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THE U.S. AND THE CARIBBEAN IN THE NEW MILLENNIUM: WHAT IS THE AGENDA?

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BEFORE THE

SUBCOMMITTEE ON
THE WESTERN HEMISPHERE

OF THE

COMMITTEE ON
INTERNATIONAL RELATIONS
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THE U.S. AND THE CARIBBEAN IN THE NEW MILLENNIUM: WHAT IS THE AGENDA?

Wednesday, May 17, 2000

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WESTERN HEMISPHERE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, D.C.

The Subcommittee met, pursuant to notice, at 1:30 p.m. In Room 2200, Rayburn House Office Building, Hon. Elton Gallegly (Chairman of the Subcommittee) presiding.

Mr. GALLEGLY. I will open the hearing.

I have a markup going concurrently in the Judiciary Committee, and Congressman Ballenger is going to pinch-hit for me.

Today, the Subcommittee continues its oversight hearings on the Western Hemisphere by reviewing the current political and economic environment in the Caribbean as well as United States policy toward the region.

Three years ago, this Subcommittee held a similar hearing in the wake of the President's somewhat historic trip to Barbados to meet with the leaders of the Caribbean nations. This trip produced the Bridgetown Declaration, which was hailed as the beginning of a new era in U.S.-Caribbean relations and was referred to as a "partnership for prosperity and security" in the Caribbean.

At our hearing then, Dr. Fauriol said that because the Caribbean craved greater understanding and attention from Washington, the Barbados meeting is probably at least symbolically a step in the right direction.

In the Spring, 1997, edition of the Journal of Inter-American Studies and World Affairs, Dr. Bryan wrote, "The President has the opportunity to make his second term a memorable one in defining U.S. policy toward the Caribbean," and he asked, "Will there be a difference this time around?".

Since that Barbados meeting, where such hopes rose, we have often heard a chorus of complaints from our neighbors in the Caribbean. These have included concerns that what should be U.S. interests in the region, such as strengthening democracy, pursuing economic integration, promoting sustainable development, and alleviating poverty, have given way to a vacuum of issues, as some have described it, and dangerously out of sync, as others have said.

Specifically, the Caribbean nations complain that U.S. policy reflects a negative image of weak and inefficient governments, tainted by corruption and influences of the drug trade. In fact, the Caribbean nations often complain that U.S. policy, including our atti-

tudes toward trade policy, is now totally dominated by a fixation with the drug agenda.

Our neighbors in the Caribbean are important to us. While the drug trade is also important, this Committee is concerned about the perception that the U.S. agenda for the Caribbean may be too narrowly focused. We are concerned that the leaders in the Caribbean are frustrated with the United States and that anti-American rhetoric, as witnessed after the WTO decision on bananas, could increase if we hesitate to take a more proactive role in addressing the numerous problems facing the region in a sensible, coordinated way.

This hearing, then, poses similar questions asked by Dr. Bryan: First, since the Barbados meeting, has a true partnership emerged? Second, have prosperity and security been adequately addressed? Third, has there been a difference in the U.S. policy toward the Caribbean in the past several years?

It is the Subcommittee's hope that these and other questions can be addressed by our witnesses today.

Before we hear from our witnesses, there are other Members who may want to make an opening statement, and this is the appropriate time, and I would defer to my good friend, the gentleman from New Jersey, Mr. Menendez.

Mr. MENENDEZ. Thank you, Mr. Chairman.

Very briefly, I want to take the opportunity to applaud the hearing we are having today and also to say that last week I joined with many of my colleagues in taking I think a major step forward in the economic future of the Caribbean and Central America with the passage of CBI parity legislation that I hope will not only bolster trade with the region and encourage foreign investment and much-needed jobs but will also be the beginning of an effort to try to change the conversation and the focus that we have had with the Caribbean, and I was happy to join in that effort.

We too often ignore the Caribbean as American policy makers. We face threats still across the globe in terms of both security and in promoting democracy and human rights, and in that regard we focus on that to the detriment sometimes of our own region.

It is true that we have serious concerns about money laundering and narcotics trafficking and those nations that are used for transiting. But by the same token I would hope that the Bridgetown plan of action, which laid out a plan of action for funding of education and institution building as well as dealing with those questions of anti narcotics and money laundering initiatives, would be heightened by the administration and by Congress itself, which has not funded those initiatives to the level that they need to be funded.

It is our problem really, something that I have been talking about for the last 8 years as a Member of this Committee. It is a problem that we have with our overall focus both on the region followed up by the resources necessary in our development assistance in addition to our trade issues with the region. When over 50 percent of the people in the hemisphere live below the poverty level and we have a very small amount of resources, trade is an important part of promoting the area's future stability, but trade alone,

unmatched by some of the economic assistance that we need to promote within the region, will not achieve some of goals.

We look forward to hearing from the witnesses, and I ask that my full statement be entered into the record.

Mr. GALLEGLY. Without objection.

[The prepared statement of Mr. Menendez appears in the appendix.]

Mr. GALLEGLY. I would ask unanimous consent that a statement on Caribbean economic relations submitted by Dr. Ransford Palmer of Howard University be made part of the record. If I hear no objection, that will be the order. Hearing no objection, that is the order.

[The prepared statement of Mr. Palmer appears in the appendix.]

Mr. GALLEGLY. At this time, I will turn the meeting over to our colleague from North Carolina, Mr. Ballenger, to take testimony from our first witness.

Mr. BALLENGER. [Presiding.] I would like to say, gentlemen, along with my friend here from New Jersey, we have been heavily involved in South and Central America and probably have not done the proper amount regarding the Caribbean.

Ambassador Bernal.

STATEMENT OF H.E. RICHARD LEIGHTON BERNAL, AMBASSADOR, EMBASSY OF JAMAICA

Mr. BERNAL. Good afternoon, gentlemen. Thank you, Mr. Chairman, for inviting me to testify before this Committee on this important issue.

These hearings are timely as they take place immediately after the passage of the Trade and Development Act of 2000 which will promote U.S.-CBI trade. As we have embarked on a new millennium, it is an opportune time to evaluate the past and plan for the future. My comments today will focus on the CARICOM countries, which are the English-speaking countries of the region as well as Haiti and Suriname.

CARICOM-U.S. relations are good at present reflecting economic interdependence, political cooperation and a long-standing friendship based on common goals and shared principles. However, U.S. policy toward the region has been subsumed within a larger Latin American policy, and it is not easy to discern a policy which is specifically designed for the Caribbean and one which is consistently receiving attention and application. Attention devoted to policy toward CARICOM varies with U.S. perception of the state of these small countries. If the view is that the region is not a problem, attention is diverted; and, there is a focus when there is a concern.

A more consistent and stable approach to the region is needed. Indeed, U.S. policy toward the wider Caribbean is fractured into several different policies. There are different policies for Central America, Cuba, the Dominican Republic, and Haiti and for the English-speaking Caribbean. There is not a holistic U.S. policy toward the Caribbean.

In recent years the institution of regular meetings between the President and the prime ministers and leaders of the Caribbean as well as an annual meeting between foreign ministers and the Secretary of State has put the dialogue on U.S.-CARICOM relations on

a much more secure footing, and enhances the understanding of the issues.

In this regard, I commend the Committee for holding these hearings at this time. This is a very important mechanism for garnering the views on U.S.-Caribbean relations and providing this information to Congress.

Mr. Chairman, the international context in which U.S.-Caribbean relations have been conducted in the past have changed. I would suggest that it has changed so dramatically that the world that we knew no longer exists. The world is not changing, it has changed and U.S.-Caribbean relations must take into account these changes.

Two of the fundamental changes which affect the relationship have to do with the rapid and profound transformations which are involved in the process of globalization which have implications for both the United States and the region and for the relationship. Second, the traditional post World War political structure rooted very much in Cold War preoccupations has given way to a new era, and a new international order has not yet come into place. In this situation the strategic importance of the region seems to have declined in the perception of U.S. policy makers.

The English-speaking Caribbean is peaceful, has a well established democratic system and is pursuing private sector led, market driven growth strategies. Hence, the region is not a "crisis area" from the U.S. point of view, leading many in the region is not among the priorities for U.S. foreign policy. Complacency is unwise since physical proximity and interdependence means that if the region experiences economic difficulties or political instability, there will be repercussions in the United States in the form of migrants, drug trafficking and other undesirable developments.

The Caribbean reality is dominated by vulnerability, and this is a factor which has to be taken into account in U.S.-Caribbean relations. In addition, there is a major disparity in size and level of development and power between the U.S. and the CARICOM countries.

Nevertheless, there is a basis for partnership based on political cooperation and economic interdependence. The economic importance of the Caribbean is often not recognized. Let me illustrate.

Co-production of apparel allows U.S. fabrics to be made into apparel in the Caribbean using U.S. machinery and Caribbean labor. The result is jobs in the U.S. in the textile industry and apparel jobs in the Caribbean and indeed the finished product for U.S. firms allows them to stay globally competitive, so the disparities in size does not mean that there is not an important interdependence.

The vulnerabilities faced by the Caribbean, which are the challenges it faces when trying to adjust to new global economic and political realities, are the following:

First, economic vulnerability, because, these are very small economies where the scale of production and the units of production are small. For example, the largest firm in the English-speaking Caribbean is a quarter—their total is a quarter of a day's production of any of the top 10 firms in the U.S. So there are vast differences.

The vulnerability also derives from the fact that these economies have traditionally been based on exporting one or two commodities often to a single market. Dominica used to depend for 80 percent of its foreign exchange on bananas sold in a single market, the United Kingdom market.

Second, the region, for the most part, consists of small islands with fragile ecological systems, and the proneness to hurricanes has been very debilitating to development. Hurricane Hubert in 1988 destroyed about 33 percent of Jamaica's GDP. The hurricanes that hit Antigua in 1995 accounted for damage up to 66 percent of GDP. The region has been hit both by hurricanes and by volcanic reaction. This is a setback on an ongoing basis for the region.

Third, there is vulnerability on national security issues. These are small countries. Some of these countries have a population of less than 100,000. When matched against the enormous resources of the narcotrafficking cartels, it is very difficult to preserve democracy and resist the corrosive effect of narcotrafficking and the related transnational crimes such as money laundering.

The challenge is how to overcome vulnerability in the new global context. One way of doing this is to undertake a process of strategic global repositioning, moving from old industries, improving international competitiveness and moving into new export sectors like infomatics. This is an ongoing process and one which can be beneficial not only to the Caribbean but to the United States.

For example, some of these industries are intimately linked with the United States. The tourist industry, which accounts for about 30 percent of the export earnings in the region and one in five jobs, depends critically on U.S. investment and U.S. cruise shipping and transport and is one in which several million U.S. visitors go to the region each year.

I now want to turn to the issues which arise from this vulnerability and the relationship and to suggest some policy directions. I will do this in two sections, the economics and then the security aspects.

The economic issues are as follows:

The Caribbean is one of the 10 largest export markets for the U.S. The U.S. has had a trade surplus with the CBI countries at least for the last 10 years there in economic interdependence, for example when Jamaica earns U.S. $1 from exporting garments to the U.S., it spends some .50 cents buying U.S. goods. In addition, approximately 350,000 jobs in the U.S. depend on the trade between the CBI region and the CARICOM.

Mr. Chairman, turning to specifications within the economic gambit, CARICOM has relieved and happy at the passage of H.R. 434 which has been a corrective in that it has provided a level playing field with Mexico so that the region is no longer at a disadvantage of facing quotas and tariffs in the export of our apparel. This is an important development, and we congratulate you for your role in passing this legislation.

Another important area of trade is the FTAA. Here the disparities between countries like Canada, Brazil, Mexico, the United States and countries like St. Lucia and St. Vincent are enormous. Therefore in the design of the FTAA, account must be taken of these differences by allowing these countries some concessions.

The U.S. policy on bananas, Mr. Chairman, is a most unfortunate policy. It has damaged the friendship with the Caribbean; and it also will have long-term, deleterious effects on CARICOM and may eventually have adverse consequences for the U.S. As these small banana farmers on two or three acres were eliminated from their only market, it led to a situation of increased vulnerability to drug trafficking and other illicit activities.

Mr. Chairman, the WTO has launched a new round of negotiations focused on services and agriculture, two areas of critical importance to the Caribbean. The issue of the small size of CARICOM economies must be addressed by measures incorporated in the WTO. This will not set a precedent, as this merely extends principles which are already included in the WTO agreement for developing countries. These measures should include variations in the obligations, extended periods for implementation and technical assistance for capacity building.

Mr. Chairman, trade liberalization has been the engine of growth in the world economy. Trade liberalization creates opportunities, but these opportunities only come to fruition with investment. Private investment has led growth in the Caribbean, however, there is still a need for development assistance. Development assistance from the U.S. to the region since 1985 has fallen from over $459 million to just over a $136 million. In the case of Jamaica, it has fallen from $165 million to about $50 million in the last 4 years. U.S. aid still has an important role to play and the U.S. should try to restore aid to a more appropriate amount.

Turning to security issues, Mr. Chairman there is an inextricable link between economic issues and security issues. Economic development is the best antidote to security issues which arise from narcotrafficking, transnational crime, et cetera.

