Saint Lucia has been subjected to accusations of money laundering. (Saint Lucia's relatively recent entry into the offshore finance sector is presumably responsible for its clean reputation thus far.)

- The offshore finance regulations of **Saint Vincent and the Grenadines** forbid disclosure of banking secrets to aid police inquiries. Such information can be revealed only after a trial has started. The prime minister has explicitly ruled out cooperation in foreign tax evasion cases. One Vincentian attorney general resigned over an offshore banking scandal in 1995. His successor followed suit in 1996 over an affair involving a domestic bank.<sup>125</sup> Money laundering per se is not a crime in Saint Vincent and the Grenadines, although "launder-

ing of money received through certain crimes, including drug trafficking, is punishable under the 1997 Proceeds of Crime Act."<sup>126</sup> A scandal erupted in late 2000 concerning an offshore bank and allegations of governmental corruption. (This subject will be further addressed in the next issue of the *Caribbean Briefing Paper Series*.)

- Concern over the role of **Dominica's** previously described economic citizenship program (which in effect allowed foreigners to purchase Dominican passports) in facilitating the anonymity of criminals should abate if the country's current government implements its campaign pledge to eliminate it. However, the country's offshore banking, international business corporations, and Internet gaming activities worry observers because "the government's limited regulatory and investigative capabilities are not adequate to prevent abuse of these industries."<sup>127</sup>
- According to a U.S. Department of State report published in early 2000, **Grenada** then had "only a minimal two-person regulatory staff" overseeing "an active and quickly growing offshore sector with offshore banks, international business corporations, and an economic citizenship program." Therefore, "[s]erious questions [had] developed as to Grenada's ability to perform due diligence on applicants and otherwise properly regulate this sector."<sup>128</sup> In 2000, a controversy did indeed erupt in Grenada over an offshore bank that caused depositors to lose large amounts of money in circumstances that led to accusations of theft, corruption, and money laundering in the offshore sector. The Grenadian government subsequently strengthened its regulatory capacity, and an investigation is under way. (Again, this subject will be further discussed in the next issue of the *Caribbean Briefing Paper Series*.)

Ironically, even as the relentless pressures of globalization tempt resource-poor and increasingly desperate countries to adopt policies that wittingly or unwittingly facilitate money laundering, the worldwide electronic communications network of the globalized economy makes money laundering itself more efficient and harder to detect.

### Other Social Ills

Beyond drug trafficking and money laundering, possible consequences of unresolved strains caused by globalization include social unrest, corruption, and the facilitation of various sorts of organized crime. Symptoms of one or more of these problems are already evident in all four Windward Islands.

Saint Vincent and the Grenadines has exhibited

clear signs of explosive social tensions. In March and April 2000, the government was considering a plan to increase the pay and retirement benefits of parliamentarians. Meanwhile, some daily-wage workers, such as watchmen, were going unpaid as the government claimed that it had insufficient resources to meet its payroll obligations. In the words of an NGO official close to the issue,

The government misjudged the mood of the population. It did not realize just how frustrated people were. We know the country is in an economic crisis and some belt tightening is necessary. This was not the time for the Parliament to vote itself a major increase and pension benefits when other workers are having to face retirement with no protection whatsoever.<sup>129</sup>

As tensions increased in April, public-sector workers went on strike. Schools, hospitals, and even the main airport ceased functioning. Virtually all of the country's public- and private-sector unions called for the government's resignation, as did street demonstrators in early May. Eventually CARICOM mediated an accord whereby the government agreed to hold elections within ten months, rather than waiting until 2003 as provided by the constitution.<sup>130</sup>

Before the ink on the CARICOM-mediated accord had dried, however, more problems arose. In mid-May 2000, residents of the Grenadine island of Canouan wrote to leaders of CARICOM regarding tensions between islanders and developers of a multimillion-dollar tourism complex. The Canouan Progressive Movement complained about a shortage of land for locals' use, lack of public access to the beaches associated with the development, desecration of a graveyard, and destruction of ecosystems. This protest, which illustrates the problems associated with mass tourism on small islands, came at a particularly awkward time for the government, because CARICOM was scheduled to hold its summit meeting on Canouan in July 2000.<sup>131</sup>

The frustration of people who believe that their government is not adequately handling globalization is evident in Dominica as well. The island's evolving political crisis culminated in the January 2000 defeat of Dominica's centrist government by a coalition dominated by the Dominica Labour Party (DLP) in an election marked by controversy over the "economic citizenship" program, which prominent members of the DLP charged would "eventually establish Dominica as a center for international crime." The DLP's leader was Roosevelt "Rosie" Douglas, a renowned Marxist who enjoyed long-

standing ties to Cuba and Libya. As Mark Fineman noted shortly after the election, the new prime minister's "ascendance [came] as many disillusioned voters throughout the Caribbean [were] turning to charismatic, traditional leftists."<sup>132</sup>

