

THE UNITED STATES AND  
CARIBBEAN STRATEGIES  
THREE ASSESSMENTS

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Policy Papers on the Americas



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Foreword by Amy Coughenour Betancourt

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## **U.S.-Caribbean Relations at the Dawn of the Twenty-First Century**

*Richard L. Bernal*<sup>2</sup>

A new U.S. president assumed office in January 2001 and gave every indication of initiating a thorough review of U.S. foreign policy. An integral part of such a reappraisal must be a comprehensive examination of relations between the United States and the Caribbean Community and Common Market (CARICOM) countries. CARICOM is a regional integration arrangement established in 1975, whose members are Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts & Nevis, St. Lucia, St. Vincent & the Grenadines, Suriname, and Trinidad & Tobago. Table I provides data on land area, population, gross domestic product (GDP), and GDP per capita of the CARICOM nations and the United States.

### **The Context of U.S.-Caribbean Relations**

U.S. foreign policy towards the Caribbean has been a subset of a wider Latin American policy within an overall foreign policy framework dominated by Cold War perspectives. As a superpower, the United States has pursued a foreign policy of global reach and engagement within which the Caribbean has not always been the subject of a clear, distinctive, and sustained policy. In fact, the United States has pursued separate policies for Central America, Cuba, Haiti, the Dominican Republic, and CARICOM, albeit within the leitmotifs of free trade, anticommunism, and democracy.

The Caribbean and the United States have had a long and mutually beneficial relationship over many decades and share a resolute commitment to democracy, the rule of law, and the promotion of private sector-led market-driven economies. U.S. policy towards the English-speaking Caribbean (ESC) emerged during the 1960s when these countries attained their political independence from Great Britain, beginning with Jamaica in 1962. The CARICOM countries made the transition to independence through a series of negotiations, and since that time, they have maintained an enviable record of stability, electoral democracy, and peaceful coexistence with their neighbors. Only once has the U.S. military intervened unilaterally in the Caribbean region—in Grenada in 1983.<sup>3</sup>

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<sup>2</sup> The views expressed in this paper are those of the author and not those of the Government of Jamaica.

<sup>3</sup> The United States was the lead actor in the 1994 multilateral military intervention in Haiti, to which CARICOM provided significant elements.

**TABLE I****Land Area, Population, GDP, GDP per Capita for the  
CARICOM Countries and the United States**

<b>COUNTRY</b>	<b>LAND AREA (sq km)</b>	<b>POPULATION</b>	<b>GDP U.S.\$ Million</b>	<b>GDP Per Capita U.S.\$</b>
Antigua & Barbuda	440	66,860	639	9,432
Bahamas	3,880	290,400	4,560	14,998
Barbados	430	265,630	2,469	9,789
Belize	2,960	238,550	705	2,949
Dominica	750	73,000	273	3,690
Grenada	340	96,200	360	3,758
Guyana	14,970	849,180	782	998
Haiti	27,800	7,800,000	3,900	460
Jamaica	10,990	2,576,000	7,445	2,893
St. Kitts & Nevis	360	40,820	305	7,193
St. Lucia	620	152,000	639	3,677
St. Vincent & the Grenadines	390	113,220	320	2,874
Suriname	163,270	412,070	1,104	2,474
Trinidad & Tobago	5,130	1,285,140	6,380	4,666
United States	9,363,520	270,299,008	9,256,150	33,933

Sources: IMF, *World Economic Outlook Database* (<http://www.imf.org>); World Bank, *World Development Indicators Database* (<http://www.worldbank.org>)

The global economy and international political framework, which have existed since World War II, are in an advanced stage of metamorphosis. The speed and the profundity of the changes involved in globalization have been so dramatic that most people have not realized the extent to which the world has changed. This transformation ushers in a new era, and countries that are slow to adjust and adapt to the new economic environment will be progressively marginalized from the mainstream of global economic activity. Global changes are not simply a change in the weather; they constitute a change in climate.

The nature and conduct of international relations have also been altered profoundly during the last two decades. The post-World War II political architecture collapsed with the end of the Cold War, leaving the United States as the single superpower. The implosion of the Soviet Union; the fragmentation of Eastern Europe; the rise of the newly industrialized economies in Asia and Latin America; and intensifying tripolar economic rivalry between the United States, Japan, and the EU, have combined to change the dynamics of

international affairs. In the immediate future, international relations will be more complex due to the diversity and proliferation of political actors, the evolution of governance in response to an erosion of the sovereignty of the nation-state, and the need for new forms of management of the global economy.

The strategic importance of the ESC to the United States and Europe has declined in recent years. This is a reflection of the end of the Cold War and the fact that the region's principal exports of agricultural products and critical raw materials—sugar, bananas, and bauxite—are no longer as important to the United States and the EU. These products are readily available from other regions, and in some cases, at lower prices. The security concerns of the United States have also changed dramatically in the post-Cold War era. Current priorities include the Middle East, China, Iraq, and North Korea, as well as the rehabilitation of the former Soviet states and Eastern Europe. Unlike those countries, the ESC is characterized by well-entrenched and stable democracies; hence, despite its proximity, it has received less attention from the United States.

The challenge for the Caribbean and for the Caribbean-U.S. relationship is to reinforce the traditional friendship and build on the remarkable history of international collaboration, political cooperation, and economic interdependence. The U.S.-CARICOM partnership must continue to pursue the enduring goals of peace, democracy, and economic development. In order to achieve this, the United States and CARICOM will have to jointly confront common challenges.

### **Economic and Security Vulnerabilities**

In the ESC, economies are small and fragile with a number of common characteristics. First, external transactions are large in relation to total economic activity, as indicated by the high ratio of trade to GDP. Second, there is heavy reliance on external trade because of a narrow range of resources and the inability to support certain types of production, given the small scale of the market. Third, openness is measured by imports and exports of goods and services as a percentage of GDP. The United States has a trade/GDP ratio of 15 percent. By contrast, CARICOM economies have trade/GDP ratios between 40 and 204 percent.

The limited range of economic activity in these small economies is reflected in the concentration on one to three exports, accompanied in the majority of cases by a relatively high reliance on primary commodities. In extreme instances, one primary product export accounts for nearly all exports. For example, in 1991, bananas accounted for 92 percent of total exports in Dominica and 87 percent in St. Lucia. Export concentration is compounded by the dependence on one or two export markets; for example, Britain absorbs 80 percent of Dominica's bananas and 90 percent of St. Lucia's exports.

Small economies are extremely vulnerable to external economic events. Economic vulnerability can be a feature of an economy of any size and level of development, but it is compounded by small size, susceptibility to natural disasters, remoteness, and insularity. Studies of developing countries have demonstrated that there is a direct relationship between vulnerability and size, with the smallest developing countries being the most vulnerable. A World Bank–Commonwealth Secretariat study shows that of 111 developing countries, 26 of the 28 most vulnerable were small countries and 28 least vulnerable were all large states. Canada, Brazil, Argentina, and the United States have vulnerability indexes of 0.2 or less, while Caribbean and Central American economies exceed indexes of 0.4. The smallest economies have vulnerability indexes ranging from 0.595 for Barbados to 0.843 for Antigua.

Small economies have severe constraints on their material and labor inputs both in amount and variety, because of the limited land area and small populations. These constraints make it very difficult to attain global standards of efficiency and economies of scale for a wide range of products and they lead to high unit costs of production. Small economies tend to have a narrower range of domestic and export production because of small market size and the limited range of resources. Concentration is usually significantly higher in developing countries than in developed countries, for example, in manufacturing. Small domestic markets make it difficult for firms to attain economies of scale and if they do, it is usually by market dominance—in many instances as monopolies.

Volatility in national income is a pronounced characteristic of developing countries that export a few primary products, particularly minerals and agricultural commodities, and experience erratic fluctuations in capital flows. Small developing countries have a severely constrained adjustment capacity that limits their ability to react. Volatile fluctuations in national income are costly because of the adverse impact on investment, resource allocation, productivity, inflation, exchange rates, and economic growth. As estimated by the World Bank/Commonwealth Secretariat, small economies experience 25 percent higher income volatility than larger economies. A recent study of foreign direct investment (FDI) flows in the last 20 years reveals that small developing countries are at a disadvantage in attaining FDI, because even when they have sound economic policies, they are rated 28 percent more risky.

One of the peculiarities of small developing countries, particularly the small islands of the Caribbean, is the prevalence of natural disasters. The adverse affects of natural disasters have contributed to volatility in the countries' growth rates. It is unquestionable that the impact of a natural disaster on a small economy and its financial sector can be far more devastating than on a large economy, where the damage is relatively localized. The following statistics concerning the amount of damage caused by natural disasters in relation to GDP bear this out. The damage to Jamaica from

Hurricane Gilbert in 1988 amounted to about 33 percent of GDP; to Antigua from Luis and Marilyn in 1995, about 66 percent of GDP; to Montserrat from Hugo in 1989, about 500 percent of GDP. In comparison, the damage to the United States from Hurricane Andrew in 1992, although much larger in an absolute amount, represented to only 0.2 percent of GDP.

With regard to vulnerability in the security realm, an inextricable link exists between security and economic conditions. Policy in CARICOM states and U.S. policy towards the region must be based on a clear recognition of this fact. Security issues in the CARICOM region increasingly involve: 1) drug trafficking and money laundering; 2) illicit arms trafficking and the link to crime and violence; and 3) transborder shipment of nuclear and hazardous wastes through sea and airspace of small island states. Such problems are, of course, not unique to the island states of the Caribbean. However, these states are particularly vulnerable. In addition, their geographical location make the small states natural transit points for illicit drugs and arms.

The illegal trade in guns has contributed to a pronounced escalation of violence. Closely associated with illicit firearms is the drug trade that is of enormous size and attracts so much money that it is difficult for the governments of the small island states, due to their limited resources, to effectively combat these scourges without assistance. Violent crime associated with the drug trade threatens the social and political fabric of these nations. Ultimately, the best defense against involvement in lucrative drug production and trafficking is economic growth, which leads to increased employment and income, particularly in rural areas.

### **Challenges Facing the Caribbean**

Economic and security challenges facing the Caribbean require a fundamental transformation of these economies by undertaking strategic global repositioning (SGR). Strategic global repositioning is the process of repositioning a country in the global economy and world affairs by implementing a strategic medium- to long-term plan formulated from continuous dialogue with the public sector, private sector, academic community, and social sector. It involves proactive structural and institutional transformation (not adjustment) focused on improvement and diversification of exports and international economic and political relations. An integral part of strategic global repositioning will be export diversification, and the development of new exports (informatics, for example), as well as improving competitiveness and productivity in existing export sectors, such as bauxite.

Some foreign exchange earning sectors, such as tourism, will have to undergo a continual process of review and adjustment, such as changing the product mix to meet shifting demands or creating new customers. The production and export of traditional commodities such as sugar, nutmeg, and

bananas on the present scale may not be viable in the long run. There have been serious and sustained attempts to increase the competitiveness of these sectors while developing new export industries. This is a very urgent problem for economies heavily dependent on the export of bananas, such as St. Lucia, St. Vincent and the Grenadines, and Dominica. The experience of Antigua's transition from an economy based on sugar to one in which tourism is the core activity is an encouraging example of the transition possibilities.

Tourism has been a principal sector which accounts for about 30 percent of the region's export earnings and one in every five jobs. In some countries, including the smaller islands of the Eastern Caribbean, the percentage of the population employed in tourism is much higher than 20 percent, and tourism's share of GDP can be as high as 70 percent. Given the crisis being experienced in the Eastern Caribbean with the marketing of bananas to Europe, the importance of tourism is expected to increase. The capacity of CARICOM countries to be internationally competitive in tourism is reassuring because it is indicative of a capability that could be applied to other economic activities. There has been success in food processing and apparel manufacturing, most notably in Jamaica, and heavy industry in Trinidad and Tobago. Mining of minerals in Guyana and Jamaica and natural gas in Trinidad and Tobago remain important, and there are prospects for expansion.

