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**EXTERNAL ACTORS AND REGIONAL INTEGRATION:
THE EFFECTS OF THE UNITED STATES' STRATEGIC-
ECONOMIC POLICIES ON REGIONAL INTEGRATION
IN THE COMMONWEALTH CARIBBEAN**

by

ANNETTE CHAMBERS, B.A., HONOURS

A thesis submitted to the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for the degree of

Master of Arts

Department of Political Science

**Carleton University
Ottawa, Ontario**

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Annette Chambers, B.A. Hons.

in partial fulfilment of the requirements

for the degree of Master of Arts

Chair, Department of Political Science

Thesis Supervisor

Carleton University
October 20, 1997

ABSTRACT

This thesis explores the Commonwealth Caribbean's post-independence attempts to spur development through regional integration. In addition to assessing the impact of external actors on regional integration, it specifically examines the effect of a hegemonic external actor, in this case the U.S., and argues for the incorporation of a quintessential "realist" approach in integration theory. The thesis describes the Commonwealth Caribbean's colonial and post-colonial dependence on the metropole—first the UK, then the USA—and analyzes the region's integrative efforts, its lacklustre record, and the internal and external factors, which have undermined regional endeavours. It charts U.S. policies towards the region, demonstrating underlying constancy, reflected in the priority always accorded to strategic considerations and self-interest—notwithstanding changes in rhetoric. This dictated a history of military interventions, and strategic-economic measures (such as the Caribbean Basin Initiative) designed to tie island states bilaterally to the U.S—rather than to each other.

ACKNOWLEDGMENTS

I wish to express my gratitude to my supervisor, Dr. Vincent Della Sala, for his constructive input and words of encouragement throughout the writing of this thesis. I would also like to thank Dr. Carl Jacobsen, my advisor, for his direction, support and intellectual contributions. I am also grateful to Dr. Michael Dolan for his early and insightful comments, and to the staff of the Department of Political Science for their assistance. Finally, a special thank-you to my family, whose moral support, patience, and understanding made this project possible.

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INTRODUCTION

The formation of regional groupings in Europe during the 1950s had a demonstration effect in developing countries, particularly in Latin America and Africa, where the idea of closer cooperation through regional integration became fundamentally linked to the idea and goal of economic development. The model of integration, which was adopted but often erroneously and naively pursued by these countries, was largely an emulation of the European model; this inherently and inevitably ignored the particular variables and dynamics of their circumstance.

Since the 1960s, the Commonwealth Caribbean has consistently expressed and pursued integrative goals and ambitions. However, their efforts have largely proved unsuccessful. Apart from the obvious internal dynamics which have been traditionally used to explain regional processes and outcomes, there are various external factors and actors, which must also be taken into account when examining regional groupings—especially those among developing countries.

Although integration theory and the literature on regional integration has long recognized that external actors can affect the process, there has been little attempt to incorporate these variables into the theoretical framework. So also with the specific problems associated with the presence of a hegemonic power and its necessarily asymmetrical impact on regional integration attempts within

or affecting its sphere of influence. Developing countries are compelled to incorporate these issues and considerations of high politics; dependence on a hegemonic metropole (no matter how benign the latter's self-perception) impacts significantly on both the theory and reality of integrative and developmental processes, perspectives and prospects.

This thesis will examine the impact of external actors on the process of regional integration by presenting a case study analysis of regional integration in the Commonwealth Caribbean and the role of the United States in the process. The regional process amongst Commonwealth Caribbean states has been defined to a large extent by the interests and policies of the United States. Within the framework of the Cold War, regional goals and aspirations were subordinated to the "greater " pursuit of American security interests, and hegemonic ambitions. The Cold War era is seen by some as one that gave unique focus to strategic, geopolitical considerations. The thesis will explore this postulate, arguing that the pre-eminence of strategic considerations in fact both pre-dated the Cold War period, and have remained ascendant since. It will also explore the United States' relationship with the Commonwealth, its use of various strategic-economic policies (such as trade, aid, and investment policies and those found in the Caribbean Basin Initiative) to safeguard and bolster its interests in the region, and their impact on regional integration.

The CBI referred to in this study is the 1983 Caribbean Basin Initiative, or the CBI I, not to be confused with CBI II, which was passed in 1990. The thesis'

analysis effectively ends with the end of the 1980s, not because subsequent years saw significant change to the fundamentals of external-internal dynamics and structures (they did not), but because the earlier date arguably constitutes that by which the essential fundamentals and parameters had become defined and ensconced.

Chapter I

The Theoretical Framework of Regional Integration

Regional integration has evolved as an important instrument for accelerating the process of development in a number of regions in the developing world. The popularity of this particular strategy is remarkable given its relatively poor record of success and achievements in the area of development. This may be because the significant increase in regional movements among developing countries since the 1960s has not been accompanied by parallel developments in the literature on regional integration. The theoretical literature on regional integration continues to be dominated by the Eurocentric, neo-functionalist approach which focuses on co-operation in functional or non-political areas through a supranational structure, in order to progress to a higher level of integration and collaboration. The utility of this particular perspective is exhausted when developing countries are incorporated into the framework.

This chapter attempts to cultivate a more appropriate framework from which to analyze regional integration among developing countries. More specifically, it will examine the conditions of development amongst these states, and identify the particular variables and dynamics that define the process of development and regional integration. The role and importance of external actors/factors, which is largely neglected in the neo-functionalist perspective, will

permeate throughout this chapter, as well as the entire paper.

(1.1) The Problems of Integration in Developing Countries

During the late 1950s and 1960s a number regional groupings among developing countries (mostly in Latin America and Africa) were established, aimed at achieving closer co-operation and regional integration. Such efforts, however, have either failed or met limited success. The fact that many of these groupings were established in emulation of Western European-based integration, which of course neglected the historical, political and economic conditions of developing countries, accounts in part for the poor performances. These schemes were largely incapable of dealing with crucial issues such as societal and income polarization, distribution of benefits and costs, policy towards foreign investors, allocation of industry etc., all of which must be addressed if regional integration is to have a chance to succeed among developing countries.

A number of other explanations, both internal and external, have been put forth to account for the minimal accomplishments of the integrative efforts of developing countries. With respect to internal factors, the desire to protect the newly gained political sovereignty, particularly in the early years following independence, may have been too great to accommodate the political and economic commitment which integration dictated. Regional integration not only involves the cession of a certain degree of autonomy over domestic affairs--

which conceivably may have been a difficult undertaking for a number of states, particularly after a long period of colonial rule; it also requires relatively stable institutional structures, which were perhaps lacking in these states.

The existence of competing ideologies among regional members also may be problematic for regional groupings. Ideological differences influence the prioritization of policy and are likely to arise over discussions on foreign trade, allocation of industries, policies toward third parties, domestic socio-economic policies, regional planning and the role of state.¹ While it is recognized that lack of internal cohesion undermines regional integration, ideological differences are not easy to reconcile. In the Commonwealth Caribbean, where ideological pluralism was adopted as a guiding principles of CARICOM, in a bid to tackle the internal hostilities spawned by the various ideological affinities, internal conflicts nevertheless persisted.

External factors may also play key roles in determining the course and outcome of regional integration among developing countries. Balance of payment problems, increasing prices of imports, trade barriers in industrial countries, debt servicing and reduced capital inflows have undoubtedly affected the posturing of individual member states. Moreover, since [these] developing countries are dependent on industrial countries for markets, capital and import

¹D. Ghai, "Integration Schemes Among Developing Countries with Differing Economic Systems and States," in Julius Erneka Okolo, "West African Regional Integration: ECOWAS," paper presented at the 25th Convention of the International Studies Association, Atlanta, Georgia, March 27th - April 1st., 1984, p. 2.

requirements, and possess extremely open economies, they are highly vulnerable to extra-regional influences which may affect regional endeavours. In some cases, external factors have been known to impact positively on regional integration by encouraging regional programs and by providing financial and technical support.² However, external forces also have adversely affected regional movements, for example through blatantly encouraging bilateral economic relations with individual regional members, without regard for the fragmenting effect this policy has on regional movements; or through the employment of a variety of other strategic-economic initiatives mainly in the areas of trade, aid and investment to advance their particular interests. In the Commonwealth Caribbean, for example, the United States has utilized its economic clout to forge bilateral arrangements with a number of states, thereby extending its own leverage and influence in the region, while in the process threatening the objectives of regional integration.

It is important to note that despite the less than stellar achievements of regional integration schemes among developing countries, many still view regional integration as the most effective method for overcoming the obstacles of development. It must also be acknowledged that although the factors cited in the above discussion provide some insight into the problems encountered by integration movements among developing countries, they are by no means

²The EEC was sustained and encouraged by the United States' financial and technical support. Union douanière et économique de l'Afrique centrale (UDEAC), and the Council of the Entente are other examples of regional schemes that have been encouraged by extra-regional actors.

unique to these groupings, although they are generally more pronounced and problematic within them.

(1.2) Traditional Theory of Political and Economic Integration

The formation of the European Coal and Steel Community (ECSC) in 1950, and subsequent organizations such as the EEC (European Economic Community) and the EFTA (European Free Trade Association), provided both the impetus for the launching of the neo-functionalist approach to regional integration, and thus also the basic testing ground of the premises underlying political integration, economic integration and the relationship between the two.³ The neo-functionalist approach is based on the works of Lindberg and Scheingold, but is primarily associated with Ernst Haas and his theoretical writings found in *The Uniting of Europe* (1958) and *Beyond the Nation State* (1964).⁴

According to the neo-functionalist perspective, co-operation in relatively non-controversial or non-political areas of welfare is likely to progress to a higher degree of collaboration in more controversial or political spheres. It posits that once a form of integration is instituted there will be an inclination to progress to a

³Axline Andrew (ed.), *The Political Economy of Regional Co-operation: Comparative Case Studies*, London: Pinter Publishers, 1994, p. 179.

⁴Ernst Haas, *The Uniting of Europe: Economic and Social Forces, 1950-1958*, Stanford: Stanford University Press, 1958; *Beyond The Nation State: Functionalism and International Organization*, Stanford: Stanford University Press, 1964; Leon Lindberg and Stuart Scheingold, *Europe's Would-Be Polity*, Englewood Cliff, NJ: Prentice-Hall, 1970.

higher level of integration.⁵ Axline states that this deterministic “spill-over” effect is brought about by “...a combination of the realization of the rewards from the first steps of integration and the recognition that there are limits to these rewards which can be overcome only by going on to the next higher step of integration.”⁶ However, only in theory does this process evolve in such an automatic and mechanical fashion; regional integration is more complex, extending beyond the sphere of economics to include, *inter alia*, important political dynamics, such as the motives and actions of actors. The process of regional economic integration and membership in supranational institutions, is in general, a highly political undertaking involving collective decision making, in order to advance to a higher and more ambitious level of economic integration. Still, the theory of political integration advanced by neo-functionalists has been important for examining and evaluating the issue of economic integration among Western European states and other industrialized economies.

The traditional approach to economic integration is an extension of neo-classical international trade theory, and is based on the principle of comparative advantage, and the consequent belief that levels of welfare can be increased through the freeing of trade. Although there are several levels and forms of integration, including common market, economic union, free trade area,

⁵Hiroshi Kitamura, “Economic Theory and the Integration of Underdeveloped Regions,” in Miguel S. Wionczak (ed.), *Latin American Economic Integration*, New York: Praeger, 1966, p. 45.

⁶Andrew Axline, *Caribbean Integration: The Politics of Regionalism*, London: Frances Pinter Ltd., 1979, p. 5.

preferential tariff agreement, the orthodox analysis approach is largely centered around the concept of a custom union, i.e. a free trade area with a common external tariff.⁷

In his theory of customs union, Jacob Viner argued that the formation of a customs union and the subsequent freeing of trade does not necessarily lead to an increase in world welfare, as previously postulated in the literature on economic integration; in certain circumstances welfare could be reduced.⁸ According to Viner, the welfare impact of a customs union is ambiguous, giving rise to two effects: trade creation and trade diversion. Trade creation refers to a situation where, as a result of the formation of a customs union, production of a commodity is shifted from a high-cost producer within the union to a low-cost producer within the grouping. Member states receive goods at a lower cost, which should lead to higher levels of welfare. However, it is important to note that trade creation does not necessarily result in the lowering of prices in the importing member states.⁹ The beneficial effects of trade creation are observed when demand for a commodity within the customs union can be wholly accommodated by cheaper goods within the union.

⁷For a discussion on the various forms of integration see Miroslav N. Jovanovic, *International Economic Integration*, New York: Routledge, 1992, pp. 8-10.

⁸Jacob Viner, *The Customs Union Issue*, New York: Carnegie Endowment for International Peace, 1950.

⁹For a discussion on this issue see William Demas, *Essay on Caribbean Integration and Development*, Jamaica: Institute of Social and Economic Research, University of the West Indies, 1976, pp. 2-3.

Trade diversion refers to a situation where following the formation of a customs union, trade is displaced from a low-cost producer external to the area to a high-cost producer within the union, resulting in member states paying more for goods. A key criterion for deciding whether or not to establish a customs union rests on the net amount of probable trade creation over trade diversion. According to this analysis, the formation of a customs union is beneficial if the amount of trade creation exceeds the amount of trade diversion. Axline notes that this particular assessment is of principal importance to the political decisions surrounding the creation of an integrative scheme, because it is regarded as a critical indicator of the possible losses or benefits of integration, despite the difficulties associated with empirically measuring and predicting either effects.¹⁰

The economic rationale for pursuing regional integration, however, is implicitly based on the argument that it allows member states to overcome the small size of their domestic markets, and the protectionist tendencies of the world markets. An enlarged regional market provides opportunities for the establishment of new industries, and possibilities for achieving economies of scale and specialization based on comparative advantage. Regional integration can also stimulate local and foreign investment, allow a more efficient and

¹⁰Andrew Axline, *Caribbean Integration, op. cit.*, p. 3. For studies on empirical assessments of trade creation and trade diversion see B. Balassa, "Trade Creation and Trade Diversion in the European Common Market," *Economic Journal*, Vol. 77, March 1967, pp. 1-21.; H.G. Johnson, "The Gains From Freer Trade with Europe: An Estimate," *Manchester School of Economic and Social Studies*, Vol. 26, No. 3, pp. 247-255.; P.J. Verdoorn and F.J.M. Meyer Zu Schlochtern, "Trade Creation and Trade Diversion in the Common Market," *Intégration Européenne et Réalité Économique*. Bruges: De Temple, 1964.

rational utilization of existing capacities and resources in each member state, and may increase the potential for development of more appropriate technology and the dissemination of technological and organizational expertise.¹¹

The gains derived from economic integration are usually classified as short-term static or welfare benefits "...arising from a marginal reallocation of production and consumption patterns as a result of the freeing of trade... [and] include production and consumption effects which result from inter-country substitution and intercommodity substitution of trade, and terms of trade effects", and the dynamic or long-term gains of integration "... which relate to the effects of freeing trade on economic growth."¹² Orthodox theory is essentially concerned with the static effects that accrue from altering the existing patterns of production and trade following the creation of a customs union, and assumes a situation of full employment, perfect competition, constant returns on scale, perfect internal mobility of the factors of production etc..¹³ This rather restrictive analysis was specifically developed for assessing and demonstrating the problem of integration in Western Europe. It is essentially a trade approach based on the gains derived solely from a move towards the liberalization of trade, and involves the reduction or elimination of inefficient or high-cost

¹¹Andrew Axline, *Caribbean Integration*, *op. cit.*, pp. 4-12.

¹²*Ibid.*, p. 3.

¹³Jacob Viner *op. cit.*; The theory of customs union was broadened by Meade (1955) and Lipsey and Lancaster (1957). See John Meade, *The Theory of Customs Union*. Amsterdam: North Holland Publishing Company, 1955; and Robert Lipsey and K.J. Lancaster, "The General Theory of Second Best," *Review of Economic Studies*, Vol. 24, No.1, 1955/57.

domestic industries. A number of important aspects of economic co-operation, including the harmonization of fiscal and monetary policies, liberalization of capital flows, tax agreements and other forms of co-operation, are neglected in the traditional theoretical analysis.¹⁴

Not surprisingly, the theories of integration developed for industrial states have not been applied with much success in developing countries. Various conditions and assumptions that underlie both the political and economic theories of integration are largely inapplicable to the circumstances of developing countries. Since key economic and political differences exist between developed and developing economies, the objectives, conditions and consequences of economic integration are different; a theory of economic integration which focuses explicitly on the relationship between integration and development, would obviously be more appropriate for assessing regional groupings in the developing world.¹⁵ The following section will examine the nexus between development and integration and will explore some of the important political and economic differences that exists between industrial and developing economies, in an effort to advance a more suitable theoretical framework from which to analyze regional integration among developing countries.

¹⁴Mario I. Blejer, "Regional Integration in Latin America: Experience and Outlook," *Journal of International Integration*, Vol. 3, No. 2, 1988, p. 11.

¹⁵Andrew Axline, *Caribbean Integration*, *op. cit.*, p. 7.

(1.3) Political Integration, Economic Integration and Development

In assessing the political theory of political integration, it becomes clear that there are certain limitations to the neo-functionalist approach. The primary political objective of integration, as advanced by neo-functionalism, is that of ensuring peace and stability through collaboration in functional (welfare) areas. In developing countries such as those of the Commonwealth Caribbean, Africa and Latin America, the ultimate objective of integration was not political unification and the means by which to achieve this end in Europe (economic integration) was accepted and promoted as the goal of integration in developing countries. Axline expressed the general aspirations of regional groupings among developing countries in the following statement:

The principal political objective of underdeveloped countries involved in regional integration is development itself, the betterment of economic and social conditions and a redressing of the unequal relationship between the industrialized countries and themselves with respect to the distribution of economic and political power in the international system.¹⁶

Fundamental structural transformations are key to this process, as well as changes in the relationship between advanced and developing economies.

Second, according to neo-functionalist conceptualizations, regional integration schemes involve building upon existing structures in order to realize incremental gains in welfare. Regional unions among developing countries are

¹⁶*Ibid.*, p. 8.

far less interested in reaping the incremental benefits of integration than they are in achieving fundamental structural and economic transformations.

Third, the dominance of low politics in neo-functionalist theory essentially means that issues of "high politics," including international power, prestige, alliances, and arms, receive only scant attention. The impact of international politics and superpowers on regional organizations is sometimes mentioned as special instances of "high politics" that cannot be treated or accommodated by the theory.¹⁷ The instrumental motives of actors (elites) in the process of integration is dealt with; however, the analysis is primarily concerned with the impact of actors internal to the movement.

In developing countries, issues of high politics and the effects of an external hegemonic power on regional integration cannot be ignored—their international context compels a more "realist" approach. The experiences of the Central American Common Market (CACM) and the Caribbean Community substantiate the relevance and inexorable impact of external actors on the process of regional integration.¹⁸ Since regional unions among the developing world are generally formed by small states that exhibit a considerable degree of external dependence, and are at a position of disadvantage *vis-à-vis* industrial countries, they are likely to be more affected by external factors and issues of

¹⁷Ernst Hass, "The Study of Regional Integration: Reflections on the Joy and Anguish of Pre-Theorizing," in Leon N. Lindberg and Stuart Scheingold (eds.), *Regional Theory and Research*. Cambridge: Harvard University Press, 1971, p. 23.

¹⁸Andrew Axline, "Regional Co-operation and National Security: External Forces in Caribbean Integration," *Journal of Common Market Studies*, 1987, Vol. 7, No. 3, p. 5.

“high politics.”

The analytical framework supporting economic integration among developing countries is based on significant departures from the neo-classical theory of economic integration. As held by the traditional theory, if trade creation surpasses trade diversion, then a case for the formation of an economic union exists. However, when this particular criterion is applied to developing countries, the argument for the creation of a customs union is dismissed on the grounds that the opportunities for gains (trade creation) are limited, since trade in relation to domestic production tends to be disproportionate in these states, and intra-regional trade tends to be a small proportion of total trade. William Demas, a leading Caribbean economist, and others, have argued that trade diversion is not necessarily harmful; on the contrary, it can be shown to be one of the principal beneficial effects of economic integration among developing countries.¹⁹ This is said to occur since trade diversion is tantamount to import substitution (a significant development strategy which has perhaps peaked its usefulness at the national level due to the limited size of national markets), on a regional scale. Thus, trade diversion is crucial for overcoming the limitations of national markets as each member state widens its respective productive capacities and expand its

¹⁹William Demas, *The Economics of Development in Small Countries with Special Reference to the Caribbean*, Montreal: McGill University Press, 1965, p. 87; William Demas, *Essays on Caribbean Integration and Development*, Mona, Jamaica: Institute of Social and Economic Research, University of the West Indies, 1976, pp. 4; R. Lipsey, The Theory of Customs Unions: Trade Diversion and Welfare,” *Economica*, new series 24, February 1957, p. 41; and Yu Chou, Economic Integration in Less Developed Countries,” *Journal of Development Studies*, July 1971, p. 354.

markets to supply the markets of other regional members, even though the potential exists to lower the national economy of each member state.²⁰

The static benefits of the neo-classical theory of economic integration, clearly offer only minimal gains in terms of development for developing countries. The dynamic effects which have been largely neglected in the orthodox analysis are, however, central to the “development approach” to integration and provide greater opportunities for long-term changes in the structural conditions of production and technology.