The CARICOM consists of small societies which are very vulnerable. The United States has played a very important collaborative role with these countries in handling threats to security. However, narcotrafficking is a growing menace, and more resources are necessary to cope with this problem. Mr. Chairman, that over the last 14 years no CARICOM, has been cited for not cooperating fully with the U.S. on narcotics, but it is an enormous strain for the region to sustain its counter narcotics campaign.

In regard to money laundering, an activity associated with narcotrafficking, the Caribbean has made tremendous progress in updating regulatory capacity and legislation, and there is a role here for further cooperation with the U.S.

Migration to this country from the Caribbean has gone on for over a century and has contributed to the development of this country as well as to the countries of CARICOM. However, there has been a policy of deportation implemented by the United States in regard to criminals which is not efficacious. It transports criminals back into the Caribbean in such large numbers that there has been an escalation of crime and violence throughout the Caribbean. Criminal deportees create transnational criminal networks because they have contacts in the United States. Many of them return illegally to the United States and, therefore, they are not being taken out of society by incarceration and not being punished by deporting them. They continue their activities, and this has been a major

problem. I would like to call for a hearing on this issue so that the Caribbean can be incorporated into a revision of U.S. policy on deportation.

Environmental preservation of CARICOM is a concern which is shared by the U.S. and CARICOM.

Mr. Chairman, the CARICOM countries are not only important economic partners, and good neighbors, but can also, as small states in alliance with powerful states like the United States, play an important international role. Jamaica is now on the U.N. Security Council and is contributing to the struggle for international peace and security.

Mr. Chairman, the countries of CARICOM and the United States, are faced by common challenges, but there is long-standing friendship, economic interdependence and a partnership based on shared goals. The challenge faced by the Caribbean region, CARICOM in particular, for economic development while maintaining peace, the environment and democracy is one to which the United States can support and contribute, through partnership and cooperation.

I would urge that in the review and formulation of U.S. policy, the ideas that emanate from this Committee should be an integral part. It is in the national self-interest of the U.S. to support the Caribbean in meeting the challenges of the new global environment.

Thank you, Mr. Chairman, for your time. I am willing to accept questions, and I formally request that my written testimony which will be made available to you will be placed in the record. Thank you.

Mr. BALLENGER. Thank you, Mr. Ambassador.

[The prepared statement of Mr. Bernal appears in the appendix.]

Mr. BALLENGER. Let me say that the charts that you used, that you spoke of, we don't have copies up here.

Mr. BERNAL. I will be happy to provide those.

Mr. BALLENGER. Thank you.

[The information referred to appears in the appendix.]

Mr. BALLENGER. I would like to report to my compatriot here from New Jersey that I just got word that there are some procedural votes coming up. So we hope we don't interrupt you.

Dr. Fauriol, would you like to go ahead?

STATEMENT OF GEORGE A. FAURIOL, PH.D., DIRECTOR AND SENIOR FELLOW, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES, AMERICAS PROGRAM

Mr. FAURIOL. Thank you, Mr. Chairman.

Exactly 3 years ago I had the privilege to appear before this Committee when it held a hearing on U.S.-Caribbean relations, and at the time I suggested perhaps a bit harshly that there was no distinct U.S. policy on the Caribbean. There were, instead, a number of functional and country-specific issues stitched together. Let me update you on this today.

As has been to some degree mentioned by Dr. Bernal, the bulk of our relationship with the region remains focused on four distinct and generally compartmentalized issues. Two of the most visible politically and contentious diplomatically are policies associated

with Cuban affairs, as well as the fits and starts regarding Haiti policy.

The third domain could be characterized as trade concerns which have preoccupied both Washington and the region for more than 15 or 20 years, particularly if you anchor it around the history of the CBI, and as already been mentioned is this week coming to a new stage with the favorable outcome of the Africa CBI trade bill.

There is a fourth aspect of policy, narcotics trafficking control, which has continued its preeminence in the formulation of U.S. regional engagement.

With this as a backdrop, I am stepping backward and imagining myself as the average American citizen looking at the Caribbean. The image that the public at large still has of the region is principally as a tourism destination and as a source of the nation's illicit drug trafficking.

The irony or the rub for policy makers, not only here in Washington but also at the state and local level, is that U.S. involvement in the region is often underestimated, perhaps under appreciated. Emergency relief, search and rescue are a highly visible component of involvement in the region. In the area of commerce, the aggregates of Caribbean and Central American economy amounts to a two-way trade with the United States of about $40 billion, which makes the region a significant global player for the United States.

Also countering in many ways the message that I often hear from Caribbean leadership and intellectuals about the inequalities due to size, portions of the Caribbean region are in fact engaging in what could be described as a globalized economic, even political environment. Information technology, communications-based service industry, new business strategies that build on that can leapfrog the region's enterprising young leaders into the mainstream of the 21st century, even if, in fact, they are in the Caribbean.

The problem for the United States is that we still face a region that remains fragmented geographically and politically, which explains in part the compartmentalized aspects of U.S. policy. Many Caribbean governments and opinion makers remain fixated by the need to level the playing field, particularly economically, and outflank the vulnerabilities borne of small size or small states.

A climate of uncertainty also exists regarding an eroding quality of regional governance, which is probably particularly applicable to the English-speaking Caribbean which has had a long tradition of democratic governance.

In Haiti, democratization is stalled. In Cuba, it is strangled by the Castro regime. The result has been mounting stress on the political systems and the weakening of institutions upon which they rest.

On average, portions of U.S.-Caribbean relations, therefore, remain involved with mutual frustrations and, to some degree, annoyances. Some of this is linked to pressures regarding drugs and money laundering.

Likewise, the banana-producing Caribbean states are still angered over Washington's missionary zeal regarding market access for bananas into the EU and the ensuing WTO case. There are frustrations in the Dominican Republic and Jamaica, more recently in Trinidad and Tobago and elsewhere, which have taken issue

with the reverse flow of deported criminals and other undesirables from the United States, and there are also indications of a flow of arms and weapons into the Caribbean supplying criminal elements.

Ultimately, however, the practical alternatives in U.S.-Caribbean relations are probably relatively limited even if there is a feeling occasionally heard in the region that the United States is selective and not always a willing ally to the region's small countries.

Europe obviously remains a potential alternative for the Caribbean with limited options in both economic and diplomatic terms, most recently expressed by the visit of the French President in the Eastern Caribbean. But with the Lome-UE preferential trade and investment regime beginning to fade, the proximity and general access to the $570 billion NAFTA market is the prize for the Caribbean. Beyond that are the hopes, as Ambassador Bernal has mentioned, somewhere down the road.

There continues to be frustration over Washington's handling of Cuban policy, but the region has also opened up to other concerns, unpleasant concerns. This includes well-connected unsavory types, money laundering, the citizenship-for-sale program in a number of countries, and the embrace of suspect investors in offshore banking and gambling. This is happening in part not only because governments in the region are weak, weak actors and weak institutions, but many perhaps are also willing partners in these kinds of activities.

The Trinidad-based Caribbean Financial Action Task Force recently estimated that there are $60 billion in drug and crime money that were being laundered every year in the Caribbean region. The region's narcotics policy file is no more encouraging today than it was 3 years ago when I testified here before this Committee. The cycle continues, with pressures in Mexico and Central America leading to stepped-up efforts in the Caribbean. Drug money continues to penetrate economies through real estate and other kinds of investment vehicles.

A word about the CBI. I am still of the belief that preferential trade arrangements are probably an endangered species. The Caribbean strategy, which is probably the correct strategy from its perspective, is to carve out as best as it can windows of opportunity within the upcoming FTAA process. That may turn out to be a better effect than the potentially delayed millennium global trade round. The United States can and should be understanding of these small country concerns and, therefore, the current—or the recent now successful legislative effort to finalize a modestly expanded CBI is a step in the right direction coming at the right time.

But the practical reality within the Caribbean in response to international trade investment I believe is likely to be a continuing informal breakup of the region into sets of countries which will engage globalization at different speeds. Recent economic successes in Trinidad and Tobago and the Trinidad Republic, Barbados, may be good examples of how the Caribbean, in fact, will be successfully engaging that globalized environment. Some will do less well and will therefore have to take advantage of provisions extracted from multilateral trade negotiations and residual trade arrangements such as the CBI.

Let me conclude with a few brief comments about Haiti and Cuba. Three years ago in my testimony before this Committee I argued that the issue then was to reconcile the Administration's political imperative to claim success with the very uncertain reality that existed on the ground at the time regarding any real chance of democratization and economic renewal. That more or less remains the reality of U.S. policy today.

U.S. policy in Haiti, I would argue at this point, has collapsed and/or is collapsing, and there is a need for Congress to reimpose some discipline in this area. Local and parliamentary elections scheduled for March 19 were postponed until this coming Sunday. These are elections originally scheduled for November, 1998. Haitian President Rene Preval and the provisional election commission have in the last 2 months or so been arguing over authority over the electoral process with the president getting the upper hand, backed up by a wave of political violence targeted specifically at the opposition.

In sum, Haiti is a country where elections are not being held on time, results are not credible, foreign aid is wasted or not spent, the economy is wide open to the drug trade, the president of the country rules by decree, political intimidation is widespread. The new national police is in fact disappearing and not being very effective and may be the source of violence. It has become difficult to support a policy which is so wasteful in resources and missed political opportunities.

Just as an indicator, the most recent incident involving the expulsion of the head of the International Foundation for Electoral Systems, IFES. The IFES mission is one of the major actors in the technical implementations of elections in Haiti with funding from USAID. The government of Haiti had obtained an internal IFES document suggesting that President Preval was attempting to postpone the elections.

To me, this is in many ways the end of the line as far as the credibility of the electoral process in Haiti is concerned, and I would therefore at this point confirm my impression in two areas about elections in Haiti:

First, clearly a continuation of the various congressional holds on the electoral assistance to Haiti until there is a clarification of these various problems surrounding the process. Second, although it is awfully close to the date, I would be cautious in supporting U.S. congressional observer delegations to the process this coming Sunday. Despite the fact that other governments and other organizations may be sending observers, I hear in the last few days, for example, that the Quebec parliament has withdrawn plans for its delegation because of concerns over violence.

Finally, on Cuba, this is still arguably one of the least satisfying components of U.S. policy not only in the Caribbean but in probably the rest of the hemisphere.

Mr. BALLENGER. Could you speed up? We would like to get Dr. Bryan's testimony before the vote.

Mr. FAURIOL. There is not much for me to add from where I was 3 years ago. The danger in the present situation are not the defects of U.S. Legislation but the deteriorating logic of the Cuban communist state.

[The prepared statement of Mr. Fauriol appears in the appendix.]

Mr. BALLENGER. Dr. Bryan, I don't want to rush you, but——

STATEMENT OF ANTHONY T. BRYAN, PH.D., DIRECTOR AND SENIOR RESEARCH ASSOCIATE, DANTE B. FASCELL NORTH-SOUTH CENTER, CARIBBEAN STUDIES PROGRAM, UNIVERSITY OF MIAMI

Mr. BRYAN. Thank you, Mr. Chairman. Thank you for the invitation to testify before this hearing.

I was given a fairly large agenda, namely to assess the current political and economic conditions facing the Caribbean, the region's priorities and the U.S. role. I will deal with each of them very briefly. I will limit my comments to the island nations and the continental enclaves of Guyana, Belize, and Suriname.

Economically, this region has followed the neo-liberal reform rule book. It has implemented policies mandated by the International Monetary Fund, the World Bank, and regional funding agencies. Its governments have trimmed fiscal deficits, privatized state-owned commercial enterprises, and liberalized trading regimes. Even Cuba, which still continues to labor under a deliberate ideological model that doesn't encourage democracy, has introduced what I call some version of "a la carte capitalism" which encourages direct foreign investment in certain sectors of the economy.

The present transition in the political economy of the Caribbean region is full of uncertainties. Many of the small economies are heavily dependent on one or a few traditional export commodities for which world prices are not likely to rise.

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. So global enterprise competitiveness is the real challenge that most of the countries face.

When we look at the Caribbean, we have to appreciate the diversity in economic growth; and if we look at the review of the 1999 economy, which was done by the Caribbean Development Bank, we find that GDP growth in the region ranged from 1 percent to over 8.3 percent. The growth was strong in service-oriented economies which had invested heavily in tourism in recent years. The star performers were the Dominican Republic, which achieved a growth rate of 8.3 percent, one of the highest in the world, and Trinidad and Tobago which grew at 6.9 percent.

The new regionalism in the Caribbean is reflective of this economic diversity. The absence of a large regional market means that the approach to integration has to be different from any large integration area. In that context, the formation of the CARICOM single market and economy whose remaining protocols were signed during 1999 and early 2000 is a significant step toward the ideal of economic integration.

I think there are three characteristics at this juncture which are clear about the Caribbean economy: First, there is growing acceptance of globalization, corporate integration and the hemispheric trade momentum. Second, there is 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. Third, the challenges confronting the Caribbean with respect to trade with Europe and the Americas are essentially similar. These have to do with the future of existing regimes of significant differences, and a strategy is developing which allows simultaneous access to as many global, regional and bilateral trade pacts as possible.