Efforts to diversify exports have already begun in the region through the further development of new exports such as information technology (IT). In this regard, the governments of the ESC have embarked on a serious effort to liberalize the region's telecommunications sector. In 1999, Jamaica began this process by signing a landmark agreement with the local telecommunications monopoly to phase-in a fully competitive system within three years. In the first phase of this process—liberalization of wireless services—a leading U.S. telecommunications firm won one of two bids to offer cellular services. With respect to information technology, several countries in the region, such as Jamaica and Barbados, have identified the expansion of this sector and the shift to a new "digital" economy as priorities for sustained economic growth.

### **Economic Policy Issues**

The United States is the largest trading partner and source of capital flows of CARICOM. Caribbean Basin Initiative (CBI) nations are a significant market for U.S. exports. In 1999, U.S. exports to CBI countries totaled \$19.8 billion, 333 percent more than in 1995 and representing about 3 percent of total U.S. exports. U.S.-CBI trade is shown in Table II. It is estimated that about 50 cents of each dollar spent in the Caribbean Basin is spent back in the United States compared with only 10 cents of each dollar spent in Asia. In 1995, Jamaica purchased 75 percent of its imports from the United States. The Caribbean Basin is, in aggregate, now the tenth largest export market for the United

States, surpassing other U.S. trading partners such as France. Presently, the U.S.-Caribbean relationship supports more than 400,000 jobs in the United States and many more throughout the Caribbean. For further details see Table III.

**TABLE II**

**U.S.-CBI Trade Statistics, 1985-1999 (Millions of Dollars)**

<b>Year</b>	<b>U.S. Imports</b>	<b>U.S. Exports</b>	<b>Balance</b>
<b>1985</b>	6,687	5,942	-745
<b>1986</b>	6,065	5,362	297
<b>1987</b>	6,039	6,906	867
<b>1988</b>	6,061	7,690	1,629
<b>1989</b>	6,942	9,023	2,081
<b>1990</b>	7,525	9,569	2,044
<b>1991</b>	8,372	10,013	1,641
<b>1992</b>	9,627	11,263	1,636
<b>1993</b>	10,378	12,428	2,050
<b>1994</b>	11,495	13,441	1,946
<b>1995</b>	12,673	15,306	2,633
<b>1996</b>	14,700	15,903	1,203
<b>1997</b>	16,877	18,432	1,555
<b>1998</b>	17,250	20,118	2,868
<b>1999</b>	19,607	19,816	209

*Source: Calculated from U.S. Department of Commerce data.*

***CBI-Caribbean Basin Trade Partnership Act (CBTPA)***

The Caribbean Basin Initiative came into effect in 1983 by the enactment of the Caribbean Basin Economic Recovery Act (CBI I). Subsequently, in 1990, the Caribbean Basin Economic Recovery Expansion Act (CBI II) added several improvements and made the CBI a permanent program. In May 2000, the U.S. House of Representatives and the Senate passed the Caribbean Basin Trade Partnership Act (CBI III) as part of the Trade and Development Act of 2000, and President Clinton signed it into law in October 2000. The bill, which became effective on October 1, represents an enhancement of access to the U.S. market, in particular, the textile provisions, and other products excluded under CBI I. These provisions will remain in effect eight years ending in September 2008. However, when the Free Trade Area of the Americas (FTAA) comes into effect, it will take precedence over this legislation.

**TABLE III****U.S. Jobs Dependent on Trade with Caribbean Basin Nations**

<b>Year</b>	<b>Jobs Dependent on CBI</b>	<b>New Jobs Created Per Year</b>
<b>1986</b>	127,240	8,400
<b>1987</b>	138,120	10,880
<b>1988</b>	153,800	15,680
<b>1989</b>	165,800	12,000
<b>1990</b>	191,380	25,580
<b>1991</b>	200,260	8,880
<b>1992</b>	225,262	25,002
<b>1993</b>	248,552	23,290
<b>1994</b>	268,814	20,292
<b>1995</b>	306,120	37,306
<b>1996</b>	318,060	11,940
<b>1997</b>	368,640	50,580
<b>1998</b>	402,360	33,720

*Based on U.S. Department of Commerce formula of \$1 billion in exports = 20,000 jobs.*

The North American Free Trade Agreement (NAFTA) undermined the benefits of CBI because Mexico enjoyed more favorable access to the U.S. market. This placed the small, undiversified economies of CBI countries at a competitive disadvantage in terms of access for apparel exports to the United States. The preferential access to the U.S. market provided to Mexico under NAFTA compounded the advantages that Mexico already enjoyed, such as inexpensive labor, cheap energy, lower transportation costs, and economies of scale.

The progressive lowering of tariffs and removal of quotas for Mexico caused a reduction in some of the Caribbean Basin's most valuable exports, because CBI apparel exports were limited by quotas and tariffs. Mexico's share of total U.S. apparel imports increased from 4.2 percent in 1993 to 11.0 percent in 1997, while U.S. imports from Jamaica, by far the largest CARICOM supplier, declined from \$531 million in 1995 to \$422 million in 1998. Some existing productive capacity was lost in the region as many factories closed and relocated to Mexico. Imports from other CARICOM countries stagnated, declined, or ceased altogether, compared to the pre-NAFTA period when imports from CARICOM countries were increasing.

CBI III is a significant step toward parity of market access between Mexico and CBI countries, particularly as it relates to apparel. This includes

the immediate elimination of duties and quotas on apparel and textile luggage products made from fabrics wholly formed and cut in the United States of U.S. yarns (807A), or from fabrics wholly formed in the United States of U.S. yarns and cut in countries engaged in section 809 textile and apparel production. The new legislation also provides tariff treatment under rules of origin identical to NAFTA for goods previously excluded, such as footwear, tuna, petroleum products, watches, and watch parts.

In June 2000, the U.S. Trade Representative (USTR) announced that CBI countries would have to meet certain eligibility criteria in order to be considered for trade benefits, and report on such activity by October 2, 2000. The eligibility criteria cover a range of issues. They include: (a) the country's demonstrated commitment to World Trade Organization (WTO) and Uruguay Round Agreements; (b) the status of government policy towards workers and workers' rights; (c) the country's commitment to participate in negotiations toward the completion of FTAA negotiations; (d) the extent to which the country had taken steps to become a party to and implement the Inter-American Convention Against Corruption; and (e) the country's contribution to efforts in international fora to develop and implement international rules on transparency in government procurement.

Having to meet eligibility criteria was troubling to most CBI governments because it appeared to be an attempt by the United States to push a parallel political agenda. All CBI countries were named as beneficiaries on October 2, 2000. However, discussions have continued between the CBI states and the U.S. government on several outstanding issues. Those issues include: (a) how to manage the textile quota allocation given to the region on knit apparel and T-shirts, which the United States has instructed must enter U.S. ports on a "first-come, first-served" basis; (b) building local capacity to meet certain customs requirements and procedures (which the United States has designated as necessary) in a manner that is mutually beneficial to the United States and CBI countries; (c) ensuring that CBI manufacturers and exporters make the best use of the enhanced market access provided by the act; and (d) issues related to workers' rights.

### ***Bananas***

The banana dispute continues to be an issue of major concern for Jamaica and for the banana-producing countries of the Caribbean. The export of bananas is vital to the economic, social, and political fabric of many states, some of which depend on the industry for more than 50 percent of their export revenue. On October 9, 2000, at a European Ministers Meeting, the European Union member states gave their backing to the European Commission's proposals for the adoption of a first-come, first-served method which would be transitional to a tariff-only system. In the latest developments, the United States, Latin

American producers, and the Caribbean all agree that the European decision to rally behind a first-come, first-served method of allocating quotas and licenses is not in the best interest of all parties with a substantial interest in the trade. The USTR continues to have discussions with the Europeans in search of additional options based on tariff rate quotas.

In an attempt to keep the dialogue open between the United States and the Europeans, the Caribbean continues to actively lobby key U.S. government and congressional officials on this issue. In October 2000, CARICOM representatives from the region and Washington met with Representative Charles Rangel (D-NY) as a follow-up to a CARICOM advocacy mission to Washington in September 2000.

In the Caribbean's current role as a key broker in the dispute, Caribbean countries continue to press for the USTR and the EC to revisit a system of granting licenses based on past performance. The EC's much publicized decision to go for a first-past-the-post method has gained the full attention of all the recalcitrant parties and may represent a new phase in the negotiations where there is a collective will to reach resolution on this issue.

### ***Sugar and Rum***

Sugar producers of the CBI region have voiced their concern about the efforts by Mexico to accelerate the expansion of its sugar quota to the U.S. market at a faster rate than agreed in the side letter signed at the time of the NAFTA agreement. Under this agreement, Mexico's quota will increase to 250,000 metric tons by 2001. The United States is permitted to allocate a global quota of 1,117,195 metric tons per annum as notified to the WTO. Within that quota, the portions assigned to Caribbean countries have declined sharply over the years. The individual country quotas are now at levels that barely make shipping economical. Any measure that results in further loss in preferential access to the U.S. market could have significant economic and social consequences in the region, particularly given the low world market prices. Caribbean countries urged the U.S. government not to entertain Mexico's request for an expansion of its sugar quota, unless that quota could be accommodated without a reduction in the quotas currently allocated to the Caribbean countries.

CBI countries' lobbying efforts were effective in this regard, particularly given the threat that the United States would seek to accommodate Mexico. Meetings were held with U.S. congressional and government officials to present the CBI region's peculiar concerns, and the potential disadvantage that reduced quotas would create for their local producers and exporters. Those efforts were successful and the tariff rate quotas were calculated based on each country's historical trade with the United States.

On September 22, 2000, the USTR announced the country-by-country quota allocations for raw cane sugar, refined sugar, and sugar-containing products for fiscal year 2001. Out of the total pool of a tariff rate quota of 1,117,195 metric tons, which the United States has offered, the Caribbean was granted similar quotas based on historical performance. Jamaica, for example, has been allocated 11,584 metric tons. In the case of rum, the expansion of the “zero-for-zero” agreement between the United States and the European Union would be inimical to Caribbean interests. This would further jeopardize the access of rum exports from the Caribbean to the EU and U.S. markets. On a positive note, under the Trade and Development Act of 2000, rum imported from the region into Canada, then blended and bottled for re-export to the United States has been granted duty-free access. The act provides that liqueurs and “spirituous beverages” produced in Canada from CBI rum be given duty-free access where this rum accounts for at least 90 percent by volume of the alcoholic content of these liqueurs and spirituous beverages. The region’s rum industry stands to benefit substantially from the increased market access.

### ***World Trade Organization***

The global economic environment must be complementary to the internal economic policies of small developing economies, such as those in the CARICOM region, in order to ensure their growth, development, and resilience. However, the trend toward reduction or elimination of preferential trading arrangements poses a major challenge. The dismantling of preferential arrangements such as the WTO ruling on bananas indicates that fundamental changes, which profoundly affect the Caribbean, have already occurred. Measures should be designed to address the concerns and interests of small developing economies. These should not be limited to avoiding putting small economies at a disadvantage, but should be proactive in promoting the growth and development of smaller economies. For example, Article IV of the General Agreement on Trade in Services (GATS) specifies measures aimed at increasing the participation of developing countries in the global trade in services through specific commitments—strengthening domestic services, efficiency, capacity, and competitiveness. In order to achieve meaningful participation of smaller economies, the following measures are recommended.

First, smaller economies should be allowed to undertake commitments to an extent consistent with their adjustment capacity, development, financial, and trade needs, and administrative and institutional capabilities for implementation. These concessions should be negotiated on an issue-by-issue basis, and where appropriate, on a product-by-product basis. Small developing economies should also be allowed some exemptions. This would not only address the question of disparities, but also avoid situations where small

developing economies, despite their best efforts, were not able to meet certain requirements and timetables.