One of the most salient ways in which regional integration contributes to development is by reducing the degree of dependence on the external environment through the expansion of trade with regional partners. Regional integration promotes industrialization by providing opportunities for exploiting the economies of scale of an expanded market and through the specialization and complementarity of production.²¹ An enlarged market permits a more rational specialization of industry since plants can be established in member states where particular products can be produced most efficiently.

The pooling of regional resources is another way in which regional integration could impact positively on development. By reducing duplication and wastage resources are utilized in a more rational manner, which ultimately

²⁰Andrew Axline, *Caribbean Integration*, *op. cit.*, p. 12.

²¹Economic Commission for Latin America, *The International Economic Relations and Regional Co-operation of Latin America*, United Nations Economic and Social Council, March 23, 1984, p. 104.

contributes to the development of the region.

Regional integration may also result in strengthening the bargaining positions of developing countries *vis-à-vis* the developed world. A collective voice in negotiating important issues such as trade, aid, investment and technology transfer could conceivably secure better agreements in these areas. Regional integration could also give rise to more appropriate institutional structures necessary for the better regulation of these activities.

Regional integration can also increase investment opportunities which result from an enlargement of regional markets, "particularly when internal and external economies may be exploited, and when export expansion is taking place which is not dependent on slowly growing domestic income...."²² The much-needed foreign exchange earnings which are generated could be utilized to assist with structural adjustment, debt servicing and regional development projects.

The uneven distribution of benefits is an important consideration for any integrative arrangement. In regional schemes formed by advanced economies, the differences in the levels of development are very small and fewer disparities exist in distribution of gains than in regional unions among developing countries. Moreover, the disparities can be reconciled through a planned strategy or a packaged approach whereby the phased freeing of trade could benefit different

²²Andrew Axline, *Caribbean Integration*, *op. cit.*, p. 13.

sectors in different countries.²³ In developing countries the differences are more problematic and pronounced. The uneven distribution of gains is perhaps one of the most overt and persistent problems of integrative schemes among the developing world.²⁴ This in part results from the concentration of economic activities in the more developed countries (MDCs) or “poles of growth,” which offer better infrastructure and other allocational advantages and incentives.

Polarization effects lead to an aggravation of the already existing regional disparities. Although the gravitation of foreign economic resources and activities to the MDCs may lead to an improvement in the economic situation of the region, the benefits are not distributed equally and some countries may even retrogress in the process.²⁵ Thus, it is imperative that effective compensatory/redistributive measures are implemented to address the problem of polarization within these regional schemes.

(1.4) Regional Integration and Dependence

In an effort to understand the positions of developing countries in the international economic system, and the state of affairs of their regional integration movements, it is necessary to incorporate a discussion of their historical development and relationship with advanced capitalist economies—any

²³ *Ibid.*, p. 14.

²⁴ United Nations Industrial Development Organization. *Regional Integration Among Developing Countries*, September 1983, p. 32.

²⁵ Andrew Axline, *Caribbean Integration*, *op. cit.*, p. 14.

serious analysis requires an understanding thereof.

During the period of colonialism, the periphery functioned as exporters of primary products to metropolitan states, in a relationship governed by the sheer dominance and self-serving ambitions of these external powers. The historical subordination of developing economies to external interests was the result of conscious political decisions taken by metropolitan countries to advance their own economic positions. The consequences of this, *inter alia*, include the prevalence of monocultural economies and the primacy of export production, a high concentration of foreign ownership, a shortage of capital due to repatriation, the emergence of social cleavages due to the unequal distribution of income, and highly open economies susceptible to extra-regional influences.

The contemporary international economic system mirrors colonial-type domination and dependence, as observed in the areas of trade, aid and investment. The new asymmetrical relationships that have been forged in these areas, between former colonial territories and various industrial states, such as that between the Commonwealth Caribbean (once dependent on the United Kingdom) and the United States, and those that have emerged between these countries and Transnational Enterprises (TNEs), have embedded forms of dependence that are reminiscent of the colonial period.

The expansion of TNEs in the post-war era has been sanctioned and encouraged by the various investment incentive measures employed by developing countries in pursuit of development based on the utilization of

external capital. In Puerto Rico this strategy was known as Operation Bootstrap; and in the West Indies,²⁶ it was referred to as "industrialization by invitation." In both cases the response of TNEs was impressive, investing in manufacturing, commerce, and services. In Puerto Rico and a number of other countries that implemented this development strategy, an increase in GDP and national aggregate income resulted. However, growth in these areas are not necessarily indicative of progress in development.

Often the involvement of TNEs in developing countries resulted in significant distortions in these economies and increased external dependence. Few backward and forward linkages are created with indigenous economies; instead, these economies become further integrated with the markets of metropolitan states. In addition to displacing the local population and retarding agricultural development, TNEs can contribute to the problem of high unemployment by using high-capital intensive technologies, unsuitable for the labour situation in developing countries.²⁷

Dependency is further manifested in the import consumption and production patterns of developing countries. By penetrating these economies, TNEs directly influence their cultural and social systems through production and

²⁶The "West Indian" terminology was used under British colonial rule. The concept of the Commonwealth Caribbean is associated with the independent states which emerged after British withdrawal.

²⁷William Demas, *Essays on Caribbean Integration and Development*, *op. cit.*, p. 53. For a discussion on external dependence and the lack of internal structural interdependence in the Commonwealth Caribbean see Havelock Brewster, "Economic Dependence: A Quantitative Interpretation," *Social and Economic Studies*, Vol. 22, No. 1, March 1973, p. 91.

advertising of products designed for industrial markets; the demonstration effect through the transfer of taste, which may be inappropriate and entirely foreign to the cultures of the developing countries is, thus, reinforced. This further increased external dependence, by creating a demand for metropolitan rather than indigenously produced products. This form of dependence is particularly glaring in the Commonwealth Caribbean, where the pursuit of "industrialization by Invitation" resulted in further integrating these economies with metropolitan countries--especially the United States.

The relationship between dependence and underdevelopment was explored as early as the late 1940s by the Latin American economist Raul Prebisch, who made the case against the continued reliance of Latin America on the export of primary commodities to stimulate growth.²⁸ Distinguishing between the developed centre and the underdeveloped periphery, Prebisch argued that the centre retained the benefits of technological progress and expropriated the benefits of productivity gains that occurred in the exporting sectors of the periphery, as evident in the "deteriorating terms of trade" experienced by peripheral nations.²⁹ Accordingly, he concluded that this relationship constituted external dependency--an obstacle that the periphery had to overcome in order to develop. A number of alternative strategies including economic integration, were recommended by Prebisch and other economists of the Economic Commission

²⁸Raul Prebisch, *The Economic Development of Latin America and its Principal Problems*, New York: United Nations Department of Social and Economic Affairs, 1950.

²⁹*Ibid.*

for Latin America (ECLA).

During the 1960s and 1970s, a wave of writing emerged from Latin America that cumulatively represented a qualitative step forward in the literature on underdevelopment and dependency. The works of Fernando Cardoso, Andre Gunder Frank, Osvaldo Sunkel and others ventured beyond the premises outlined by Prebisch to interpret dependency in a holistic fashion, and in doing so, challenged the theoretical underpinning of the orthodox view of development economics.³⁰ Identifying the dependency of developing countries as a crucial factor in their underdevelopment, dependency theory argued that the structural conditions of these economies and their incorporation into the international system, was intimately linked to their interaction with advanced capitalist economies. Implicit in this conceptualization was the view that the underdevelopment of the periphery was a part and consequence of the industrialization of the metropolitan states.

The concern with relations of external dependence and the role of regional economic integration in accelerating development and minimizing dependence, did not surface in the Commonwealth Caribbean until the early

³⁰Fernando Henrique Cardoso and Enzo Faletto, *Dependency y desarrollo en America Latina*. Mexico, 1969.; Fernando Henrique Cardoso, "Associated Dependent Development: Theoretical and Practical Implications," in Alfred Stephan (ed.), *Authoritarian Brazil: Origins, Policies and Futures*, New Haven.: Yale University Press, 1973, pp.142-176; Fernando Henrique Cardoso, *Dependency and Development in Latin America*. Berkeley: University of California Press, 1978.; Osvaldo Sunkel. "Development and Structural Heterogeneity," Mimeo, Institute of Development Studies, Sussex, England, n.d., pp. 1-23.; Osvaldo Sunkel, Transnational Capitalism and National Disintegration in Latin America," *Social and Economic Studies*, Vol. 22, No. 1, March 1973, pp. 132-176.; and Andre Gunder Frank, *Development and Underdevelopment in Latin America*, New York: Monthly Review Press, 1968.

1960s, approximately a decade after they were explored and promoted in Latin America. This can partly be explained by the heavy protection that West Indian agricultural export enjoyed in the United Kingdom during the 1940s and 1950s, which created the kind of export stability that was lacking in Latin America at the time. However, the steady dismantling of preferences by the United Kingdom, and the attainment of political independence by a number of West Indian countries—not accompanied by similar advances in the areas of economics and political development—resulted in a re-evaluation and subsequent altering of West Indian economic thinking.³¹ Additionally, the failure of “industrialization by invitation” to reduce unemployment and to generate an internal dynamic of growth, led to a consciousness in the West Indies that centered on the external dependence of the economy as the major barrier to development.

Latin American dependency economics permeated the Commonwealth Caribbean and inspired the works of Thomas and McIntyre, economists associated with the New World Associates.³² The concept of economic dependence that came to dominate West Indian academic thinking at this time, was based on issues of the size and structure of the national economy (structural

³¹Norman Girvan, “The Development of Dependency Economics in the Caribbean and Latin America: Review and Comparison,” *Social and Economic Studies*, Vol. 22, No. 1, March 1973, p. 5.

³²The New World Associates was a group of Caribbean intellectuals that focused on developing an indigenous view of the Caribbean. See New World Associates, “The Long-Term Economic, Political and Cultural Program for Guyana”, in Norman Girvan and O. Jefferson (ed.), *Readings in the Political Economy of the Caribbean*, Mona, Jamaica: New World Group, 1971. See also Clyve Thomas, *Monetary and Financial Arrangements in a Dependent Economy*, Mona, Jamaica: University of the West Indies, 1965; and Alistair McIntyre, “Some Issues of Trade Policy in the West Indies,” in Norman Girvan and O. Jefferson (eds.), *Ibid.*, pp. 165-183.

dependence) and government policies (functional dependence). Structural dependence was believed to be an inherent feature of the economy that could not be avoided, while it was believed that functional dependence could be dealt with by simply pursuing alternative government policies.³³ The economy was regarded as being "dependent on the rest of the world for capital, markets, supplies, skills and expertise..."³⁴ The pre-occupation with structural and functional differentiations subsequently led to the adoption of regional economic integration as the principal means by which to attack dependency and to correct some of the negative effects of the previous failed development strategy.³⁵

Through regional economic integration, the constraint of size could be dealt with by the formation of a wider regional market and regional organizations could allow for policies to be directed toward achieving structural transformation. This adaptation was a departure from traditional customs union theory, in that, it specifically addressed the economic conditions of the Commonwealth Caribbean.³⁶

³³Alister McIntyre, *op. cit.*, pp. 165-183.

³⁴Quoted in Norman Girvan, "The Development of Dependency Economics in the Caribbean and Latin America, *op. cit.*, p. 4.

³⁵Regional economic integration was also strongly advocated by William Demas in his work. See William Demas, *The Economics of Development in Small Countries*, *op. cit.*

³⁶This approach as adapted to the conditions of the West Indies showed that trade diversion was a desirable effect, since it could contribute to import substitution on a regional scale, and trade creation was undesirable since it implied the destruction of the region's existing productive capacity through competition. In addition, this approach focused beyond the limited effects of the liberalization of trade to recognize the need for the integration of productive resources within the region, and a significant number of government initiatives in the areas of regional economic policy.

West Indian academic thinking in the field of development economics and efforts to develop an indigenous theoretical framework in the late 1960s, culminated in an in-depth study by Brewster and Thomas on economic integration and development.³⁷ Brewster and Thomas maintained that for underdeveloped countries such as those of the West Indies, integration, not the liberalization of trade through the creation of a free trade area, was fundamentally important for achieving structural transformation and development. The impact of this research on policy was partly reflected in the formation of the Caribbean Free Trade Association (CARIFTA) in 1968, a year after the study was completed.³⁸

Paralleling the concern with internal structural constraints, development and regional economic integration, was the evolution of an approach that emphasized the role of domestic institutions and external relationships as a means by which to explain the meager achievements in development. According to this "historical/structural/institutional approach" as characterized by Girvan,³⁹ and espoused by Kari Levitt and Lloyd Best,⁴⁰ the dependency of the

³⁷Havelock Brewster and Clyde Thomas, *The Dynamics of West Indian Integration*, Mona, Jamaica: Institute of Social and Economic Research, University of the West Indies, 1967.

³⁸The creation of a free trade area (CARIFTA) was not advocated in this study. However, the work of Brewster and Thomas served as an impetus for greater West Indian co-operation.

³⁹Norman Girvan, "The Development of Dependency in the Caribbean and Latin America," *op. cit.*, p. 16.

⁴⁰Lloyd Best and Kari Levitt, et al., "Externally Propelled Industrialization and Growth in the Caribbean," Montreal: McGill Center for Developing Area Studies, 1968. This particular perspective was influenced by the empirical work of Dudley Seers, a Latin American theorists, See Dudley Seers, "An Approach to the Short Period Analysis of Primary Producing Economies," *Oxford Economic Papers*, February, 1959; "A Model of Comparative Rates of Growth in the World

Commonwealth Caribbean destroyed the national capacity to act autonomously because the power to influence development and to manipulate the "operative elements" such as prices, growth, employment etc., remained external to the region.⁴¹ Thus the *differentia specifica* between this perspective and the approach articulated by McIntyre and Demas (which emphasized internal structural constraints) is the focus on the external structural dependence of the economic system. The influence of this perspective, however, perhaps came too late relative to the establishment of CARICOM.⁴²

(1.5) The Politics of Regional Integration

Regional Integration involves the interplay between the various actors and their respective motives and interests. In constructing a theoretical apparatus for examining the politics of regional integration among developing countries, Axline submits that the actors involved are apt to assume different positions on the various policies, with the position of each actor being determined by its perceived interests.⁴³ In theory, such interests are likely to be clearly stated in the negotiation process, and hence, the type of integrative scheme and measures

Economy," *Economic Journal*, March 1962; and "A Theory of Inflation and Growth in the Underdeveloped Economies Based on the Experience of Latin America," *Oxford Economic Papers*, June 1962.

⁴¹Andrew Axline, *Caribbean Integration*, *op. cit.*, p. 19.

⁴²Eric St. Cyre, "The Theory of Caribbean Economy: Origins and Current Status," *Occasional Paper #4*, Institute of International Relations, University of the West Indies, June 1983.

⁴³Andrew Axline, *Caribbean Integration*, *op. cit.*, p. 36.

that are adopted are likely to reflect the various actors and their interests.⁴⁴

In negotiating regional integration the strategies pursued by the various actors are likely to be based on perceived opportunity costs and the distribution of benefits.⁴⁵ The perceived opportunity costs involve the “..calculation of alternative policies and gains forgone by not being pursued.”⁴⁶ Some of the alternative development strategies that may be considered by individual countries are autonomous development or close association with a metropolitan country, which by offering a more or less attractive alternative to regional integration, could affect the opportunity costs of participating in the regional scheme.⁴⁷

As noted earlier in this chapter, the distribution of benefits is an important concern for regional schemes with members at different stages of development. The success of the regional plan will largely depend on the extent to which it offers benefits to each member state, and on the kind of distributive policies that are implemented and sustained in order to realize this objective. One measure used to mitigate the polarizing effect of the uneven distributions of gains is compensatory in nature and provides for the redistribution of benefits from the

⁴⁴Theoretically this is supposed to occur; however, integrative arrangements are not always composed of members that are on equal footing; NAFTA is an example of such an arrangement. The various capacities of dominant participants are likely to be used in adopting particular schemes that would likely reflect its interests.

⁴⁵Andrew Axline, *op. cit.*, p. 38.

⁴⁶*Ibid.*, p. 37.

⁴⁷Andrew Axline, “Regional Co-operation and National Security,” *op. cit.*, p. 8.

MDCs (which usually profit more) to the LDCs (which are at a disadvantage). The LDCs are likely to demand that such measures be included in the regional plan, while the MDCs will find it difficult to follow through with the transfer, given the fact they too have poles of stagnation, often worse than some in the LDCs.⁴⁸

Unlike compensatory mechanisms, corrective measures actually attempt to correct the conditions that cause disparity and thus aim to generate conditions of industrialization and development in the disadvantaged centers.⁴⁹ Both compensatory and corrective prescriptions are critical for assessing the opportunity costs of participating in regional schemes among developing countries and in determining the course and outcome of integration among these states. The process of negotiating and implementing these measures, however, is liable to be complicated by contention resulting from the existence of differing value systems, ideologies and perceptions of gains and losses.

The free movement of the factors of production, which include labour and capital, is considered to be an integral component of a common market, and is important to the negotiations relating to the distribution of benefits. In theory, the free flow of these factors is expected to increase the benefits of integration for the region; however, in developing countries the process does not usually unfold in this manner. The freedom of the movement of labour is often perceived by the Less Developed Countries (LDCs) as an opportunity for labourers to migrate to

⁴⁸*Ibid.*, pp. 45-46.

⁴⁹*Ibid.*

the “poles of growth” to partake in the benefits of integration, such as employment. The consequences are felt in both the MDCs and the LDCs and extra burden is placed on the devising of equitable distributive measures.

Given the fact that capital is scarce in developing countries, its movement is likely to pose some difficulties to the process of regional integration. The LDCs are likely to oppose plans that involve the movement of capital to the MDCs, and will attempt to ensure guarantees that capital from the MDCs will be invested in the LDCs, as a corrective distributive measure. Regional development strategies designed to reduce dependence will likely influence the kind of investment policy pursued. Such measures may include policies to ensure control over capital flowing out of the region, which will likely spark some internal debate, given the greater reliance of the LDCs on foreign investment.

The policies and interests of external actors are also likely to acquire significance within this context, and affect the general framework of opportunity cost and distribution of benefits. The following section will explore these issues in greater detail.

(1.6) External Actors and Regional Integration

Traditional integration theory has for much of its history been immersed in evaluating and casting predictions on the success or failure of regional unions, almost exclusively on the basis of variables internal to regional movements. In the process, external factors, which are highly relevant to the course and

outcome of regional integration, have been largely excluded from such calculations. External factors are defined as those influences outside a particular regional union, and may include states, non-governmental organizations, multinationals, international institutions and organizations.⁵⁰ The impact of a superpower on the internal development of regional integration schemes has also been inadequately examined by the theory. A review of the literature on regional integration would not only substantiate these claims, but also provide several examples of regional groupings that have been significantly influenced by external forces.⁵¹ In some cases external factors have served as an impetus to integration or have assisted in the evolution of the regional scheme. The European Community, for example, partly owed its existence to a great deal of American assistance at the inception, and to the existence of the "communist threat".⁵² Similarly, concern among the Commonwealth Caribbean states, over the economic and political implications of British membership in the European Community, served as an impetus to the integration movement and to the deepening of the process from CARIFTA to CARICOM.⁵³

⁵⁰Andrew Axline, "Regional Co-operation and National Security," *op. cit.*, p. 7.

⁵¹See for example Robert Denham, "The Role of the United States as an External Actor in the Integration of Latin America." *Journal of Common Market Studies*, March 1969; Karl Kaiser, "The Interaction of Regional Subsystems: Some Preliminary Notes on Recruitment Patterns and the Role of Superpowers," *World Politics*, Vol. 441 (October, 1968); and Amitai Etzioni, *Political Unification: A Comparative Study of Leaders and Forces*, New York: Holt Rinehart and Winston, 1965.

⁵²Karl Kaiser, *op. cit.*, p. 84.

⁵³Anthony Payne, *The Politics of Caribbean Integration 1961-1979: Regional Integration Amongst New States*, Manchester: Manchester University Press, 1980, p. vii.

Regional schemes may also serve as a catalyst to the formation of other regional schemes. The EEC provided the stimulus for the establishment of integration schemes such as the European Free Trade Area (EFTA) and a number of regional groupings among developing countries. The formation of Comecom was also a result of the Western co-operative efforts. In the developing world, the ECLA played a crucial role in the formation of the Latin America Free Trade Area (LAFTA), CACM and CARIFTA.⁵⁴

Despite the minimal attention that external factors have received in the theory of integration, some theorists have extended the field of inquiry beyond the internal dynamics of the integration scheme. The work of Amitai Etzioni represents one of the earliest and few attempts to systematically deal with external influences.⁵⁵ External factors are conceptualized in his theoretical framework in the form of a "common enemy" to the regional union. More importantly, he acknowledges the role of "external elites" in the evolution of integration, such as the United States' role in European integration, and suggests that the manner in which the actions of "external elites" are "internalized" by the regional union is of significance for the evolution of integration.