I take a slightly different view to a number of my colleagues with respect to Caribbean economies. I think in the future the assumption that small Caribbean economies cannot compete in international markets may no longer be valid. Some small economies can dominate niche markets; tourism, information services, energy based or petroleum industries, and some of the larger Caribbean economies are already demonstrating their ability to compete globally in such niche markets. They have high educational standards and skilled labor resources which compete with many other areas of the world.

With respect to governance, I think that trends in politics: declining political participation, frustration with the parliamentary system of politics, changes in leadership, conversion to neoliberal economic policies by political parties which have traditionally represented labor, and changing relationships between labor, business and government, all of these will have an impact on the political economy of the region in the earlier years of the 21st century.

Finally, what about the role of the United States? I think both the Caribbean countries and the U.S. share common ground on a wide range of issues. Individual Caribbean countries have their own perception of the kind of relationship that they want to develop, and the political and economic diversity of the Caribbean does not now provide the U.S. with any possibility of devising a single comprehensive policy to the region as a whole. However, there are agendas of opportunity.

I think the passage last week of H.R. 434 is a welcome step in the direction of such convergence and cooperation. Also important are the frequent meetings between Caribbean heads of government, and other foreign ministers and their counterpart in the United States, which were set in motion by the Bridgetown Accord in April 1997.

I have just returned from the region, and I would suggest that there are several issues which are critical:

First, hearing of Caribbean concerns about the OECD 1998 report on harmful tax competition as well as the Clinton administration's budget proposals for a bill which would require the U.S. for the first time to establish a blacklist of tax havens.

Second, the possibility of a U.S. European Union accord on the granting of a WTO waiver for Caribbean bananas.

Third, the strengthening of a joint approach to fight drug trafficking, illegal firearms and transnational crime.

Fourth, completion of discussion of a memorandum of understanding on deportation procedures for criminals deported from the U.S. to the Caribbean that are acceptable to both parties. This would include more timely notification and sequencing of deportation.

Fifth, speedy implementation of the agreed support and cooperation of the USAID Caribbean regional strategy and 5-year program of assistance with regard to trade, business development and economic diversification and investment.

Sixth, the provision of technical assistance for economic reforms, particularly in smaller economies.

Seventh, closer cooperation with key Caribbean countries, not only in major security matters but also in broader gray areas such as the prevention of environmental degradation and the provision of food security.

Finally, continued dialogue between the Caribbean nations and the U.S. to assure peaceful political transitions in Haiti and Cuba.

This mix and management of the broader concerns is where the U.S. would have to direct its efforts. There is need I think for consolidation of a mutually productive relationship with the Caribbean, and it does not have anything to do with big brother or small country; it is simply that this is a common neighborhood. A lot of the problems that we share cannot be resolved without further collaboration and cooperation and continuous discussion.

Thank you.

[The prepared statement of Mr. Bryan appears in the appendix.]

Mr. BALLENGER. We are going to have several votes. The basic idea is that it may be continuous. I would like to check and see if my vote is needed. I am going to go vote, and then I will just skip the rest.

I think we are playing games, and that occurs every once in a while in potential political problems. We only have a five-vote spread, and so if I have to come back and go back, I will. But I will be back to question you gentlemen, if I may. I hope you don't mind. It will probably take 10 or 12 minutes to go over there and get back.

We will recess the Subcommittee for 10 or 12 minutes.

[recess.]

Mr. BALLENGER. Dr. Bryan, since we cut you off, maybe you had some more words of wisdom that you would like to pass on before we get into questioning.

Mr. BRYAN. Actually I would defer to questioning. I think it would be appropriate.

Mr. BALLENGER. Yes, sir.

Mr. BERNAL. I would like to add two points which, I neglected to mention.

First, is that the sugar quotas for the U.S. is an important issue because that is still an industry that is important to the CARICOM, but the quotas are being threatened because Mexico has asked for its NAFTA quota to be increased. Given that there is a surplus of sugar in the world and increased domestic production as well, the only way that Mexico's quota could be increased would be to take it from the bilateral quota system. Nothing should be done to reduce the quotas of the CARICOM countries which are already quite small, but very important.

The second issue is that there is a major agreement between the EU and the ACP countries, and it is an agreement which gives concessions to those developing countries, and in the past it has been

known as the Lome convention. Like CBI, it requires a waiver under the WTO rules.

The assurances by the administration, that there will be no objection to the waiver for the new EU-ACP agreement, is very important.

Thank you for allowing these additional comments. I would be happy to take questions.

Mr. BALLENGER. When you mentioned your hurricane, whatever happens in Central and South America—I apologize to people down there—my wife and I have been working in that area for 35 years. We tell people, if you want to get our notice, have a war or blow up—hurricanes, we pay some attention all of a sudden. But the sad part is that it does have that effect.

When Hubert hit Jamaica in 1988, I am sure you didn't know that the first airplane that landed there came in from Charlotte, North Carolina; and it had a package disaster field hospital on it, and my wife and I, we delivered 13 field hospitals all over the world, and one was to Jamaica.

Sadly for us, we were involved in Haiti. A little lady came to see me, and she said, I am the mayor of my town, and I am also the school mistress. She said, I need pencils and paper. I got 800,000 sheets of 8½ by 11 paper and 50,000 pencils lined up with the solution order to take care of it; and the day after we shipped it, they burned her school down. The sad part, it was to no avail.

One thing I would like to ask, and I don't know whether it is even feasible amongst you all, but having been involved in Central America, say, for 35 years and various and sundry countries there, I keep trying to tell them over and over again the one thing that will attract something other than a cut-and-sew industry—and I come from North Carolina where we used to have the majority of the cut-and-sew industry in the United States. I voted for NAFTA, and my name has been mud in North Carolina ever since, because they blame it all on me. But, in reality, the jobs that we have sent elsewhere throughout the Caribbean and in Central America have been replaced by the three largest fiber optic cable plants in the world and heavily oriented toward German and Japanese industry, and so we are really much better off.

But the one thing that made it attractive to these other areas was, in my considered opinion, education; and the greater your education is in your community or your island or whatever it happens to be, in my considered opinion you are going to be able to attract better industry.

The example I use most often is, how did Costa Rica get Intel which has 2,000 or 3,000 people working there? Electronic assembly jobs are better paying than the cut-and-sew operations. I don't know whether the effort by the governments in the islands in general have been to upgrade their educational system, but I would like to have somebody's reaction to the fact that it appears to me that if the governments in these areas really are dedicated to try to upgrade the quality of their people and their lives—growing bananas doesn't take a developed intelligence, whereas the further you develop it the more you eat the bananas and try to do something else rather than ship them.

Mr. Bernal, you represent a country.

Mr. BERNAL. Thank you, Mr. Chairman.

Let me say, first of all, on record, thank you on behalf of the government of Jamaica for the action that you and your wife took so expeditiously. One of the things that always strikes me about the U.S. society, is that it is not just a rich society, it is a generous society, and that stands to your credit.

Education, sir, is critical. It is a factor which the Caribbean has always placed emphasis on; and indeed many of the Caribbean persons who come here for employment are not in low-end jobs, they are in high-tech jobs, in medicine, law, et cetera. The CARICOM countries are well placed to move, as you correctly stated, out of some of the lower-paying jobs in, say, apparel and agriculture into informatics and business services. Indeed, certainly for Barbados and for Jamaica, information technology is a priority. In the case of Trinidad, there is a very sophisticated high-tech industry based on oil and natural gas.

Indeed, the CARICOM has produced all of the skills that are needed for the 21st century once you think of the Caribbean not as a physical but a nation without borders in which our Caribbean citizens here are available to join in nation building in their homelands.

Mr. BRYAN. Yes, Mr. Chairman, I think I just want to refer to what I said a little earlier when I had to race through this testimony.

Caribbean economies in many instances are competing very, very well and some of them, as I said, in niche markets, such as information services, energy-based industries, and tourism. They also show great potential in a number of areas. Part of the reason for this is the highly educated and skilled labor resources in the region. This is what helps them to compete.

One of the ironies is that education is one thing, but the lack of resources in some countries is another. What is a bit disturbing is that, despite democratic traditions, good human rights records, high educational levels, and relatively high levels of per capita income, some countries are still unable to obtain adequate levels of international funding to give them a jump start. This has been of great concern to the Commonwealth Secretariat and the World Bank which have just issued a report on small states and their needs and the recommendations which should be accepted by the international community and the international organizations. So we have the wherewithal in the region, but this irony still exists.

Mr. BALLENGER. If I may interrupt, that complaint is generally true in the larger Central American countries. The President of Nicaragua has told me over and over again, if I can just get a big bank—we have a little bank that can lend you 5 or $10,000 but they don't lend you $10 million and that necessary financing—I basically am a businessman who founded my own company, and you can't operate on $5,000 or $10,000 worth of credit. I understand exactly what you are saying.

Mr. FAURIOL. Mr. Chairman, you mentioned the Intel example in Costa Rica, and you recall that was a multi-year strategy on the part of the Costa Rican government. It involved a carefully negotiated trade regime that made Costa Rica competitive for an Intel kind of investment.

Looking at the Caribbean outside of the unique case of Haiti, a country that you are quite familiar with, the Caribbean has, historically had high standards of education. In some ways, that is not really the challenge. The challenge conceptually is education versus what has been a problem in the Caribbean, which is an insular vision or mentality. You can have highly educated people, but if they only look around their immediate neighborhood, it is not going to be fully articulated. But you probably have a consensus among the three statements that you have heard here, that in the Caribbean, the combination of high-value human resources and new technologies, will allow the region to enter the 21st century with a high degree of competitiveness.

Mr. BALLENGER. Ambassador Bernal, you mentioned the highly educated who have come to this country. My wife and I, at the request of Mrs. Jemaro, when she said that none of the young people in Nicaragua were being educated in this country, they were being taken to East Germany and was it possible for us to do anything. So we brought these children up from Nicaragua and sent them to college, but on the prerequisite that they had to go home. Because if you are educating people to upgrade the economies elsewhere and they don't go home, then all you have done is just added some educated people in this country. We need them, but your islands probably need them much worse than we do.

Mr. BERNAL. Mr. Chairman, that is a dilemma. But these people who migrate initially to study or if they are already qualified to work here are not lost to our system. They make a very significant contribution not only here in terms of their taxation and employment, but they send back to the Caribbean an enormous amount of resources which go not only into private investment but also to support schools and so on.

There is actually a debate now in which many people suggest that the export of one person may actually be worth more to the economy than if we kept them at home. We have managed by producing a lot of skills that we have adequate skills in our country.

However, I should enter the fact that Caribbean migrants are unique in the United States. They all intend to go back and in many cases there are cycles of movements where they go back and then they come back and it goes on. So they are not lost to us. Particularly now with the new technology of e-mail and so on, we can tap those skills in a way that we couldn't before. So we feel with this new technology they are not lost to us, and I might say that some of the most patriotic people in the Caribbean are in the United States. Patriotic both for this country and for our country. They are great Ambassadors for us, not lost to us.

Mr. BRYAN. I agree entirely with Ambassador Bernal. I am from Trinidad and last week we had meetings there on this very issue. A number of corporate entities in Trinidad are starting to face manpower problems at certain managerial levels. The economy has grown to the extent that there is also a labor shortage at some levels.

A lot of the contribution is now being made from the Diaspora in the United States and elsewhere using e-mail. It is a border less world.

For the first time, I am starting to see the tapping of investment potential from the North American diaspora. This is a very interesting phenomenon. It is not simply a question of remittances in the case of Trinidad and Tobago. It is more of a search for investment capital and a movement of investment capital. These are very interesting trends.

Mr. BALLENGER. If I may add to that, I worked rather heavily, as hard as I could, on passing CBI, and I had some friends from El Salvador working on that very thing. The reality—if I were going to skip Mexico but the rest of Central America—it seems to me that El Salvador is one of the few places that really has developed rather substantial light industry.

The gentleman that was here working with me on this thing, he has two box plants, and he prints and makes plastic bags which is all fairly heavy machine oriented, investment in machinery. After it passed, he went from having laid off 600 people in his plant—the day that we announced that we were going to vote on it and it looked like it was going to pass, his orders took off, and he immediately was offered the opportunity to sell two of his cut-and-sew plants. He was saying he thought he would sell them and build himself another one.

The basic thing that I saw differently there was the ability to have investment capital, and I think it really—again, you don't have the wars that I was involved with in El Salvador and Nicaragua, but people stayed there. Especially the Christian Arabs did not leave the country. They stayed there and continued to grow.

Let me ask you, how would you as individuals assess the success of CARICOM at this point right now?

Mr. BERNAL. Thank you, Mr. Chairman.

The CARICOM is the longest operating integration arrangement other than the European Union, and it has had success. It has had success in two ways.

First, by integrating these small economies, it has provided a larger market in which companies can gain some economies of scale but also compete in that regional pool before they move into a global marketplace. The limitations on those achievements stem from the fact that these are very small economies. Even together as a regional market, they are still small by global standards. So there are limitations to this process, but it has been useful.

Second, the regional cooperation aspect has been critically important. By cooperating as a group in mediating the encounter with the global economy and in international negotiations, there has been success. Certainly it has been a way in which these countries can pool their resources and therefore save on costs as well as get the best that the region has to offer. In those aspects CARICOM has been useful.