To Dominica's credit, its tensions were resolved peacefully at the ballot box without the widespread strikes and street protests that disrupted its neighbor. However, it is symptomatic of the frustration felt throughout the region that the traditionally conservative Dominican population selected as their leader a man with a socialist background who was deported from Canada in the 1970s for leading black-power protests, who for fifteen years headed a Libyan-based organization that financed and trained African guerrilla movements, who had labeled the United States an imperialist enemy, and who advocated establishing closer relations with Cuba. Admittedly, Douglas's views subsequently mellowed. When asked if he would transform Dominica into a headquarters for U.S. enemies, he said, "The Caribbean has gone past that stage. We want peace and development." Moreover, his room for maneuver was constrained by the participation of the conservative Dominica Freedom Party in his governing coalition. Nevertheless, he clearly believed that he had a mandate to bring about significant change.<sup>133</sup> (Prime Minister Douglas died unexpectedly on 1 October 2000 and was succeeded in office by Pierre Charles, who had been communications and works minister in the Douglas government. The new prime minister appears determined to execute the same policies outlined by his predecessor, although he has a much less controversial background.)

Saint Lucia and Grenada's social problems have attracted less attention in the press, but are nonetheless worrying. Strains among Saint Lucia's farmers, related to differing views on how best to deal with falling banana prices, have intermittently led to violence. Accusations of corruption led to the formation of a commission of inquiry into the administrations of two past prime ministers. Although those leaders have been absolved, the commission did find serious malpractice.

Events associated with Grenada's January 1999 elections also raised concern. The campaign of the incumbent New National Party (NNP) was characterized by an unprecedented level of expenditure. The total NNP campaign bill was about US\$3 million. This equals about thirty-one U.S. dollars per capita, compared with four U.S. dollars per capita spent on the 1996 U.S. elections.<sup>134</sup> The NNP admitted that it received "support and funding from the international sector," but declined to be

more specific. (Grenada has no laws regulating campaign financing and no provisions for public disclosure.) There is speculation that at least some foreign financiers of Grenada's elections were involved in questionable financial transactions and wished to keep in power the government with which they were comfortable, but there is no proof of this connection to date. (More details concerning this matter will be published in the next issue of the *Caribbean Briefing Paper Series*.)

In addition, Grenada has been experiencing significant labor unrest. During the spring of 2000, teachers staged a series of work stoppages in support of a pay claim and port workers voted for strike action following the breakdown of negotiations over a new contract. Twenty-six workers at the Grenada Broadcasting Network were fired after walking out over a pay contract dispute, and their affiliated union organized a national rally in their support in mid-May.<sup>135</sup> Although a certain amount of labor unrest is natural, in Grenada the tempo of such disputes is accelerating at an alarming rate.

### **Impact on the Windward Islands and Neighbors**

Of course, drug dealing, money laundering, corruption, social unrest, and facilitation of organized crime are not solely the result of globalization. Such problems were evident in the Caribbean (and elsewhere) before the globalized era. It is also true that Windward Islands leaders must bear a significant portion of the blame for their countries' current predicaments, because they have not always efficiently exploited available opportunities. It is undeniable, however, that due to their small size, geographical location, and limited resource base, the Windward Islands face particularly severe challenges from globalization, and that the new world trends are creating a context conducive to an increase in both anti-Americanism and a variety of social ills capable of undermining the region's stability.

Should the situation continue to deteriorate, at least some Windward Islands countries may soon find themselves in a downward spiral, with economic problems creating social and political crises that in turn make it impossible to implement sustainable economic recovery strategies. Tourism and information technology firms will not invest in unstable, crime-ridden markets. Local entrepreneurs of good faith will not invest their families' savings in innovative, risky ventures if they believe that the rule of law, upon which legitimate commerce relies, can be compromised via corruption. Illicit activities may be capable of keeping such economies afloat over the short to medium term,

but the problems they generate would most likely eventually undermine the entire social fabric.

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### **Should the situation continue to deteriorate, at least some Windward Islands countries may soon find themselves in a downward spiral. . . .**

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The likely consequences for neighbors, including the United States, are obvious. The entrenchment of drug smugglers, money launderers, and other criminals in the Windward Islands would create law enforcement nightmares. How much more difficult would it be to prosecute transnational crime if perpetrators could hop to a nearby jurisdiction, secure in the knowledge that they would be protected? The Windward Islands have not yet reached this point, but the evidence presented in this paper clearly indicates that such a situation could conceivably arise in one or more island-states. Furthermore, should instability promote out-migration pressures, both neighboring Caribbean countries and the United States would face the uncomfortable prospect of growing numbers of illegal Windward Islands migrants. Should severe civil unrest arise (a remote but nonetheless possible scenario), the Windward Islands' neighbors would face pressure to intervene politically and perhaps even militarily. If the region becomes a reliable transshipment route for drugs, neighbors will have ongoing interdiction headaches. If anti-Americanism and voter disenchantment with centrists continue to grow, Washington will find itself negotiating trade, security, and migration issues with counterparts unsympathetic to the U.S. worldview.