Second, given the size of firms in smaller economies, small scale of production, and limited size of the market, export sectors will require a longer period of adjustment than larger firms and larger, more developed economies. Hence, there must be asymmetrically phased implementation of rules and disciplines, permitting a longer adjustment period for smaller economies. For example, in agricultural trade, and in particular, food items, smaller economies should be allowed the flexibility to implement their commitments to reduction of protection and domestic support over a longer period than the implementation period prescribed for larger economies.

Third, small developing countries will have to improve their capacity to mediate the encounter with the global marketplace. Technical assistance for capacity-building should aim to: (a) contribute to efforts by small economies to undertake structural, institutional, and legislative adjustments; (b) promote the development of adequate institutional capacity, including training, to improve their handling of negotiations and implementation of international trade agreements; (c) assist small economies in fulfilling their obligations under the various international agreements, in particular, commitments under the WTO; (d) ensure that small developing countries can overcome their limited capability—due to inadequate expertise and institutional capacity to implement panel findings—to use the dispute settlement mechanism, and manage the high cost and administrative difficulties of using the mechanism.

### ***The Free Trade Area of the Americas***

Small economies of Central America and the Caribbean constitute the majority of the Free Trade Area of the Americas (FTAA) participants. A seamless hemispheric marketplace cannot come into existence without these countries; therefore it is essential that their concerns be kept under continuous review during all stages of the negotiation of the Free Trade Agreement (FTA). CARICOM states will continue to make their needs known and identify the specific areas in which they will require assistance in order to ensure their effective participation. Technical assistance should be made available to all small states that are a part of this process through multilateral institutions as well as bilaterally from more developed countries. The FTAA process should include a mechanism for the provision of such assistance.

Additionally, the Caribbean is of the view that in order to respond to the concerns and special circumstances of small states, any agreement forming an FTAA ought to contain provisions, including, but certainly not limited to, longer adjustment periods and the provision of technical assistance.

### ***Post-Lomé IV Waiver in the WTO Context***

The ACP-EU<sup>4</sup> Partnership Agreement covers development cooperation, trade, investment, private sector development, and social development. In July 2000, the WTO Council for Trade in Goods denied the EU's request for a waiver. Opponents of the EU's banana regime, including Costa Rica, Ecuador, Guatemala, Honduras, Panama, and the United States blocked the motion. Linking the ACP/EU agreement to the banana dispute represents an unwarranted attack on the efforts of the 72 developing countries of the ACP, most of which are not involved in the banana dispute. The prevailing view is that when there is a settlement of the banana dispute, it is more likely that the necessary majority required for the passage of the waiver will be attained.

The Cotonou Agreement covers important issues of development cooperation, trade, investment, and private sector and social sector development. The successor arrangement relating to trade in particular is central to key industries in the Caribbean including sugar, rum, and rice. Negotiations on key trade-related issues will resume in 2002.

### ***Financial Services***

Two multilateral agencies, the Financial Stability Forum (FSF) of the G7 and the Financial Action Task Force (FATF), after condemnatory reports, have demanded changes in the banking laws and practices of offshore financial centers. In June 2000, the FATF issued a list of 35 countries that lacked anti-money-laundering measures and had inadequate bank supervisory and regulatory regimes. The list included Antigua and Barbuda, the Bahamas, Barbados, Belize, St. Lucia, and St. Vincent and the Grenadines. The sector is a niche in the global economy in which small countries are competitive and which has assumed considerable importance in these underdiversified economies. For example, the sector accounts for 12 percent of employment and 15 percent of GDP in the Bahamas. Little evidence has been adduced to support the deleterious allegations, which have been used to justify the threat of economic sanctions by the Organization for Economic Cooperation and Development (OECD) member states.

The propriety of the process and legality of sanctions is open to question, and many in the Caribbean regard these policies as the use of raw power, which could foreclose a valuable development option for small economies and the microstates of CARICOM. The CARICOM governments affected are committed to appropriate regulation and transparency in global financial markets. They have already responded to real and perceived deficiencies by

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<sup>4</sup> Africa-Caribbean-Pacific countries. Various "Lomé" conventions have governed preferential economic relations between these select countries and the EU.

taking far-reaching legislative and administrative measures to bring regulatory systems into compliance with international standards and best practices.

### ***Tax Regimes***

The OECD has also called for the elimination of so-called “harmful tax” practices, and in June 2000, the Harmful Tax Forum of the OECD issued a report identifying a group of countries failing to comply with “proper” tax procedures. Some CARICOM countries were labeled “uncooperative.” Changes of the kind alluded by the OECD have caused consternation, as they impinge on the sovereignty of states in taxation policy. It is the sovereign right of countries to operate whatever fiscal system they choose, and these countries should not be designated as carrying out harmful tax practices merely because their systems differ from those in OECD countries. In fact, there are no accepted global standards governing taxation systems. Indeed, the concept of “harmful tax competition” is invalid in a liberal, globalized world economy of sovereign states. One country’s gain in tax revenue is another’s loss, as states compete freely.

One of the principal objectives of the OECD report is ensuring that “tax should not be the dominant factor in making capital allocation decisions.” Such a goal is in contradiction to the free market. In fact, the OECD countries have decided to arrogate to themselves decisions that should rightfully be made by the market. Such an action abrogates the rights of countries who offer preferential tax regimes. It is a distortion that is economically unjust and politically repugnant, as it repudiates national sovereignty, the very foundation of a democratic international community of states.

### ***Development Financing***

Since the 1960s, the United States has supported the process of structural adjustment, economic reform, trade liberalization, and economic growth in CARICOM countries. U.S. foreign aid has played an important role in the expansion of physical infrastructure, the improvement of institutional capacity, and the training of human resources in the Caribbean. During the 1980s, U.S. development assistance to the region averaged well over \$200 million per annum. Since then there has been a sharp reduction. For example, U.S. foreign assistance to Jamaica declined from \$165.6 million in 1985 to approximately \$15 million per annum since 1995. The Caribbean views this trend as unfortunate and unwise, since development assistance has, and continues to, contribute to supporting private sector-led growth and investment. The United States has been a vital source of funding for the following programs: facilitating economic liberalization; promoting institution-building and public sector efficiency; supporting debt reduction; providing social sector assistance to

cushion the effects of economic adjustment on the poor; improving natural resource management; assisting in efforts to combat the international narcotics trade; and funding environmental protection, disaster relief, and investment promotion. The United States Agency for International Development's (USAID) assistance to the region is shown in Table IV. Declining U.S. assistance may negatively affect the CARICOM states' capacity to carry out these programs at a continued high level.

**TABLE IV**  
**USAID ASSISTANCE TO THE CARIBBEAN, 1985-1998**  
**(U.S.\$ mil)\***

	1985	1986	1987	1988	1989	1990	1991
DA**	126.8	110.6	115.7	128.1	127.2	103.9	96.0
ESF	226.1	150.0	91.2	17.7	35.3	18.9	25.1
PL 480	106.0	101.8	84.8	74.1	137.5	69.6	85.1
<b>TOTAL</b>	<b>458.9</b>	<b>362.4</b>	<b>291.7</b>	<b>219.9</b>	<b>300.0</b>	<b>192.4</b>	<b>206.2</b>

	1992	1993	1994	1995	1996	1997	1998
DA	71.4	98.5	53.3	83.9	30.1	48.8	24.9
ESF	40.6	32.0	37.7	56.9	45.5	53.8	74.5
PL 480	73.9	87.7	151.5	61.6	88.5	41.9	36.9
<b>TOTAL</b>	<b>185.9</b>	<b>218.2</b>	<b>242.5</b>	<b>202.4</b>	<b>164.1</b>	<b>144.5</b>	<b>136.3</b>

\* Includes assistance to the Dominican Republic

\*\*Development assistance (DA); Economic support funds (ESF); and Public Law 480

Source: USAID, LAC Databook, 1999

### ***Debt Relief***

The servicing of a large external debt can cripple the economic growth of developing countries because it uses scarce foreign exchange, constrains fiscal expenditures, and reduces import capacity. Jamaica experienced debt problems during the late 1970s and 1980s and received debt relief from various debt-restructuring exercises (e.g., debt swaps) and debt relief initiatives for the region (e.g., Enterprise for the Americas Initiative). The CARICOM region has also benefited from debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, formally launched by the IMF and the World Bank in 1996. In 1999, Guyana benefited from debt relief under the program, receiving approximately \$440 million. In November 2000, Guyana received approval from the IMF and World Bank for an additional \$590 million in debt relief through December 2001, under the Enhanced HIPC Initiative.

### ***Security Policy Issues***

Cooperation on security matters is one of the most important and successful aspects of the Caribbean-U.S. relationship. The region has been a committed partner in the fight against narcotic drugs and other aspects of transnational crime. At the same time, it continues to emphasize the link between economic opportunity and social stability, which are the best antidotes to the drug trade and transnational crime.

### ***Narcotics Trafficking***

Small island states in the Caribbean are located close to major production points of drugs and are also major markets for drugs. This encourages drug smuggling and the multinational drug-trafficking groups to locate increasingly in small island states. Efforts to combat drug smuggling have proven to be an expensive exercise, diverting substantial resources from social investment, such as education and health. In addition, resources available to the police and military forces in small island states are limited. This is particularly the case for equipment such as motor vehicles, ships, airplanes, and surveillance equipment. These factors make it difficult, despite the strong commitment of governments in this area, to fight the scourge of illicit drug and firearms trafficking.

Four countries in the Caribbean are on the Department of State's list of major transit countries, according to the most recent International Narcotics Control Strategy Report (INCSR). In each case, the report notes that the country or territory lies on the cocaine trafficking route from South to North America. Further, six countries are listed as major money-laundering countries, which

are defined as those countries whose financial institutions engage in currency transactions involving significant amounts of proceeds from international narcotics trafficking.

Over the last 14 years, CARICOM governments have received full certification from the United States for cooperating with antinarcotics efforts. This signifies that CARICOM countries are taking steps individually, or in conjunction with the United States, to fulfill the obligations as parties to the UN 1988 Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Both sides agree that an excellent cooperative relationship exists between U.S. law enforcement agencies and their counterparts in the CARICOM region.

The small states of CARICOM do not have the capacity or resources to tackle the major drug cartels. General Barry McCaffrey<sup>5</sup> was correct when he referred to the hemispheric narcotics control effort not as a long-term engagement. The crimes derived from drug trafficking have high impact on small nations. Money laundering, drug use, political corruption, intimidation, and violent crime have all increased in the region over the last two decades as a result of its strategic location. Each nation faces the challenge of ensuring that it does not become a weak link in the fight against transnational organized crime.

The geographic location of Caribbean states between the main sources of supply and the United States has placed a significant burden on them to continue to undertake aggressive interdiction efforts and curtail the movement of drugs through the region; nevertheless, Caribbean states continue to spend significant resources on counternarcotics efforts. As the United States commits itself to more robust antinarcotic efforts in source nations, due attention must be paid to ensuring that a compatible strategy with adequate resource support is developed with respect to transit countries in the Caribbean.

The governments in the region continue to implement significant eradication programs for marijuana crops as a corollary to their far-reaching efforts to interdict the flow of hard drugs to the United States. The support given by the U.S. government to regional security forces by way of donated aircraft and vessels has improved the capacity to challenge the well-funded and well-organized criminal organizations involved in narcotics trafficking. Many member states have entered into maritime cooperation agreements, which have facilitated cooperation and helped to more effectively challenge the drug traffickers and other players in organized crime. It is critical for all partners that the United States strengthen its support for CARICOM antinarcotics programs through enhanced training, technical assistance, and resource allocation commensurate with the magnitude of the threat posed by the cartels.

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<sup>5</sup> General McCaffrey (ret.) was head of White House Office of National Drug Control Policy from 1996 to late 2000.

### ***Money Laundering***

In April 1999, prior to the Financial Stability Forum (FSF) and the Financial Action Task Force (FATF) reports, financial advisories were issued by the United States and the United Kingdom against Antigua and Barbuda. The U.S. Treasury also issued an advisory against the Bahamas in July 1999, citing deficiencies in their legal, supervisory, and regulatory systems. These countries were deemed to be tax havens with harmful fiscal regimes and serious deficiencies in counter money-laundering systems. These actions led to a barrage of adverse media coverage. Ironically, money laundering is not confined to offshore financial centers, since all banking systems are vulnerable to this scourge. The concerns, which centered on money laundering, have since been addressed by strengthening investigative and regulatory authorities. Subsequently, the UK advisory was modified but the United States has not announced any alterations to its advisory.