In recent years, Suriname and Haiti have joined CARICOM, which is good particularly for Haiti but also good for CARICOM as well. CARICOM is strengthening links with the Dominican Republic through a free trade arrangement similar to those with Colombia and Venezuela. CARICOM is seeking to expand the size of the regional market but also to deepen the process of economic integration. For small countries, regionalism is an important strategy both

economically and politically in articulating interests of the region in international affairs.

Mr. BRYAN. I think CARICOM has always been an ambitious organization and it has a long tradition of regional cooperation and integration. But sometimes the goal falls short of the ambition because of regional disparities in resources and capabilities.

I think it is an organization that we have to be very proud of because it has really been one of the successful examples of functional cooperation and integration in the Western Hemisphere.

Mr. FAURIOL. CARICOM underscores one important factor, which is the unique institutionalization of the Commonwealth, the English-speaking Caribbean, for a long period of time, and that has an effect. Despite perhaps being an institution losing its way in the 1970's and 1980's and 1990's in terms of having an impact on the region itself, it did create an environment in which a whole subsidiary of set of dialogues, regular contact, a sense of continuing political and economic community, were sustained. These days, through technology changing international circumstances, as Ambassador Bernal suggested, a rationalization of these institutional efforts such as CARICOM is helping it become effective internationally. At this point my assessment of CARICOM is that it has been not historically very effective but still remains an important player in the institutionalization and progress of the region.

Mr. BALLENGER. Let me ask you, Dr. Fauriol, since you spoke earlier about Haiti, and we wonder what are we going to do, and our Committee is involved very heavily, we read that Mr. Aristide is pretty cut and dried going to be the next President. Could you venture an opinion as to—I don't think there are any newspapers here now. You are safe to say what you want. Could you venture an opinion as to what you think is going to go on there?

Mr. FAURIOL. The first marker is obviously the elections coming up this Sunday. I can only speculate. Conventional wisdom is that some form of an electoral process will take place. There will be voting and ballots and so forth. There is some concern that there could be some violence, although there is a contrary view that that is not going to occur. If there is any violence, it is going to occur in the subsequent phase which is the counting of the ballots and the confusion over the vote count and ultimately growing tensions as to what is really happening.

My concern here, as I tried to express a little bit in my statement, there is a point after which the international community, including the United States, does have to be able to reconcile what we mean by democracy and elections.

In Haiti, we may be reaching an awful low standard. The last elections that Haiti had in 1997, by the best accounts, the consensus that 5 percent of the folks even bothered to vote. I was an observer, and it was easy because there was not much to observe. Ultimately, those elections were, in effect, canceled over a period of about 2 years of political confusion.

The other conventional wisdom, regardless of where one stands on the issue, is that ultimately this is just a prelude to Presidential elections at the end of the year and the return of former President Aristide to the National Palace.

My scholarly hat tells me the following, which is that I am less concerned about the outcome of the election and I am more concerned about the process, and I am troubled by the cumulative effect of a qualitatively deteriorating electoral process since 1995 where a controversial individual will be elected in an environment which, even among Haitians, will be controversial, and the situation could deteriorate dramatically between now and the end of the year if violence and the collapsing economy become an issue.

At this point, I am pessimistic, without a practical recommendation except to suggest that this may be the time to hold back and actually make a determination of where we are, what we have been doing and what hasn't worked. Therefore, the question of election observation to me is a good marker. If you sent observers, you are likely to be stuck in a situation where you have to pass judgment over an imperfect situation. If you withhold observation, you are in a position of being able to determine what might have happened or what, in fact, did happen.

Mr. BALLENGER. Was Porter Goss with you in that last election? Congressman Goss?

Mr. FAURIOL. Yes, I had the honor of being a Co-chair of the International Republican Institute Observer Delegation with Congressman Goss.

Mr. BALLENGER. When he told what he thought of the election, he caught hell for actually telling the truth. Our responsibility to the rest of the world seems to be getting terribly large, and in certain areas where you think that you can be effective, I don't know where that is, but it is not Kosovo and it is not Haiti. But Haiti is so close that if this country can tie up its news media for one little Cuban boy, what could we do for a couple of hundred thousand Haitians when they actually land here?

I told Congressman Menendez that I would keep it going, but I think you all have a time schedule, and I would like to say that I thank you profusely for coming forward since I am heavily involved in Central and South America but I haven't done my little bit as far as your islands are concerned.

My wife and I—because of the floods that Mitch caused we shipped enough steel to put the roofs on 2,500 homes in Honduras and Nicaragua. Venezuela, the floods there, we just shipped eight containers of used school furniture. If you gentlemen ever feel the need—things that we in the United States—obviously, in the United States you can't build a new school and keep old furniture. Old furniture in a school is not old furniture anywhere else in the world except here in the United States. I think I have sent four container loads to Honduras and eight to Venezuela. You haven't been hit by a hurricane lately, and I don't wish you bad luck, but the next time you do, let me know if we can help out. My wife and I, we are not a United Nations or USAID, but we try to be involved.

I would like to thank you all for participating today.

Mr. BERNAL. Mr. Chairman, I would like to thank you for arranging this hearing. I thought it was very timely. I think it serves to direct attention to an issue which deserves more attention. I thank you for your leadership on these issues and your continuing interest.

A hearing like this is useful because it promotes the dialogue not only among those have participated but in the written record it makes available to a wider audience a source of information which can be used for those interested in the Caribbean.

I hope that these hearings will become a regular feature of the Congress. I note in your opening remarks that there had not been a hearing for about 3 years. I think this was what I hope will be the start of a regular series of dialogues, because the challenges that confront the U.S. and the Caribbean can only be overcome by our economic and political cooperation.

I thank you for the attention of the Committee.

Mr. BALLENGER. Let me also thank you for being as active as you are. I know quite a few of the other Ambassadors we never hear from. Just a general appearance of the Ambassadors is effective in letting us know about problems that we don't know. Unless you take the Miami Herald, we don't know what goes on in Central or South America or the islands. The Washington Post and the New York City Times don't seem to care.

Mr. BERNAL. If I have not sent you enough letters on the CBI, I pledge to send you more information. Thank you.

Mr. BALLENGER. Again, we thank you all. Thank you for being here today. The Committee stands adjourned.

[Whereupon, at 3:15 p.m., the Subcommittee was adjourned.]

A P P E N D I X

MAY 17, 2000

OPENING STATEMENT OF CHAIRMAN GALLEGLY
The United States and the Caribbean: What is the Agenda?

Today, the Subcommittee continues its oversight hearings on the Western Hemisphere by reviewing the current political and economic environment in the Caribbean as well as United States policy toward the region.

Three years ago, this Subcommittee held a similar hearing in the wake of the President's somewhat historic trip to Barbados to meet with the leaders of the Caribbean nations. This trip produced the "Bridgetown Declaration" which was hailed as the beginning of a new era in U.S.-Caribbean relations and was referred to as a "partnership for prosperity and security in the Caribbean".

At our hearing then, Dr. Fauriol said that "because the Caribbean craved greater understanding and attention from Washington..., the Barbados meeting is probably at least symbolically a step in the right direction".

And, in the Spring 1997 edition of the *Journal of Inter-American Studies and World Affairs,* Dr. Bryan wrote, "The President has the opportunity to make his second term a memorable one in defining U.S. policy toward the Caribbean". And he asked, "Will there be a difference this time around?"

Since that Barbados meeting, where such hopes rose, we have often heard a chorus of complaints from our neighbors in the Caribbean. These have included concerns that what should be U.S. interests in the region, such as strengthening democracy, pursuing economic integration, promoting sustainable development, and alleviating poverty, have given way to a "vacuum of issues" as some have described it and "dangerously out of sync" as others have said.

Specifically, the Caribbean nations complain that U.S. policy reflects a negative image of weak and inefficient governments, tainted by corruption and the influences of the drug trade. In fact, the Caribbean nations often complain that U.S. policy, including our attitudes toward trade policy, is now totally dominated by a fixation with the drug agenda.

Our neighbors in the Caribbean are important to us. And while the drug trade is also important, this Committee is concerned about the perception that the U.S. agenda for the Caribbean may be too narrowly focused. We are concerned that the leaders in the Caribbean are frustrated with the United States and that anti-American rhetoric, as we witnessed after the WTO decision on bananas, could increase if we hesitate to take a more pro-active role in addressing the numerous problems facing the region in a sensible, coordinated way.

This hearing then, poses similar questions asked by Dr. Bryan?

1. Since the Barbados meeting, has a true "partnership" emerged?

2. Have prosperity and security been adequately address?

3. Has there been a difference in U.S. policy toward the Caribbean in the past several years?

It is the Subcommittee's hope that these and other questions can be addressed by our witnesses today.

Statement of Dr. Richard L. Bernal
Jamaica's Ambassador To The United States
Embassy of Jamaica
Washington, D.C.

Before the Subcommittee on the Western Hemisphere
House Committee on International Relations
May 17, 2000

Mr. Chairman, thank you for your invitation to testify at this Hearing of the Western Hemisphere Subcommittee of the House Committee on International Affairs on the topic of the US and the Caribbean in the New Millennium: What is the Agenda? This Hearing is timely since the start of a new millennium is an appropriate time to evaluate the past and plan for the future. My comments will focus on relations between the United States and the Caribbean Community and Common Market (CARICOM) countries. CARICOM is a regional integration arrangement established in 1975 and 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, GDP and GDP per capita.

CARIBBEAN/US RELATIONS

US 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 super power, the US 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 US has pursued separate policies for Central America, Cuba, Haiti, the Dominican Republic and the CARICOM, albeit within the leitmotif of free trade, anti-communism and democracy.

US 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 co-existence with their neighbors. The US military has had to intervene once in the Caribbean region, in Grenada in 1983.

The Caribbean and the US 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.

INTERNATIONAL CONTEXT

The global economy and the 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 that the world is not changing; it has changed. This transformation ushers in a new era, and those countries that are slow to adjust and adapt to the new economic environment will be progressively marginalized from the mainstream of global economic activity. The global changes are not simply a change in the weather; they constitute a change in climate.

The nature and conduct of international relations has 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 super power. 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 tri-polar economic rivalry with the US, Japan and the EU, have combined to change the dynamics of international affairs. In the immediate future, international relations will be more complex because of diversity and proliferation of political actors, the evolution of governance in response to the 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, e.g. sugar, bananas and bauxite, are no longer as important to the US and the EU. These products are readily available from other regions and in some cases at lower prices. The security concerns of the US have 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 Soviet Union and Eastern Europe. Unlike those countries, the ESC is characterized by well-entrenched and stable democracies, as such despite its proximity, it has received less attention form the US.

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

CARIBBEAN REALITY

The dominant feature of CARICOM countries is their vulnerability, which has both economic and security dimensions.

Economic Vulnerability

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 of 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, e.g. Britain absorbs 80 percent of Dominica's bananas and 90 percent of St. Lucia's exports.

The high degree of openness to international transactions, as reflected in the trade/GDP ratio of the members of CARICOM, and the concentration in a few export products, particularly some primary products and agricultural commodities whose prices are subject to fluctuations in world markets, make small economies 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 the CARICOM countries' 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 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 their 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 the small size of the market and the limited range of resources. Concentration is usually significantly higher in developing countries than in developed countries e.g. in manufacturing. This is particularly the case in small, developing countries where 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 which export a few primary products, particularly minerals and agricultural commodities and experience erratic fluctuations in capital flows. This is particularly the case in small developing countries have a severely constrained adjustment capacity that limits their ability to react. Volatile fluctuations in national income is costly because of the adverse impact on investment, resource allocation, productivity, inflation, exchange rates and economic growth. Small economies experience higher income volatility than larger economies, estimated by the World Bank/Commonwealth Secretariat, as 25 percent higher. A recent study of foreign direct investment flows in the last 20 years reveals that small developing countries are at a disadvantage in attaining FDI relative to larger developing countries, because even when they have sound economic policies, small developing countries are rated 28 percent more risky.

Proneness to Natural Disasters

One of the peculiarities of small developing countries, particularly the small islands of the Caribbean, is the prevalence of natural disasters. The adverse implications of natural disasters have contributed to volatility in the growth of Caribbean countries. It is unquestionable that the impact of a natural disaster on a small economy and its financial sector can be far more devastating than it is 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, while much larger in an absolute amount, amounted to only 0.2 percent of GDP.

Security

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) trans-border shipment of nuclear and hazardous wastes through sea and airspace of small island states. Such problems are of course not unique to the small island states of the Caribbean. However, these states because of their extremely small size, suffer the consequences to a much greater extent than would normally be associated with these problems. In addition, the geographical location of the small island states of the Caribbean make them natural transit points for a range of materials including illicit drugs and arms.

The illegal trade in guns has contributed to a pronounced escalation of gun 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. The arms trade and the closely associated drug trade directly threatens the social and political fabric of small island states because, in addition to the violence and crime that it stimulates, it promotes increased drug use in these small societies which increases health risks and thereby adversely impacts on the youth.

There is an inextricable link between security and economic conditions and policy in the CARICOM states and US policy towards the region must be based on a clear recognition of this fact. Ultimately, the best defense against the temptation to involvement in the lucrative drug production and trafficking is economic growth involving increasing employment and income, particularly in rural areas.