The critique of the theory of integration has stressed the importance of external factors in the process of regional integration and the need to

⁵⁴Fernando Henrique Cardoso, "The Originality of a Copy: CEPAL and the Idea of Development," *CEPAL Review*, No. 2, 1977, pp. 7-40.

⁵⁵Amitai Etzioni, *op cit.* Cited in Karl Kaiser, *op. cit.*, p. 88-89.

accommodate these elements into the theoretical framework. The writings of Karl Kaiser and Ernst Haas point to the absence in integration theory of an explicit treatment of superpowers, matters of prestige, and of the economic, political and strategic policies of external actors.⁵⁶

In his review of regional integration theory, Joseph Nye examines the impact of extra-regional factors in non-European cases of integration and concludes that the role of external forces is conspicuous, and submits that the concept of "catalyst"--which could be the policy of an extra-regional power, the use of military forces, or economic aid to underdeveloped countries--is needed to supplement the internal variables upon which the theory of integration is based.⁵⁷ In his assessment CACM, Nye notes the role of external actors in accelerating the process of integration in CACM. Among the external influences cited in his analysis are the proximity of the United States, the structures of the international economy, and the financial and technical contributions of ECLA and the United States.⁵⁸

The influence of external factors is also acknowledged by James Cochrane and Royce Shaw, as highly relevant to the process of integration.

⁵⁶ Karl Kaiser, *op. cit.*; Ernst Haas, "The Study of Regional Integration: Reflections on the Joy and Anguish of Pre-Theorizing." *op. cit.*, p. 23.; See also Karl Kaiser, "The United States and the EEC in the Atlantic System: The Problems of the Theory," *Journal of Common Market Studies*, Vol. 5, No. 4, June 1967.

⁵⁷ Joseph Nye, "Central America Regional Integration." *International Conciliation*, No. 562, March 1967, p. 50.

⁵⁸ Joseph Nye, "Patterns and Catalysts in Regional Integration," *International Organization*, Vol. 19, 1965.

While both concur with Nye that the United States' involvement decisively shaped the course of integration in CACM, they markedly differ in regard to the role of the U.S. in the process. Cochrane argues that U.S. influence was perhaps more detrimental than beneficial to the process, since the business elites in Central America would have been more responsive to the regional allocation of industries proposed by the ECLA, had the United States not tied its promise of financial aid to the implementation of a free trade strategy in the region. Cochrane concludes that without the interjection of U.S. policy, a greater degree of commitment to the regional allocation of industry would likely have emerged in the CACM.⁵⁹ Shaw argues that the influx of American financial assistance to Central American governments essentially resulted in the premature establishment of an integration scheme.⁶⁰

In recent years, regional integration theory has received a much needed injection of ideas and theoretical insight into the phenomenon of external factors in the process of integration. Some of the most significant theoretical contributions are those of Andrew Axline, who has focused much of his work on analyzing integration schemes in Latin America and the Caribbean, and has developed a comparative analytical framework for examining regional

⁵⁹James Cochrane, "U.S. Attitudes Toward Central American Economic Integration," *Inter-American Economic Affairs*, Vol. 18, 1964. See also Robert Denham, *op. cit.*

⁶⁰Royce Q. Shaw, "Regional Integration in Latin America: The Development of Theory," Mss. ISA, Philadelphia, March 1981.

schemes.⁶¹ The following discussion incorporates aspects of Axline's theoretical analysis.

External factors are likely to exert more influence in regional integration schemes among developing countries since these groupings are generally composed of small, dependent states that are economically, militarily and politically weak *vis-à-vis* other countries in the international system. These external influences emanate from two basic levels.⁶² At hemispheric and regional level, the policies of a dominant state actor or groups of states can shape the course of integration.⁶³ At a higher level, the structure of the international system will have an affect on regional integration. During the Cold War era (with which this study is primarily concerned), the ideological pursuits, interests and the geopolitical rivalry of the superpowers decisively shaped the agenda and development of regional integration in the Commonwealth Caribbean. Anthony Payne argues that the United States in particular was

⁶¹Andrew Axline, "Regional Co-operation and National Security," *op. cit.*; *Caribbean Integration, op. cit.*; *The Political Economy of Regional Co-operation. op. cit.* Note: Anthony Payne has also made considerable contributions to the literature on regional integration, specifically his analysis on the role of the United States as an external actor in the process of regional integration in the Commonwealth Caribbean. See for example, Anthony Payne, "The Politics of Regional Co-operation in the Caribbean: The Case of CARICOM," in Andrew Axline (ed.), *op. cit.*, p. 72-100. Payne, Anthony; "U.S. Hegemony and the Reconfiguration of the Caribbean," *Review of International Studies*, Vol. 20, 1994, pp. 149-168; "Whither CARICOM? The Performance and Prospects of Caribbean Integration," *International Journal*, Vol. 40, No. 2, 1985, pp. 207-228; "Giants and Pygmies in the Caribbean," *The World Today*, Vol. 36, No. 8, 1980, pp. 288-296; and "The Rise and Fall of Caribbean Integration," *Journal of Common Market Studies*, March 1981, Vol.19, No. 3, pp. 255-281.

⁶²Andrew Axline, "Regional Co-operation and National Security," *op. cit.*, p. 8.

⁶³The lack of internal cohesion in CARICOM during the 1970s was partly a result of the closer bilateral ties which developed between Venezuela and individual countries of the Commonwealth Caribbean.

"...the major pressure pushing CARICOM towards disintegration and collapse during the course of its existence..."⁶⁴ He asserts that:

The United States never hesitated to divide the Commonwealth Caribbean against itself whenever the wider cause of anti-communism required it and was always able to find willing agents of its purpose among regional governments.⁶⁵

Beyond the interests and policies of extra-regional state actors are those of other external actors, such as institutions, corporations, or organizations, which can also determine the success of regional arrangements; realistically, however, these actors are likely to have less of an impact on regional schemes than the governments of non-member, dominant states.

The interests of different external actors may be economic, strategic or political in nature. Economic considerations include issues of access to markets, the supply of vital resources, and investment opportunities. Strategic interests are determined by whether or not the region is militarily significant or has the potential to be so in the event of an ideological confrontation or regional competition for influence. Politically, such interests may be based on the desire to maintain and possibly expand a traditional sphere of influence, to provide support for 'friendly regimes', and to secure diplomatic support on international issues.⁶⁶

⁶⁴Anthony Payne, "The Politics of Regional Co-operation in the Caribbean: The Case of CARICOM," in Andrew Axline (ed.), *op. cit.*, p. 99.

⁶⁵ *Ibid.*, p. 99.

⁶⁶Andrew Axline, "Regional Co-operation and National Security," *op. cit.*, p. 8.

Since external factors have been acknowledged as important determinants of regional integration, it is important to discuss the manner through which they penetrate the process. The policies of external actors are likely to impress upon the process of regional integration by influencing the costs and gains of alternative policies or arrangements for individual member states, and/or by offering a more attractive alternative than can be realized through regional integration.⁶⁷ External actors may have a positive impact on a regional arrangement by providing financial support in an attempt to assist with the costs which would be incurred by implementing redistributive measures, thereby providing support for regional policies.⁶⁸ On the other hand, the policies of external actors could also have negative ramifications for regional movements. Bilateral relations (especially in the areas of trade, aid and investment) which will be threatened or compromised by membership in a regional union, may increase the opportunity cost of participation for member states, thus reducing the likelihood of a successful regional scheme.⁶⁹ It is important to note, however, that in addition to the conscious and direct actions taken by external actors to influence the process of integration, regional integration can also be indirectly affected by the actions and policies of external actors, not specifically intended

⁶⁷ *Ibid.*, pp. 8-9.

⁶⁸ A number of economic unions among developing countries have survived largely as a result of financial and technical support from external actors; the Union douanière et économique de l'Afrique centrale (UDEAC), and the Council of the Entente are examples.

⁶⁹ Andrew Axline, *Regional Co-operation and National Security*, *op. cit.*, p. 9.

for these schemes.⁷⁰

The extent to which a third country affects regional integration will, *inter alia*, depend on historical, political, strategic, and economic considerations, the country's position in the international system, its relationship with members of the regional scheme and the extent to which the regional scheme allows for the involvement of a third country.

The interests of an external actor generally reflect its policies, and are likely to take precedence over regional issues. A powerful external actor such as the United States, whose interests have dominated its relations with individual Caribbean countries and regional groupings, has a variety of measures available to achieve its objectives.⁷¹ Such measures include diplomacy, military intervention and strategic-economic initiatives, which in this study are defined as those economic measures (trade, aid and investment) that are principally utilized to accomplish the larger strategic goals of the United States, rather than the economic development of the recipient country or region. Through the years the United States has employed a number of these strategies to effectively secure its position and support in the Caribbean, while reaping a disproportionate amount of benefits in the process; the Alliance for Progress and the Caribbean Basin

⁷⁰The establishment of a regional bloc such as NAFTA, between Canada, the United States and Mexico, was not a policy specifically directed towards CARICOM; nonetheless, the impact was felt throughout CARICOM.

⁷¹Besides affecting CARICOM it is alleged that the United States has used its economic capacity to undermine the will of LAFTA and CACM. For a discussion on the United States' involvement in Latin American Integration see Robert Denham, *op. cit.*; and Andrew Axline (ed.), *op. cit.*

Initiative are but two specific examples of such strategies. The policies of this external actor, more than any other, has and will continue to determine the dynamics of Caribbean integration.

Conclusion

The above discussion served to cultivate a general theoretical framework for an analysis of regional integration among developing countries. More specifically, it has discussed the dynamics of regional integration schemes among these states, and has sought to incorporate into the analysis a particular perspective, which has been insufficiently examined by the traditional theory of integration—that being, (hegemonic) external actors and their impact on the process of integration. For the overwhelming majority of developing countries, external penetration has special significance to the various facets of their existence and development, and thus the course and outcome of regional integration.

The United States was introduced as the dominant state actor in the Caribbean with interests and policies that have shaped the development of these states and (often) effectively pre-determined the regional processes. In order to truly appreciate the magnitude of its impact on the regional integration in the Commonwealth Caribbean, it is first necessary to discuss the various aspects of the development of these state, and the role and performance of their regional integration movement.

Chapter II

The Political Economy of the Commonwealth Caribbean: An examination of External Actors, Regional Integration and Development

External actors have had an incalculable impact on Caribbean development. As the pawn in the rivalries waged between the various European powers between the late 16th and eighteenth century, the Caribbean, in the words of Dr. Eric Williams, the late Prime Minister of Trinidad and Tobago, was essentially "...the cockpit of Europe, the arena of Europe's wars, hot and cold...Caribbean History, conceived in international rivalry, was reared and nurtured in an environment of power politics".¹ The prevalence of power politics in the modern-day relations between the Commonwealth Caribbean and extra-regional actors, have continued to affect not only the pace of development, but also the options and strategies available to achieve this fundamental goal. This chapter presents an analysis of the economic development of the Commonwealth Caribbean, its regional integration movement and the role of external actors in the processes.

(2.1) The Political Economy of the Commonwealth Caribbean

In examining the political economy of the Commonwealth Caribbean, William Demas, in a number of his studies, placed great emphasis on small size

¹Eric Williams, *From Columbus to Castro: The History of the Caribbean 1492-1969*, London: Ade Deutsch, 1970, pp. 69 and 71.

as a constraint to economic development and advocated regional integration as a means by which to overcome the obstacles to development.² According to Demas, small countries, such as those in the Caribbean, suffer from two inhibiting factors in respect to their industrial development: the small size of the domestic market, which prevents the exploitation of economies of scale; and the absence of a broad range of natural resources, which makes it necessary to rely heavily on imports³—the implications this has for overcoming dependence is obvious.

Smallness, as a factor, is not only relevant to the economic, but also to the political aspect of development. From a political standpoint, small size may not only affect the ability of states to effectively maintain territorial integrity and the right to self-determination, but also their ability to engage in discourse on an equal footing with larger, more dominant countries.

Although Demas' views have since been challenged by some scholars, who claim that an immutable factor such as size (smallness) does not necessarily condemn small economies to perpetually disadvantaged positions,⁴

²See for example William Demas, *The Economics of Development in Small Countries with Special Reference to the Caribbean*, Montreal: McGill University Press, 1965; *Essays on Caribbean Integration and Development*, Mona, Jamaica: Institute of Social and Economic Research University of the West Indies, 1976.

³ William Demas, *Essays on Caribbean Integration and Development*, *op. cit.*, p. 24.

⁴See for example Lloyd Best, "Size and Survival," in Norman Girvan and Owen Jefferson (ed.), *Readings in the Political Economy of the Caribbean*, Mona, Jamaica: Institute of Social and Economic Research University of the West Indies, 1971, pp. 29-36; and Ramesh Ramsaran, *The Commonwealth Caribbean in the World Economy*, London: Macmillan Publishers Ltd., 1989, pp. 264-273.

Andrew Axline argues that the issue of small size "...can be understood only in the context of colonial history which determined the way in which limited land resources were misused and fragmentation of the region exacerbated."⁵ Indeed, it is fitting to commence with such an analysis, in order both to better appreciate the political economy of the Commonwealth Caribbean, and to assess the factors that have contributed to shaping the region's conception of development and regional integration.

As colonies of the British empire, the islands of the West Indies were essential units in British mercantilist expansion. Conscious decisions taken by colonial officials dictated that the region would function as the hinterland to the metropolis, producing and exporting a narrow range of primary products (mainly sugar, bananas, and citrus fruits) in return for surplus manufactured goods. Virtually every aspect of Caribbean economic development was determined by sources external to the region. The export-propelled policies which were pursued effectively integrated the economies of the West Indies with the British economy. In describing the integration of the West Indian sugar-producing countries into the British economy, John Stuart-Mill, the British economist, in the mid-19th century observed that the West Indies was:

the place where England finds it convenient to carry on the production of sugar, coffee, and a few other tropical commodities. The trade of the West Indies is therefore hardly to be considered as external trade, but more

⁵Andrew Axline, *Caribbean Integration: The Politics of Regionalism*, London: Frances Pinter Ltd., 1979, p. 67.

resembles the traffic between town and country.⁶

The adoption of a plantation economy and the institution of slavery during the historical phase of British capitalist expansion (17th century), to remedy the shortage of labour in the lucrative sugar economy, ultimately left an indelible mark on the political, economic and social structures of the region.

The region's post-World War II interactions and relationships with external actors, such as transnational enterprises and dominant state actors (especially the United States), have mirrored the abjection and domination associated with colonialism. The cumulative effect of the region's interaction with external actors is reflected in its complex political economy, which includes, *inter alia*,

domestic classes in a constant process of formation and dissolution, dependence on the role of the economy in global production; ruling classes whose survival is tied to the performance of the metropolitan economies and the state of the global economy, working classes which are constantly being suppressed and exploited by these ruling classes and their transnational corporation sponsors; production processes which are locked into the production dynamic of metropolitan capital and hence vulnerable to the fluctuations of those metropolitan economies; a domestic state which both mirrors and perpetuates this dependence as the political agent responsible for the reproduction of the dependence of society; and a dominant culture which devalues local and regional cultural traditions.⁷

⁶ John Stuart Mill, *Principles of Political Economy*, London, 1892, pp. 45-55, cited in William Demas, *The Political Economy of the English-Speaking Caribbean*, Bridgetown: The CEDAR Press, 1976, p. 3.

⁷ Thomas Gittens, "The Politics of the Commonwealth Caribbean Regional Integration: A Review Article," *The CARICOM Bulletin*, No. 3, 1982, p. 31.

Equally important are gender and racial hierarchies rooted in colonialism that remain entrenched characteristics of the modern-day political economy of the Commonwealth Caribbean.

During the 1960s and 1970s, a number of countries in the Caribbean pursued development strategies based on import substitution. Perhaps the foremost thinker in the Commonwealth Caribbean at the time was Sir Arthur Lewis, who argued that the agricultural sector as then organized could not adequately accommodate a rapidly expanding population.⁸ Accordingly, Lewis promoted the growth of the manufacturing sector, which he argued was vital to the process of modernization. Through the growth of this sector, it was expected that several objectives would be achieved, including diversifying exports, reducing dependency on imports, generating foreign exchange, creating employment for an expanding labour force, and absorbing the surplus labour in agriculture.⁹ Lewis also recognized tourism as a potential foreign exchange earner, and advocated foreign investment in this sector, as well as in manufacturing, to remedy the shortage of capital in the region. Lewis reasoned that:

the islands cannot be industrialized...without a

⁸Lewis argued that rapid industrialization would not immediately solve the surplus labour problem. Thus, he proposed emigration from the rural areas of Jamaica to Belize (British Honduras) and Guyana (British Guiana). However, Lewis never anticipated that the majority of Jamaican migrants (including a substantial number of professionals, skilled and semi-skilled workers) migrants would find their way to Britain instead of remaining in the region. See Arthur Lewis, *Industrialization in the Caribbean*, Port of Spain: Caribbean Commission Central Secretariat, 1951, p. 202-212.

⁹*Ibid.*

considerable inflow of foreign capital and capitalists, and a period of wooing and fawning upon such people. Foreign investment is needed because industrialization is a frightfully expensive business quite beyond the resources of the Islands.¹⁰

This led to adoption of a policy which became known as "industrialization by invitation," to encourage foreign investment in the region. Regional elites vigorously promoted this policy, which was abetted by various inducement measures including tax exemptions, protection from foreign competition, accelerated depreciation allowances, and import duties concessions.¹¹

Lewis' highly touted approach to development, however, was not immune to criticism. Indeed, some argued that the model was destined to fail from its conception. Despite the acknowledged need for industrialization, one early critic noted that the "initial policy to promote industrial development appears to have been conceived quite haphazardly without any clear idea of long-term aims to be achieved by such a policy."¹² The model was clearly flawed in several respects. One of its central premises rested on the argument that transnational corporations would reinvest profit in the local economies; this, in turn, would lead to a larger manufacturing sector, and increased employment in the region. However, as Ramesh Ramsaran correctly argues, "this was contrary to the

¹⁰*Ibid.*, p. 56.

¹¹ Ramesh Ramsaran, *op. cit.*, p. 49. The protection from foreign competition was rationalized on the infant industry argument, which maintains that during the early years of operation, an enterprise needs protection in order to survive the competition from other more established firms.

¹²Eric Armstrong, *Import Substitution in Jamaica and Trinidad and Tobago* (Part A: "Incentive Legislation in Trinidad and Tobago,"), Kingston: Jamaica, ISER, 1961, p. 1.

modus operandi of the transnational corporation, which subsequently emerged as the most important vehicle of private foreign investment.”¹³ Instead of reinvesting in local or regional industries, profits were repatriated abroad. Consequently, an increasing amount of compensatory public resources had to be channeled into manufacturing at the expense of other sectors.

Although the MDCs succeeded in producing various consumer products, including textiles, footwear, cement, etc., and manufacturing's contribution to GDP increased in some of these states, a significant regional market did not emerge—much less an extra-regional export sector.¹⁴ Emphasis on insular import substitution rather than regional export promotion, deficiencies in production coordination, a high degree of foreign capital ownership, reliance on capital-intensive techniques, a significant degree of reliance on imports and the inability to create local linkages of any significance in the economies, essentially crippled the transformative potential of this sector.¹⁵ (Chapter 4 examines the record of the manufacturing industry in greater detail). The fact that the development strategies were initiated and pursued within the context of colonialism and a significant degree of dependence on the external environment, undoubtedly

¹³Ramesh Ramsaran, *op. cit.*, p. 49.

¹⁴During the 1960s manufacturing contributed 15 % and 26% of the GDP of Jamaica's and Trinidad and Tobago, respectively. However, during the 1980s, manufacturing's contribution as a percentage of GDP of the MDCs declined. Manufacturing's impact on the economies of the LDCs has been insignificant. For a discussion see, Ramesh Ramsaran, *op. cit.*, p. 44-45.

¹⁵Carmen Deere et al, *In the Shadow of the Sun: Caribbean Development Alternatives and U.S. Policy*, Boulder: Westview Press, 1990, p. 131.

contributed to regional elites' conception of development and the development strategies which were adopted, and determined the distribution of the benefits deriving from such policies.

American involvement in the Caribbean during the late colonial/early post-colonial period of economic courtship, was extensive. U.S. corporations invested in local manufacturing and later in tourism, mining and petroleum. The creation of U.S. and other foreign branch plant operations, in fact, perpetuated both regional dependence and disarticulations in economic structures. In describing the effects of such operations on the regional economy in the 1970s Levitt and Best noted that,

The predominance of the Metropolitan subsidiary and the branch plant in the Caribbean economies reinforce fragmentation. Each territory tends to engage in terminal activities of resource extraction at the one end of the spectrum and distribution and final assembly of imports at the other. Linkages both within and between Caribbean economies remain feeble, and metropolitan domination persists.¹⁶

As U.S. corporations increased their investments and consolidated their economic clout over time, U.S. government officials worked to dismantle the trade barriers and to secure markets for U.S. exports.¹⁷ To this end, the United

¹⁶Levitt Kari & Lloyd Best, "Character of Caribbean Economy," in George Beckford (ed.), *Caribbean Economy: Dependence and Backwardness*, Kingston, Jamaica: The Herald Limited, 1975, p. 37.