The CARICOM governments are committed to fighting transnational crime and have implemented far-reaching legislation to counteract money laundering. The United States has played a role, and must continue to cooperate in building CARICOM's capacity to meet this challenge. The affected governments have taken steps to ensure that this sector is not abused by criminal elements and urges the United States and its OECD partners to adopt a more responsible approach to this important economic activity.

### ***Illegal Guns***

The battle to stem the flow of illicit guns has been a major area of concern for CARICOM in its dialogue with the United States. The traffic in illegal weapons emanating mainly from the U.S. has played a significant role in increased violence and criminal activity in the region. CARICOM states have joined the United States in signing the Inter-American Convention against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives, and Other Related Materials and are committed to efforts to stem the flow of guns to the region. In this area the region needs the continued support of the United States.

The United States continues to provide support in its effort to trace guns used in criminal activity, and the assistance provided by the Bureau of Alcohol, Tobacco, and Firearms (BATF) in this regard is important. However, CARICOM views the illicit trafficking of firearms as dangerous and urges the United States to strengthen measures to curtail the outflow of illegal guns to the Caribbean, not unlike the Caribbean's commitment to stemming the trafficking of drugs northward. Due to the seriousness of the problem, at great expense, some

CARICOM states have already implemented sophisticated security measures at ports of entry to try to address the inflow of illegal guns.

### ***Migration and Deportation***

Both legal and illegal migration from economically depressed areas to countries where jobs and higher wages are available is likely to be more pronounced over the next two decades. This is a result of Latin American and Caribbean population growth rates that persist at high levels, as well as limited economic growth and development in some countries of the hemisphere. This will be a major political issue in the United States, which will face increasing pressures of migration—although the growth of the economy will require workers from abroad, given the aging of the U.S. population.

One area of grave concern for CARICOM states is the problem of deportation of criminals. This problem, exacerbated by U.S. legislation adopted in 1996, has had a serious impact on the social fabric of many CARICOM countries that lack the resources to deal with the impact of criminal returnees, many of whom have little ties to the communities to which they are returned. The incidents of deportation from the United States to Caribbean countries have increased, despite pleas from Caribbean governments for the United States to be sensitive to the capacity of Caribbean law enforcement agencies to deal with the influx of criminal “deportees.” Recidivism among these deportees contributes to an escalation of crime due to access to sophisticated weapons and links to transnational crime groups.

Under the Antiterrorism and Effective Death Penalty Act and the Illegal Immigration Reform and Immigration Responsibility Act of 1996, the term “deportation” was changed to “removal” and the definition of a felony broadened. These acts further limited the discretion of the Immigration and Naturalization Service (INS) and mandated the deportation of immigrants for acts classified as misdemeanors under state law but defined as “aggravated felonies” for the purposes of immigration law. The new definition applies to offenses that occurred before, on, or after the date of enactment of the legislation.

These changes have resulted in many hardship cases, including the detention and removal of long-stay permanent residents, even elderly persons, for minor offenses committed long ago. The deportation of persons who have lived in the United States since childhood is an area of particular concern, since in many cases, these persons have no viable ties to the region. This exacerbates problems within CARICOM nations because these persons have no established means of support upon their return and are prone to become involved in criminal activities. A record 2,922 persons were deported to CARICOM countries in 1999—the majority removed on the basis of narcotic

drug offenses. In the period 1995-99, the number of deportations to the region doubled, as shown in Table V.

**TABLE V**  
**CRIMINAL AND NONCRIMINAL DEPORTEES**  
**TO CARICOM, 1995-1999**

	1995	1996	1997	1998	1999
<b>Criminals</b>	1236	1406	1714	1768	1953
<b>Noncriminals</b>	285	314	809	879	969
<b>Total</b>	<b>1521</b>	<b>1720</b>	<b>2523</b>	<b>2647</b>	<b>2922</b>

*Source: Immigration & Naturalization Service Data*

CARICOM would benefit from the enactment of legislation to restore some discretion to the Immigration and Naturalization Service (INS) and reverse some of the unintended consequences of the 1996 legislative measures. When drafting new legislation, the responsible agencies should consider the following factors: ties of the individual to the United States and the length of stay in the country; the impact of deportation on U.S.-based families; the nature of the offenses; the individual's connection (or lack thereof) to the country to which he or she is being returned; and the negative impact that deportation has on CARICOM and similarly situated countries.

### ***Interdependence***

Despite the differences in population, GDP, land area, and levels of development, there is a close interdependence between the United States and the countries of CARICOM. This interdependence is likely to increase, as many problems faced by all of these countries can only be solved by cooperation on a regional, hemispheric, or global level.

### ***Coproduction***

One of the most visible examples of this interdependence is coproduction in apparel manufacturing. The production of apparel in the CBI region is complementary to production in the United States. For each garment produced in Jamaica, 80 percent of the finished good consists of U.S. textiles, machinery, and other inputs, most of which is imported from U.S.-based American firms. U.S. garment producers, therefore, maintain competitiveness in the global marketplace by having different stages of the production process dispersed

throughout the hemisphere, including those done by CBI producers. In the future, as globalization progresses, it is not going to be possible for any single product, firm, or country to stay competitive unless the production process is undertaken where it is most cost effective.

### ***Environmental Preservation***

The countries of the Caribbean are very conscious of the importance of environmental protection and attach great importance to issues of sustainable development. The region has been at the forefront of initiatives to address concerns of small island developing states, including issues of global warming and climate change. A regional framework exists for addressing the objectives of the UN Framework Convention on Climate Change. CARICOM recognizes that an integrated approach to regional environmental concerns is necessary for the protection of the Caribbean Sea and its fragile ecosystem. The region has therefore sought recognition of the Caribbean Sea as a special area in the context of sustainable development. In this context, CARICOM cooperates in efforts to address issues of marine pollution and other threats to marine environment and life. The Caribbean continues to call for the cessation of shipments of nuclear waste out of deep concern for the possible effect on the region of any accidents or mishaps during transit.

The Caribbean region is vulnerable to natural disasters, as the damage from hurricanes in recent years has so clearly demonstrated. The region continues to work closely with the United States to maintain a strong disaster mitigation and response capability. The USAID-funded Caribbean Disaster Mitigation Project provided an important mechanism for this, and continued close cooperation will remain a critical factor in the effort to maintain an effective program to address disaster preparedness and response issues.

### ***HIV/AIDS***

The Caribbean is the second worst affected area of the world, after Africa, by the incidence of HIV/AIDS. In the CARICOM region, the Dominican Republic and Cuba estimated 360,000 adults and children were infected with HIV/AIDS in 1999, and 70 percent are between the ages of 15 and 44 years. AIDS is the leading cause of death among 15-44 year olds, irrespective of gender, but young women aged 15-24 are particularly vulnerable. The prevalence of HIV is 2-4 times higher in this age group than in any other female age group, and the number of reported cases 3-6 times higher in females in this age group compared to males. Governments in the region, in collaboration with the Caribbean Epidemiology Centre (CAREC) and UNAIDS (Joint United Nations Programme on HIV/AIDS), has put forward a CARICOM HIV/AIDS Regional Strategic Plan. The plan places emphasis on prevention and control, and

funding is being considered by the EU and the World Bank. Having recognized AIDS as a threat to its security, the United States must devote many more resources to the fight against the disease, even beyond its borders.

### ***International Peace and Security***

The history of the region's involvement in international affairs demonstrates that small states can be influential, especially when acting collectively. The ESC, with its strong and independent democratic traditions, is uniquely qualified to play a constructive role in global affairs. Despite their small size, CARICOM countries have contributed positively to regional and international bodies committed to the maintenance of peace and security and the promotion of social, economic, and political progress around the world. Member states of CARICOM are active members of the Organization of American States and the United Nations. Furthermore, CARICOM states have served as elected members of the UN Security Council on a number of occasions. Jamaica is currently in the second year of its two-year term as a nonpermanent member of the council from the Latin American and Caribbean region. Jamaica takes these responsibilities very seriously and is committed to working within the UN system to address the serious challenges to peace and security that confront the global community.

### **New Policy Issues**

New issues are likely to confront the public policy machinery of Caribbean countries. Some examples include seabed mining, biodiversity, fresh water supplies, epidemics, refugees, soil erosion, and the exhaustion of fish stocks. International relations will involve encounters with new institutional configurations, such as trade blocs, nongovernmental organizations, and new multilateral governance arrangements. The nature of conflict could be broadened to include terrorism, international crime, and resource use, including the seabed. These issues are already contentious problems in many areas of the world and could emerge in future U.S.-CARICOM relations.

### **Cooperation on Common Goals**

The most urgent challenge facing CARICOM countries is to undertake strategic global repositioning (SGR) of their economies. This will help cope with challenges and seize the opportunities of globalization to ensure economic progress and preserve and deepen democracy, despite the corrosive threat of transnational criminal activities emanating from, but not confined to, narcotics and firearms trafficking.

It is in the national interest of the United States for the Caribbean to attain these goals, as it will ensure prosperous trade and investment partners, peaceful and democratic neighbors in the Caribbean, allies in the fight against transnational crime, and preservation of the environment through sustainable development.

The objective of U.S. policy should be to support and complement Caribbean/CARICOM countries' efforts to attain economic progress and sustainable development, while preserving peace, stability, and democracy. U.S. policy should avoid measures and decisions that are detrimental to CARICOM, such as deportation of criminals on a scale disruptive to Caribbean society. The costs and benefits must be carefully weighed to avoid disastrous consequences, such as those caused by the dismantling of the EU regime for the importation of bananas from the ACP countries. Stability, continuity, and friendly relations should not be jeopardized for short-term gains, especially when they could be exceeded by long-term costs.

The economic and security aspects of U.S. policy need to be carefully calibrated and consistently integrated in a coherent holistic approach. The process of periodic consultations between the leaders of the United States and CARICOM, and the annual meeting between the Secretary of State and Foreign Ministers is very constructive. Hearings in U.S. Congress are also an essential component in the exchange of views. These exchanges must be the basis for cooperation in the pursuit of common goals and understanding where there are differences in policies.

## **Caribbean Trends and a U.S. Policy Agenda**

*Anthony T. Bryan*

A new president and his administration have begun their duties in Washington. It is timely to assess the current economic and political conditions in the Caribbean, the challenges facing the region, and the role that the United States could or should play in helping the region meet those challenges.<sup>6</sup>

### **Trends in the Economy of the Caribbean**

Caribbean economies have been attempting over the past 10 years to redefine themselves. How can they link with the growth engines of global trade and finance? How and in what areas shall they choose to be competitive? How can they rectify the inequities and social disintegration caused in part by the demands of the globalization process? Economically, the region has followed the neoliberal reform rulebook and implemented policies mandated by the International Monetary Fund, the World Bank, and regional funding agencies. They have trimmed fiscal deficits, privatized state owned commercial enterprises that were losing money, and liberalized their trading regimes. Even Cuba—which still continues to labor under a deliberate ideological model that does not encourage democracy—has introduced, in the face of a persistent and long-standing U.S. embargo, some version of “à la carte capitalism,” which encourages direct foreign investment in certain sectors of the Cuban economy.

The structural adjustment and reforms carried out by several Caribbean countries since the mid-1980s were not willingly implemented nor sustained by domestic political constituencies. For the most part, such changes in the macroeconomic environment were mandated by international financial or donor institutions and implemented by reform-minded governments or governments that saw no alternative. Such adjustment has been a challenge for small, open Caribbean economies that are vulnerable to large external shocks and find it difficult to carry sufficient reserves, maintain adequate borrowing capacity, and encourage proper exchange rate policies.