CHALLENGES FACING THE CARIBBEAN

The 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 the 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 encompassing the development of new exports, e.g. informatics, as well as improving competitiveness and productivity in existing export sectors, e.g. bauxite. Some foreign exchange earning sectors such as tourism will have to undergo a continual process of review and adjustment, changing the product mix to meet shifting demands or to create new customers. The production and export of traditional commodities such as sugar, nutmegs 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 e.g. 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 which could be applied in other economic activities. There has been success in food processing, apparel manufacturing, 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). The governments of the ESC have embarked on a serious effort to liberalize the region's

telecommunications sector. Last year, 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, the 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 ISSUES AND POLICY

The United States is the largest trading partner and source of capital flows of the CARICOM. CBI nations are a significant market for US exports: in 1998, US exports to CBI countries totaled $21.1 billion, 9.1 percent more than in 1997. Exports to the Caribbean accounted for 3 percent of the total US exports in 1998, up from 2.8 percent in 1997. The US-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 US 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 US, surpassing other US trading partners such as France. Presently, the US/Caribbean relationship supports more than 400,000 jobs in the US and many more throughout the Caribbean. For further details see Table III.

Caribbean Basin Initiative (CBI)

The CARICOM welcomes the passage by both Houses of the Trade and Development Act of 2000 by the adoption of Conference Report to HR 434 by overwhelming majorities. The legislation will provide enhanced access to the US market for exports from the Caribbean Basin and expand trade and commerce with the nations of Africa. The Bill finally accomplishes much of what Jamaica and other CBI States have sought since the passage of the NAFTA six years ago, a leveling of the playing field regarding access to the US market to enable the CARICOM and other CBI beneficiary nations to compete on an equal footing with Mexico for new investment in the region.

Bananas

The CARICOM continues to be deeply disturbed by the active participation of the US in the challenge to the European Union's arrangements with the Caribbean and other ACP partners, for the sale of bananas. The CARICOM states sought to impress upon the US the critical importance of the banana industry to the countries of the Caribbean. The export of bananas is vital to the economic, social and political fabric of many states some of whom depend on the industry for more than 50 percent of their export revenue. Over several years CARICOM sought to achieve an accommodation with the US, however, despite assurances of sensitivity to the plight of the region, the US persisted in its challenges to the banana regime which undermined confidence in

the industry among the farmers and industry interests in the Caribbean. This led to sharp declines in banana production with the resulting loss of jobs and foreign exchange earnings.

While some of the losses suffered as a consequence of the US action cannot be recovered, CARICOM continues to hope for a resolution of the problem in the near future. A genuine sense of cooperation among the partners must be the basis of any solution that would balance the interests of the parties while preserving necessary market access provisions for CARICOM countries. The US must maintain a constructive approach to the process now underway, remaining cognizant of its many pledges to take into account the expressed concerns of the region.

Sugar and Rum

Sugar producers of the CBI region are concerned about the efforts by Mexico to accelerate the expansion of its sugar quota to the US 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 US is permitted to allocate a global quota of 1,117,195 metric tones 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, which barely make shipping economical. Any measure that results in further loss in preferential access to the US market could have significant economic and social consequences in the region, particularly given the low world market prices. The Caribbean countries are therefore urging the United States Government not to entertain Mexico's request for an expansion of its sugar quota, unless it can be accommodated without a reduction in the quotas currently allocated to the Caribbean countries.

The countries of CARICOM which export sugar continue to seek a CARICOM sugar quota, which would allow reallocation among its members in the event of temporary shortfall by any one of them. During the CARICOM/US Trade and Investment Council discussions in 1999, the US undertook to explore the legal implications of this request. A single CARICOM sugar quota would be consistent with the region's efforts to create a CARICOM Single Market and Economy.

CARICOM urges the US not to consider expansion of the "zero for zero" agreement it negotiated with the EU as this would further jeopardize the access of rum exports from the Caribbean to the EU and US markets. CARICOM is pleased that rum imported from the region into Canada, then blended and bottled for re-export to the US is to be granted duty-free access under the Trade and Development Act of 2000 bill. The bill provides for liqueurs and "spirituous beverages" produced in Canada from CBI rum to 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

World Trade Organization (WTO)

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 towards reduction or elimination of preferential trading arrangements poses a major challenge. The dismantling of preferential trade arrangements such as the WTO ruling on bananas, indicate 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 and these should not be limited to measures, which avoid 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 GATS specifies measures aimed at increasing the participation of developing countries in the global trade in services, through specific commitments in relation to strengthening their domestic services, its efficiency, capacity and competitiveness. In order to achieve the meaningful participation of smaller economies, the following measures are recommended.

First, smaller economies should be allowed to undertake commitments to the extent consistent with their adjustment capacity, development, financial and trade needs and their 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 permitted 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 small size of firms in smaller economies and the small scale of production and the 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, 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, the 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 the structural, institutional and legislative adjustment; (b) promote the development of adequate institutional capacity including training to improve their handling of negotiations and implementation of the 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 to make use of the dispute settlement mechanism because of their inadequate expertise and institutional capacity to implement panel findings and the high cost and administrative difficulties of using the mechanism.

Free Trade Area of the Americas (FTAA)

Small economies of Central America and the Caribbean constitute the majority of the FTAA participants and a seamless hemispheric marketplace cannot come into existence without these countries, therefore it is essential that their concerns must be kept under continuous review during all stages of the negotiation of the Free Trade Agreement. 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 a free trade area of the Americas ought to contain provisions, including but certainly not limited to longer adjustment periods and the provision of technical assistance.

Lomé Waiver

The CARICOM countries welcome the pledge by the US not to oppose the EU 's application to the WTO for a waiver to facilitate the implementation of the trade provisions under the new EU/ACP partnership agreement to replace the fourth Lomé Convention. Any effort to link this comprehensive cooperation arrangement to the banana dispute would represent an unwarranted attack on the efforts of the 72 developing countries of the ACP to pursue vitally important goals of sustainable development in cooperation with EU partners. This agreement covers important issues of development cooperation, trade, investment, private sector development and social sector development.

Development Financing

Since the 1960s, the US has supported the process of structural adjustment, economic reform, trade liberalization and economic growth in the CARICOM countries. US 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, US development assistance to the region averaged $200 million per annum. Since then there has been a sharp reduction. For evidence of this one has only to look at US foreign assistance to Jamaica which 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 assistance to the social sectors to cushion the effects of economic adjustment on the poor; improving natural resource management; assisting in efforts to combat the international narcotics trade; funding environmental protection; and disaster relief, investment promotion. USAID's assistance to the region is shown in Table IV. Declining US assistance may negatively affect the CARICOM states' capacity to carry out these programs at a continued high level.

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 expenditure, and reduces import capacity. Jamaica experienced debt problems during the late 1970s and 1980s and benefited from debt relief from various debt restructuring exercises 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 was one of the first seven countries to benefit from debt relief under the program, receiving approximately US$450 million. Guyana will also be obtaining additional relief under the Enhanced HIPC Initiative.

SECURITY ISSUES AND POLICY

Cooperation on security matters is one of the most important and successful aspects of the Caribbean/US 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

The fact that small island states in the Caribbean are located close to major production points of drugs and are also major markets for drugs, encourages drug smuggling and the multi-national drug trafficking groups to begin 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, particularly equipment such as motor vehicles, ships, airplanes and surveillance equipment, and this makes 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 US. This signifies that CARICOM countries are taking steps individually or in conjunction with the US 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 the US law enforcement agencies, and those of the

CARICOM region.

The small states of CARICOM do not have the capacity or resources to tackle the major drug cartels by itself. General McCaffrey is correct when he speaks of the hemispheric narcotics control effort not as a war but as a long-term engagement. The crimes deriving from drug trafficking have high impact on small nations and small populations. 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 US has placed a significant burden on them to continue to undertake aggressive interdiction efforts to curtail the movement of drugs through the region. Caribbean states continue to commit significant resources to counter narcotics efforts. As the US commits itself to more robust anti-narcotic 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 undertake significant eradication programs for marijuana crops as a corollary to their far-reaching efforts to interdict the flow of hard drugs to the US. The support given by the US 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 has 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 US strengthen its support for the CARICOM anti-narcotics programs through enhanced training, technical assistance, and resource allocation commensurate with the magnitude of the threat posed by the cartels.

Money Laundering

The CARICOM governments, like the US, recognize that the key to fighting transnational crime is to deprive them of the ill-gotten gains that sustain them. The region has therefore moved to introduce and implement far-reaching legislation to counteract money laundering. The United States has played and must continue to play a vital role in building CARICOM's capacity to fight this challenge. While unwavering in our commitment to preventing illicit financial activity in the region, CARICOM does not wish to see the legitimate financial sector fall victim to the fight against financial crimes. The region has expressed concern about the OECD criticisms of certain CARICOM states deemed to be tax havens with harmful fiscal regimes. The region has taken steps to ensure that this sector is not abused by criminal elements and urges the US and its OECD partners to adopt a balanced approach to this important area of the regional economic development.

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 US. The traffic in illegal weapons emanating mainly from the US has played a significant role in increased violence and criminal activity in the region. CARICOM states have joined the US 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 we need the continued support of the USA. The US continues to provide support to the region in its effort to trace guns used in criminal activity and the assistance provided by the BATF in this regard is important. However, CARICOM views the illicit traffic of firearms as threat in equal measure to the illicit traffic in drugs. What the region needs in this regard is the US' commitment to stemming the outflow of illegal guns to the Caribbean, not unlike the Caribbean's commitment to stemming the trafficking of drugs to the US. 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

The migration of people both legally and illegally from economically depressed areas to countries where jobs and higher wages are available is likely to be more pronounced in the next decade or two, as Latin American and Caribbean population growth rates persist at high levels and as some countries of the hemisphere experience little economic growth and development. This will be a major economic problem and political issue in the US, which will face increasing pressures of migration if it remains an oasis of affluence in a sea of poverty.

One area of deep concern for CARICOM states is the problem of deportation. This problem, exacerbated by US 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 which have little ties to the communities to which they are returned. The incidents of deportation from the US to Caribbean countries has increased despite the pleas from Caribbean governments for the US to be sensitive to the capacity of Caribbean law enforcement agencies to deal with the influx of highly experienced "deportees" with access to sophisticated weapons through their existing criminal ties to the US.

Under the Anti-terrorism 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 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 offences 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 including elderly persons, for minor offenses previously

categorized as committed long ago. The deportation of persons who have lived in the US since childhood is an area of particular concern, as in many cases these persons have no viable ties in the region. This exacerbates problems within the CARICOM 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 were removed on the basis of narcotic drug offences. In the period 1995-99, the number of deportations to the region doubled as shown in the Table V.

The 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. In drafting new legislation the responsible agencies should consider such factors as: the ties of the individual to the US and their length of stay in the country; the impact of deportation on US-based families; the nature of the offences; their lack of connection to the states to which they are returned and the negative impact that deportation has on the 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 US and the countries of CARICOM. This interdependence is likely to increase as many problems faced by all these countries can only be solved by cooperation on a regional, hemispheric or global level.

Co-production

One of the most visible examples of this is the co-production 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 US textiles, machinery and other inputs, most of which is imported from US-based American firms. US garment producers, therefore, maintain competitiveness in the global market place by having different stages of the production process dispersed within the hemisphere, involving 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 dispersed throughout the region so that each aspect 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. The 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 the CARICOM cooperates in efforts to address issues of marine pollution and other threats to the marine environment and marine 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 of 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 with the US will remain a critical factor in the effort to maintain an effective programme to address disaster preparedness and response issues.

HIV/AIDS

In the CARICOM region, the Dominican Republic and Cuba an 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 the 15-44 year olds irrespective of gender but young women 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 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.

International Peace & 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 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 first 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 together with other members to address the serious challenges to peace and security, which confront the global community.

NEW ISSUES

New issues are likely to confront the public policy machinery of Caribbean countries; e.g. seabed mining biodiversity, epidemics, refugees, soil erosion and the exhaustion of fish stocks. International relations will involve encounters with new configurations e.g. trade blocs, non-governmental 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 US-CARICOM relations.

COOPERATION FOR COMMON GOALS

The dilemma facing the CARICOM countries is to undertake strategic global repositioning of their economies to 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 US for the Caribbean to attain these goals, as it will ensure prosperous trade and investment partners, peaceful and democratic neighbors in the Caribbean, and allies in the fight against transnational crime and for the preservation of the environment through sustainable development.

The objective of US policy should be to support and complement Caribbean/CARICOM countries to attain economic progress and sustainable development, while preserving peace, stability and democracy. US policy should avoid measures and decisions which are detrimental to the CARICOM e.g. deportation of criminals on a scale disruptive to Caribbean society. The costs and benefits must be carefully weighed to avoid the disastrous consequences such as those caused by the dismantling of the EU regime for the importation of bananas from the Africa Caribbean and Pacific (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 US policies need to be carefully calibrated and consistently integrated in a coherent holistic approach. The process of periodic consultations between the leaders of the US and the CARICOM and the annual meeting between the Secretary of State and Foreign Ministers is very constructive. Hearings in Congress are also an essential component in the exchange of views which must be the basis for cooperation in the pursuit of common goals and for understanding where there are differences in policies.