¹⁷For a discussion on U.S. economic hegemony see Peter Phillips, "Crisis of Hegemony: U.S.-Caribbean Relations in Historical Perspective," in George W. Schuyler and Henry Veltmeyer (eds.), *Rethinking Caribbean Development: Issues in International Development Series, No. 2.*, paper presented at a conference held in October, 1984, Halifax: International Education Centre, pp. 39-53.

States laboured to contain Caribbean nationalism or elements of 'radicalism', and to preserve the region's subordinate status within a U.S.-centered economic and political framework. American investments proved highly lucrative, resulting in increased exports of capital goods and manufactured inputs to the region. By the mid-1960s, the United States was displacing the United Kingdom as the principal trading partner of the newly independent countries of the Commonwealth Caribbean. This is evident in the fact that 38% of Jamaica's and 28% of Trinidad and Tobago's total exports now went to the U.S., while only 27% and 22% went to the U.K. The United States also made significant inroads in increasing its share of exports to the region.¹⁸ This relationship was further strengthened over the years that followed, to the point where the economies of Commonwealth Caribbean became dependent on, and closely integrated with the United States.

Although relatively high growth rates were reported during the early years of import substitution, largely due to the expansion of the tourist, mining, and manufacturing sectors¹⁹ (for example between 1960 and 1970, Barbados enjoyed an average growth rate of 6.2%; Trinidad and Tobago, 4.2%; and Jamaica, 5.4),²⁰ no independent self-sustaining process of economic

¹⁸ *Ibid.*

¹⁹ Commonwealth Caribbean Regional Secretariat, *From CARIFTA to CARICOM*. Georgetown, Guyana, 1972.

²⁰ *Economic and Social Progress in Latin America*. Inter-American Development Bank, 1986, p. 17.

development was achieved. In fact, the conditions of dependent underdevelopment were prolonged in the Caribbean. A significant proportion of the rural population was displaced from lands deemed vital to the expanding tourist, manufacturing and mining industries. This subsequently contributed to a number of undesirable economic and social effects which included, *inter alia*, the marginalization of agricultural, the rise of urban slums, growing disparities in levels of income within and between states, and increased and persistent unemployment and underemployment.²¹ Table 2.1 highlights the unemployment figures in selected CARICOM states for the period 1960-1980.²² The unemployment figures increased considerably for almost the countries, and ranged from a maximum of 13.0% in 1960, to as high as 30.0% in 1980.

The impoverishment of Caribbean agriculture is, as noted above, a direct result of the activities of transnational enterprises. Domestic agriculture—the sector which produced food and livestock for domestic consumption—was particularly affected. Over the years, this has been manifested in increasing levels of food imports from outside the region. The fortune of the agricultural

²¹The decline in agriculture is evident in the figures reported for Barbados, Jamaica and Antigua. In 1955, agriculture contributed 47% of Barbados' GDP, compared to 7% in 1984. Similarly, the relative contributions of agriculture to Jamaica's GDP has declined significantly since 1950, when agriculture accounted for 30% of GDP. In the early 1980s, agriculture's contribution fell drastically, to 10%. In the 1950s, Antigua's economy was sustained by the export of sugar, which accounted for 28% of GDP in 1958; combined, agriculture contributed approximately 45% to GDP. However, by the early 1960s, agriculture's contribution to GDP dropped substantially, to less than 20% in 1963; sugar's contribution plummeted by more than 50%. By the early 1980s, Antigua's economy was transformed into one that is almost entirely dominated by tourism. For a discussion see, Ramesh Ramsaran, *op. cit.*, pp. 37, 38, 42.

²²Data on the LDCs are not readily available, as most of the data collected on development in the Commonwealth Caribbean between the 1960s and 1980, focus primarily on the MDCs.

sector is also linked to the structure of the sector itself, which is "largely rooted in the legacies of mercantilism and dependency of the Caribbean economies."²³ Despite repeatedly acknowledging the importance of agricultural diversification and rationalization to regional integration and economic development, and notwithstanding regional efforts to transform the industry, traditional structures remain intact.²⁴ The gap between aspirations and accomplishment remains stark.

Table 2.1 Unemployment Rates in the Commonwealth Caribbean, 1960-1980 (%)

Country	1960	1970	1980
Barbados	8.0	9.0	13.7
Guyana	8.0	16.0	20.0
Jamaica	13.0	18.0	30.0
Trinidad & Tobago	12.0	12.5	8.7

Source: World Bank, *World Tables 1976*, Baltimore: Johns Hopkins University Press, 1976, pp. 514-17; K. Ruddles and M. Hamour, *Statistical Abstract of Latin America 1970*, Los Angeles: UCLA Latin America Center, December 1971, pp. 92-93; and Inter-American Development Bank, *Social and Economic Progress in Latin America*, Washington, DC.: IDB, 1981.

(2.2) The Development of Commonwealth Caribbean Integration

As previously noted, regional integration is crucial to accelerating the process of industrialization and achieving the desired goal of economic

²³CARICOM Secretariat, "Towards the Development of the Agricultural Sector of the Caribbean Community: The Regional Food Plan and the Regional Food and Nutrition Strategy," *The CARICOM Bulletin*, No. 3, 1982 p. 10.

²⁴As early as 1968, the development of agriculture was recognized as pivotal to the regional movement. For more discussion, see CARICOM Secretariat cited above, pp. 10-11.

development. In the Commonwealth Caribbean, regional integration has its genesis in the West Indies Federation, established in 1958. Conceived as a political arrangement to safeguard colonial interests, at a time of increasing opposition to colonialism, the Federation, by its very design, was essentially incapable of dealing with the various social and economic demands of the region. The rivalries between the ruling classes over the sharing of regional power and office, and the preponderance of nationalism and intra-regional recrimination, in effect emasculated the Federation, and ultimately led to its demise in 1962.

Although the Federation lacked the political will necessary for its survival, its collapse did not in any way diminish the importance of regional integration in overcoming the barriers to development. The rebirth of regional integration in the form of the Caribbean Free Trade Area (CARIFTA) in 1968, was the culmination of events and exchanges of ideas between regional governments between 1962 and 1968.²⁵ CARIFTA, which represented the first major step taken by the independent states of the Commonwealth Caribbean to enter into a regional union, comprised the More Developed Countries (MDCs) of Jamaica, Barbados, Guyana, and Trinidad and Tobago, and the Less Developed Countries (LDCs) of Antigua, Belize (known then as British Honduras), Dominica,

²⁵Anthony Bryan, "The CARICOM and Latin American Integration Experiences: Observations on Theoretical Origins, and Comparative Performance," in *Ten Years of CARICOM*, paper presented at a seminar on Economic Integration in the Caribbean, July 1983, Bridgetown, Barbados: Inter-American Development Bank, 1984.

Grenada, Montserrat, St. Lucia, St. Kitts-Nevis and St. Vincent.²⁶

Collectively and individually, these states were (and still are) dependent. Winston Griffith describes the Commonwealth Caribbean just prior to the formation of CARIFTA, as a region which "...exhibits all the conventional criteria of nations characterized as less developed."²⁷ The region's population was increasing at a rate of 2% per year, and despite the economic growth that occurred, unemployment remained high--ranging between 12% and 20%.²⁸ The GDP per capita of virtually every country was low; many economies were sustained by mining, petroleum and agriculture (in the process of decline), depending on a limited variety of products that received preferential treatment in the British market. The dependency of the region was reflected in intra-regional and extra-regional trade patterns, with strong ties with the former colonial power, the U.K., and with the emerging economic power in the region--the United States. Only about 6% of CARIFTA exports went to CARIFTA countries.²⁹ Thus, the task of enhancing and promoting economic development in the region was

²⁶Commonwealth Caribbean Regional Secretariat, *From CARIFTA to the Caribbean Community*. Georgetown: CARICOM Secretariat, 1972, p. 14. The formation of CARIFTA was preceded by the creation of a three-country free trade area among Antigua, Barbados, and Guyana in 1965. In 1968, the year CARIFTA was formed, the LDCs (the Eastern Caribbean) were also involved in developing closer forms of co-operation and formed the Eastern Caribbean Common Market (ECCM) during that year. This organization later evolved into the Organization of Eastern Caribbean States (OECS) in 1981.

²⁷Winston Griffith, "Crisis in Caribbean Integration" *Caribbean Studies*, Vol. 23, No. 1-2, 1990, p. 29.

²⁸*Ibid.*

²⁹*Ibid.* See also Commonwealth Caribbean Regional Secretariat, *op. cit.*; See also Caribbean Community Secretariat, *The Caribbean Community: A Guide*. Georgetown, Guyana: CARICOM Secretariat, 1973.

challenging for CARIFTA, to say the least. In recognition of this grim reality, and the desire to rectify the region's dire economic situation, the agreement establishing CARIFTA articulated a number of important objectives, outlined in Article 2:

- 1) to promote the expansion and diversification of trade in the area of association;
- 2) to secure that trade between member countries takes place in the conditions of fair competition;
- 3) to encourage the balanced and progressive development of the economies of the area;
- 4) to further the harmonious development of Caribbean trade and its liberalization by the removal of barriers to it;
- 5) to ensure that the benefits of free trade are equitably distributed among the member territories.³⁰

As ambitious as the CARIFTA's mandate appeared, it did not go far enough in improving, much less transforming the economies of the region. CARIFTA essentially provided little more than a modest and gradual freeing of trade. Although intra-regional trade expanded between 1967 and 1972, this was largely an intra-MDC affair. Indeed, trade between the MDCs nearly doubled during this period.³¹ This, of course, caused friction and polarization within the region, which, in turn, served to reinforce the LDC/MDC dichotomy. CARIFTA,

³⁰Cited in David Powell, *Problems of Economic Development in the Caribbean*, London: The British-North American Committee, 1973, p. 45.

³¹Harold Codrington and DeLisle Worrell, "Trade and Economic Growth in Small Developing Economies: Research on the Caribbean," in DeLisle Worrell and Compton Bourne (ed.), *Economic Adjustment Policies for Small Nations: Theory and Experience in the English-Speaking Caribbean*, New York: Praeger, 1989, p. 37.

The MDC/LDC dichotomy is further illustrated by the fact that the MDCs, with a combined population of 4.6 million, or 87% of the population of the Commonwealth Caribbean, accounted for 93% of total production. See also Caribbean Community Secretariat, op. cit., pp. 5-6.

itself, was unable to effectively manage the situation, because it did not have the appropriate mechanisms in place. Although the agreement establishing CARIFTA expressed the need to devise corrective or compensatory mechanisms, the free trade area existed without any *dirigiste* measures of redistribution in place.³²

A number of other factors converged to create a politically charged atmosphere in which CARIFTA had to operate. Jamaica's espousal of an independent path, manifesting its outright rejection of the establishment of the Caribbean Development Bank (CDB) in the more 'parochial' and 'inferior' eastern Caribbean, and its reluctance to be an active participant in the 'deepening' of the integration process' pushed the integration movement to the brink of disintegration.³³ Change in intra-regional politics came in 1972, with the changing of government in Jamaica. By openly embracing regional integration and the need to strengthen the process, the newly formed government headed by Michael Manley significantly altered the atmosphere in which regional integration would proceed.

The conversion of CARIFTA into the Caribbean Community and Common

³²Andrew Axline, *op. cit.*, p. 75. *Dirigiste* measures, for example, would include a region-wide allocation of industry. Annex A of the CARIFTA expressed regional aspirations for the inclusion of distributive measures in the integrative process.

³³Anthony Payne, "The Politics of Regional Co-operation in the Caribbean," in Andrew Axline (ed.), *The Political Economy of Regional Co-operation* *op. cit.*, pp. 79-80. For a discussion on Jamaica's position on regional integration see Government of Jamaica, *Ministry Paper No. 57: Report on the Fourth Heads of Government Conference*. Kingston: Jamaican Government Printing Office, 1967.

Market (CARICOM) in 1973, constituted a "deepening" of the process of integration.³⁴ Fundamental to the successful launching of CARICOM was the deliberate exclusion of any aspects of supranationality (as evident in the European Community at the time) or commitment to political integration which would impinge on the sovereignty of member states.³⁵ The structures of CARICOM were created to allow national governments to pursue more effectively their respective policies within a regional framework. The Community's decision-making has been accomplished through a series of conferences (heads of Government Conferences) and councils, comprising territorial officials.³⁶ Each member has one vote and unanimity is required to make decisions.

By Third World standards of regional integration, CARICOM was considered to be quite ambitious, comprising some of the most fundamental aspirations of regional groupings amongst the Third World.³⁷ According to the

³⁴In 1973, CARICOM members included the four MDCs Barbados, Jamaica, Guyana, and Trinidad and Tobago. In 1974, The LDC countries of Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines, joined CARICOM. Montserrat was the only non-independent member of CARICOM. CARICOM consists of two separate institutions: the Caribbean Community and the Common Market. Political and functional co-ordination fall under the domain of the Community, while the Common Market is treaded separately in the Common Market Annex of the CARICOM Treaty. The Bahamas became a member of the Community (only) in 1983. See for example, Commonwealth Caribbean Regional Secretariat, *op. cit.*, p. 1972. See also Anthony Payne, *op. cit.*, p. 73-74.

³⁵For a discussion on this issue see William Demas, *West Indian Nationhood and Caribbean Integration*, Bridgetown: Caribbean Conference of Churches Publishing House, pp. 44-45.

³⁶The Secretariat is largely responsible for the administration aspects of the Community. For a discussion on this issue see Kenneth Hall and B. Blake, "The Caribbean Community: Administrative and Institutional Aspects," *Journal of Common Market Studies*, Vol. 16, No. 3, 1978.

³⁷Andrew Axline, *op. cit.*, p. 70.

Treaty of Chaguaramas which established CARICOM, the goals of regional economic integration, are "to change the centuries-old pattern of dependent underdevelopment in the Caribbean countries...", "to overcome the conditions of underemployment and agricultural backwardness, and to enhance the effective sovereignty of member states of the region and the self determination of its peoples."³⁸ To achieve these objectives the signatories of the Treaty embraced three broad areas of co-operation, which extended beyond the commitment to free trade emphasized in CARIFTA:

(a) Economic integration (through the common market) involving:

- (i) Market integration
- (ii) Co-ordination of joint action in production
- (iii) Joint action in extra-regional trade and other economic transactions
- (iv) A special regime for the Less Developed Countries

Countries

- (b) Co-operation and common services in non-economic areas such as health, education, transportation, etc. (so called Functional Co-operation)
- (c) Co-ordination of the foreign policies of member states.³⁹

Market integration involves the liberalization of trade and the establishment of a common external tariff (CET). Other measures which facilitate market integration include co-operation in financial matters, such as clearing arrangements for intra-regional trade transactions, exchange rates and

³⁸Caribbean Community Secretariat, *op. cit.*, p. 15; and William Demas, *Essays on Caribbean Integration and Development*, Mona: I.S.E.R., 1976, p.11. See also Caribbean Community Secretariat, *op. cit.*, p. 15.

³⁹See *Treaty Establishing the Caribbean Community, Chaguaramas, 4th July, 1973*, Georgetown: Caribbean Community Secretariat, July, 1973.

exchange control practices. In addition, the Treaty calls for joint action in production and provides for regional industrial programming, the rationalization of regional agriculture, joint development of natural resources and co-operation in tourism. A number of measures were put in place to give effect to the policy initiatives.⁴⁰

Article 17 of the Treaty requires that all member states “aim at the fullest possible co-ordination of their foreign policies,” and adopt as far as possible, common positions on major international issues.”⁴¹ In Article 34 (1), the Treaty also calls for member states to “seek a progressive co-ordination of their trade relations with third countries or groups of third countries.”⁴² The objective is to pool the bargaining power of member states and to increase their competitiveness in the international sphere. In 1985, further calls were made by the Heads of Government for member states to consult with each other prior to concluding trade and economic agreements with third countries or groups of third countries.

Recognizing the differences in levels of development and the tendency for asymmetric distribution of benefits, a “special regime” for the LDCs was incorporated into the treaty, as well as compensating mechanisms such as the

⁴⁰These initiative include the Caribbean Industrial Programming Schedule (CIPS), the Regional Agricultural Program, joint ventures and the CARICOM Enterprise Regime (CER) to facilitate the movement of capital, skilled labour and management skills within the Community, to exploit the natural resources of member states.

⁴¹ *The Establishing The Caribbean Community Treaty*, Article 17, *op. cit.*

⁴²*Ibid.*, Article 34 (1).

Caribbean Development Bank, and the Caribbean Investment Corporation (now defunct). The objective was to transfer loans in the case of the CDB, and equity capital in the case of the CIC.⁴³

Functional co-operation and common services in a number of areas (including health, transportation, education, and energy) aim at reducing the real cost of providing these services. The joint provision of common services is intended to help members (especially the LDCs) overcome financial and human resource constraints.⁴⁴

The ability of CARICOM to achieve these fundamental goals has been seriously undermined. Between 1973 and the period just prior to the Caribbean Basin Initiative (CBI), a number of unpropitious circumstances, both internal and external to CARICOM, converged to expose the fragility of the integration movement. The following discussion provides an assessment of CARICOM in light of these constraints.

(2.3) An Assessment of CARICOM's Performance 1973-1980

The launching of CARICOM in 1973, corresponded with the international oil crisis, which in varying degrees seriously disrupted all but one of the economies of the Commonwealth Caribbean. The dramatic increase in the world

⁴³Andrew Axline, *op. cit.*, p. 183.

⁴⁴Wendel Samuel, "Caribbean Economic Development," in Stanley Lalta & Marie Freckleton (eds.), *Caribbean Economic Development: The First Generation*, Kingston: Ian Randle Publishers, 1993, p. 163.

price of petroleum, and other essential regional imports came at a time when the economies of the MDCs were already experiencing a reduction in growth, increased inflation, serious imbalances in their external accounts and deteriorating public finance.⁴⁵ Trinidad and Tobago, as the Commonwealth Caribbean's only oil and natural gas producer, substantially benefited from the oil crisis. However, the other member states of CARICOM experienced severe budgetary difficulties and dramatic increases in the cost of living, to which regional governments responded with a variety of harsh measures (including increases in taxes, the heightening of import restrictions and exchange controls, and the imposition of subsidies on essential consumer goods); all suffered serious balance of payment deficits.⁴⁶

In an effort to cushion the impact of the crisis on their domestic economies, many governments of the region borrowed heavily from external sources. According to the data outlined in Table 2.2 between 1975 and 1980, the external debt of St. Vincent and Barbados tripled, while Jamaica's doubled. Trinidad and Tobago's external debt also increased fivefold, but for very different reasons: as a credit-worthy state, Trinidad and Tobago was able to borrow heavily from external sources to finance the expansion of state enterprises (primarily natural gas, fertilizer, steel and iron).⁴⁷ The problem of capital flight,

⁴⁵George Reid, "The Evolving Structure of the CARICOM Trade Regime" *The CARICOM Bulletin*, No. 5, 1984, p. 3.

⁴⁶Anthony Payne, *op. cit.*, p. 82.

⁴⁷Carmen Deere et al., *op. cit.*, p. 35.

in Trinidad and Tobago and Jamaica also contributed to a significant amount of debt accumulation in these states. In the case of Jamaica, capital flight accounted for 50% of the growth in debt between 1977 and 1980.⁴⁸

Table 2.2 The External Debt of CARICOM Countries, 1970-1980
(in US\$ millions)

Country	1970	1975	1980
Antigua	n.d.	46	56
Barbados	13	27	98
Belize	4	5	47
Dominica	n.d.	n.d.	18
Grenada	8	8	13
Guyana	83	296	571
Jamaica	160	695	1421
Montserrat	n.d.	n.d.	2
St. Kitts	n.d.	n.d.	10
St. Lucia	n.d.	n.d.	18
St. Vincent- Grenadines	1	3	10
Trinidad - Tobago	101	149	712

Source: World Bank, *World Debt Tables*, Washington, D.C.: World Bank, Vol. 2, 1988-1989, and 1989-1990; figures for Antigua, Dominica, Montserrat, St. Lucia and St. Kitts are drawn from the Caribbean Development and Co-operation Committee, *An Evaluation of Economic Performance of CDCC Countries*, Trinidad and Tobago: UNECLAC, 1988.