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<sup>6</sup> The comments in this essay refer to the members of the Caribbean Community and Common Market (Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago) and the island nations of Cuba and Haiti. These are some of the smaller economies in the Western Hemisphere. There are wider definitions of the Caribbean. This can comprise the 37 nations that make up the present membership (25 nations) and associate membership (12 countries) of the Association of Caribbean States (ACS). The countries of the ACS, including the mainland states of Venezuela and Colombia, have a population of 216 million, an accumulated GDP of U.S.\$506 billion, and does approximately U.S.\$180 billion in merchandise trade. Those statistics are an indication of the economic potential of a Caribbean bloc that is still emerging.

In general, the present transition in the political economy of the Caribbean region is full of uncertainties. Some politicians have portrayed liberalization and privatization policies as growth-inducing policies when, in effect, they are not. Undertaking such reforms encounters resistance and costs, and in many cases the populace has yet to understand the implications or discover the benefits. Some governments even question the immediate costs of the hemispheric and global momentum toward free trade because, in some instances, trade liberalization, far from leading to greater exports, is provoking domestic macroeconomic shocks and jobless growth.

Concerns for alleviating poverty and income equality caused by the reforms still have not been fully integrated into proposals for growth. Many of the Caribbean's smaller economies are heavily dependent upon one (or a few) traditional export commodities for which world prices are not likely to rise. Increased crime, diminishing social support services, and dramatic increases in the poverty index (visible even in relatively prosperous societies such as Trinidad and Tobago, the Dominican Republic, and Barbados) constitute major negative impacts of the reforms.

In many Caribbean countries, the much-heralded, free-market economic reforms have produced their own immediate Waterloo—benefits for a few, uncertainty for the many, and the further impoverishment of the masses through the fiscal inability of governments to maintain essential social services and infrastructure. Reliance on “trickle-down” theories of growth and development deserves serious scrutiny; much more has to be done domestically to compensate the losers.

Finally, while inflation rates and fiscal deficits are being contained in most Caribbean countries and growth rates are respectable, the economic foundations are shaky. Revenues from privatization sales and reductions in basic government services are not formulas for sustainable growth. Global enterprise competitiveness is the real challenge for most countries of the Caribbean.

### **The Impact of Globalization**

Globalization of the Caribbean's political economy is not a late twentieth-century phenomenon; it always has been a companion of production specialization, from the sugar plantations of the past to the tourist enclaves of today. Since the late fifteenth century, the Caribbean has been integrated into the world economy through trade and investment. Throughout its history, the Caribbean as a region has had to respond to cyclical fluctuations in the international economy and to adjust its political and economic relationships to challenges in the international economic environment. More often than not, these have involved strategies to compensate the region for the disadvantages of small size and the legacies of exploitation in the colonial past. In this

historical process, the economic systems of Caribbean countries have benefited from a series of special preferential trade and financial arrangements designed to underwrite their survival and viability.

What is different today is the increased international vulnerability of the Caribbean's political economy. The post-colonial era of "special relationships" is at an end and the development assistance policies of the former colonial powers now are based on their assessments of the real needs of developing countries rather than on geopolitical, cultural, emotional, or traditional ties. The Caribbean is once again the focus of political battles over international trade, this time with the outcome to be decided in Washington, Brussels, and at the World Trade Organization (WTO).

### **Economic Diversity and Growth**

Despite a number of common features, Caribbean economies are different in terms of natural endowment, economic output, and relative wealth. For example, in the case of the Caribbean Community and Common Market (CARICOM), three countries, Trinidad and Tobago, Jamaica, and Barbados, together account for almost 80 percent of the Common Market's total GDP and more than two-thirds of its merchandise exports. At the other extreme are the island states of the Organization of Eastern Caribbean States (OECS), which together account for just one-tenth of CARICOM's total GDP and only 7 percent of its exports.

The diversity of Caribbean economies is also illustrated by the varying growth patterns in 1999 and 2000. Largely aided by strong growth and low inflation in the United States and United Kingdom, inflation also remained low in the Caribbean, reflecting the open nature of the economies. While the economies were benefiting from low import prices, exports of commodities (except in the cases of preferential agreements) suffered under the effects of the dismantling of trade barriers. This had the effect of worsening the current accounts for those countries that depend heavily on the export of primary commodities, namely bananas and sugar, for foreign exchange earnings.

In this context, according to a review of the regional economy by the president of the Caribbean Development Bank, growth (GDP) in the various countries at the end of 2000 varied from less than 1 percent to 7.9 percent. This performance was against a backdrop of strong global demands and high oil prices. In the larger CARICOM economies, output growth ranged from 7.9 percent in Trinidad and Tobago to 3.7 percent in Barbados, and marginal growth (less than 1 percent) in Jamaica. Slowing rates of expansion were recorded in The Bahamas (from 6 percent in 1999 to 3 percent) and Guyana (from 3 percent to 0.5 percent). Performance was mixed in the subregion of the OECS, resulting largely from declines in the tourism sector, as well as the

banana industry of the Windward Islands. Growth in Belize slowed to about 5 percent as a result of hurricane damage in the final quarter of 2000.

The star performer in the CARICOM context was Trinidad and Tobago. It grew at 7.9 percent (compared with 6.9 percent in 1999) because of expanded crude oil production, higher oil prices, and increased output from the energy sector, including liquid natural gas (LNG), methanol, fertilizers, and a host of manufactured goods for export. In the Caribbean region, both the Dominican Republic (8.3 percent in 1999) and Trinidad and Tobago have registered the highest sustained economic growth over the past five years.

### **Regional Integration**

This characteristic of economic diversity has important implications for the design of a regional integration strategy for the Caribbean. The lack of a sizable regional market, for example, indicates that the Caribbean approach to integration must, by definition, differ from that of MERCOSUR (Common Market of the Southern Cone) or other large integration areas. But the region's high level of trade openness also dictates that successful interaction with the world economy and the promotion of long-term, sustainable, export-led growth should be key elements in the development strategy. The formation of the CARICOM Single Market and Economy (CSME), whose remaining protocols were signed during 1999 and early 2000, is a significant step toward the ideal of economic integration among this group. CARICOM member states and regional institutions are now focusing on the efficient implementation of the new protocols, though that will probably be a lengthy process given the demands for further market liberalization.

Intraregional trade in services, free movement of labor, and capital transactions within the region are still problematic areas. Until the CSME is operational, macroeconomic convergence or the establishment of wider monetary union (beyond the example of the Eastern Caribbean Central Bank) is unlikely. The new Caribbean Court of Justice is being established, headquartered in Trinidad and Tobago, and will reflect the region's autonomous judicial decisionmaking as a regional court of appeal. It is also expected to play an important role in the implementation of the CSME as a regional tribunal to adjudicate CARICOM's revised treaty.

Although the Caribbean Community has a long tradition of regional cooperation and integration, the results have not always matched its ambitious goals. Disparities in resources and capabilities, as well as the compulsion of the leadership—particularly in the smallest or least powerful members of the group—to guard jealously the political sovereignty of national entities, have often undermined multilateral initiatives. As new attempts are made to widen the Caribbean or to craft a new regionalism with an increase in the number of states, policymakers will have to create formal and informal mechanisms to

compensate for differing capabilities and resolve conflicts that are prompted by sovereign national interests. Realistically, integration of Caribbean economies is hampered by great deficiencies in intraregional transportation infrastructure, with high costs and low reliability of delivery being the major impediments to the development of intraregional and extraregional trade. The new regionalism in the Caribbean also highlights a more profound process: the countries are now more willing to explore the options of multiple integration schemes simultaneously, even as they approach the possibility of a Free Trade Area of the Americas (FTAA) by the year 2005.

Stronger relations with Latin American and European integration schemes are particularly vital options. CARICOM has taken many initiatives toward Latin America, and Europe remains a major partner of the Caribbean. Implementing the Cotonou Accord (a major trade and development partnership agreement between the EU and the African, Caribbean, and Pacific—ACP—countries) will be the key feature of the relationship with the European Union in coming years. The EU is keen to help with preparations for the start of trade negotiations under Cotonou. In the longer term, individual members of the EU will continue to maintain special relationships with their Caribbean partners.

Yet, the realities of an enlarged EU, where new members could have few Caribbean interests as a EU Common Foreign and Security Policy is developed, mean that there is less likelihood that the EU as a whole will maintain a special relationship after Cotonou. In this context, the EU-Latin American-Caribbean summits, first held in Rio de Janeiro last year, offer an opportunity for the EU and the Caribbean to engage in a more strategic relationship. In the longer term, the Caribbean policy of European actors will be viewed increasingly as part of the “wider Americas,” and the summit process will be an important link. Caribbean countries must plan to use their voices effectively in this forum.

In the past, the objectives of regional integration in the Caribbean emerged as a response to overcoming the development constraints of small size. But the new regionalism is an accelerated response to the new dynamics of globalization. An emerging element in the new regionalism is the corporate integration of national companies, which outgrow their domestic markets and accelerate the flow of goods and services, capital, and finance throughout the region and further abroad. The history of integration in the Caribbean has demonstrated a constant search to find new ways of cooperating through convergence and functional cooperation on specific common problems. Full-blown integration in the pattern of the EU (requiring some loss of national sovereignty) is probably an unrealistic option for CARICOM in the near future. But multitrack and multispeed progress by the various countries toward increased cooperation on an agreed regional agenda is quite realistic.

## Summary Characteristics

The countries of the Caribbean are struggling toward greater progress on economic and trade policy reform in the region. But regional strategy is also taking into account the specific economic characteristics of its member countries. They are small economies in terms of territory, population size, and GDP. They are also open economies and their external transactions are large relative to their total economic output. Openness renders them extremely vulnerable to external shocks, such as fluctuations in international commodity prices or policy changes abroad. Vulnerability is compounded by the region's narrow export base, and for their export earnings, most countries depend on a small number of natural resource products or tourism.

The generous preferential market access for their exports to the EU and North America is in danger of being eroded or phased out in the coming years. Export diversification has been limited and insufficient for generating satisfactory growth rates. Dependence on trade taxes for government revenue is also common among the smaller economies and the pursuit of any trade liberalization initiatives affects national fiscal accounts disproportionately. On the positive side, Caribbean countries share location advantages, such as proximity to the U.S. market and strategic location on the main trading routes between the Americas and Europe. But high infrastructure and transportation costs tend to offset some of these advantages.

At the dawn of this new millennium three characteristics in the political economy of the region are therefore apparent:

1. There is growing acceptance of globalization, corporate integration, and hemispheric trade momentum, complemented by an effort on the part of Caribbean countries to devise strategies to benefit from these processes.
2. The new regionalism in the Caribbean is one that reflects a paradigm shift in integration theory and practice, from a vertical perspective (North America and Europe) toward a horizontal relationship between the countries of the wider Caribbean and Latin America.
3. The challenges confronting the Caribbean with respect to trade with Europe and the Americas are essentially similar: the future of existing regimes of significant preferences, the need to plan for the long term without such preferences, and the development of a strategy to meet the transition. A Caribbean strategy for participation is evolving, which anticipates regional negotiation for trade and development partnership agreements, as well as simultaneous access to as many global, regional, and bilateral trade pacts as possible, rather than having to choose between them.

## **The Economic Future**

Economic prospects for the Caribbean Islands are generally favorable. Higher growth is forecast for some countries over the next five years, but there may not be a significant decline in unemployment or poverty in the region as a whole in the immediate future. The fastest growth is likely to come from higher investment in the energy and tourism sectors, though the latter is subject to risks including the effects of natural disasters and high oil prices.

If the Caribbean is to preserve the economic gains of the past two decades and ensure that future development is sustainable, governments and the private sector have to encourage greater economic competitiveness and diversification, shift from unprofitable lines of production, exploit the knowledge-driven economy, and take advantage of the new opportunities for marketing products through the communications revolution. Simultaneously, they have to update institutions to meet the economic realities of globalization at the micro level.