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

COUNTRY	LAND AREA (sq km)	POPULATION	GDP US$ Million	GDP Per Capita US$
Antigua & Barbuda			639	9432
Bahamas	440	66,860	4560	14998
Barbados			2469	9789
Belize	13,880	290,400	705	2949
Dominica			273	3690
Grenada	430	265,630	360	3758
Guyana			782	998
Jamaica	22,960	238,550	7445	2893
St Kitts & Nevis			305	7193
St Lucia	750	73,000	639	3677
St Vincent & the		96,200	320	2874
Grenadines	340	849,180	1104	2474
Suriname		2,576,000	6380	4666
Trinidad & Tobago	214,970	40,820	9256150	33933
United States		15,200		
	10,990	113,220		
		412,070		
	360	1,285,140		
		270,299,008		
	620			
	390			
	163,270			
	5,130			
	9,363,520			

Source: IMF, World Economic Outlook Database (http://www.imf.org/)

TABLE II

US/CBI Trade Statistics – 1985-1995 (Millions of Dollars)

Year	US Imports	US Exports	Balance
1985	6,687	5,942	-745
1986	6,065	5,362	297
1987	6,039	6,906	867
1988	6,061	7,690	1,629
1989	6,637	8,290	1,653
1990	7,525	9,569	2,044
1991	8,372	10,013	1,641
1992	9,627	11,263	1,636
1993	10,378	12,428	2,050
1994	11,495	13,441	1,946

1995	12,673	15,306	2,633
1996	14,700	15,903	1,203
1997	16,857	18,432	1,575
1998	17,249	21,108	2,869

Source: Calculated from Department of Commerce data.

TABLE III
Number of US Workers on Trade with the Caribbean Basin Nations

Year	Total # of US Workers	# of New US Jobs Created Per Year
1985	118,840	
1986	127,240	8,400
1987	138,120	10,880
1988	153,800	15,680
1989	165,800	12,000
1990	191,380	25,580
1991	200,260	8,880
1992	225,262	25,002
1993	248,552	23,290
1994	268,814	20,292
1995	306,120	37,306
1996	318,060	11,940
1997	368,640	50,580
1998	402,360	33,720

Based on US Department of Commerce formula of $1 billion in exports = 20,000 jobs.

TABLE IV
USAID ASSISTANCE TO THE CARIBBEAN, 1985-1998
(US$ mil)

	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
DA	126.8	110.6	115.7	128.1	127.2	103.9	96.0	71.4	98.5	53.3	83.9	30.1	48.8	24.9
ESF	226.1	150.0	91.2	17.7	35.3	18.9	25.1	40.6	32.0	37.7	56.9	45.5	53.8	74.5
PL 480	106.0	101.8	84.8	74.1	137.5	69.6	85.1	73.9	87.7	151.5	61.6	88.5	41.9	36.9
TOTAL	**458.9**	**362.4**	**291.7**	**219.9**	**300.0**	**192.4**	**206.2**	**185.9**	**218.2**	**242.5**	**202.4**	**164.1**	**144.5**	**136.3**

* Includes assistance to the Dominica Republic

Source: USAID, LAC Databook, 1999

TABLE IV
CRIMINAL AND NONCRIMINAL DEPORTEES TO THE CARICOM FOR THE PERIOD
1995-1999

	1995	**1996**	**1997**	**1998**	**1999**
Criminals	1236	1406	1714	1768	1953
Non-criminals	285	314	809	879	969
Total	**1521**	**1720**	**2523**	**2647**	**2922**

Statement of Georges A. Fauriol
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Center for Strategic & International Studies
Washington, D.C.
Before the Subcommittee on the Western Hemisphere
House Committee on International Relations
May 17, 2000

U.S. Policy Outlook on the Caribbean

Four Caribbean Policies

Exactly three years ago I had the privilege to appear before this committee.1 I framed my remarks by suggesting that there was no distinct U.S. policy on the Caribbean. Instead, there were a number of functional and country-specific interests stitched together. I still believe that to be the case.

The corollary to that observation was that the Caribbean region received sustained attention from U.S. policymakers only in times of emergency. Three years later I amend this view. 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. Narcotics policy may be the most notable area in this regard. Trade policy is another area, where despite disappointments until now with legislation for a CBI upgrade and frustrations over bananas, there has arguably been a near constant policy activity by U.S. policymakers.

Make no mistake about it, however, despite its geographical proximity and occasional spectacular engagement of U.S. policy resources-- viz. Cuba and Haiti -- the Caribbean region operates from no clearly defined policy template reflecting the broad range on U.S. interests. It is almost more of a set of policies associated with U.S. government agency imprints: DEA, Coast Guard, DOD, DOJ, etc.... And because of its compartmentalized nature, U.S.-Caribbean relations are also reflecting increasingly active *diaspora* constituencies, not just the Cuban-American community, but increasingly Haitian-American groups, their Dominican counterpart, and in a less visible way, various portions of the English-speaking West Indian community. I therefore commend this subcommittee for entertaining a discussion on Caribbean policy at this time.

The bulk of our U.S. policy-making attention remains focused on *four* distinct and generally compartmentalized issues. The two most visible politically and contentious diplomatically are

1 Georges A. Fauriol, **U.S. Policy on the Caribbean,** in testimony before this committee, May 14, 1997.

policies associated with *Cuban affairs*, and the fits and starts regarding *Haiti*. A third domain, *trade policy*, has preoccupied Washington and its counterparts in the region throughout the past decade with limited results until now and the impending favorable outcome of the Africa-CBI trade bill. And a fourth aspect of policy, *narcotics trafficking control*, has continued its preeminence in the formulation of U.S. regional engagement.

A corollary to the occasional unhappy mix of several of the above policy categories has been continued U.S. law enforcement and diplomatic responses to *refugee and immigration flows* to and from the Caribbean. Likewise, the *democratization* theme runs through many country-specific concerns. Yet, *outside* of the Haiti and Cuba high-octane policy rhetoric--and dubious results-- it is generally low keyed by senior U.S. policymaker articulation of active concerns. Freedom and democracy have become something of sub-set themes to concerns with drugs, for example, rather than the other way around.

U.S.-Caribbean Contrasts

The U.S.-Caribbean relationship in the early 21st century is therefore one of contrasts. The image of the American public at-large remains generally associated with the region's tourism destinations, and more vaguely, as the 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 form Caribbean leadership and intellectuals about inequalities due to size, portions of the region are in fact engaging a globalizing economy. This includes a revitalized Trinidadian outlook, a competitive service industry 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 21st century.2

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. Applicable mostly to the English-speaking Caribbean anyway, this fragile reality is found in Guyana and in various parts of the smaller Eastern Caribbean

2 This has been the subject of attention of the CSIS Caribbean Leadership Group, a group of 20 young leaders from the region that has met so far in Belize, Dominican Republic, and Jamaica, and is also of interest to a parallel initiative, the CSIS Caribbean Executive Club, a Caribbean-US business leadership group in formation.

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 multi-ethnic countries. All of this contrasts from the traditional rhetoric of a "democratic" Caribbean region.

With these observations as a backdrop, let me provide specific comments.

The state of U.S.-Caribbean relations

The Caribbean is still confronting, with mixed to poor results, the same problems it has faced throughout the post Cold War era. Countries continue to be buffeted by the demands of the global economy, the 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 resentment among the region's leadership toward the U.S. 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 reverse flows of deported criminals and also gun running *from* the United States.

Ultimately, however, the practical alternatives in U.S.-Caribbean relations are limited even if there 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, most recently expressed with the French President's summit in the Eastern Caribbean. But with the Lome-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 to be frustration over Washington's handling of Cuba and a parallel regional cozying up to Havana. However, the practical marker here is not Cuba's mischievous intentions but the more fundamental denouement sooner rather than later of the Castro-Washington mortal combat. Perhaps more nefariously, the region has opened up to other unpleasant concerns. These include well-connected unsavory types catering to international organized crime, money laundering, the citizenship-for-sale programs in a number of countries, and the embrace of suspect investors in offshore banking and Internet gambling. This is happening in part because governments in the region are willing partners, not just weak actors.

The United States therefore should have good reasons to be interested and involved.

Item: Guyana- The government is behind in complying with the January 1998 accords regarding preparations for January 2001 elections. At the present rate of events, it is probable that the country's leadership will not get it all done on time. In a separate context there is also low-boil and old-time bubbling over Venezuela's claim to the Essequibo (or western Guyana) encouraged but the unsettled Hugo Chavez internal dynamic.

Item: St. Vincent and the Grenadines- Labor and political opposition protests which had paralyzed the country for three weeks at great economic cost ended only after the James Mitchell government agreed in a Caricom brokered deal to hold elections by March 2001, two years early.

Item: Grenada- Strikes and protests by teachers and media workers have threatened to shut down the country if other unions join in, which has already forced Prime Minister Keith Mitchell to postpone an important fundraising/development trip to Taiwan.

Item: Antigua and Barbuda- Nurses and taxi drivers have been on strike and in the streets, supported by the opposition, because the Lester Bird government is perceived by some has having broken most of his campaign promises on economic matters and new taxes.

Item: Belize- The government of Guatemala in office since early this year has succeeded in generating a border incident and renewed speculations about territorial claims, an issue which previous governments had worked at diffusing.

Item: Suriname- There is a possibility that the next president - following the May 25 vote and probable back-room dealing - will have a record of conviction and prison sentence in The Hague for drug-trafficking and carry an Interpol warrant on his head. Imagine Surinamese strongman Bouterse chairing Caricom when his country's six-month turn comes in the rotation.

Item: Jamaica- Without much drama but a slow drain of resources, the country continues to gasp amid debt, loss of competitiveness regionally, and problems with crime. The P.J. Patterson government has an advantage in that few Jamaicans see Edward Seaga as a viable alternative once again, but this lack of viable leadership transition may ultimately damage the quality of governance.

Item: regional narcotics policy- Following the balloon model, the cycle continues with pressures in Mexico and Central America leading to stepped up trafficking in the Caribbean. Despite some big DEA-engineered busts, there is little chance of fundamental change in the situation as long as consumer markets remain, and the corrosive effects on transit countries in the Caribbean continue. Meanwhile, drug money continues to penetrate economies through real estate and other investment vehicles.

The overlap of this issue with Caribbean complaints of U.S. deportation policies of often

criminal types muddies the water. Likewise, the failure of the Haitian political experiment has given rise to a huge hole in the geographical center of the Caribbean which provides Colombian drug producers and their Dominican, Puerto Rican and other agents a superb opportunity for business expansion. In what is also perhaps a politically twisted trend, rumblings of low-level contacts as well as public suggestions of increasing narcotics control cooperation with Cuba have been on the rise. Arguably, 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.

Item: Caribbean Basin Initiative- I am still of the belief that 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 process. That may now happen before the delayed Millennium global trade round. That is fine, and in fact the United States can be understanding of the "small country" concerns. Likewise, the current legislative efforts to finalize a modestly expanded CBI (mostly associated with textile and apparel provisions) are a step I endorse. The practical reality within the Caribbean in response to these trade and investment pressures is likely to be a continuing informal break-up of the region into sets of countries engaging "globalization" at differing speeds and defining various niche markets (Trinidad and Tobago, the Dominican Republic, 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 Lome before these are phased out.

Haiti and Cuba

One is tempted here to refer the Committee to my statement of three years ago as a reflection of the limited evolution of these issues. This actually may now apply more to Haitian affairs than U.S.-Cuban relations. The latter is no more satisfactory than it was three years ago but the dynamic of the issue within U.S. policymaking circles might be ripe after the U.S. national elections for creative thinking.

Item: Haiti- Three years ago I argued that the issue was reconciling the Administration'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. That more or less remains the reality for U.S. policy. The latter is collapsing and there is a need for Congress to re-impose some discipline.3

Fast forward to May 2000: local and parliamentary elections scheduled for March 19 were

3 This analysis draws from my testimony on Haiti before the House Government Reform Committee, Subcommittee on Criminal Justice, Drug Policy, and Human Resources, April 12, 2000.

postponed to May 21, even though until recently most Haitian and U.S. officials were insisting that everything was on track. Haitian President, **Rene Preval** and the Haitian provisional election commission (CEP) have since argued over authority over the electoral process--with the president getting the upper hand, backed up by a wave of political violence targeted singularly at the opposition.

Haiti is now a country where elections are not held on time, results are not credible, foreign aid is wasted or simply not spent, the economy is wide open to the drug trade, the president of the country rules by decree, political intimidation is widespread, the *new* national police kills, and the government has invited Cuban technical advisers.

This sequence of events leads me to two general observations. First, for all practical purposes, senior Haitian executive leadership appears to be barely functioning, and when there is action it is not in the best interest of the United States. Second, there is little credibility left in U.S. policy efforts.

Washington is desperately attempting to keep on track a wobbly Haitian electoral strategy on the record of successively worse efforts since 1995. Specifically, the Administration's tactical imperative is to sanction this spring's Haitian electoral exercise as a stepping-stone to make credible a presidential election at the end of this year.