Against this background, the likelihood of CARICOM achieving its objectives seemed dismal. In the area of trade liberalization, CARICOM's performance was less than spectacular, extending only marginally beyond the

⁴⁸ Association of Caribbean Economists (ACE) Working Group on Debt, "Debt and Development Strategies," paper presented to the Second Conference of Caribbean Economists, Barbados, May 1989, p. 8. In one study, it was estimated that capital flight between 1980 and 1986 totaled approximately \$2.2 billion in Trinidad and Tobago, \$810 million in Barbados, and \$469 million in Jamaica; this accounted for 215%, 182% and 22%, respectively, of the increase in external debt over this same period. See Lester Henry, "Capital flight from Beautiful Places: A Case Study of Four Caribbean Countries," paper presented to the History and Development Workshop, University of Massachusetts, Amherst, November 15, 1989, p. 32.

progress made during the CARIFTA period. An examination of the changes in intra-regional trade based on the data provided in Table 2.3 reveals that between 1967 (the year prior to CARIFTA) and 1980, intra-regional exports as a percentage of total domestic exports increased from 6.3% to only 8.7%. In a similar vein, intra-regional imports as a percentage of total imports increased from 5.0% to 8.4% over the same period. The intervening years were marked by fluctuations in intra regional trade, with exports peaking at 10.3% in 1973, and imports reaching a high of 9.3% in 1979. Intra regional trade began a downward spiral in 1982, which continued until 1987, when a modest increase was reported.⁴⁹

Table 2.3 CARICOM Intra-Regional Trade as a Percentage of Total Trade (Selected Years)

	1967	1973	1974	1975	1976	1977	1978	1979	1980
Exports	6.3	10.3	7.3	8.3	8.8*	8.1	8.6	9.2*	8.7
Imports	5.0	7.5	7.1	8.6	7.6*	7.8	8.0	9.3•	8.4

Notes: * Excludes Antigua

• Excludes Antigua and St. Christopher-Nevis

Source: CARICOM Secretariat, "Patterns of Intra-Regional Trade in the Caribbean Community," *The Caribbean Bulletin*, Vol. 5, 1984, p. 38.

The decline in intra-regional trade was partly a result of restrictive commercial policies imposed by Guyana and Jamaica in 1977, in an attempt to deal with their balance of payment problems stemming from oil price increases,

⁴⁹CARICOM Secretariat, *Annual Report of the Secretary-General of the Caribbean Community*, Georgetown: The Caribbean Community Secretariat, 1988, p. 18. For a discussion on intra-regional trade between 1981 and 1987, see the various annual reports of the Community.

falling commodity prices, and the recession in the world economy.⁵⁰ Notwithstanding the fact that Article 28 of the Annex to the Common Market Treaty makes provisions for member states to impose quantitative restrictions on regional goods to safeguard their balance of payment positions, the actions of Jamaica and Guyana aroused criticism in some quarters.⁵¹ As noted previously, Trinidad and Tobago in fact retaliated with threats to introduce its own system of quantitative restrictions; in the event, this course of action was not taken.⁵² The conflict exposed the fragility and vulnerability of member states, and indeed the regional union, to events outside their borders, and illustrated the persistent contention which has plagued the region from the early days of the West Indian Federation.

With respect to co-ordinating production among member states, a Group of Experts, empaneled in 1981 to review the 'functioning of Caribbean integration,' that noted "inadequate progress was made" in this area.⁵³ The duplication of production in manufacturing (including non-essential items) points to the inability or unwillingness of regional member states to effectively co-ordinate their outputs. Indeed, the Group of Experts conceded that "the delays

⁵⁰Ramesh Ramsaran, *op. cit.*, p. 173.

⁵¹*Ibid.*

⁵²Government of Trinidad and Tobago, *White Paper on CARICOM*, Port of Spain, Trinidad and Tobago, Government Printing Office, 1979, p. 25.

⁵³A Group of Experts, *The Caribbean Community in the 1980s*, Georgetown: Caribbean Community Secretariat, 1981, pp. 20-21.

encountered in moving ahead with programs and projects for co-ordination and joint effort in production constituted the single most important factor that gives credence to some of the disappointments that have been expressed.”⁵⁴

In the area of agriculture, the Group acknowledged the lack of progress and identified a number of structural, institutional and technical features at the national and regional levels which have served to limit the production and marketing capacity of the region.⁵⁵ They include: a lack of co-ordinated marketing and pricing policies and infrastructure in the region; the inability at the national level to develop effective programs for the growth of small and medium-sized farms; a shortage of managerial and technical expertise, and economic resources; and high levels of post-harvest losses.⁵⁶ The protection of sugar and bananas--two of the industries' key exports--in the U.K. market, may have also served to delay the transformation of agriculture.⁵⁷

In spite of the creation of a “Special Regime” for the LDCs and the inclusion of compensating measures, polarization and the problems of maldistribution of benefits persisted. CARICOM recognized that although the inclusion of such measures in the process of integration was of benefit to the LDCs, their resultant progress was less than was initially expected.⁵⁸ The slow

⁵⁴*Ibid.*, p. 20.

⁵⁵*Ibid.*, p. 41.

⁵⁶*Ibid.*

⁵⁷Ramesh Ramsaran, *op. cit.*, p. 161.

⁵⁸*Ibid.*, p. 78.

progress and the resulting disenchantment is identified as a key factor leading to the establishment of the subgroup within the Organization—the Organization of Eastern Caribbean States—to safeguard and promote the special interests of the LDCs.⁵⁹

The greatest achievements, albeit modest, were reported in the area of functional co-operation.⁶⁰ The costs of common services were shared in the areas of health, shipping, higher education and technical assistance.⁶¹ Successful co-operation in relatively non-controversial areas is important to regional integration, as this has the potential of leading to joint action in other more controversial or politically sensitive areas.

The third area of co-operation, the co-ordination of foreign policies, is arguably the most significant aspect of Commonwealth Caribbean integration. It is also one of the areas where the least amount of progress was registered during the first decade of CARICOM. Given the small size of individual member states *vis-à-vis* other regional and international countries/actors, the economic and geopolitical realities of the region, and the high degree of initial ideological consensus amongst member states, it seemed reasonable that this aspect of integration would be included in the Treaty, and to expect that a respectable

⁵⁹Anthony Bryan, *op. cit.*, p. 87.

⁶⁰In measuring CARICOM's more recent performance in the area of functional co-operation, Wendel Samuel notes that CARICOM has progressed further than any other Third World grouping. For a discussion see Wendel Samuel, *op. cit.*, pp. 171-172.

⁶¹Anthony Bryan, *op. cit.*, p. 85.

degree of progress would be achieved.⁶² Member states, in fact, were able to co-ordinate their positions at forums such as the African-Caribbean-Pacific Forum (ACP), the United Nations (UN) and the Organization of American States (OAS), and on specific issues, including the normalization of diplomatic relations with Cuba, the Panama Canal, Southern Africa, the Law of the Sea, the territorial dispute between Guyana and Belize, and most impressively, the ACP-EEC negotiations for Lome I.⁶³

Notwithstanding these achievements, however, CARICOM's record in this field indicates a mixture of fragmentation and co-ordination of policies.⁶⁴ The inability or lack of will of member states to fully co-ordinate their external policies was responsible, in part, for the loss of faith and hope suffered by CARICOM amongst the regional public and the international community. Faced with economic crises and growing disillusionment with regional integration and the pace of development, member states during the 1970s and 1980 sought a number of bilateral, or "special relations" with extra-regional states. This tendency to place national priorities ahead of the regional commitment to integration, was clearly detrimental to the process of integration.

The first of such breaches in unity occurred in 1975—only two years after CARICOM had been established—when it was revealed that virtually all the

⁶²This aspect of integration was viewed as unique to the grouping.

⁶³Anthony Bryan, *op. cit.*, p. 87.

⁶⁴*Ibid.*, p. 88.

countries of CARICOM (except Trinidad and Tobago) were pursuing bilateral deals with Venezuela, which had benefited substantially from the oil crisis.⁶⁵ The resultant crisis in CARICOM led to a number of other bilateral economic arrangements with industrialized countries--most notably the United States--which had adverse repercussions for regional integration.

The second rupture in the integration process has its roots in the late 1970s, when Jamaica, Guyana, and Grenada became entangled in the politics of the Cold War. The adoption of 'democratic socialism' in Jamaica, and 'co-operative socialism' in Guyana, and the emergence of a revolutionary government in Grenada sent tremours through the movement and severed the ideological consensus (commitment to non-alignment) which was established in CARICOM. The conflicts over alternative courses of development and ideological pluralism soon dominated the regional agenda, and stagnated the integration process. These problems continued to plague the Community well into the 1980s, and were clearly played out in the politics surrounding the United States' invasion of Grenada and the negotiations of the Caribbean Basin Initiative.

Conclusion

This chapter explored the role of external actors in the political economy of the Commonwealth Caribbean and the development of regional integration.

⁶⁵Anthony Payne, *op. cit.*, p. 84.

While it is clear that external actors have played a major role in defining the structural economic characteristics of these states, and have retarded the pace of economic development, they have also served as an impetus to the forging of closer co-operation among states, and development of the process of regional integration.

Although regional integration was implemented as a strategy to overcome the obstacles to development, its record reveals that it largely failed to achieve this fundamental goal. The lacklustre performance of the regional movement points to not only a number of impediments (both internal and external) which stymied regional development efforts, but also illustrate the magnitude of the task with which the regional movement had to contend.

While the United States was the dominant, external economic power in the Commonwealth Caribbean during the period outlined above (and thus had considerable influence in determining the course of its development), its interests and policies in, and relationship with the Caribbean predated this period; they were both more extensive and complex than suggested by a narrow focus on these years. The ensuing chapter examines this in greater detail, and attempts to provide an understanding of the strategic, geopolitical dynamics that have shaped and define U.S. policies in the region. This will in turn serve to lay the foundation for the following chapters on U.S. strategic-economic policies towards the Commonwealth Caribbean and its regional integration efforts.

Chapter III

Caribbean Geopolitics and the United States' Interests in the Commonwealth Caribbean

The United States has long viewed the Caribbean and the surrounding territory as important to its national interest; and its relationship with these states is regarded as “special” and different from its ties with the rest of the hemisphere.¹ This perception has led to an extreme U.S. pre-occupation with, and persistent interventions in the area. Between 1898 and 1926, the United States intervened thirty-three times in the internal affairs of these states, including prolonged periods in Haiti (1915-34), Cuba (1917-33) and the Dominican Republic (1916-24)—largely under the pretext of peace and stability.² The United States' involvement in the region from 1926 onward has been active, aggressive and focused on extending U.S. power and influence through the utilization of a broad range of strategies.

Scholars of inter-American and Caribbean affairs have allocated much effort towards providing insights into the motives for U.S. involvement in the area. In the process, they have amassed a broad range of explanations encompassing economic, security, ideological and even psychological

¹ Joseph S. Tulchin, “The Formulation of U.S. Foreign Policy in the Caribbean,” *The Annals of the American Academy of Political and Social Science: Trends in Caribbean-U.S. Relations*, Vol. 533, 1994, pp. 178.

² Kathy Sunshine, *The Caribbean: Survival, Struggle and Sovereignty*, Washington D.C.: EPICA, 1985, pp. 31-32.

perspectives. U.S. foreign policy in the Caribbean region is not based on a singular calculation, but on an interplay of a number of factors. In order to appreciate how these factors have shaped and continue to shape U.S. foreign policy towards the Caribbean and the Basin in general, and to gauge its impact on the region's political and economic processes, it is necessary to provide a historical analysis of U.S. relations with the region. The trends that are revealed will be useful in furnishing an understanding of the United States' strategic-economic policies and their effects on regional integration in the Commonwealth Caribbean—the subject of the following chapters.

(3.1) The Evolution of U.S. Foreign Policy in the Caribbean Basin

From the early nineteenth century, the United States explicitly pursued a policy of southward expansionism. The 1823 Monroe Doctrine and Manifest Destiny declaration blatantly articulate U.S. ambitions of hegemony in the Caribbean and the entire Western Hemisphere, though it frequently strove to mask these ambitions with moral rectitude. Its quintessentially imperialist, *real-politik* stance mirrored strategic-economic motives concerning access to markets and natural resources, profitable capital investment, and security-related issues.

The United States' policy of expansionism proved highly profitable in the 1846 -1848 Mexican War, which resulted in the annexation of a major part of Mexico's northern territory. So effective was this strategy that between 1803 and 1853, the United States was able to extend its borders from the original thirteen

colonies, to virtually all of its present territory--most often at Mexico's expense.³ The United States' triumph in the 1898 Spanish-American War secured its position as a major power in the region; it acquired Puerto Rico, while Cuba became an official protectorate under the infamous Platt Amendment, which subjected the exercise of Cuban sovereignty to the will and discretion of the United States. The United States' involvement in the Caribbean Basin, became one of intense pre-occupation from this moment forward.

The evolution of U.S. policy in the Caribbean Basin is based on three different schools of thought that, when combined have proved to be highly effective. The first school is that of Theodore Roosevelt, and the policy of "gunboat diplomacy,"; the second is "dollar diplomacy," associated with the Taft administration; and finally, the Wilsonian approach, which used "democracy" as an instrument of foreign policy.

The "gun-boat diplomacy" era of the Roosevelt administration in the early 1900s effectively proclaimed and enforced the "right" of the United States to intervene in its hemisphere to restore peace and stability. This policy was enunciated in the Roosevelt Corollary to the Monroe Doctrine, which stated:

Chronic wrongdoing, or an impotence which results in a general loosening of the ties of civilized society ... may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power.⁴

³Andres Serbin, *Caribbean Geopolitics: Toward Security Through Peace*, Boulder: Lynne Reinner Publishers, 1990, p. 56.

⁴Theodore Roosevelt, "Annual Message from President Theodore Roosevelt to the United States Congress, December 6, 1904," Reprinted in the *Evolution of Our Latin American Policy: A Documentary Recorded*. James W. Gantenbein (ed.), New York: Oatagon, 1971, pp. 361-362.

Although imperialist economic motives continued to lurk in the realm of U.S. foreign policy, the United States involvement in the Caribbean region during this time was primarily based on strategic calculations. First and foremost to this thinking was the creation of an effective naval power that would be comparable to England's, and effective enough to prevent the encroachment of European powers.⁵ This focus was necessary if the United States was to secure its present and future stakes in the region and develop its capabilities as a global power.

The Panama Canal, which was financed with a U.S. investment equivalent to one third of its budget in 1914, was the manifestation of this policy.⁶ The Canal not only greatly enhanced the strategic capabilities of the United States, but also strengthened U.S. economic interests in the region. The treaty signed between the U.S. and Panama gave the U.S. rights "in perpetuity" over the Canal area, and concomitantly, a reason to intervene in the internal affairs of Panama.⁷

The Taft years "substituted dollars for bullets," and actively encouraged U.S. private investment in Central America. Yet, it never strayed far from its concern for U.S. strategic interests, particularly near the Canal. Promoted as a

⁵ Robert Pastor, "The U.S. and the Caribbean: the Power of the Whirlpool." *The Annals of the American Academy of Political and Social Science*, *op. cit.*, p. 20.

⁶ *Ibid.*, p. 23.

⁷ The Treaty, however, was renegotiated between Panama and the United States in 1977, during the Carter administration, to relinquish the control of the Canal to Panama, in the year 2000.

means by which to thwart the Caribbean's instability, revolutionary potentials and fiscal irresponsibility, "dollar diplomacy" called for a massive infusion of U.S. private investment. This overt use of economic diplomacy was essentially ineffective in restoring any form of political stability in Central America; and when the policies failed, the United States quickly reverted to military means to reinforce its political and economic interests in the region.

Wilson inherited a Caribbean Basin policy that was fashioned by Roosevelt to safeguard the strategic interests of the United States and amended by Taft to secure U.S. financial investments. As an ardent critic of both these policies, Wilson argued that economic and military activities were not enough to foster peace and stability in the region; what was required was a reform of the polity and the installation of democratic governments. According to Wilson, the U.S. system was the best; nations "causing trouble" would benefit more if they were to adopt a democratic form of government, associated with a liberal capitalist economic system.⁸ Although Wilson's abhorrence for the policies of his predecessors was seemingly manifest he nevertheless also extended U.S. influence and power in the region through the use of military force.

Despite the differences in strategy and focus, these diplomatic instruments were fundamental in securing the United States' position as a dominant actor in the region. By 1929, the United States emerged as the primary source of investment in the Caribbean, and rivaled the U.K with respect

⁸ Joseph S. Tulchin, *op. cit.*, p. 179.

to investment Latin America.⁹ Deere et al. explains that:

The growth in U.S. investment between 1913 and 1929 was indeed spectacular, increasing fivefold in Cuba, the Dominican republic and Haiti....Increased trade followed the U.S. flag, with the growth of U.S. exports far exceeding those of Great Britain between 1913 and 1926.¹⁰

As noted in the previous chapter, by the mid 1960s, the United States had replaced the United Kingdom as the primary trading partner for the newly independent countries of the Commonwealth Caribbean.¹¹

The economic penetration of these countries—particularly during the early 1900s—and the subsequent displacement of rural populations and the reorganization of the productive processes of these states, in essence shaped their patterns of entry into the international economy.¹² The enormous injection of U.S. capital into export-oriented production during this period and through subsequent decades, did little to stimulate domestic capital formation, but much to bolster the economic and political presence of the United States.

⁹ Carmen Deere, et al., *In the Shadow of the Sun: Caribbean Development Alternatives and U.S. Policy*, Boulder: Westview Press, 1990, p. 122.

¹⁰ *Ibid.*, p. 122.

¹¹ For a discussion see Peter Phillips, "U.S.-Caribbean Relations in Historical Perspective," paper presented to the Caribbean Association, Guadeloupe, May 1988, p. 23; and "Crisis of Hegemony: U.S.-Caribbean Relations in Historical Perspective," in George W. Schuyler and Henry Veltmeyer (eds.), *Rethinking Caribbean Development: Issues in International Development* (Series, No. 2), paper presented at a conference held in October 1984, Halifax: International Education Center, pp. 39-53.

¹² This is especially the case for Cuba, Puerto Rico, the Dominican Republic and Haiti whose exports (sugar and coffee) were principally determined by the U.S. The Commonwealth Caribbean's economic structure is primarily a result of British colonialism.

The efficacy of U.S. policies and the importance of the Caribbean in the formulation of its imperialist agenda, is evident. However, so too is its flagrant superior posture, genuflections of sovereignty, and subordination of the region's economic development and well-being.

America's Cold-War record of domination over the Caribbean was equally blatant--though almost always backed by moral rhetoric, and perhaps even more potent. There were numerous attempts and frequent successes at manipulating the internal politics of regional states, and breaching their effective sovereignty, in order to bolster U.S. presence and leverage in the area.¹³ The United States' proclivity towards muscle flexing during the Cold War era was backed by the utilization of a broad range of strategies including occupation, invasion, economic blockade, and counter-insurgency to contain, or depose "unfriendly" regimes. Countries of the Commonwealth Caribbean, including Grenada, Jamaica, Antigua, Guyana, and the neighbouring Nicaragua, the Dominican Republic, Panama, and Cuba (to name but a few) were all subjected to one or more of these violations. The United States has also pursued an active policy of military and economic assistance to reward "friendly," pro-American governments, to lure the commitment of less enthusiastic states that might otherwise have considered a "socialist" option, and to isolate radical elements

¹³See for example, Humberto Garcia Muniz and Jorge Rodriguez Beruff, "U.S. Military Policy Towards the Caribbean in the 1990s," *The Annals of the American Academy of Political and Social Science*, *op. cit.*, pp. 112-124; and Joseph Tulchin, "The Formulation of U.S. Foreign Policy in the Caribbean" *The Annals of the American Academy of Political and Social Science*, *ibid.*, pp. 177-187.

within the region. Kennedy's Alliance for Progress, and the Reagan administration's Caribbean Basin Initiative, are quintessential manifestations of these strategies. Although these programs were strongly promoted as development assistance tools, the impetus for their creation did not originate in a United States concern for the poor socio-economic conditions of the region, but from definite political calculations.

(3.2) United States' Interest in, and Policies Toward the Commonwealth Caribbean

Although the Caribbean has played a pivotal role in the evolution of U.S. regional hegemony, and is recognized as vital to U.S. interests, this consideration has not always been reflected in U.S. foreign policy. Indeed, Washington's policies toward the Caribbean have often been inconsistent, especially during the Cold War era, fluctuating between periods of "obsession and disinterest."¹⁴ Pastor conceptualizes this behaviour in U.S. foreign policy as:

a whirlpool...which occasionally sucks the United States into a vortex of crisis where it becomes preoccupied by small Caribbean nations or their leaders...Then, almost suddenly, U.S. interest and resources shift away from the region and many Americans can hardly recall either their nemesis or the reason for their intervention.¹⁵

The Nixon-Ford years of pre-occupation with Southeast Asia, the Middle

¹⁴Robert, Pastor, *op. cit.*, p. 20. See also Robert Pastor, *Whirlpool: U.S. Foreign Policy Toward Latin America and the Caribbean*, Princeton NJ: Princeton University Press, 1993.

¹⁵*Ibid.*, p. 20-21.