In the future, the assumption that small Caribbean economies cannot compete in international markets may no longer be valid. Some small economies can dominate specific niche markets (tourism in the case of many Caribbean countries, information services in others, and certain energy-based or petrochemical industries in the case of Trinidad and Tobago). Some of the larger Caribbean economies are already demonstrating their ability to compete globally in certain niche manufacturing or service areas. In fact, the Caribbean region shows potential for global competitiveness in tourism, offshore financial and other services, and in major energy-based industries and manufacturing. Highly educated and skilled labor resources in the region can compete with many other areas of the world. Strategic alliances and collaboration with government, business, and civil society in other countries in the wider Caribbean are necessary in order to realize the full potential.

## **Caribbean Politics and Governance**

Certain issues of governance have emerged with the changes in political economy. There is widespread official and public perception in the region that economic vulnerability is at the core of Caribbean insecurity. Instability will increase if the economic pillars that support democratic regimes are eroded. Similarly, Caribbean democracy and internal security are also vulnerable to the illegal narcotics trade, the corruption of law enforcement officials, and in some countries, ethnic and class tensions. While the English-speaking Caribbean countries in particular have been exemplary in their practice of democracy and political stability, others such as Suriname and Haiti are still struggling to nurture democratic regimes. The principles of upholding freedom and democracy are still ignored in Cuba.

The CARICOM region is one of the most developed zones of democracy in the world. It has been exceptional in the consistency of free and fair elections, the observation of political rights and civil liberties, competitive party systems, and the rule of law. But although these countries of the Commonwealth Caribbean maintain some of the hemisphere's strongest traditions of parliamentary democracy, good government cannot be taken for granted. Even the much-heralded Westminster model of parliamentary government practiced in the region is susceptible to authoritarian dispensation by the deliberate weakening of traditional safeguards and rules. Frequent changes of governments (a trend toward one five-year term), the emergence of cabinet dictatorships, single-party rule, or perpetuation of the financial and organizational advantages of dominant parties are already becoming visible in some countries as components of the Westminster system. (A review of the system, with the objective of ensuring more safeguards and checks and balances, might be appropriate for the English-speaking Caribbean.) Similarly, failure to invest constantly (because of budgetary constraints or lack of foreign assistance) in institutions such as the legal systems and mechanisms for public security, will continue to place severe strains on democratic governance.

A concurrent trend is the inability of the state in the Caribbean, as elsewhere (during circumstances of considerable downsizing and economic liberalization), to deliver levels of welfare and social services, similar to levels in the late 1950s to the late 1980s. There is pressure on governments to provide economic support and deliver social services more rapidly and efficiently, even while their capacity to do so is severely diminished. The managerial capacity of the state in some countries needs to be rebuilt in order to deliver public services and benefit from the challenges created by a competitive market economy.

On the political side, choices are not easy. In their attempts to meet these demands, and because of the technical stress of adjustment, stabilization, and liberalization measures, some governments have resorted to strong and unpopular action (and little public relations) to carry out reforms. As a consequence, they have created some doubt about their loyalty to the democratic process. Public tolerance for further sacrifice is also diminishing as the tasks of dismantling or restructuring state enterprises and financial systems continue. Obviously, antireformist coalitions spanning the political spectrum have great opportunities to manipulate public cynicism and fear. Some of the strongest antireform sentiments emanate from those who are not prepared to deal with a competitive market environment.

Within the political fabric, declining access to scarce economic largesse, spectacles of corruption in government, abuses of political power, and the use of declining public funds to reward the ruling party faithful have severely weakened traditional political parties in the Caribbean. Many political parties have also lost their historical and ideological differences. But Caribbean

electorates are demanding more accountability and clearer economic programs from their leaders. In some instances, this change is driven by public anger at failing economies, rising social ills, and corruption. But in others, where there is affluence, it has not been translated into political self-confidence and stability because of perceived inequities even among the newly affluent.

Social problems are a serious challenge to the Caribbean's future well-being. Significant pockets of real poverty and deprivation make nonsense of the favorable GDP ratings of some countries. Relatively high unemployment and underemployment rates among male youth and women, disproportionate income distribution, gender-based violence, inadequate housing and social services, rising drug usage, alarming increases in HIV and AIDS (with the predictable loss in valuable human resources and increased strain on health care systems), and sharp rises in violent crime affect all the countries to some degree. The causes of these social problems deserve immediate study and remedial action. There are also concerns about the impact of the rise in drug trafficking and the influence of transnational crime on the security of the region. There is a risk that large-scale international organized crime is getting a foothold in some smaller islands, possibly corrupting and destabilizing local political, legal, and police institutions.

There is other criminal activity about which the Caribbean needs to take action: computer crime; money laundering; small arms trafficking (itself mostly linked to drug trafficking); smuggling of people both from and through the region; vehicle theft from the United States; and the theft of intellectual property. The impact on the local and regional crime scene of criminal deportees from the United States under current U.S. immigration laws must also be scrutinized. Better local research, strengthened law enforcement services, more regional cooperation, and international coordination could help contain the threats.

In summary, trends in Caribbean politics and governance, namely, dramatic shifts in social and class structure; increasing poverty in certain sectors; declining political participation; frustration with the parliamentary system of politics; changes in leadership; conversion to neoliberal economic policies by political parties that have traditionally represented labor; and changing relationships between labor, business, and government will have an impact on the political economy of the region in the early years of the twenty-first century. So will the continuation of serious social problems.

### **Priority Global Policy Issues for Caribbean Countries**

As the Caribbean enters the twenty-first century, there are also global areas in which the region is seeking to establish its own agenda—rather than accept externally imposed solutions—and work in company with its international partners to articulate it.

- Globalization has increased the vulnerabilities of Caribbean countries, and they intend to pursue global initiatives that take into account the special needs and interests of the region. Even those Caribbean nations with democratic traditions, good human rights records, high educational levels, and relatively high levels of per capita income are still unable to obtain adequate levels of international funding. The Commonwealth Secretariat/World Bank Joint Task Force on Small States has issued a report,<sup>7</sup> (accepted by the Development Committee of the World Bank and the International Monetary Fund) whose recommendations provide a basis for further deliberation and action by the international community and the various international organizations.
- Caribbean nations are pressing for the developmental dimension to be fully taken into account in any new round of multilateral trade negotiations and are calling for an international economic system that is equitable, transparent, inclusive, participatory, and broadly based.
- Caribbean nations intend to pursue further dialogue and action with the assistance of other countries and international organizations on issues such as disaster management, human resource management, coastal management, environmental security, and other constraints faced particularly by island states. Priority areas include land-based pollution, coral reef damage, fish stock depletion, poor forestry and mining practices, (in Guyana and Suriname) and the transport of highly radioactive materials through the region's territorial seas. The Caribbean comprises small island developing states (SIDS), and measures can be taken to use the vulnerability index for SIDS in their diplomacy.

### **The Role of the United States**

The United States and the Caribbean can find common ground on a wide range of issues. The Caribbean countries have their own perception of the kind of relations they want to develop with the United States, whether as trading partner, a source of assistance, or a safety valve for migration. The political and economic diversity of the Caribbean does not currently provide the United States with any possibility of devising a single comprehensive foreign policy toward the region as a whole; but there are agendas of opportunity. The most immediate of these are in the areas of trade and development, where the

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<sup>7</sup> *Small States: Meeting Challenges in the Global Economy*. Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States (March 2000).

regional objectives of the Caribbean converge with the domestic concerns of the United States.

The passage in May 2000 of the Caribbean Basin Trade Partnership Act (CBTPA), which includes the 25 Caribbean and Central American countries presently trading with the United States under the Caribbean Basin Initiative (CBI), is a welcome step in the direction of such convergence and cooperation. Although the new legislation is a significant move towards parity of market access between Mexico and the CBI countries, particularly as it relates to apparel, the challenges facing CBI countries, even with the CBTPA, may have less to do now with textiles and apparel products and more with taking full advantage of tariff-free treatment for non-apparel products. Indeed, the psychological advantages of awakening latent production forces and attracting new investment can be more important than increased market access.

However, from the perspective of many technocrats in the region, the unilateral and uncertain nature of CBI is a challenge when seeking long-term investment from abroad. In addition, a limited time frame of 2005 (by which time, according to the WTO agreement on textiles and clothing, the United States will have to eliminate its quota system in these sectors and the region will face greater competition in the U.S. market from China and Africa), the eligibility requirements, and U.S. customs requirements all pose serious challenges. Finally, the need for training and technical assistance and the development of CBI transport and infrastructure may limit the ability of some countries in the region to take full advantage of tariff-free treatment for non-apparel products. In any case, the biggest challenge facing CBI countries is preparing for the future of the FTAA. Even if the FTAA is implemented gradually, it still means the erosion of CBI preferences with respect to the rest of the Americas.

At another practical level, relations between the United States and CARICOM are now discussed in the context of the Bridgetown Accord signed at the Caribbean-U.S. summit in Barbados in 1997, which recognizes "the inextricable links between trade, economic development, security, and prosperity" in the societies of both regions. There have been several meetings between ministers of foreign affairs of the Caribbean and the U.S. Secretary of State. This level of periodic contact is extremely useful and should be maintained.

The importance of the Caribbean for the United States resides in the mix and management of the ingredients within the broader concerns that have been discussed. If some Caribbean societies are not to break down into conflict or insurgencies, or to sink into violence or repression, as some predict, then it may be in the "national interest" of the United States to cooperate and help formulate a common agenda rather than to try to impose its own agenda.

The United States should seek to strengthen its existing bonds with the Caribbean because it is in the interest of the last remaining superpower to have

stable democratic and prosperous states in its neighborhood, if only to ensure the cooperation necessary to resolve some of the major mutual security and developmental issues. Regional collaboration between the United States and its hemispheric colleagues should be conducted in mutual respect for the sovereignty and integrity of the states concerned, even if they are small, because that is the only way that one can form the basis for regional approaches to coping with concerns (security or otherwise) that are yet to emerge.

In the broad political arena, the character of the U.S.-Caribbean relationship has changed. But the major hot-button issues for the United States—immigration, economic development, trade, and narcotics trafficking are the same for the Caribbean. Moreover, Caribbean issues are a mirror image of what the rest of the world is facing. The issues have changed and they are global, not simply regional. Today, U.S. policy objectives in the region require strong partners and respect for those partners. No matter how small the country may be, the United States is not going to resolve the drug trade without the help of Caribbean countries that are intent on improving their law enforcement capabilities and are willing to cooperate fully even to the point of sacrificing some of their own sovereignty.

Similarly, illegal immigration into the United States from the Caribbean can be controlled only when the United States and its Caribbean partners work toward successful policies of economic development and the mutual reduction of trade barriers to facilitate such development. For their part, Caribbean nations should work with members of the Caribbean diaspora in the United States who are influential in the private sector, government, and academia, to help put the region's agenda on the U.S. agenda. The Caribbean diaspora in the United States is a potential resource that is underutilized (both by the United States and the Caribbean) in the lobbying process and in forging useful links between civil society in both regions.

In 2001, from a Caribbean perspective, there are some urgent issues for U.S.-Caribbean action and dialogue. These include the following items:

- The unfair assault on the Caribbean's offshore financial sector by the Organization for Economic Cooperation and Development (OECD), the Financial Services Forum (FSF) and the Financial Action Task Force (FATF). Most Caribbean offshore jurisdictions already have stronger banking regulations, "know your customer" rules, and "due diligence" procedures than similar jurisdictions in the United States.
- OECD pressure on "uncooperative" CARICOM offshore jurisdictions for the elimination of so-called "harmful tax" practices. This is an attack on the sovereignty of countries and on their ability to choose their own fiscal and

taxation systems, even though they may differ from those in OECD countries.