The subtext to all of the above involves former president Jean-Bertrand Aristide, his influence over current events, his motivation regarding any upcoming elections, and the presumption that all political scenarios ultimately come back to him. Although his role is probably exaggerated, for U.S. policymakers Aristide appears to have become the past, the present, and the future. They are boxed in.

The real story behind the delayed May 21 elections--*delayed since November 1998*--is a Haiti governed by presidential decrees and operating with a government led by a *de facto* prime minister never constitutionally approved. Democracy? President Rene Preval, a weak if cunning Aristide protégé, shut down the national parliament last year in the wake of 18 months of skirmishes over the nomination of a Prime Minister. Petty rivalries? No. The previous Prime Minister, Rosny Smart, had resigned after refusing to legitimize the bogus April 1997 elections.

It has become difficult to support a 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. The most recent incident involving the expulsion of the head of the International Foundation for Electoral Systems (IFES) mission in Haiti -- the key U.S. technical institution operating in Haiti -- because the government of Haiti had obtained an internal IFES document suggesting that Preval was once again attempting to postpone the elections is confirmation of the bad faith of Haitian government

leadership. This should be the end of the line.

As a result I support the continuation of the various congressional "holds" on electoral assistance to Haiti. In fact I caution against sending a U.S. Congressional observer delegation to the May 21 process, despite the fact that other governments and institutions (Canada, the Francophonie states, the EU, the OAS) may do so. But there are reports that the Quebec parliament has withdrawn plans for a delegation on account of the insecurity against opposition leaders. Others may follow. The temptation of the Administration and the sympathizers of Haiti's governing leadership will be to endorse anything that remotely appears like an election, as was the case in the contested 1997 process. However, the stakes are now much higher: the presidential elections presumably to be held later this year. This is a slippery slope and before taking this first step toward "observation" Congressional leadership should reassess its support of true freedom and democracy in Haiti and it hopes to be nine months down the road.

On the other hand, Haiti is close to ungovernable so I would also be cautious regarding imposing sanctions. Serious problems require serious solutions but I do not get the impressions that the Administration is working from a well integrated strategy—let alone one where the United States is not the only country holding the bag. While the most senior Haitian leadership is acting with what appears to be extraordinary bad faith, I am not certain either that this same leadership controls the ship of state all that effectively. In any event, the paths down the road of U.S. or multilateral sanctions (OAS 1080 for example) are paved with good intentions and catastrophic results for Haiti's recent experience.

Item: 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 the defects of U.S. legislation but the deteriorating logic of the Cuban communist state. Although there are no statues and other physical symbols of the great bearded one throughout Cuba, the Cuban revolution in its graying years has become little more than a personal cult of Fidel. The sad irony is that portions of the international community in its search for a bridge to some viable Cuba policy has reinforced the absurd ritual of genuflecting before the great dictator.

The latter shows little interest in a genuine *mutually beneficial* relationship with Washington--or Canada or Europe for that matter. And here probably lies the foundations of a genuine and proactive freedom and democracy strategy in which the U.S. Congress could play a role along with its Western European and Canadian parliamentary colleagues.

First, this would begin with the concept that U.S. objectives are not so much to "manage" a soft landing toward a transition to some post-Castro Cuba but rather to push forward actively a democratization agenda. Ronald Reagan did not "manage" his ties with the Soviet Union in the hopes of an amicable conclusion, he actively engaged his opponents. Second, this would highlight the notion that Cuban relations are not anchored by the distaste of many in the trading and investment community for certain features of the Libertad Act. The defining debate on U.S.-

Cuban relations cannot be simply whether the U.S. Chamber of Commerce, USA Engage, and other single-issue interests views economic sanctions as productive. Instead, the focus should be on Castro's fundamental horror of a political alternative to his own. The U.S. Congress will find a working consensus along those lines with many of its European and Canadian parliamentary counterparts.4

The backdrop to all of this requires an Executive Branch that actually believes in its polices toward Cuba. The administration can be commended for holding the line with Castro but at times I have my doubts. This is the administration that acquired Libertad by default and has creatively allowed portions of it to remain unenforced. More recently I was struck but the absence of any clear statement early in the Elian affair by senior policymakers--the President for starters--linking this young child's tragic circumstances to the political and economic conditions under the Castro regime. To allow this to drag on as a child-custody soap opera and enable Havana to mark points and bear no responsibility are indicators of U.S. policymaking without firm terms of reference.

4 CSIS tested this hypothesis with a session it sponsored in 1998 between a U.S. House delegation and delegates from the EU Parliament.

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Dr. Anthony T. Bryan

Director, Caribbean Studies Program
Dante B. Fascell North South Center, University of Miami
Wednesday, May 17, 2000 at 1.30 p.m. Room 2200, Rayburn House Office Building
House Committee on International Relations
Subcommittee on the Western Hemisphere

Mr. Chairman, thank you for the invitation to testify before this hearing of the Western Hemisphere Subcommittee of the House Committee on International Relations on the topic of: *The U.S. and the Caribbean in the New Millennium: What is the Agenda?"* I have been asked to assess the current economic and political conditions facing the Caribbean; the priorities and challenges for these nations; and the role that the United States could or should play in helping this region to meet those priorities and challenges. I am pleased to accept your invitation.

Definition and Scope

As we know there are several definitions of the Caribbean. For purposes of analytical efficiency, I have chosen to limit my comments to the island nations of the Caribbean and the continental enclaves of Guyana, Belize and Suriname. This is in contrast to the 37 nations that comprise the present membership (25 nations) and associate membership (12 countries) of the Association of Caribbean States (ACS). However, it is important to bear in mind that the countries of the ACS have a population of 216 million, an accumulated GDP of US$506 billion, and does approximately US$180 billion in merchandise trade. In a real sense, those statistics are an indication of the economic potential of a Caribbean bloc that is emerging.

My analytical comments focus on Caribbean concerns with the dynamics of the Western Hemisphere and I refer to larger global issues only where they serve to enhance the analysis.

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 neo-liberal reform rule book 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 some version of "a la carte capitalism" which encourages direct foreign investment in certain sectors of the Cuban economy, in the face of a persistent and long-standing US embargo.

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 by governments that saw no alternative. Such adjustment has been a challenge for small open Caribbean economies which are vulnerable to large external shocks and find it difficult to carry sufficient reserves, maintain adequate borrowing capacity, and encourage proper exchange rate policies.

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 its 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 macroeconomic shocks and jobless growth.

Concerns for alleviating poverty and income equality caused by the reforms 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. Much more has to be done domestically to compensate the losers.

Finally, while the 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, 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. Largely aided by strong growth and low inflation in the US and UK., 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 account 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 May 2000 review of the regional economy, GDP growth in the various countries ranged from less than 1% to over 8.3%. This was especially strong in the services-oriented economies, which had invested heavily in tourism plant within recent years. (Anguilla, The Bahamas and the Cayman Islands, and the Dominican Republic were the main beneficiaries.) In Barbados, the 3.2% increase in GDP was spurred mainly by expansion in the non-tradable sector, as the performance in the tradable sector (especially tourism) was lackluster. Hurricane damage created difficulties in Antigua and Barbuda, The Bahamas, Dominica and St. Kitts, effectively dampening activity in these economies. Following a 1.8% contraction in 1998, Guyana reversed its economic fortunes to register growth of 3%. The Jamaican economy partly recovered after three consecutive years of decline, though only marginal growth was reported.

The star performers in the Caribbean were the Dominican Republic which achieved a growth rate of 8.3%, one of the highest in the world (fueled by tourism, remittances, construction, telecommunications, and services); and Trinidad and Tobago which grew at 6.9%, compared with 4.5% in 1998 (because of expanded crude oil production, higher oil prices, increased out put from the energy sector including LNG, methanol, fertilizers, and a host of manufactured goods for export). Both the Dominican Republic and Trinidad and Tobago have registered sustained economic growth over the past four 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 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.

While 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 the 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 also, integration of the Caribbean economies is hampered by great deficiencies in intra-regional transport infrastructure, with high costs and low reliability of delivery being the major impediments to the development of intra-regional and extra-regional 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.

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 markets and accelerate the flow of goods and services, capital, and finance throughout the region.

In summary, 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 most countries depend for their export earnings on a small number of natural resource products or tourism. The generous preferential market access for their exports to the EU and North America are 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.

Finally, at the dawn of a new millennium three characteristics in the political economy of the region are apparent:

- There is growing acceptance of globalization, corporate integration, and the hemispheric trade momentum, complemented by an effort on the part of Caribbean countries to devise strategies to benefit from these processes.
- 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.
- 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 simultaneous access to as many global, regional, and bilateral trade pacts as possible, rather than having to choose between them.

The Economic Future

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 trying to nurture democratic regimes.

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 while these countries of the Commonwealth Caribbean maintain some of the hemisphere's strongest traditions of parliamentary democracy, even the much-heralded Westminster model of parliamentary

government which they practice is susceptible to authoritarian dispensation by the deliberate weakening of traditional safeguards and rules. Troubling trends apparent since the 1980s, namely: declining voter turnout particularly among the youth, and sharp declines in public interest in parliamentary proceedings could eventually strengthen the emergence of cabinet dictatorships, single-party rule, or perpetuate the financial and organizational advantages of dominant parties. 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 is placing 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 the last three decades. There is pressure upon governments to provide economic support and to 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 to confront 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, anti-reformist coalitions spanning the political spectrum have great opportunities to manipulate public cynicism and fear. Some of the strongest anti-reform 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.

In summary, trends in Caribbean politics and governance, namely: dramatic shifts in social and class structure; declining political participation; frustration with the parliamentary system of politics; changes in leadership; conversion to neo-liberal economic policies by political parties which 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 21st Century.

Priority Global Policy Issues for Caribbean Countries

• 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, (which has been accepted by the Development Committee of the World Bank and the International Monetary Fund) the recommendations of which should be accepted by the international community, and in particular, 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.

• There is need for Caribbean nations to pursue further dialogue with other countries and international organizations on issues of disaster management, human resource management, environmental security and other constraints facing in particular island states.

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 would want to develop with the U.S. whether as trading partner, a source of assistance, or a safety valve for migration. The political and economic diversity of the Caribbean does not now 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 regional objectives of the Caribbean converge with the domestic concerns of the United States. The passage last week of the *Trade and Development Act of 2000*, which includes "NAFTA-Parity" for the 25 Caribbean and Central American countries, presently trading with the U.S. under the Caribbean Basin Initiative (CBI), is a welcome step in the direction of such convergence and cooperation.

At another practical level, relations between the U.S. and CARICOM is 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 two meetings between Ministers of Foreign Affairs of the Caribbean and the US Secretary of State. At the most recent, held in April in New Orleans, CARICOM Ministers proposed reinforcing the Bridgetown Accord and, to this end, recommended that a CARICOM Ministerial Mission be mounted to the USA in an effort to provide input with respect to future U.S. relations with the region.

In addition to "CBI Enhancement" the following issues are of urgency to the Caribbean:

- Hearing of Caribbean concerns about the OECD 1998 Report on Harmful Tax Competition, and unilaterally devised international standards to combat "harmful tax competition; as well as the Clinton Administration's budget proposals for a bill that would require the U.S. for the first time to establish a "blacklist of tax havens."
- U.S.-European Union Accord on the granting of a WTO waiver for Caribbean bananas.
- Strengthening of a joint approach to fight drug trafficking, illegal firearms, and transnational crime.

• Completion of discussions on a memorandum of understanding on deportation procedures for criminals deported from the U.S. to the Caribbean that are acceptable to both parties. This would include more timely notification and sequencing of deportations.

• Speedy implementation of the agreed support and cooperation in the USAID/Caribbean Regional Strategy and Five-Year Program 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 "grey area" security areas such as the prevention of environmental degradation and the provision of food security.

• Continued dialogue between the Caribbean nations and the US to assure peaceful political transitions in Haiti and Cuba.

The importance of the Caribbean for the U.S. resides then in the mix and management of the ingredients in the broader concerns that have been discussed. If some Caribbean societies are not to break down into conflict, or to sink into violence, repression, or insurgencies, as some predict, then it may be in the "national interest" of the United States to cooperate and to help formulate 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 superpower to have stable democratic and prosperous states in its neighborhood, if only to ensure the cooperation which would be necessary in order to resolve some of the major mutual security and developmental issues. Regional collaboration between the U.S. 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 US/ Caribbean relationship has changed. But the major hot-button issues for the US: immigration, economic development and 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 U.S. 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 only be controlled when the US and its Caribbean partners work toward successful policies of economic development, and the mutual reduction of trade barriers to facilitate such development.

Perhaps it is an unfortunate reality that no single concept or single issue will force a redefinition of the US agenda towards 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 US policy makers. We can only hope that they will do so.

Brief Biography

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Dr. Anthony T. Bryan is currently Director of the Caribbean Studies Program at the North-South Center of the University of Miami and a Senior Associate of the Center for Strategic and International Studies in Washington, D.C. A University Professor, previously he was a Senior Associate at the Carnegie Endowment for International Peace and a Fellow at the Woodrow Wilson International Center for Scholars of the Smithsonian Institution in Washington, D.C. He was Director of the Institute of International Relations and Professor of International Relations at the University of the West Indies, Trinidad from 1981-1991.