In short, John Donne's famous observation that "no man is an island" can perhaps now be rephrased in the globalized era to read, "no geographical island is a political, economic, or security island." The Windward Islands' success or failure in their struggle to adapt to globalization will have ramifications far beyond their own borders.

### **A TEST OF GLOBALIZED CAPITALISM?**

What follows is perhaps overly alarmist speculation regarding worst-case scenarios. It is not intended as a concrete prediction, but rather as a provocative extrapolation of present trends into a possible, but by no means certain, future.

The current developments in the Windward Islands suggest to this author that globalized capitalism may eventually experience a crisis similar to that faced by U.S. domestic capitalism in the 1930s. In the Depression, the natural cycles of lightly regulated capitalism, in the absence of an

adequate safety net to protect the most vulnerable, led the losers to suffer such deprivation that they became a destabilizing factor capable of threatening the welfare of the winners. The United States subsequently implemented greater regulation of capitalist activity and better economic safeguards for the poor and middle class. In essence, a self-correcting mechanism was installed that addressed the very flaws in domestic capitalism that Marx had predicted would lead to revolution. Doing this was not easy, and the mechanism's architects faced enormous criticism from those shortsighted winners who did not understand that they had to give up some autonomy and wealth in order to make the system viable over the long term. Similar mechanisms were introduced elsewhere in the world and are now considered the norm in the developed countries.

The national consensuses that permitted the United States and other countries to introduce these self-correcting mechanisms were possible for two reasons: (1) The losers lived in close geographical proximity to the winners and were therefore well placed to appeal for empathy and/or threaten to commit wealth-damaging acts should their needs remain unmet. (2) Political leaders of the national capitalist systems needed votes from both winners and losers if they were to attain and retain national office.

The situation in the Windward Islands today raises several related questions. Is globalized capitalism in the early twenty-first century in danger of creating at the international level some of the same inequalities and perceived injustices that national capitalism featured in the early twentieth century? If the reader agrees with the author that such a scenario is conceivable, then the next question arises. Will globalized capitalism develop the same self-correcting mechanism that national capitalism implemented? Will globalization's winners agree to prevent losers from becoming so impoverished that they take actions that threaten part or all of the global capitalist system?

Two characteristics of the modern world may make the consensus required for such an accommodation hard to reach. (1) Winners and losers are increasingly located in different countries. Therefore, losers may have difficulty in eliciting empathy from winners, and winners may feel geographically protected from the rage of losers. (2) There are no elected global leaders who must gain support from both winner and loser constituents in order to remain in power.

Nevertheless, there are some grounds for hope.

The plight of the losers can be brought into the homes of the winners via CNN and the Internet, thus increasing the likelihood of an empathetic response among the First World citizenry. Modern transportation means that distance provides winners with less of a buffer from losers' acts of frustration than it used to, so the threat posed to the system by unprotected losers may become evident before a full-fledged crisis develops.

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**[T]he Windward Islands are an interesting test case [of the prospects] for global capitalism.**

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A more difficult issue is the lack of a world body with legitimacy among both losers and winners capable of building a consensus for a global self-correcting mechanism to ensure that inequalities never reach the system-destabilizing threshold. The United Nations, the World Trade Organization, and even some of the international financial organizations might eventually play such a role, but they do not yet have the required will, legitimacy, or mandate.

The banana controversy and the overall impact of globalization on the Windward Islands are of immediate interest only to the populations of the islands themselves, a small handful of trade specialists, some antidrug officials, and a few solidarity networks. In the future, however, we may look back on events in the eastern Caribbean as a harbinger of larger trouble to come. It is a region in which winners are showing little concern for losers, there is no authority capable of arbitrating between the two in a manner accepted as legitimate by all, and the growth in illicit enterprises represents just one way in which losers can take actions that undermine the welfare of winners. To say "as go the Windward Islands, so goes the world" would be excessive. However, it is not unreasonable to assert that the Windward Islands are an interesting test case that may either presage future strife or provide one of the first examples of a new self-correcting mechanism for global capitalism. If Marx and his contemporary critics were alive, they would be monitoring this region extremely closely, and so should their modern counterparts.

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