- U.S.-European Union accord on the granting of a WTO waiver for Caribbean bananas.
- Deportation policies and procedures for criminals deported from the United States to the Caribbean that are acceptable to both parties. This would include more timely notification and sequencing of deportations.
- Speedy implementation of increased support for USAID's Caribbean Regional Strategy of Assistance with regard to trade, business development, economic diversification, and investment.
- The provision of technical assistance to assist economic reforms (particularly in the smaller economies) to counter the narcotics trade; combat political corruption; stem immigration flows; help enforce the rule of law; and provide for "cooperative security" mechanisms, the strengthening of democracy, and basic human rights.
- Closer cooperation with key Caribbean countries, not only in major security matters, but also in broader "gray areas" such as border control issues, the prevention of environmental degradation, and the provision of food security.
- Continued dialogue between Caribbean nations and the United States to assure peaceful political transitions in Haiti and Cuba.

Perhaps it is an unfortunate reality that no single concept or issue will force a redefinition of the U.S. agenda toward the hemisphere as did the Cold War and its competing ideologies. The real question is whether the new issues are likely to be perceived as sufficiently important to engage the economic resources or political energies of U.S. policymakers.

## **U.S. Policy Prospects toward the Caribbean**

*Georges A. Fauriol*

Throughout the 1990s, there was no distinct U.S. policy toward the Caribbean, but rather, a number of functional and country-specific interests stitched together. This is still the case. The corollary to that observation is that the Caribbean region has received sustained attention from U.S. policymakers only in times of emergency. The arrival of a new administration in Washington provides an opportunity to assess these policy propositions and whether they still ring true, or whether we can expect a substantive change in U.S. policy toward the region.

### **Four Caribbean Policies**

The integration of the various components of U.S. policy toward the Caribbean is still lacking, but the cumulative effect of Washington's miscellaneous interests toward the region is providing, on some issues, relatively sustained, if not always successful, attention. Immigration and narcotics policies may be the most notable in this regard. Trade policy is another area, where despite disappointments until recent passage of a Caribbean Basin Initiative (CBI) upgrade, and frustrations over banana market preference policies, there has been fairly constant policy activity by U.S. policymakers. Two country-specific agendas, Cuba and Haiti, retain an active policy life of their own.

Despite the region's geographical proximity and occasional spectacular engagement of Washington's policy resources (e.g., Cuba and Haiti) U.S.-Caribbean interaction is most often dominated by a menu of policies associated with U.S. law enforcement agency imprints: the Immigration and Naturalization Service (INS), the Drug Enforcement Agency (DEA), the U.S. Coast Guard, the Department of Defense, the Department of Treasury, and so on. The compartmentalized nature of U.S.-Caribbean relations is also reflected in active diaspora constituencies. This goes far beyond the highly visible Cuban-American community, and increasingly includes Haitian-American groups, their Dominican counterparts, and various portions of the English-speaking West Indian community. This all overlaps with a strong, and not surprising, connection between Caribbean interests and certain segments of the U.S. congressional community—Florida and the greater New York/New Jersey areas, the Congressional Black Caucus, and trade constituency interests (textiles, services, tourism).

In practice, the bulk of our U.S. policymaking attention remains focused on four distinct and somewhat autonomous issues:

1. The politically visible and diplomatically contentious policies associated with Cuban affairs;
2. The fits and starts regarding Haiti;
3. Trade policy, which has preoccupied Washington and its counterparts in the region throughout the past decade; and
4. Narcotics-trafficking control—preeminent in the formulation of U.S. regional engagement.

Adding to these four policy threads are two themes that continue to permeate U.S.-Caribbean relations. First, the occasional unhappy mix of several of the above policy categories has triggered U.S. law enforcement and diplomatic responses in the context of refugee and immigration flows. Aside from the substantial Cuban and Haitian flows, the most explosive issue has entailed the deportation to the region of criminals from U.S. jails.

Second, attention to democratization runs through many country-specific concerns and is almost always linked to the reality of the English-speaking Caribbean's long-standing commitment to this form of governance. Elsewhere, however, it has been most often associated with high-octane policy rhetoric and dubious results on Cuba and Haiti. Arguably, U.S. policymakers have anchored the ideals of freedom and democracy to the need to generate sustainable economic development, fight drug trafficking, manage migration flows, and integrate regionally. This has generally resonated positively among Caribbean leadership, with the notable Cuban exception. But Caribbean observers have also noted the episodic nature of U.S. attention, triggering in the region a sense of uncertainty and insecurity.

### **U.S.-Caribbean Contrasts**

The U.S.-Caribbean relationship in the early twenty-first century is therefore one of contrasts. The image the American public has of the Caribbean remains generally associated with its tourism destinations, and more vaguely, a source of the nation's illicit drugs. The rub for Washington is that its involvement in the Caribbean is often strangely underestimated. Emergency relief and search and rescue are a highly visible feature of U.S. interaction in the region. In the area of commerce, the aggregate of Caribbean (and Central American) economies surprisingly amounts to a total two-way trade with the United States of about \$40 billion, ranking the region as a significant global player.

Countering the message often heard from Caribbean leadership and intellectuals about inequalities due to size, portions of the region are in fact engaging a globalizing economy. This includes a revitalized and booming Trinidadian economy, competitive service industries in Barbados and the Bahamas, tentative diversification in Belize and elsewhere, and impressive growth rates in the Dominican Republic several years in a row. Information

technology and communication-based service industry development and business strategies can leapfrog the region's enterprising young leaders into the mainstream of the twenty-first century.<sup>8</sup>

But the United States also faces a region that remains fragmented geographically as well as politically, which explains in part the compartmentalization of U.S. policy. Caribbean governments remain by and large fixated on the need to "level the playing field" and outflank the vulnerabilities borne of small size. A climate of uncertainty exists regarding a slowly eroding quality of regional governance. This fragile reality is found in Guyana and in various parts of the smaller Eastern Caribbean states. In Haiti, democratization is stalled, and in Cuba, it is strangled by the Castro regime. The result regionally has been mounting stress on political systems and the weakening of institutions upon which they rest—symptoms include declining voter turnout, unsteady governments, increasing violent crime and corruption, brain drain, and racial tension in multiethnic countries. All of this contrasts from the traditional rhetoric of a "democratic" Caribbean region.

### **The State of U.S.-Caribbean Relations**

The Caribbean is still confronting, with mixed to poor results, the same problems it faced throughout the post-Cold War era. Countries continue to be buffeted by the demands of the global economy, drug and money-laundering networks that flourish within it, population pressures, and an increasing lack of confidence among citizens in the abilities of the political class to address these problems.

On average, portions of U.S.-Caribbean relations involve mutual frustrations and annoyances. There is some resentment among the region's leadership toward the United States because of Washington's heightened pressure regarding drugs and money laundering. Likewise, the banana-producing Eastern Caribbean is still angered over Washington's missionary zeal for market access for bananas into the European Union and the ensuing WTO case. And there are the frustrations of the Dominican Republic and Jamaica, among others, which have taken issue with the repatriation of deported criminals and gunrunning from the United States.

Ultimately, however, the practical alternatives in U.S.-Caribbean relations are limited, even if there is a feeling that the United States is a selective and not always willing ally to the region's small countries. Europe remains a limited option in both economic and diplomatic terms, as expressed,

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<sup>8</sup> This has been the subject of attention of the CSIS Caribbean Leadership Group, a group of 20+ young leaders from the region that has so far met in Belize, Dominican Republic, Jamaica, and will be meeting in Trinidad & Tobago in 2001. This is also of interest to a parallel initiative, the CSIS U.S.-Caribbean Executives Club, a business leadership group with membership from the region and the United States.

for example, in early 2000 with the French president's summit in the Eastern Caribbean. But with the Lomé-EU preferential trade and investment treatment potentially fading, the proximity and general access to the \$570 billion NAFTA trade market remains the prize. Beyond that are the hopes of the Free Trade Area of the Americas (FTAA).

There continues also to be frustration over Washington's handling of Cuba, and U.S. responses to the regional coziness with Havana. For the Caribbean, the practical marker is not so much Cuba's mischievous intentions, but instead the need to anticipate the terms of reference of the eventual denouement of the mortal combat between Castro and Washington—and its political and economic impact on the rest of the region. Perhaps more nefariously, the region has opened up to other unpleasant concerns. These include a more sustained penetration of the Caribbean by well-connected international organized crime organizations (most notably, South American and Russian). They tempt weak governments and deplete national treasuries with suspect investors in offshore banking and Internet gambling, highly professional money-laundering operations, and citizenship-for-sale schemes.

The United States therefore should have good reasons to be interested and involved in the Caribbean, as the following country- and issue-specific items indicate: <sup>9</sup>

**Guyana**—Public institutions remain weak, racial tensions continue, and as seen again this year, the country seems unable to carry out elections (mid-March 2001) without close international oversight and assistance. In a separate context there is also long-term, low-boil bubbling over Venezuela's claim to the Essequibo (Western Guyana), encouraged by the unsettled Hugo Chavez internal dynamic.

**Trinidad and Tobago**—While the economy has done quite well, the political landscape remains somewhat unsettled following the December 2000 elections, with opposition attempts to overturn in the courts the narrow reelection of the party of Prime Minister Basdeo Panday. The sense of instability has exacerbated racial tensions. In the background, the Jamaat al-Muslimeen, the radical Muslim sect, which staged a bloody but unsuccessful coup ten years ago, has recently vowed to make the country ungovernable.

**St. Vincent and the Grenadines**—Labor and political opposition protests in 2000 shut down the country for weeks at great economic cost and were brought to an end only after the ruling party agreed in a CARICOM- brokered <sup>10</sup> deal to hold elections March 28, 2001. This is two years early.

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<sup>9</sup> The following points draw on Americas Program research by Douglas Payne, CSIS Senior Associate.

<sup>10</sup> The full nomenclature of CARICOM is *Caribbean Community and Common Market*, alluding to both political institutionalization and economic integration.

**Grenada**—Strikes and protests by teachers and media workers threatened to paralyze the country in 2000. This year, a U.S. congressional investigation revealed that the country had been home to one of the most notorious rogue banks in the offshore industry. The government was forced to revoke more than a dozen banking licenses.

**Antigua and Barbuda**—The Lester Bird government is perceived by critics as having broken campaign promises on economic matters, new taxes, and electoral reform. Regardless, the practical reality is that the country remains weighed down by one of the highest per capita foreign debts in the world. Labor and social unrest is possible, particularly given recent budget cuts and looming job retrenchment.

**Belize**—The government of Guatemala, in office since late 1999, has succeeded in generating renewed anxiety about territorial claims, an issue that previous governments had worked at diffusing. Continuing socioeconomic disparities and considerable political uncertainties in Guatemala could still heighten tensions.

**Suriname**—President Ronald Venetiaan returned to government in democratic elections in 2000. However, the economy remains a shambles and the country continues to be a major drug transshipment point. Former strongman Desi Bouterse, convicted in 2000 of drug smuggling by a Dutch court, is still a force and looms in the wings amid any future scenario of yet more instability.

**Jamaica**—Although the economy recently has shown some signs of life, the country continues to gasp amid debt, loss of competitiveness regionally, a slow drain of resources, and problems with crime. The P.J. Patterson government has had the advantage, so that not many Jamaicans see perennial opposition leader, Edward Seaga, as a viable alternative. But there are early indications that could still change. The lack of viable leadership transition may ultimately damage the quality of governance.

**Dominican Republic**—The country made it through another successful electoral transition and sustained impressive economic growth rates; but the 2000-2001 timeframe has experienced growing instability and near-chaos in neighboring Haiti. This is very unsettling to Dominican leadership and overlaps with long-standing domestic economic concerns and socioracial political dynamics.

**Regional Narcotics Policy**—The impact of balloon-like, alternating enforcement pressures in Mexico and Central America has led to stepped-up

trafficking in the Caribbean. The “vectors” or shipment flows from the Andean region have intensified and now crisscross the region, anchored by direct routes to Central America and Mexico in the West, and Haiti, the Dominican Republic, and Puerto Rico in the East. Despite some big DEA-engineered busts, there is little chance of fundamental change in the situation as long as consumer markets remain strong in the North (and in Europe). The corrosive effects on transit countries in the Caribbean continue. Drug money penetrates economies through real estate and other investment vehicles.