East, East-West détente and Watergate, and Ford's bout with containing the traumas suffered from Vietnam and Watergate, in effect resulted in political neglect of the Caribbean by the United States. On the few occasions when it drifted into U.S. consciousness, issues were dealt with on an ad hoc basis; no specific Caribbean policy existed, because none was thought to be needed.¹⁶ American inaction essentially left the door open for regional actors such as Mexico and Venezuela to extend their political and economic clout in the Caribbean. Venezuela, in particular, used its economic power (resulting from the accumulation of 'petro-dollars' subsequent to the 1973-74 oil crisis) to penetrate the economies of the Commonwealth Caribbean.

British economic and political withdrawal from the region, which began in the 1960s, left a power vacuum which, it was believed, the United States would fill. Since the Commonwealth Caribbean was located in its sphere of influence, and U.S. air and sea facilities were located in Jamaica, St. Lucia, Barbados and Trinidad and Tobago, it was reasonably assumed that the United States would systematically launch a campaign to promptly secure the allegiance of the newly independent states, as it did in Latin America and other countries of the region. However, for a number of reasons events did not unfold in this manner. First, as stated above, the United States was consumed by domestic and international crises that threatened to undermine its hegemony. Second, the United States regarded the Commonwealth Caribbean as British relics for much of the 1960s

¹⁶Roger Fontaine et al., "Castro's Specter," *Washington Quarterly*, Autumn, 1980, p. 4.

and early 1970s, even though it was apparent that British influence was waning rapidly.¹⁷

Third, the United States' concern for the region specifically resided in Cuba, Nicaragua and other Latin American states. The 1959 Cuban Revolution, the rise of insurrectionary groups in Latin America, and the alignment of Cuba with the Soviet bloc, necessitated the continuation of a regional foreign policy that was Latin America-centered and mandated to isolate and eradicate the "cancer" of communism. The four newly independent Commonwealth Caribbean states, regarded as less threatening to the interests of the United States, "...largely accepted their subordinate place in the scheme of things. Their foreign policies, insofar as they existed, were essentially pro-American"¹⁸— that is, geared toward increasing trade with the United States as a way of diversifying their markets and reducing their dependence on Britain.

It was not until the Carter era that the development of "radicalism" within the seemingly placid Commonwealth Caribbean sparked a re-evaluation of the United States' regional and hemispheric policy. As the world's newest "trouble-spot," the Commonwealth Caribbean became recognized as a sub-region distinct from Latin America. Consequently, the Carter administration set in motion a

¹⁷ Payne, Anthony. *Change in the Commonwealth Caribbean*. London: Royal Institute of International Affairs, 1981, p. 36.

¹⁸Kari Polyani-Levitt, "The Origins and Implications of the Caribbean Basin Initiative," *International Journal*, Vol. 40, No. 2, Spring 1985, p. 238. Also see Vaughan Lewis, "The United States in the Caribbean: the Dominant Power and the New States," President's address to the Caribbean Studies Association annual conference, St. Thomas, Virgin Islands, May 27-30, 1981.

crusade to restore stability and peace and to assist in the economic development of the region. Its emphasis on multilateralism, human rights and socio-economic issues, stood in stark contrast to the political rhetoric and manoeuvres typically associated with the Cold War. U.S. economic and development assistance was augmented in the region, and the Caribbean Group for Co-operation in Economic Development was established to give specific recognition to the development needs of the Commonwealth Caribbean, including the regional integration movement.

Although the administration made it clear in this “basic human needs” policy that it “...was concerned less with a government’s ideological stance than with its commitment to help its own people, the United States never intended to undermine or stray far from its agenda of global ideological hegemony.”¹⁹ The economic assistance that was provided to CARICOM states and the wider Caribbean also served a definite political/strategic function. American presence and commitment, absent for most of the 1970s, was once again restored, and by augmenting its aid to the region, the United States essentially reduced the attractiveness and prospects of a “socialist” alternative.

Despite episodes of U.S. political neglect of the Commonwealth Caribbean, and the region in general, its interventionist policies and its obvious objective of seeking to ensure an effective American presence, unequivocally confirm that considerable U.S. interest existed in the region. However, although

¹⁹*Facts on File*, Vol. 37, No. 1920, August 27, 1977, p. 646.

the above discussion provides some insight into this matter, U.S. interests are not immutable; they have changed through the years, although not drastically from one administration to the next. Thus, a discussion of more recent U.S. interests in the Caribbean is in order.

American concerns in the Caribbean during the Cold War period were fundamentally based on issues of national security, defined primarily in terms of geostrategic/political interests; the Commonwealth Caribbean derived importance within and from this overall framework.

Viewing the Caribbean and the broader region through the U.S. optic one can clearly see that the area was first and foremost of geostrategic significance to the United States. Containing major sea lines of communication (SLOC) that served transportation arteries to the United States and its allies, the Caribbean was intimately linked with other areas such as Central America and the Panama Canal, deemed of strategic importance to the United States. The Canal, in particular, was paramount in the evolution of U.S. foreign policy towards the Caribbean, and is a long-protected interest of the United States. The strategic importance of the Canal is explained in a statement by the U.S. Congress in 1989:

...the Canal facilitates the shifting of naval forces between the Pacific and Atlantic, thus permitting the simultaneous defense of U.S. interests in Asia and the Caribbean, with a maximum of concentrated naval might. By connecting the Atlantic and Pacific oceans, the Canal effectively reduces 8,000 miles and 20 to 30 days of travel

between the two oceans.²⁰

The Canal was heavily used by the United States and its allies during World War II; and during the post-war era nearly half of the supplies required by NATO forces, including a considerable proportion of U.S. troop reinforcements to Europe passed through this route.²¹ The Canal was also crucial to the movement of ships, supplies and troops during the Korean War (1950-53), and again during the Vietnam War.²² In addition, the Canal was used to fortify the blockade against Cuba during the 1962 Cuban Missile Crisis.²³

Despite this contribution to the naval and military capabilities of the United States, the Canal's strategic importance waned over the years.²⁴ Nevertheless, the transisthmian passageway continued to serve U.S. economic objectives, by facilitating the flow and expansion of U.S. trade. Although a treaty was signed between the United States and Panama to eventually relinquish U.S. control, it is an area over which the United States has continued to keep a watchful eye and

²⁰ U.S. Congress, House, Committee on Merchant Marine and Fisheries, *Strategic Importance of the Panama Canal*, Hearing, Subcommittee on Panama Canal/Outer Continental Shelf, 101 Congress, 1st Session, November 2, 1989, p. 4.

²¹ Ivelaw Lloyd Griffith, *The Quest for Security in the Caribbean: Problems and Promises in Subordinate States*, London: M.E. Sharp, 1993, p. 177.

²² U.S. Congress, House, Committee on Merchant Marine and Fisheries. *Strategic Importance of the Panama Canal*. op. cit., p. 216-218.

²³ Ivelaw Lloyd Griffith, op., cit., p. 184.

²⁴ One reason for the diminished importance of the Canal to the United States is its Physical feature which can no longer accommodate the passage of military vessels. For a discussion see Ivelaw Lloyd Griffith, op. cit., p. 185. The nature and high visibility of U.S. cargo has also limited the use of the Canal. See Thomas D. Anderson, *Geopolitics of the Caribbean*, New York: Praeger, 1984, p. 17; and *Strategic Importance of the Panama Canal*, op. cit., p. 58.

interest.

The Caribbean was acknowledged as crucial to the exercise and display of U.S. hegemony. Weakness in this region was perceived as limiting U.S. global capabilities and prestige. The National Bipartisan Commission on Central America (the Kissinger Commission) concurred with this view, in 1984, when it stated:

Beyond the issue of security interests in the Central American-Caribbean region, our credibility world wide is engaged. The triumph of hostile forces in ...the "strategic rear" of the United States would be seen as a sign of U.S. impotence.²⁵

A number of U.S. military installations were (and some remain) located in the Caribbean, which heightened the strategic value of the region for the United States during the Cold War. American anti-submarine facilities and underwater communication networks were found in CARICOM states. Antigua's international airport and that of Barbados provided crucial transit routes for U.S. military flights into the South Atlantic.²⁶ Furthermore, apart from the bases found in Cuba, Puerto Rico, the U.S. Virgin Islands and in the Panama Canal Zone, U.S. bases are located in the Commonwealth states of Antigua and Barbuda and, until recently, Barbados, St. Lucia, the Bahamas, and Trinidad and Tobago.²⁷

²⁵ U.S. National Bipartisan Commission on Central America, *Report of the National Bipartisan Commission on Central America*, Washington, D.C., 1984, p. 93.

²⁶ Lloyd Searwar, "The Caribbean Conundrum," in Thomas Weiss and James Blight (eds.), *The Suffering Grass: Superpowers and the Regional Conflict in Southern Africa and the Caribbean*, Boulder: Lynne Rienner, 1992, p. 18.

²⁷ *Ibid.*, p. 18.

In recent years, the United States has given more recognition to the impact of migration, and to the impact of importation of narcotics on its security. The Caribbean Basin is one of the largest sources of legal and illegal immigration to the United States. Since British withdrawal from the region and its ensuing policies to restrict Caribbean migration, flows from the Commonwealth Caribbean that were traditionally directed to the United Kingdom have been re-routed to the United States. The mass exodus of immigrants from other countries of the region, including Mexico, Puerto Rico, and Haiti, in recent years, have magnified the issue of security for the United States. The United States has expressed concern for the implications of migration on its political, societal and economic structures. Thus, the need to monitor and restrict population flows from the Basin has evolved as a relatively important security issue for the U.S.

Drug-trafficking has also emerged as an important U.S. security interest. The Caribbean Sea is situated directly between the major drug-trafficking and drug-producing countries--Columbia, Peru and Bolivia--and the world's largest market for drugs, the United States. The potential these activities pose for undermining U.S. security concerns and interests in the region, and for further eroding its social fabric, is enormous and clearly evident. The interests of migration and narcotics reinforce a continued U.S. security agenda in the region, and induce concerns about the economic and institutional weakness of the political and social systems of the Caribbean region.

Economic interests figured prominently in U.S. calculations, and were

linked to its strategic objectives. Although the Caribbean is a very small market for the United States, countries of the Commonwealth Caribbean own and produce resources that the United States has relied upon for years. Bauxite, copper, alumina, cobalt, and aluminium, are imported from the Caribbean and are of strategic importance to U.S. production of military vehicles and ammunition. Guyana, and, especially, Jamaica were key suppliers of U.S. bauxite requirements for a number of decades. Bauxite from both countries comprised 56% (52% and 4%, respectively) of total U.S. imported bauxite in 1986; together with the Dominican Republic and Suriname, the Caribbean accounted for 69% of the total amount of bauxite imported by the United States.²⁸

The Caribbean was also home to the world's largest oil refining operations. Refineries were located in the U.S. Virgin Islands, the Dominican Republic and Commonwealth Caribbean states such as Trinidad and Tobago, Jamaica, St Lucia, and Antigua-Barbuda. A number of producers were (and are) also found in the region, including Trinidad and Barbados (two of the main oil producers in the Commonwealth), and Venezuela, Mexico, the U.S. Virgin Islands and the Netherland Antilles. Together, these countries supplied the United States with a significant proportion of its petroleum. In 1982, for example, 1.7 million barrels per day (b/d), or 34% of total U.S. imported petroleum, came

²⁸ Lars Schoultz, *National Security and United States Policy Toward Latin America*, Princeton, N.J.: Princeton University Press, 1987, p. 155.

from the region. An additional 70% of U.S. refined petroleum was imported from refineries located in the area.²⁹ Thus, it was in the best interest of the United States to ensure the uninterrupted access and supply of these resources to its market.

The United States invested heavily in, and derived great benefits from, the mining and petroleum industries in the Commonwealth Caribbean. Therefore, it had a stake in facilitating and maintaining an environment conducive to the operation of American private sector activities. "A connection is therefore established between the security of trade and the security of investment."³⁰

U.S. interests in the Caribbean were (and are) also rooted in ideology; yet, even ideological interests operate to serve a larger strategic function. The containment of "communism" and the preservation of liberal democratic ideals overwhelmingly determined the United States' agenda in the Caribbean. The ideological alliances that were forged between the Commonwealth Caribbean states of Jamaica, Guyana, and Grenada, and socialist Cuba, were attempts to fundamentally change the *status-quo*. The economic stagnation, balance of payments deficit, and substantial debt accumulation of the 1970s gave rise to "socialism" within the Commonwealth Caribbean. The diplomatic ties that were

²⁹ Edward Gonzales, "U.S. Strategic Interests" in Jorge Heine and Leslie Manigat (eds.), *The Caribbean and World Politics: Cross Currents and Cleavages*, New York: Holmes and Meier, 1988, p. 282.

³⁰ Vaughan Lewis, "Geopolitical Realities in the Caribbean," in *Ten Years of CARICOM*, paper presented at a seminar on economic Integration in the Caribbean, July 1983, Bridgetown, Barbados: Inter-American Development Bank, p. 59.

established in 1972 between Cuba and the four newly independent states (Guyana, Jamaica, Trinidad and Tobago and Barbados) were later strengthened, between Cuba and Jamaica and Guyana, in areas of technical assistance and economic co-operation. Cuba's achievements in the fields of education, health care, national defense and its seemingly autonomous political existence, provided an alluring development alternative for Commonwealth neighbours that were still struggling in these areas.

The rise of socialism within the Commonwealth Caribbean was first and foremost perceived by the United States as a Soviet-Cuban effort to compromise its security. Some politicians and political analysts argued that this primarily and explicitly reflected an effort by Moscow to create proxies in the region; Havana was regarded as a mere puppet and facilitator of the policies of the paternalistic Soviet Union. However, this "surrogate thesis" analysis essentially neglected the role of Cuba as an agitator in its own right, and neglected Cuba's independent capacity to extend and consolidate influence in the region. Its subversive revolutionary activities in Latin America and Africa, and its economic and military support of countries both within and outside the region, demonstrated the existence of an independent Cuban agenda, notwithstanding its relationship with the Soviet Union.³¹

These newly found friendships had enormous relevance for U.S. security.

³¹ Carl G. Jacobsen, "The Jacobsen Report: Soviet Attitudes Towards Aid to, and Contacts with Central American Revolutionaries," (Commissioned and released by) the U.S. Department of State. 1984.

However, the importance of these relations was not to be found in the military capacity of any of these states, including Cuba. What the U.S. found particularly provocative and threatening was what President Carter accurately referred to as Cuba's "... claim to offer a model to be emulated by people who are dissatisfied with their own lot or who are struggling to change things for the better".³² Cuba was indeed the greatest setback to U.S. foreign policy in the Caribbean--although its influence in the region has substantially diminished since the 1980s, due to changes of regional governments and an aggressive American policy to deter and isolate 'radical' regimes.

The espousal of Ideological pluralism within CARICOM was not well received by the United States. Article 1 of the Treaty of the OAS declares that "...the adherence of any member of the Organization of American States to Marxism-Leninism is incompatible with the American system."³³ Despite a 1979 OAS resolution on the Caribbean, which emphasized the importance of support for the principles of ideological pluralism and peaceful coexistence in achieving and maintaining stability, development and peace in the region, the United States continued to regard this principle as incompatible with its fundamental interests. This blatant intolerance excluded Cuba from membership in the OAS and other Inter-American institutions, and led to a concerted effort on the part of

³²U.S. Department of State, Bureau of Public Affairs, Current Policy #174, "President Carter: Caribbean/Central America," April 1980, p. 2.

³³Jorge I Dominguez, *U.S. Interests and Policies in the Caribbean and Central America*, Washington: American Enterprise Institute for Public Policy Research, 1982, p. 20.

the United States and the IMF to subject the leftist regimes in the Commonwealth Caribbean to harsh destabilization programs in the late 1970s and early 1980s.

Conclusion

This section served to analyze U.S. involvement in the Caribbean in order to identify U.S. interests, and trends in its regional foreign policy. From this assessment a number of conclusions may be drawn. First, the region has occupied an important niche in U.S. foreign policy and has been of importance to its development as a nation. Its significance to U.S. global ambitions and the United States' (subsequent) ascendance to world power status, is undeniable. Despite the fact that the region's economic relevance for the United States has diminished over the years, it remains one that is crucially linked to U.S. security concerns, "necessitating" Washington's involvement in its affairs.

Second, the United States, more than any other country, established the essential parameters within which the Caribbean had to operate. The size and proximity of the Basin to the United States and its geostrategic importance guaranteed that U.S. relations with the region would be exploited asymmetrically. Since the United States' Cold War policies were essentially formulated to protect its national interests, and since the Caribbean played an important role within this overall framework, the region's political and economic development was, in effect, subordinated to "greater" U.S. objectives. It is this interplay of American

national interests, defined primarily in terms of security concerns, and those of the Commonwealth Caribbean, which were (and are) predominantly based on issues of development, that infringed directly on the regional integration process.³⁴ Caribbean states and CARICOM were thus faced with a strategic dilemma; "how to retain autonomy while seeking regional integration, how to elude the United States while securing access to its market."³⁵

Finally, based on the historical evidence presented in this chapter, one might well anticipate that the United States would indeed be likely to participate in, or provide material assistance to an organization such as CARICOM, if it found that there were significant self-gains to be derived from such initiatives.

³⁴ Andrew Axline, "Regional Co-operation and National Security: External Forces in Caribbean Integration," *Journal of Common Market Studies*, Vol. 27, No. 1, September 1988, p. 2.

³⁵ Robert Pastor, *The Annals of the American Academy of Political and Social Science*, *op. cit.*, p. 29.

Chapter IV

Commonwealth Caribbean Dependence on the United States and the United States' Policies and Response to Regional Integration, 1968-1980

From the CARIFTA era to the period prior to the Carter years (1968-1976), the United States' regional policies were fashioned to respond to its concerns in, and relationship with, the volatile Latin America; the Commonwealth Caribbean was dealt with in this broad framework. However, this is not to suggest that the United States gave no specific considerations to the Commonwealth Caribbean; on the contrary, special issues or concerns emanating from this subregion were addressed in an ad hoc manner—even within this broad context—although a bilateral, rather than a regional approach was frequently preferred.

The Carter years (1977-1980) represented a rare interlude in U.S.-Caribbean relations. This administration was the first to recognize the Commonwealth Caribbean as a subregion distinct from the rest of Latin America in U.S. hemispheric policy.¹ Multilateralism replaced bilateralism in U.S. relations with the Commonwealth Caribbean and a specific and clear foreign policy was developed to deal with these states, and to address the issue of regional integration. However, this policy was short-lived, as the new Reagan administration (inaugurated in 1981), with its strong emphasis on bilateralism

¹ Anthony Manigot, "American Foreign Policy in the Caribbean: Continuities Changes and Contingencies," *International Journal*, Vol. 40, No. 2, 1985, pp. 320-330.

and Cold War power politics, executed a *volte face* in U.S. policies towards the Commonwealth Caribbean. By conceptualizing the region as part of the Caribbean Basin, a larger geopolitical/strategic unit which included the Caribbean Islands, Guyana, Suriname, Mexico, Central America (including El Salvador, which does not front on the Caribbean), and the northern South American countries, the U.S. Defense Department now essentially reduced the uniqueness and significance ascribed to the Commonwealth Caribbean in U.S. policies. The Commonwealth Caribbean and the regional integration movement was inevitably affected by this new approach, encapsulated in the Caribbean Basin Initiative.²

The process of regional integration in the Commonwealth Caribbean was as previously noted, undertaken within a context of extensive reliance on the external environment. The historical dependence of these states on extra-regional actors and their incorporation into the international economic system, impacts directly and necessarily on any thorough and effective evaluation or discussion of regional integration. Given this understanding, a number of assumptions were made by the Commonwealth Caribbean about regional integration and the external environment. The three which need to be considered here are : (1) that CARICOM states would be able to maintain their relations with extra-regional actors while they searched for new options to achieve economic

² Although this view was used by the Defense Department, such a view is different from the Caribbean Basin Initiative which for the purpose of economics, omits Mexico, Venezuela, and Columbia in part because they are amongst the more advanced of the developing regional countries.

development and stability; (2) that the external environment would be propitious and stable, and would not have a significant affect on the integration process and; (3) that the process of integration and the expected gains would largely be determined by the outcome of initiatives undertaken within the regional context.³ By emphasizing limited market integration, functional co-operation and the co-ordination of foreign policies, CARICOM in effect nurtured an environment conducive to the pursuit of economic relations with non-members states. Yet despite this, it was not anticipated that the integration process would become externalized by the deliberate efforts of extra-regional interests and actors.⁴

External actor impact depends, of course, on the nature of the regional integration scheme, and on the relationship with, and overall posture of the external actor(s). If the regional plan is conducive to the involvement of external actors, then the actors are likely to have a greater impact on the process, than they would in a scheme where the involvement of such actors are more limited. Although Article 17 of the Treaty of Chaguaramas provides for the joint conduct of external relations, and Article 34(1) of the Common Market Annex encourages "progressive co-ordination" of the trade relations of member states, the Treaty essentially remained "compatible with a variety of external economic pursuits."⁵

³Kenneth Hull, *"The Co-ordination of External Policies,"* in *Ten Years of CARICOM*, paper presented at a seminar on economic integration in the Caribbean. Bridgetown, Barbados: Inter-American Development Bank, 1984, p. 167.