He has served as a consultant, on regional integration, economic development and public policy reform issues, to several Caribbean governments and to major international organizations including: the Inter-American Development Bank (IDB), the United Nations Economic Commission for Latin America and the Caribbean (UN/ECLAC), the Commonwealth Secretariat, the Latin American Economic System (SELA), and the Caribbean Community and Common Market (CARICOM). He also served on a transition team appointed by a former Prime Minister of Trinidad and Tobago.

At various times during his academic career, he has been a faculty member at the University of Rhode Island, Indiana University at Bloomington, the University of Texas at Austin, Georgetown University, and the Graduate School of International Studies in Geneva, Switzerland.

He is the author of more than 70 articles and the author/editor of 13 books and monographs on Caribbean and Latin American affairs in the areas of international relations and diplomacy, trade and integration, regional and interstate relations, and security. His **most recent books** are: as co-author: *Canadian-Caribbean Relations in Transition: Trade, Sustainable Development and Security* (1999); *Distant Cousins: The Caribbean-Latin American Relationship* (1996); and *The Caribbean: New Dynamics in Trade and Political Economy* (1995). His most **recent short monographs** are: Trading Places: The Caribbean Faces Europe and the Americas in the Twenty-First Century. *North-South Agenda Paper*, No. 27 (June 1997); Towards 2000: The Caribbean Confronts Changing Trends in International Trade. *Caribbean Affairs*. Vol. 8 No.1 (1998); and with Roget V. Bryan), *The New Face of Regionalism in the Caribbean*, published by the North South Center in 1999.

He has advised private companies doing business in the wider Caribbean on the economic and political situation of countries in the wider Caribbean, assessments of trade issues and strategies as they affect business, evaluations of the commercial environment and potential risks, political and economic forecasting, export strategies, and market identification. Since 1994, he has served as the Chairman of the Caribbean and Central American Committee of the Greater Miami Chamber of Commerce, and is a founding member of the Trinidad and Tobago-USA Chamber of Commerce based in South Florida.

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CHALLENGES TO UNITED STATES-CARIBBEAN ECONOMIC RELATIONS

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Introduction

My purpose here is to highlight some of the fundamental issues affecting United States-Caribbean relations and to offer my perspectives on the future of the Caribbean economy. The major focus of my argument is the impact of the US economy on the Caribbean and the links through which that impact is transmitted. I will look first at the impact of the decade-old US expansion on Caribbean trade and then go on to look at how the Caribbean is restructuring its economy to establish new links and to maximize the transmission capability of existing links.

The Impact of US Prosperity

The United States economy is experiencing the longest period of expansion since the 1960s. Unemployment is at its lowest level, the stock market is setting new records, and consumer spending is at an all-time

high. The fact that the US is the major trading partner of the Caribbean prompts the following question: What is the impact of this prosperity on the Caribbean? Data from the two largest English-speaking Caribbean countries - Jamaica and Trinidad and Tobago - are used to answer this question. The expectation is that this impact would be transmitted through an increase in US demand for Caribbean goods and services and that the extent of this increase will depend on the income elasticity of the US demand.

Over the period 1994 to1998, US GDP grew by 22 percent - an average of 5 percent a year (Table 1), while US exports to Jamaica and Trinidad and Tobago -- the two largest Anglo-Caribbean economies-- grew by over 40 percent (an average of 10 percent a year). However, US imports from these two countries have changed little, suggesting a low income elasticity of US demand for their commodity exports. (See Tables 2 and 3). The leading US imports from Jamaica are apparel, bauxite, and alumina; and from Trinidad and Tobago, petroleum and iron and steel bars and rods (Tables 5 and 7). The low income elasticity of US demand suggests that the value of these Caribbean exports is influenced more by changing world prices than by rising incomes in the US.

If these leading Caribbean commodity exports have not been good transmitters of US prosperity, what can we say about the leading service exports? The leading service export from the Caribbean is tourism. Over the period, 1993 to 1997, Jamaica's tourism receipts grew from US$896 million to US$1,130 million - a 26 percent increase. Because the majority of tourists come from the United States and because the demand for tourism is generally considered income-elastic, it is reasonable to infer that this increase was influenced by the US boom.

In the larger picture of globalization, the Caribbean is seen as an offshore manufacturing platform where cheap labor is combined with American and other foreign capital to assemble goods for export. US trade policy has promoted this model with the apparel industry as a way of creating employment opportunities in the Caribbean. In the 1950s, this industry benefited from Caribbean industrial incentive laws under the W. Arthur Lewis-inspired industrialization-by-invitation development strategy. Although the apparel industry was excluded from the CBI legislation in the 1980s, it later benefited from the provisions of Section 807 of the United States Tariff Code which exempted the US fabric component of US apparel imports from tariff. This tariff concession,

combined with the availability of cheap labor, accelerated the growth of the assembly of cut fabric from the United States in free trade zones in Jamaica and the Dominican Republic. But the inauguration of NAFTA in 1994 reduced the value of these incentives, putting Caribbean apparel exports at a competitive disadvantage to exports from Mexico. Jamaica suffered most because of its higher wage cost and lower productivity.

Nevertheless, the apparel industry did generate benefits on both sides. Employment was created in the Caribbean and US firms reaped large profits. But this model has been criticized by those who say that the use of cheap labor as a strategy for attracting industries is doomed to failure because the industries attracted typically have little sunk capital and are therefore able to pick up and leave when labor costs elsewhere become more attractive. It is also argued that this strategy allows US capital to take advantage of greater access of Caribbean goods into the US market and therefore is intended to promote US corporate interests more than the development of the Caribbean..

Restructuring for the Future

Low productivity and the dependence on traditional exports have contributed to a persistent deficit on current account in most Caribbean

countries. This has eroded the value of many Caribbean currencies over the past ten years. And this in turn has forced some governments to seek the support of the IMF to restructure their economies. This restructuring is apparently paying off for Trinidad. Through its privatization program, the country has been able to attract substantial amounts of American private direct investment into its petrochemical industry which has contributed to the acceleration of economic growth over the past few years. The Jamaican economy, on the other hand, has not been as successful in attracting significant amounts of direct investment and is still loosing ground. In the final analysis, the success of any restructuring must be measured by the increase in the share of high-value-added exports capable of transmitting the positive impact of US income growth as well as by a greater diversity in export markets as a buffer against a future US recession.

Many Caribbean countries have opted to focus on their traditional comparative advantage in tourism as their engine of growth. As a result this industry has attracted a disproportionate share of foreign direct investment, especially if the smaller Caribbean islands. But this industry has always posed a dilemma for the Caribbean. On the one hand, it is better positioned to transmit the impact of prosperity abroad because the

demand for the services it provides is highly income elastic. And on the other, it is extremely vulnerable not only to income fluctuations abroad but also to social and political instability at home. Further, the extent to which it contributes to the welfare of the population at home depends on its linkages with the rest of the economy. In most Caribbean countries, these linkages are not well developed.

In addition to transmitting the impact of US income growth, the tourist industry also has some interesting implications for the monetary system of small tourist dependent economies. The tourist industry promotes a kind of monetary integration with United States, creating an unofficial dollarization of the Caribbean economy. The most advanced stage of this phenomenon is to be found in the Bahamas, where the Bahamian dollar circulates on par with the US dollar. Although the US dollar is not official legal tender in these tourist economies, the value of the local currencies is pegged to it. Pegging requires a certain degree of monetary and fiscal discipline to maintain the relationship between the local currency and the US dollar. As a consequence, those Caribbean countries with pegged exchange rates tend to have low inflation rates and low ratios of budget balance to GDP and money supply to GDP. Examples are

Barbados, the Bahamas, and the countries of the Organization of Eastern Caribbean States.

Trade Liberalization and the Future of US-Caribbean Trade

The removal of barriers to trade between the United States and the Caribbean would help to enhance the impact of US economic prosperity on the Caribbean. But the mood in the United States during this period of prosperity has not been favorable to further trade concessions.* American labor unions are leading an orchestrated attack on trade liberalization. They, in coalition with environmentalists, insist that WTO rules require developing countries to adapt labor and environmental standards similar to those of developed countries. Labor unions in Caribbean countries have long been active in protecting the rights of workers and governments have become more sensitive to environmental issues. Against this background, many in the Caribbean see the strategy of American labor unions as

* On May 4, the US House of Representatives approved the bill for African and Caribbean trade. The legislation would expand apparel trade for 48 sub-Saharan nations and 25 Caribbean nations. Clothing made from US yarn and fabric could enter the US without duty or quotas. This would provide the Caribbean countries the NAFTA parity they have been seeking.

merely a disguise for raising labor costs in their countries in order to eliminate their major advantage for attracting industries from developed countries.

The future of US- Caribbean economic relations will increasingly depend not on low labor cost but on the ability of Caribbean countries to diversify their economies into high value-added services and to improve the competitiveness of their exports. Jamaica has committed itself to developing an information technology sector but its success will depend on the willingness of the government to investment in education to upgrade the skills of the labor force.

The Caribbean population is at a critical juncture in its history. Two-thirds of it is nineteen years old and younger. This provides a unique opportunity for investment in education to create a highly skilled labor force in the decades ahead. While the Caribbean has achieved universal primary education, it has not yet achieved universal secondary education. And it is lagging behind in tertiary education. In Jamaica, only six percent of those aged 22 to 25 are enrolled in tertiary education; in Trinidad and Tobago, it is eight. These numbers pale beside those for Singapore (34) and South Korea (52) (World Development Report 2000).. As markets become

increasingly globalized, Caribbean countries will have to become more efficient in producing and marketing their products. This can only occur if there is greater access to education and training at the tertiary level.

Expanding into Demographic Space

The Caribbean has a unique link with the United States that has not been fully exploited: its American diaspora. The size and wealth of the Caribbean population in America has important implications for US-Caribbean trade. The median household income the Caribbean population in the US is higher than that of the United States as a whole. There is no mystery why the demand for such Caribbean brand names as Red Stripe beer, Appleton Rum, and Mount Gay Rum has grown in recent years. Indeed, in New York City one can buy just about any Caribbean product. What is more, the mix of the tourist population flowing to the Caribbean is undergoing some changes because many of those who left as emigrants are now returning as tourists.

As globalization weakens the ability of the nation state to influence outcomes, small states such as those in the Caribbean are beginning to realize that their destiny is bound up with their populations beyond their geographic space. Some countries have made initial steps in this direction

by accepting dual citizenship although the United States frowns on it. And the World Bank has taken a positive view of the role of the diaspora. It believes that the large diasporas in the Western industrial countries built up over many years of immigration are now in a position to make a positive contribution to their countries of origin. It sees these diasporas as "another source of global interconnection" serving as "informal channels for the flow of information, market intelligence, capital, and skills... In this way they act to offset information asymmetries and other market failures." (World Development Report 2000, p. 39).

Conclusions

The traditional sclerotic channels through which the impact of US economic growth flows to the Caribbean need to be cleared and new ones added. The removal of trade barriers to Caribbean exports is a prerequisite. It is not sufficient, however. The Caribbean must seek external resources to invest in education so that it can build up a stock of human capital that will enhance its competitiveness in world markets.

Table1: Index of US GDP Growth, 1994-1998

	1994	1995	1996	1997	1998
GDP	100	103.3	107.1	111.9	122.0

Source: US Department of Commerce

Table 2: Index of the Value of US Exports to and Imports from Jamaica, 1994-1998

	1994	1995	1996	1997	1998
Exports	100	133	140	133	197
Imports	100	113	112	99	98

Source: US Department of Commerce

Table3: Index of the Value of US Exports to and Imports from Trinidad & Tobago, 1994-1998

	1994	1995	1996	1997	1998
Exports	100	127	123	204	182
Imports	100	88	92	102	87

Source: US Department of Commerce

Table 4: Leading US Exports to Jamaica (US$ million), 1994-1998

	1994	1995	1996	1997	1998
Clothing Accessorie	86	124	105	96	109
Apparel of Textile Fabrics	119	199	210	183	100
Oil(not Crude) From Petrol	98	117	138	133	89

Source: US Department of Commerce

Table 5: Leading US Imports from Jamaica(US$ million), 1994-1998

	1994	1995	1996	1997	1998
Apparel of Textile And Fabric	185	230	265	263	210
Aluminum Ores and Concentrat	147	152	167	111	152
Clothing Accessorie	105	115	78	82	88
Men's or Boy's Coats And Jackets	63	61	57	45	47

Source: US Department of Commerce

Table 6: Leading Exports to Trinidad & Tobago(US$ million), 1994-1998

	1994	1995	1996	1997	1998
Civil Engineerin And Contractor Plant and Equipment	66	85	63	124	180
Heating And Cooling Equipment	33	36	8	32	26
Mechanical Handling Equipment	24	26	25	40	33

Source: US Department of Commerce

Table 7: Leading US Imports from Trinidad & Tobago (US$ million), 1994-1998

	1994	1995	1996	1997	1998
Crude oil From Petroleum	370	264	152	370	248
Inorganic Chemical Elements	218	296	264	230	228
Oil(not Crude) From Petroleum	173	122	264	162	196
Alcohols, Phenols,etc	122	72	76	105	73
Iron & Steel Bars, Rods, Angles,etc.	68	79	73	77	72

Source: US Department of Commerce