The failure of the Haitian political experiment has given rise to a huge hole in the geopolitical center of the Caribbean. This has provided Colombian drug producers and their Dominican, Puerto Rican, and other agents a relatively secure opportunity. In practice, Caribbean narcotics policy may not be intractable, but its overlap with other considerations makes it messy. Immigration is a good example, underscored by vocal Caribbean (and Central American) complaints of U.S. deportation policies that feed criminal types into often already compromised or overwhelmed local law enforcement and judicial structures. The pervasive nature of drug trafficking has also given rise to perhaps desperate and politically twisted responses, exemplified by low-level contacts, as well as public suggestions, of increasing U.S. narcotics control cooperation with Cuba.

Reluctantly, much of the Caribbean has reconciled its notion of sovereignty with the need for cooperating with the United States on narcotics trafficking. Overall, relatively comprehensive interdiction agreements, intelligence and asset sharing, and technical support mechanisms are in place with most governments of the region. But achieving success is still not quite within Washington’s grasp.

**Caribbean Basin Initiative**—Preferential trade arrangements—the CBI, for example—are an endangered species. The Caribbean strategy is to carve out as best it can a delaying window within the coming heavy freight of the FTAA liberalized trade negotiating process due to conclude by 2005. That may now happen before more global or Millennium Trade Rounds are initiated. The latter might conceivably be an even more profound challenge for the small economies of the Caribbean. The strategic imperative for transitional small economy exemptions has a greater chance to withstand U.S. and other pressures within the context of the FTAA negotiating process. In this context, the legislative effort in 2000 to modestly expand CBI benefits (CBI III, mostly associated with textile and apparel provisions) were successful in that they brought a modicum of increased parity with NAFTA.

The practical impact within the Caribbean in response to these trade and investment pressures is likely to be a continuing informal economic breakup of the region. What this will do to regional political institutionalization is

uncertain.<sup>11</sup> What one is likely to see are sets of countries engaging globalization at differing speeds and defining various niche markets (Trinidad and Tobago, the Dominican Republic, and Barbados may be near-term examples of this). Some, not the whole region, will do less well and will therefore take advantage of provisions extracted from multilateral trade negotiations and residual arrangements such as the CBI or some version of the Lomé preferential relationship with the European Union (EU) before these are phased out.

### **Cuba and Haiti**

The continued saliency of old documents and statements on Cuban and Haitian relations with Washington is a reflection of the limited evolution of policy toward these countries. Although much has happened, the foundations of both issue-areas are probably no more satisfactory now than they were five or ten years ago. In Washington, both suffer from a certain policy fatigue and a vague national discomfort that these remain unresolved issues. The ingredients for change remain the reoccurring internal political discontinuities of both countries that, in turn, trigger U.S. policy responses. Alternatively, and more rarely, the source of change can also come as a result of a new administration in Washington modifying the terms of the policy debate. The election of George W. Bush suggests that some of this is possible.

**Cuba**—This is still arguably the least satisfying component of U.S. policy in this part of the world. The dangers in the present situation are not, as many critics and foreign governments suggest, the perceived defects of U.S. economic sanctions policy, but the deteriorating logic of the Cuban communist state. Although there are no statues and other physical symbols of the Cuban leader throughout Cuba, the revolution in its graying years has become a personal cult of Fidel. In attempting to find bridges to the future, portions of the international community (including the private sector) have reinforced the absurd ritual of genuflecting before the great dictator without advancing the boundaries of a decent life for most Cubans. The Castro regime shows little real inclination to modify the terms of reference of political governance, and steps taken to modernize economic management have so far achieved little of lasting value. It remains uncertain under these circumstances how a genuine mutually beneficial relationship with Washington can be developed.

The recent policy experience of Canada, the EU, and several Latin American countries underscore both the limitations of engagement and some of

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<sup>11</sup> There is also the OECS (Organization of Eastern Caribbean States) bringing together the smallest of the region's independent states, as well as the ACS (Association of Caribbean States), giving vision to a pan-Caribbean community that reaches out to Central America, Colombia, Mexico, and Venezuela.

the options. In effect, those countries are calculating that although they can be very critical of Cuba's harsh politics, there is a corresponding logic that suggests a need to provide economic opportunities and development resources. The latter are seen as wedges that compete with the Castro regime's authoritarian and ultimately untenable socioeconomic realities. Cost and benefit analyses are complicated by the additional reality that some governments are obviously pursuing trade and business interests—albeit with limited short-term results. The verdict is still therefore out as to the success of these strategies. There is considerable impatience in Western Europe (and various parts of Latin America and the Caribbean) directed at the stubborn nature of U.S. sanctions policy, but the reality of these frustrations may be elsewhere.

The real problem in recent years has probably been the lack of a strategic policy framework in the execution of U.S. policymaking toward Cuba. Since the early 1996 shoot-down incident of the Brothers to the Rescue planes, Washington has mostly responded to events. This culminated in the ridiculous circus played out over a young boy named Elian Gonzalez in late 1999 and into 2000. The latter sharpened the debate in the United States only marginally, but underscored the need to *have* a policy. U.S. policy cannot stay still, and in this lesson lies the foundation of genuine and more proactive efforts. Signals after the recent U.S. elections suggest a “freedom and democracy strategy”—a policy of engagement with a measurable purpose. This is likely to require a disciplined U.S. administration and considerable interaction with the U.S. Congress. Involvement of the latter could also lead to parallel roles played out by Western European and Canadian parliamentary constituencies who might be convinced to pursue similar political objectives toward Cuba.<sup>12</sup>

The core policy premise begins with the concept that U.S. objectives are not designed simply to manage a soft landing toward an uncertain Cuba political transition. U.S. policy exists to push forward actively a democratization and free market agenda. Ronald Reagan did not “manage” his ties with the Soviet Bloc in the hopes of an amicable conclusion; he actively engaged his opponents. Furthermore, a related premise highlights the notion that U.S.-Cuban relations are not anchored by trade sanctions alone. The latter are part of a package of policy instruments whose effectiveness may become measurable only when all policy tools are used.

The backdrop to all of this requires a White House and senior policymaking group that actually believes in its policies toward Cuba. The late Clinton administration could be commended for holding the rhetorical line with Castro, but its commitment remained doubtful. This is the administration that

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<sup>12</sup> CSIS tested this hypothesis with a session it sponsored in 1998 between a U.S. House delegation and delegates from the EU Parliament.

acquired the Libertad Act <sup>13</sup> by default (having first opposed it), and then creatively allowed portions of it to remain unenforced. The Bush administration now faces a challenge in this regard early on. For the next 12-18 months there is no immediate need to modify the terms of reference of U.S. policy toward Havana as much as simply energize them, monitor their impact, and keep engaged diplomatically and with consistency.

**Haiti**—In the aftermath of the successful U.S.-led military operation in late 1994, U.S. policy focused on limiting its engagement. The practical political considerations were framed by the need to reconcile Washington's political imperative to claim success, with the very uncertain reality that existed on the ground regarding any real chance for democratization and economic renewal. This unstable policy base underwent a slow-motion collapse during the remainder of the decade.<sup>14</sup>

Fast-forward to 2000 and 2001: local and parliamentary elections scheduled for March 19, 2000, were postponed to May 21. The outcome is still in doubt, with vote-counting irregularities in senate contests favoring candidates close to former and future national leader, Jean Bertrand Aristide. The provisional election commission (CEP) imploded over this issue, with its president chased out of the country into U.S. exile. The government of René Preval prevailed in this dispute, backed by a wave of political violence targeted singularly at the opposition. This less than propitious environment framed the atmosphere for Haiti's presidential elections in late November 2000. By most credible nongovernmental accounts, the turnout was low, and since final verifiable counts were never published, the outcome remains clouded. To make matters worse, much of Haiti's non-Aristide political constituency boycotted the process, giving rise ultimately to an even deeper crisis following the inauguration of the new regime in February 2001.

The sad reality is that Haiti has become a country where elections are not held on time, results are not credible, the president of the country often rules by decree, political intimidation and violence are widespread, and the new national police (formed after the 1994 intervention) is deeply politicized and divided. The economic side of the ledger is hardly encouraging: the economy is attracting little legal foreign investment, the business community is operating on thin margins (if not collapsing and facing illicit trafficking from all sides), the drug trade is permeating the nation's weak financial structures, and social conditions are dragging Haiti backwards while the rest of the Caribbean is

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<sup>13</sup> Cuba Liberty and Democratic Solidarity (Libertad) Act (also named after its sponsors, Helms-Burton Act), signed by President Clinton on March 12, 1996.

<sup>14</sup> The background to this analysis draws in part from the author's testimony on Haiti before the House Government Reform Committee, Subcommittee on Criminal Justice, Drug Policy, and Human Resources, April 12, 2000.

moving forward.<sup>15</sup> Curiously, in this unhappy tableau, contingents of Cuban advisors and medical technicians have appeared on the scene in numbers never seen before in Haiti. The country does continue to attract a large contingent of private aid and voluntary support, particularly foreign church groups.

A summary proposition that frames U.S. policy responses probably includes the following points:

- The policy record of recent years and the 2000-2001 stalemate suggest continuing ungovernability. Basic democratic governance and coherent economic development, let alone social peace, will be hard to sustain. In fact, regime collapse is a possibility.
- Haiti's political leadership behavior is a key, and, at times, an unhelpful variable, disconnected from the international community's hopes for reason and progress.
- Somewhat different from its immediate predecessor, the new Bush administration has no special relationship with Haiti's political leadership, in power since the early 1990s. It will likely resist responding to every twist and turn of Haitian politics.
- Haiti represents a basket of issues from which Washington cannot totally isolate itself. Geographical proximity, the presence of a Haitian diaspora and other interested U.S. domestic constituencies, and drug trafficking are factors that ensure a level of continuous U.S. policy engagement.
- There are five basic long-term policy objectives:
  1. foster modern governance;
  2. curtail in Haiti the basis for regional illicit economic activity;
  3. acknowledge and work with those among Haiti's political actors who appear to support the above objectives, and indicate to others that they are not credible interlocutors for Washington and the rest of the international community;
  4. diversify and maintain multiple interaction across the Haitian political landscape; and
  5. ensure that Haiti's turmoil does not carry over into the neighboring region (a corollary is to encourage CARICOM's efforts to trigger economic integration of Haiti into the region).

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<sup>15</sup> An earlier unresolved electoral crisis (April 1997) eventually more or less shut off much of Haiti's foreign aid flows from both international financial institutions and governments. Limited flows continued for humanitarian purposes and security and law enforcement institutionalization, yet even the latter ultimately dried up.

It has become difficult to support a U.S. policy so wasteful in resources and missed political opportunities. Haiti's problems are not insurmountable, but they require support of democratic and modernizing forces. Continuing flawed elections strategies in an environment led by discredited national leadership and institutions is not in the U.S. interest. They are not in the Caribbean region's interest either. On the other hand, Haiti is so close to ungovernability that it would be simply bad policymaking to impose too many conditions or even economic sanctions. Instead, adherence to basic policy principles, renewed discipline in U.S. policymaking, and strategic coalition diplomacy with the few other governments (and international organizations) that have a stake in Haiti policy should generate a more manageable future than the past decade.

## **About the Authors**

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Richard L. Bernal has been Jamaica's ambassador to the United States and permanent representative to the Organization of American States since May 6, 1991. Ambassador Bernal was educated at the University of the West Indies, University of Pennsylvania, New School for Social Research, and the School for Advanced International Studies of Johns Hopkins University. He holds the degrees of B.Sc., MA, Ph.D. (Economics), and MA (International Public Policy). He is an economist, banker, university lecturer, and a diplomat. Bernal is the dean of the College of CARICOM Negotiators in the FTAA, and coordinator and spokesman for the CARICOM countries at Vice Ministerial Meetings. He is CARICOM's lead negotiator for the CARICOM-Canada Trade Agreement, and also Jamaica's representative on the Special Trade Committee of the OAS and the Committee for Hemispheric Financial Issues. Bernal is involved in negotiations in the World Trade Organization, and served as Chairman of the Consultative Group on Smaller Economies in the FTAA process.

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