⁴*Ibid.*, p. 167.

⁵Anthony P. Gonzales, "The Future of CARICOM: Collective Self-Reliance in Decline?" *Caribbean Review*, Vol. 13, No. 4, Fall, 1984, p. 8.

The flexibility and emphasis on collectivity that was built into the conceptual framework and structures of CARICOM could have been employed to strengthen and maximize the potential of the organization; instead, however, member states chose to prolong and, in some cases, strength their bilateral ties with other countries— especially the United States.

Other 'environmental' factors also impacted significantly on the process of regional integration. The first major tremor in the integration process originated not internally, but externally. The crash of the Bretton Woods System and the oil crisis during the 1973-74 period, sent jolts throughout the Commonwealth Caribbean and proved to be devastating for the newly-established CARICOM. Besides further aggravating and depressing the socio-economic conditions of Caribbean states, these crises brought about increased protectionism and changes in the structures of production in advanced capitalist countries, which in turn had serious ramifications for key foreign exchange industries of the Commonwealth Caribbean, and opened up these states to fierce international competition for influence.⁶

The policy position adopted by the United States during this time, had the greatest impact on the economies of the Commonwealth Caribbean, since these states were critically dependent on their economic relationships with the United States. The considerable increase in the dependency of the Commonwealth

⁶Clive Thomas, "The Economic Crisis of the Commonwealth Caribbean: Impact and Responses." Paper presented to the ISER-UNRID Conference on "Economic Crisis and Third World Countries." Kingston, Jamaica. April 3-6, 1989, p. 8-9.

Caribbean on the United States, through the years, has significantly undermined the objective and process of regional integration, by placing member states and the movement in a vulnerable position where their policies and integrity were likely to be compromised. The degree of Commonwealth Caribbean dependence on the United States and the impact of U.S. policies on the regional integration movement, is assessed below in the following sections on U.S. trade, aid, and investment in the Commonwealth Caribbean.

(4.1) Commonwealth Caribbean Dependence on the United States and the United States' Response to Regional Integration

The United States' response towards regional integration in the Commonwealth Caribbean was noted as early as the CARIFTA period. After acknowledging the establishment of the Caribbean Development Bank (the main financial institution of the CARIFTA and later CARICOM) President Johnson in a meeting with Prime Minister Barrow of Barbados, stated enthusiastically that "...like the Central American and the Andean Group, the Caribbean Islands are now taking their places in an historic march toward regional economic integration."⁷ President Johnson was also quoted later as saying that "...in a climate of peace...we here will do our full share in support of regional co-

⁷United States Department of States, "United States and Latin America: A Special Relationship, Statement by President Johnson, January 9, 1969, *Department of State Bulletin*, Vol. 60. No. 1544, January, 1969, pp. 73-74.

operation.”⁸ President Nixon in 1969, also extended his support for regional integration by stating that the United States was willing to provide economic assistance to the integrative efforts in the Commonwealth Caribbean and Latin America.⁹ This policy was later echoed by Secretary of State Rogers, in 1973.¹⁰ The United States’ position on regional integration, however, is far more complex and inconsistent than these declarations of support indicate. Despite recognizing the importance of the Caribbean to its security interests, and that improving regional development is paramount to maintaining stability and, thus, an environment conducive to the exercise of its power, the United States contributed relatively little towards regional development—notwithstanding its economic assistance to the Caribbean Development Bank and other regional institutions.

As the pre-eminent external power in the Caribbean, the United States could have affected the process of regional integration in either of two specific ways: (1) by influencing the cost and benefit of participating in the regional scheme, so as to make the regional plan a more attractive alternative; or (2) by influencing the cost and benefits of alternative arrangements for individual

⁸ United States Department of State, “Statement by Secretary Fowler, Treasury Department Release, October 1, 1968,” *Department of State Bulletin*, Vol. 59, No. 1531, October 28, 1968, p. 440.

⁹ *Public Papers of the President of the United States, Richard Nixon, 1969*, “Remarks at the Annual Meeting of the Inter-American Press Association, October 31, 1969,” Washington: U.S. Government Printing Office, 1970, pp. 893-896.

¹⁰ John Bartlow Martin, *U.S Policy in the Caribbean*, Boulder: Westview Press, 1978, p. 272.

countries, so as to make the regional arrangement less attractive.¹¹ The above analysis suggests that the policies of the United States was more aligned with the second alternative. Indeed, various U.S administrations initiated policies which directly or indirectly undermined regional development and integration. The United States' emphasis on bilateralism and primary preoccupation with security issues, rather than multilateralism and socio-economic concerns, in its relations with CARICOM states, served to impede the process of integration, and thus development. This policy posture reinforced the tendency for member states to focus more on national policies and programs (especially in cases where the bilateral aid greatly surpassed regional multilateral aid) as a solution to their development, rather than on regional initiatives. This weakened the regional movement and limited the "...development of mutual comprehension, mutual predictability, a spirit of compromise, a decision making style suitable to reaching a compromise and other factors commonly associated with a pattern of integrative behaviour."¹²

Despite CARICOM's stated objective of reducing dependency, member states continued to rely on imported raw materials and external trade, and infusions of capital and technology to stimulate their development. As the producer of few primary products, that were (and are) largely exported to the

¹¹ Andrew Axline, "Issues of Security and Development in the Commonwealth Caribbean," *Journal of Common Market Studies*, Vol. 27, No. 1, 1987, p. 5

¹² Lynn Krieger Mytelka, "Foreign Aid and Regional Integration," *Journal of Common Market Studies*, Vol. 12, No. 2, December 1973, p. 153.

U.S. market, the Commonwealth Caribbean depends on its trade relationship with the United States to generate essential foreign exchange earnings. The fact that these states have relatively little control over their economies and are in no position to influence international prices, makes them highly vulnerable to changes in the U.S. economy and the international economic system in general.

The relative small size of Caribbean states, and their pattern of insertion into the international economy also makes these states ardent seekers of foreign capital. The United States' investment in the various industries of the Commonwealth Caribbean provides domestic employment (although modest) and eases the foreign exchange deficit. Nevertheless, there are social and economic implications and ramifications that flow from this form of economic activity.

The great need for foreign capital between 1968 and 1980 led a number of governments of the Caribbean to adopt measures which not only compromised national integrity, but also the process of regional integration. The high degree of dependency affected not only domestic political posturing, but also the process and integrity of regional integration. Indeed, it is essential that the ruling class, in its *quid pro quo* relationship with the United States, be acknowledged for its role in facilitating and promoting American policies and interests in the Commonwealth Caribbean and the region in general, and thus in prolonging dependency.

The above discussion provided a brief overview of the Commonwealth

Caribbean's dependence on the United States and U.S. policies and response to regional integration. A more in-depth analysis follows in subsequent sections on the economic relations between CARICOM and the United States.

(4.2) CARICOM's Dependence, United States' Trade Policies and Regional Integration

Trade between CARICOM and the United States constitutes one of the most important interactions between the two. Table 4.1¹³ highlights CARICOM's trade with the United States for various years. The data are largely those of the MDCs, since figures for the majority of LDCs are not readily available. However, the information presented throughout this section should provide sufficient insight.

CARICOM's exports to the United States were important for generating essential foreign earnings. Table 4.1 shows that Barbados' exports to the United States increased from 21.8 % of total domestic exports in 1970, to 32.9% (B\$62 million), or 7% of GDP, in 1978, although the percentage fluctuated between these years. Jamaica's percentage of total domestic exports to the United States shrank somewhat from its 1970 level of 53.3%, 15% and 8.1% higher than the respective figures for 1975 and 1978, to 1979, when the percentage of its exports to the United States remained at the 1978 level of 45%—equivalent to

¹³ GDP and dollar figures are taken from Ramesh Ramsaran, "Issues in Commonwealth Caribbean-United States Relations," in Anthony Payne and Paul Sutton (eds.), *Dependency Under Challenge*, Manchester: Manchester University Press, 1984, p. 180.

J\$645 million, or 15% of GDP. Similarly, Guyana's domestic exports totalled G\$148 million (12% GDP), or 20.1% of total exports in 1978, compared to 27.6% in 1970. Conversely, Trinidad and Tobago's exports to the United States grew by almost 20%, from 46.9% in 1970 to 66.4% (34% of GDP) in 1978, worth TT\$3,194 million. Belize's exports to the United States remained the same for 1978 and 1979, at 47% of total domestic exports.

Table 4.1 Selected Commonwealth Caribbean Countries: Share of Total Trade with the United States, 1970-1978 (%)

Country	1970	1975	1978
Imports			
Barbados	21.0	19.0	27.9
Guyana	23.5	*25.7	22.5
Jamaica	43.6	37.4	**31.8
Trinidad and Tobago	16.2	21.6	20.6
Belize	***33.2	n.a.	**36.0
Domestic Exports			
Barbados	21.8	36.3	32.9
Guyana	27.6	*27.6	20.1
Jamaica	53.3	38.3	45.2
Trinidad and Tobago	46.9	66.6	66.4
Belize	***29.1	n.a.	47.0

Notes: * Figures provided are from 1974.

** Figures provided are from 1979

*** Figures provided are from 1968

Source: Official Trade Reports

The majority of CARICOM states have been sustained by a few commodities, which have been predominantly traded with the United States.

Sugar and molasses accounted for only a modest percentage of the domestic exports of the countries represented in Table 4.1. Infact, the domestic exports of these states were disproportionately composed of bauxite and alumina, petroleum and manufactured goods. In 1978, for example, bauxite and alumina comprised 74% of Guyana's total domestic exports to the United States; in 1979 they totalled 91% of Jamaica's.

Bauxite has been important to Jamaica's economy since the 1950s. Jamaica was once the world's premier producer of bauxite and the largest supplier to the United States. In 1974, the Jamaican government imposed a levy on bauxite production, which was primarily controlled by U.S. and Canadian multinationals. In the following year bauxite production plummeted by 26%.¹⁴ There is a strong correlation between these two events, and the decline in Jamaica's exports to the United States in 1975 (see Table 4.1). A similar fate was experienced by Guyana following its nationalization of American-owned bauxite firms. The decline in the importance of the Community's bauxite and alumina to the United States is evident in the figures reported for 1971 and 1979. In 1971, Jamaica and Guyana together accounted for 66% of the value of bauxite and alumina imported by the United States. However, in 1979, bauxite and alumina from these two states comprised only 35% of total U.S. bauxite imports.¹⁵

¹⁴ Michael Kaufman, *Jamaica Under Manley: Dilemmas of Socialism and Democracy*, London: Zed Books, 1985, p. 106.

¹⁵ Ramesh Ramsaran, "Issues in Commonwealth Caribbean-U.S. Relations," in Anthony Payne and Paul Sutton (eds.), *op. cit.*, p. 183.

However, the argument made by some analysts that the adverse effect on the bauxite industry is a consequence of government policies within these states is overtly simplistic. The fate of the Community's bauxite is better explained by considering more complex and inter-related, internal and external events. While the introduction of policies to regulate the bauxite industries within Jamaica and Guyana account for part of the equation, the international oil crisis which resulted in increasing the prices of regional exports in general, and considerable reductions in U.S. and international demand for bauxite (due to the world recession in the early 1980s, and subsequent changes in the productive structures of advanced capitalist economies--particularly the United States'), also help account for the poor performance of the Commonwealth Caribbean's bauxite industry, even after two revisions of the levy arrangement in Jamaica in favour of the bauxite companies.¹⁶ Since the Community's bauxite was primarily exported to the United States, changes in U.S. demand directly affected the production and export earning capacity of this resource. The contraction of the industry also coincided with the emergence of Australia as the largest supplier of U.S. bauxite and alumina--accounting in 1979 for 40% of the total amount imported by the United States.¹⁷

Petroleum and related products have been key foreign exchange earners

¹⁶Carmen Deere et al., *In the Shadow of the Sun: Caribbean Development Alternatives and U.S. Policy*, Boulder: Westview Press, 1990, p. 28.

¹⁷Ramesh Ramsaran, "Issues in Commonwealth Caribbean-U.S. Relations," *op. cit.*, p. 183.

for a number of countries within the region, and have been predominantly exported to the United States. A number of producers and refiners are located within the Commonwealth Caribbean states of Trinidad and Tobago (the region's largest producer), Barbados, Antigua, and St. Lucia. Petroleum products are of crucial importance to the foreign exchange holdings of Trinidad and Tobago. In 1978, they accounted for 95% of Trinidad and Tobago's total domestic exports to the United States.¹⁸ By world standards, however, Trinidad and Tobago was (and remains) a relatively small producer of petroleum;¹⁹ its sales represented only 2% of the total value of fuel imported by the United States in 1979.²⁰ However, the export of this resource constituted almost the entirety of the 34% of GDP it derived from trade with the United States. The economic fortune of Trinidad and Tobago is thus intimately tied to the U.S. market.

As stated earlier, CARICOM provided the United States with a number of agricultural products, including sugar, molasses, nutmeg, citrus fruit and bananas. Of all these products, sugar has been the most controversial staple in U.S.-Caribbean relations; it is one of the most protected products in the United States. The rebirth of U.S. protectionism in 1977 proved devastating for the Caribbean's sugar industry. The jolt was particularly traumatic in the early 1980s,

¹⁸ *Ibid.*

¹⁹ According to Ramesh Ramsaran, Trinidad and Tobago's petroleum only accounted for less than 1% of the cumulative amount of petroleum produced by OPEC in 1983. See Ramesh Ramsaran, *The Commonwealth Caribbean and the World Economy*, London: Macmillan, 1989, p. 82.

²⁰ Ramesh Ramsaran, "Issues in Commonwealth Caribbean-U.S. Relations," *op. cit.*, p. 183.

when the United States reduced the amount of Caribbean sugar permitted under the quotas system to enter the United States by 75%.²¹ It is a well known fact that U.S. sugar quotas have been highly influenced by U.S domestic farm policy and lobbying efforts by domestic interests groups aimed at protecting high-cost local sugar producers. This was a significant blow to the Caribbean sugar industry and its agricultural sector in general, which were and have been declining for a number of years.

The reduction of the agricultural sector in CARICOM states is evident. The situation is complicated by the export-centred policies that have historically guided the production of agricultural products. The implications this has for domestic food consumption and regional integration are enormous, and point to some basic social contradictions inherent in the political economy of CARICOM. Although producers of agricultural products, CARICOM states consume little of what they produce as their crops are geared toward exports. This has led to an inordinate reliance on imported food to meet the requirements of CARICOM. A survey of the Group of Experts commissioned by CARICOM in 1980 to review the functioning of integration found that 44% of the region's population consumed less than the minimum dietary intake of protein and an inadequate amount of calories.²² Between 1972 and 1980 Jamaica, St. Lucia, Monserrat, and Trinidad and Tobago were forced to increase their imported food bill as a

²¹ *Ibid.*, p. 181.

²² A 1981 Study by the CARICOM Group of Experts, cited in Clive Thomas (ed.), *The Poor and the Powerless*, Latin America Bureau/ Monthly Review: New York, 1988.

proportion of total imports. The food bills of the Eastern Caribbean States also soared during this period.²³ The entire food bill for the Commonwealth Caribbean amounted to nearly US\$0.5 billion or approximately US\$80 per head in 1980.²⁴ Meanwhile, the relatively high prices of imported foods meant that the region's trade deficit continued to grow, ensuring that the quantities of food purchased were lower than they would have been under more favourable circumstances.

For its part, the United States has been a key supplier of CARICOM's food import requirements. In 1978, Barbados' food imports from the United States represented 20% of its cumulative imports from that country, and approximately 25% of Barbados' total food import bill. Similarly, food comprised 26% and 13% of Guyana's and Trinidad and Tobago's total imports from the United States.²⁵ In 1979, food products accounted for 13% of Jamaica's imports (32% of Jamaica's entire food bill) from the United States.²⁶ It was acknowledged by CARICOM that reduction of its colossal food bill and regional food self-sufficiency required an effective regional initiative. The Regional Food Plan was developed in the 1970s to "...maximize regional food production for

²³CARICOM's food bill soared to US\$910 million in 1983. Cited in Kathy McAfee, *Storm Signals: Structural Adjustment and Development in the Caribbean*, London: Zed Books, 1991, p. 27.

²⁴ William Demas, "The Caribbean and the NIEO," *Journal of Inter-American Studies and World Affairs*, Vol. 20, No. 3, 1978, p. 242.

²⁵ Ramesh Ramsaran, "Issues in Commonwealth Caribbean-U.S. Relations," *op. cit.*, p. 180.

²⁶ *Ibid.*

regional consumption by mobilizing...used and under-utilized agricultural and other resources."²⁷ Although this program was a step in the right direction for CARICOM, it is but one of the many initiatives needed in order to overcome dependence on the metropole.

The Commonwealth Caribbean has traditionally relied on foreign sources of technology and machinery. This dependence is a result of internal and external policies which fostered the entry of U.S. and other transnationals and their machinery and 'know-how' into these economies, while discouraging the development of indigenous alternatives more suitable to the development needs of the region. The dependence on U.S. technology, equipment and managerial personnel is profound in the Commonwealth Caribbean. The exodus of skilled personnel from the region compounded the problems of U.S. technological sophistication and penetration, and the inability to develop viable regional options, and prolonged and deepened their dependence on the United States. This extensive reliance is illustrated, *inter alia*, in the cases of Barbados and Trinidad and Tobago, whose machinery imports from the United States in 1978 constituted 34% and 44%, respectively, of their total imports.²⁸ Apart from its economic inputs the United States repeatedly asserted the importance of 'self-help' and the development of indigenous technology in facilitating regional integration and development. Essential to this process were "...respect for

²⁷ H. Blades, "The Regional Food Plan," *The CARICOM Bulletin*, 1974, p. 21

²⁸ Ramesh Ramsaran, "Issues in Commonwealth Caribbean-U.S. Relations," *op. cit.*, p. 183.

national identity and national dignity, in a partnership in which rights and responsibilities are shared by a community of independent states.”²⁹ Yet, the United States opposed autonomous forms of development and initiatives that might undermine its interests in the region. The development of sophisticated indigenous technology and technical personnel would essentially reduce the economic relevance of the United States—at least in this area.

Unlike the majority of CARICOM states around the late 1970s, whose export structures were principally dominated by the agricultural, mining, or petroleum sectors, Barbados’ exports to the United States were primarily rooted in manufacturing. In 1978, manufacturing represented 85% of their total domestic exports. The problem with the manufactured goods, however, was that they included a significant proportion of assembly and packaging-type products, in which the local value-added is low. CARICOM’s efforts to stimulate a more viable manufacturing sector, prior to the 1980s, did not produce noticeable changes, and attempts at diversification achieved only minimal results. Manufactured and intermediate products also represented 52% of Jamaica’s total exports to the United States in 1979, and 33% and 36%, respectively, of Guyana’s and Trinidad and Tobago’s in 1978.³⁰

²⁹*Public Papers of the President of the United States, Richard Nixon, 1969*, “Remarks at Annual Meeting of the Inter-American Press Association, October 31, 1969,” Washington: United States Government Printing Press, 1970, p. 898. See also *Public Papers of the President of the United States, Richard Nixon, 1970*, “First Annual Report to Congress on United States Foreign Policy for the 1970s, February 18, 1970,” p. 136.

³⁰ Ramesh Ramsaran, “Issues in Commonwealth Caribbean-U.S. Relations,” *op. cit.*, pp. 180-181.

The inability of CARICOM to stimulate the manufacturing sector was not only the result of poor or deficient internal policies, but also the postures adopted by foreign governments. The United States Generalized System of Preferences (GSP), which was implemented in the 1970s, permitted the duty-free entry of approximately 87% of Caribbean exports into its markets; however, for a number of reasons the Caribbean and other developing countries were largely unable to reap the proclaimed benefits of the program. Only a limited range of products were in fact covered by the GSP. Some of the products which CARICOM was able to produce at a competitive price, such as semi-manufactured products, textiles and apparels, were excluded from the scheme or were subject to quantitative restrictions. Countries of the Caribbean were also often unable to satisfy the rules of origins stipulations, because of the high import content in some of their products. The United States was initially reluctant to provide any forms of concessions or trade preferences to developing countries, and by including such rigid conditionalities, which many developing countries could not meet or accommodate, it in effect ensured that only minimal benefits were accrued to these countries, while it continued to protect its own markets. The GSP was amended in the 1980s to include an even broader range of products that would be excluded from the program. Under these circumstances, it is not surprising that countries of the Caribbean and other developing countries in fact were unable to take advantage of this purportedly "concessionary" policy. Attempts to diversify in other areas were met with similar protectionism. When

Trinidad and Tobago's ISCOTT attempted to produce steel rods for entry into the international market, it met with opposition from both the United States and the EC, despite its relatively small contribution to export figures.³¹

Alongside efforts to diversify their productive economies, tourism has emerged for several countries of CARICOM (including LDCs such as Antigua and St. Kitts and Nevis, and MDCs such as Jamaica, Trinidad and Tobago and Barbados), as a substantial source of foreign exchange earnings and domestic employment. Countries that were initially sceptical to the benefits that could accrue from tourism, and concerned about the cultural, environmental and social side-effects of the industry, have executed a *volte-face*. Their dire economic circumstances necessitated the change in policy. Tourism's importance to the vitality of Barbados' economy by 1980 is dramatically exemplified by the fact that the tourist industry contributed B\$507 million to foreign exchange earnings, while total exports generated only B\$379 million.³²

The United States was (and is) the most important single source for tourists to the countries of the Commonwealth Caribbean. The presence of American-owned airlines, resorts, supply services and cruise ships is a stark reminder of the United States' economic clout, and its ability to effectively penetrate the Caribbean. Given this high import content of the tourist industry's assets it is hardly surprising to find that the vast majority of the money accrued

³¹ Ramesh Ramsaran, *The Commonwealth Caribbean in the World Economy*, *op. cit.*, p. 161.

³² Ramesh Ramsaran, "Issues in Commonwealth Caribbean-U.S. Relations," *op. cit.*, p. 181.

from tourism is repatriated abroad. In Antigua for example, 80 cents of every dollar derived from tourism directly enriches the coffers of foreign countries--particularly those of the United States.³³ The failure to develop stronger sectoral linkages, particularly with the agricultural sector, may also be blamed for the leakage of tourist dollars out of the region. Furthermore, the lack of a systemic, regional co-operative approach in the promotion of the tourist industry, resulted in more resources being channelled toward the industry than might otherwise have been needed, with a significant amount of the benefits lost.

As a major foreign exchange earner, the tourist industry is highly sensitive to price and exchange rate fluctuations. Since the United States was the Commonwealth Caribbean's single most important source of tourists (for the period under study), the vitality of a number of these countries depended on the condition of the U.S. economy, the levels of disposable U.S. incomes, and U.S. policies towards these countries.

Although tourism is an important source of employment for CARICOM states, the jobs that are provided in this sector are not those that are necessarily needed or appropriate for stimulating significant, long-term development changes. Thus, it is important for CARICOM to reduce its dependence on this industry and to allocate more effort and resources towards strengthening its capabilities in the areas of high-technology, science, engineering, and social sciences.

³³Kathy McAfee, *op. cit.*, p. 27.

It is evident from the above assessment that the Commonwealth Caribbean between 1968 and 1980 was highly trade dependent on the United States. Not only were the economies of these states dominated by raw and semi-processed goods, but they possessed no economic leverage to influence world prices; the health of their economies were critically tied to the United States and the international market. Since access to the U.S. market was essential for the expansion of regional trade, foreign earnings capacity and, *inter alia*, the regional integrative process, it follows that the enormous trade dependence on the United States influenced domestic and regional political posturing, and the ability to negotiate effectively even in spheres external to trade. The following section on U.S. foreign aid and regional integration examines this proposition.

(4.3) CARICOM's Dependence, United States' Aid Policies and Regional Integration

Regional integration was pursued with the expectation that foreign aid would play an important role in the success of the process. The inability of CARICOM states to mobilize sufficient domestic resources to assist in financing development programs and regional integration in the past led to dependence on external economic sources--especially those of the United States.³⁴ While it is

³⁴Trinidad and Tobago, the Commonwealth Caribbean's top oil exporter is excluded from this statement. Between 1974 and 1983, Trinidad provided US\$500 million to finance regional projects, and assisted with balance of payment problems in Guyana, Jamaica, and Barbados. See World Bank, *The Caribbean Common Market: Trade Policies and Regional Integration in the 1990s* (Report No. 8381-CRG), 1990, pp. 134-135.

not suggested that aid is a sufficient condition for the initiation of an integrative process, it has been argued that "...aid can play a significant role in encouraging and facilitating the task of integration once an integrative system has been brought into existence."³⁵ Such aid might have not only the effect of increasing the amount of resources available to the integrative arrangement, but by doing so, could possibly reduce the cost of participation and provide for the equitable distribution of resources.³⁶ However, for aid to impact in this manner, it is fundamentally important for it to be channelled through regional organizations and programs designed to promote regional development. When aid is channelled through regional institutions the co-ordination of policies is promoted, thereby reducing or avoiding duplication of projects and wastage of financial resources.

Despite the suggestion from some that bilateral aid and the development of individual states within the regional scheme will contribute to the development of the region as a whole, this is not likely to occur. It is well known that the degree to which bilateral aid can impact on regional integration depends on the extent to which such aid itself permits the financing of regional projects. This is not a usual occurrence, and it has certainly not been encouraged by the United States in its relations with the Commonwealth Caribbean.³⁷ Furthermore, since

³⁵Lynn Krieger Mytelka, *op. cit.*, p. 139.

³⁶*Ibid.*

³⁷In a rare situation, Canada in 1978 made funds (Can.\$10 million) available to Jamaica to buy imports of required goods and services from Canada, totaling one half of the loan (Can.\$5 million),

CARICOM members, like many other developing countries, are at different stages in the process of development, bilateral aid relations may in fact result in the polarization of member states

American financial assistance to the Commonwealth Caribbean takes the form of both grants and loans, and flows through several channels. Bilateral flows have been channelled through institutions such as the Export-Import Banks (although their credentials as an aid outlet is questionable, since export loans and guarantees largely support U.S. exports to developing countries) and the United States Agency for International Development (USAID), the main channel through which the United States provides non-military assistance to foreign countries. The United States also provides multilateral funding through organizations such as the World Bank, the IMF, the Organization of American States, the Inter-American Development Bank, CARICOM, and the Caribbean Development Bank. Data on the quantum of this aid is not readily available. However, the figures that are available and provided herewith, give some indication of the extent of Caribbean dependence on U.S. aid and trends in U.S. economic assistance policy.

Between 1968 and 1980, the Commonwealth Caribbean became increasingly dependent on U.S. aid to assist in the development process. In the period following the oil crisis of 1973, which had serious negative economic

with the other half going to Jamaica specifically for the purchase of rice from Guyana, thereby directly increasing intra-regional trade.

ramifications for the Commonwealth Caribbean, USAID provided US\$7million through the Caribbean Development Bank and CARICOM to assist in mitigating the adverse effects of the crisis and to encourage the development of alternative energy sources.³⁸

Among other regional initiatives identified for economic assistance by USAID in 1978-79 were stimulation of the agricultural sector, with emphasis on assisting the small farmer, and increasing productivity in labour-intensive enterprises. A \$US8.4 million loan was provided, together with a grant of US\$1.4 million, to "...provide credit and technical assistance for expansion and creation of labour intensive industrial estates and small-to-medium size business enterprises."³⁹ Through USAID, the United States also assisted with funding in areas of functional co-operation. In 1978, a US\$9.8 million grant was provided to support programs relating to education, health and family planning. A US\$4 million grant was also approved for the training and upgrading of managerial and developmental skills in the public as well as the private sector.⁴⁰ These initiatives supported and encouraged the creation of common services among member states.

The Carter administration initially focused its concerns on the

³⁸USAID, "Assistant Program in the Eastern Caribbean, 1971-198," *The Bulletin of Eastern Caribbean Affairs*, Vol. 7, No. 6, January/February 1982, p. 23.

³⁹United States Congress, *Economic and Political Future of the Caribbean*, Hearing Before the Sub-Committee of the Foreign Affairs House of Representatives. 96th Congress, 1st Session, Statement by Abelardo Vadez, Assistant Administrator for Latin America and the Caribbean, p. 39.

⁴⁰*Ibid.*

humanitarianism and socio-economic needs of the Caribbean. This human needs mandate was governed by the following five principles which were repeatedly emphasized in U.S. regional policy pronouncements of the time:

1. Significant support for economic development;
2. Firm commitment to democratic practices and human rights;
3. Clear acceptance of the principles of ideological pluralism;
4. Unequivocal respect for national sovereignty; and
5. Strong encouragement of regional co-operation and of an active Caribbean role in world affairs.⁴¹

The total U.S. economic assistance channelled to the Caribbean during the Carter years slightly more than doubled, from approximately US\$70 million in 1976, to US\$150 million in 1980.⁴² This aid was largely concentrated in the more developed states of CARICOM and was allocated in the form of grants and development bank loans, and project loans from USAID.⁴³

The United States' encouragement of regional integration during this time was manifested in the creation of the Caribbean Group for Co-operation in Economic Development under the aegis of the World Bank--a consortium of multilateral financial institutions and donor and recipient countries. One of the objectives of the Group was to find effective and pragmatic means of dealing

⁴¹"United States Department of State, "The Caribbean Challenge is an American Challenge," Address by the Secretary of States Senior Advisor, Phillip Habib, Before the Conference on the Caribbean, Miami, November 28, 1979. American Foreign Policy Basic Documents 1977-1980, Part 13, Document 704, pp. 1331.

⁴² Anthony Payne, *Change in the Commonwealth Caribbean*. London: Royal Institute of International Affairs, 1981, p. 32.

⁴³ United States Congress, "Economic and Political Future of the Caribbean." Hearing of the Sub-Committee on Foreign Affairs House of Representatives. 96th Congress, 1st Session, Statement by Abelardo Valdez, Assistant Administrator for Latin America and the Caribbean, *op. cit.*, p. 40.

with the long-term and short-term development problems of the region, such as structural adjustment and debt. The ultimate goal of the Group was to aid in the comprehensive and co-ordinated development of the Commonwealth Caribbean.⁴⁴ An ad hoc committee of the Group, which also consisted of both donor and recipient countries, was created to provide systematic collaboration on technical and financial matters and policy decision-making by member states.⁴⁵ Other collaborative efforts at the multilateral level included, "...the establishment of a Task force on Private Sector Activities to stimulate the private sector, the furthering of export promotion, as well as special efforts in agricultural marketing, and in the energy, tourism and transportation sectors."⁴⁶

The Group was successful in mobilizing crucial financial support to the Caribbean. Between 1977 (the year it was established) and 1979, the economic resources channelled to the Caribbean through this agency almost tripled, reaching nearly US\$612 million.⁴⁷ Unlike most economic assistance to the Commonwealth Caribbean during this time, which tended to be concentrated in specific countries, particularly the most developed countries, the Group conferred special attention to the needs of the less developed states in the region, including provisions of common services and technical experts to the

⁴⁴*Ibid.*, p. 38.

⁴⁵ *Ibid.*, p. 39.

⁴⁶*Ibid.*, p. 38.

⁴⁷Anthony Payne, *Change in the Commonwealth Caribbean.*, *op. cit.*, p. 32.

Eastern Caribbean Common Market.

However, despite the undertakings of the Group to generate funds for the Caribbean and to promote development, the organization in fact did little to promote regional integration within CARICOM.⁴⁸ Demas explains that "...the Group has been trying to promote loose forms of co-operation between the countries of the Archipelago....It has promoted co-operation in tackling common problems, rather than integration itself."⁴⁹ In order for the Group to have made a more positive impact on integration, it would have been necessary for funds to be directed toward supporting the regional integrative process--at the planning and implementing levels--and not simply towards finding solutions to common obstacles.

In the 1961 Foreign Assistance Act, the United States Congress stated in regard to its development assistance policy that:

... the United States...shall emphasize programs in support of countries which pursue development strategies designed to meet basic human needs and achieve self-sustaining growth with equity....Furthermore, Congress reaffirms the traditional humanitarian ideals of the American people and renews its commitment to assist people in developing countries to eliminate hunger, poverty, illness and ignorance.⁵⁰

Rarely, however, are the actions of great powers guided by such benevolence.

⁴⁸William Demas, "Notes on Aid Programs and Systems and the CARICOM Integration Process," in *Ten Years of CARICOM*, *op. cit.*, p. 264.

⁴⁹*Ibid.*, p. 264.

⁵⁰U.S. Congress, *Legislation on Foreign Relations*, "Foreign Assistance Act of 1961, Part 1, Chapter 1, Section 101," pp. 12-14.

Even the Carter interlude of human rights advocacy was directly related to the geostrategic/political interests of the United States. American foreign aid should primarily be acknowledged as instrument of diplomacy and foreign policy, as it is often dispersed to bolster, directly or indirectly, the economic or political position of the United States, and to strengthen the political commitment of the recipient country to the United States. Washington's aid to Israel in 1981 and 1985 in the form of 100% grants for economic and military assistance,⁵¹ its \$3 billion per year allocation of economic aid to that country since 1987⁵² and the sudden increase in assistance to the Eastern Caribbean—which between 1971 and 1979 received only token amounts of funding (US\$31 million in total or US\$4.4 million per year),⁵³ were clearly foreign policy decisions undertaken to reflect U.S. political and strategic priorities.

The dominant political criteria which are attached to the United States' developmental assistance policies (particularly those of USAID), essentially mean that countries that are most needy of assistance are sometimes bypassed or denied aid flows, if their policies do not adequately comply with the views and ethos of the United States. The 1975 severing of aid to Jamaica following its

⁵¹ Vernon W. Ruttan, *The United States Development Assistance Policy: The Domestic Politics of Foreign Economic Aid*, Baltimore: The John Hopkins University Press, 1996, p. 116.

⁵² Clyde E. Mark, *Israel: U.S. Foreign Economic Assistance*, Washington: Congressional Research Service, March 23, 1993, p. 23. Mark also discusses some of the other forms of assistance to Israel and the unique aspects of aid to this country. The most significant provisions are those that allow for the Israel to receive all of its assistance within a 30 day period rather than in four allotments, as is customary provided to other countries.

⁵³ USAID, "Assistant Program in the Eastern Caribbean, 1971-1981," *op. cit.*, 1982, p. 21.

nationalization of an American firm, Revere Copper and Brass Inc., was clearly a political decision on the part of the United States to punish and isolate Jamaica, even though it was clearly suffering from serious balance of payments problems and economic stagnation.

USAID explains its rationale for providing funding to the Caribbean as being based on "threats to democracy and US security."⁵⁴ Regional integration and issues of development do not figure prominently in the equation. Citing Grenada as an example, USAID stated that "...Grenada...remind us that we must always be alert to the possibility that hostile forces could take advantage of opportunities to threaten large volumes of US trade, particularly in petroleum that pass through Caribbean sea lanes."⁵⁵ *Apriori*, this statement, entangled in political rhetoric, hardly seems an appropriate one for a developmental assistance organization to make. However, as an instrument of foreign policy, USAID is mandated to primarily fulfill the national objectives of the United States. In this respect, USAID is similar to other aid-giving organizations of the industrial world; the only difference, perhaps, is the degree to which national interests is emphasized, and the ability of the United States to effectively utilize this agency in securing its stake.

As a political tool, aid is used by the United States to "...manipulate Caribbean regional institutions into adopting US political criteria."⁵⁶ The politically

⁵⁴Kathy McAfee, *op. cit.*, p. 58.

⁵⁵*Ibid.*, p. 51.

⁵⁶ *Ibid.*, p. 57.

discriminatory posture of US economic assistance pressures regional organizations to choose between American funding and their integrity as institutions representing regional interests.⁵⁷ The United States' policies are frequently effective due to its exceptional economic and political leverage in organizations such as USAID and to its *de facto* veto power in multilateral aid institutions such as Inter-American Development Bank and the IMF. Indeed, an active American policy to deter financial institutions from providing aid to Jamaica, and the United States' clout in the IMF, contributed greatly to the downfall of the Manley government.

The United States provided a steady infusion of funds to the Commonwealth Caribbean, and was the largest single contributor to the Caribbean Development Bank (for the period covered in this chapter). Nevertheless, as Demas noted, there was generally an "...inadequacy of financial resources for funding regional integration and economic co-operation schemes among Third World countries."⁵⁸ The problem was evinced in a "...shortage of funds for the financing of integration or regional physical projects...and ...a liquidity gap—a gap in the provision of external liquidity to sustain and increase intra-regional flows in economic integration and co-

⁵⁷ For example in 1981, Aid proposed a Basic Human Needs project grant for the Eastern Caribbean states, to be administered through the Caribbean development Bank. This assistance was offered on the condition that Grenada, which had a pro-socialist government at the time, be excluded from receiving any benefits offered under the grant.

⁵⁸ William Demas, "Notes on Aid Programs and Systems and the CARICOM Integration Process," *op. cit.*, p. 248.

operation groupings.”⁵⁹ Part of the problem lies in the fact that U.S. aid was often given in reaction to a political event, especially when U.S. interests were involved. It is virtually axiomatic that the amount of funds provided by the United States is consonant with the effects sought. If the United States fully believed that self-gains were to be derived from supporting regional integration, its economic development policy would have been more active, better funded and certainly designed with a more pronounced regional focus. Since regional integration is intended to alleviate dependence and to provide a common, stronger front for dealing with external actors, it is not surprising that the United States, as the dominant actor in the region, was more inclined to maintain the *status quo*.

Indeed, the conditions included in some of the United States' aid agreements with recipient countries, for the purchase of vehicles and equipment (which are in many cases incompatible with the technology and machinery used in the Commonwealth Caribbean), and the use of personnel and technical assistants from the United States, did not support regional integration and development; they essentially served the private sector interests of the United States. According to an USAID official in Jamaica:

The strategy behind (US)AID is to create a powerful private sector lobbying organization like we have in the United States that will be able to prevent the government from operating on its own without the input from the private sector.⁶⁰

⁵⁹ *Ibid.*, p. 258.

⁶⁰ McAfee, Kathy, *op. cit.*, p. 59.

The United States' promotion of export agriculture in the Commonwealth Caribbean, through its trade and aid policies, discouraged attempts at re-orientating Caribbean agriculture toward meeting local and regional requirements. Examinations of agricultural projects in the Caribbean reveal that the United States was involved in "promoting continued dependence on the export of traditional crops; alternative agricultural exports get little attention, and the production of food for local and regional needs gets even less."⁶¹

The inadequacy of funds for regional integration in the Commonwealth Caribbean was further compounded by the criteria used by the United States to administer its aid. A substantial amount of U.S. development assistance was directed towards specific projects, selected from five project categories, identified for funding by the United States; regional organizations were essentially bypassed.⁶² This resulted not only in undermining the authority and ability of the Caribbean Development Bank to maximize the use of funds in the most efficient and productive manner, but it also complicated the planning and implementation of regional development projects.⁶³

The emphasis on bilateralism in the United States' economic relations with CARICOM also served to impede the process regional integration. The

⁶¹ *Ibid.*, p. 60.

⁶² The United States Congress, "Economic and Political Future of the Caribbean. Hearing of the 96th Congress, 1st Session, *op. cit.*, p. 132.

⁶³ *Ibid.*, p. 132.

bilateral distribution of aid primarily functions to increase the political leverage of the United States. Since individual countries are relatively and economically dependent on the U.S., their ability to effectively negotiate with this external actor is more limited than would be expected through a collective, multilateral approach. CARICOM states have also been guilty of seeking bilateral relations with extra-regional actors, and of subordinating the regional scheme in favour of narrower national objectives. If member states continue to perceive their interest as being better served through this route, the regional scheme may eventually lose its relevance as the most appropriate means by which to overcome the obstacles to development. It is clear that the kind of support on which regional integration could thrive are not those provided through bilateral economic relations, which fragment and severely undermine the process.

Since the process of integration must continue to rely on external economic resources, it is of utmost importance that CARICOM strengthen its collective capacity and establish a mechanism to specifically co-ordinate financial assistance to the integrative scheme. This would significantly reduce or prevent counter-productive policies, and the potential of external actors to weaken or hinder the movement's development.

(4.4) CARICOM's Dependence, United States' Foreign Investment Policies and Regional Integration

Foreign investment is an integral component of U.S. relations with the Caribbean. While it is recognized that the operations of investors and

multinationals are among the multiplicity of activities, which have not been easily controlled by the United States' government, they have nonetheless, operated within an overall structure powerfully influenced by past and present United States government decisions.⁶⁴ Indeed, various U.S. governments have gone to considerable lengths to secure and bolster American private sector interests; the following discussion and subsequent chapter illustrates this to some extent.

Table 4.2 presents data on U.S. direct investment in the Caribbean,⁶⁵ while Table 4.3 highlights the United States' direct investment in the Commonwealth Caribbean for selected years. According to Table 4.3 U.S. direct investment in the Commonwealth Caribbean increased from its 1968 value of US\$561 million to US\$1.4 billion in 1980. Funds were concentrated in Jamaica and Trinidad and Tobago. Table 4.3 indicates that the United States' direct investment in the Caribbean totaled US\$12.1 billion in 1977;⁶⁶ the bulk of this amount went to the financial centers of Bermuda, the Netherland Antilles and the

⁶⁴ Abraham Lowenthal, "Ronald Reagan and Latin America," in Kenneth A. Oye, Robert J. Lieber, and Donald Rothchild (eds.), *Eagle Defiant: United States Foreign Policy in the 1980s*, Boston: Little Brown and Company, 1983, p. 322.

⁶⁵ Figures from the U.S. Department of Commerce do not include U.S. investment in Puerto Rico and the U.S. Virgin Islands.

⁶⁶ The amount for the Netherland Antilles was corrected to eliminate the effects of transfer through financing affiliates. For 1977 and 1980 (this figure taken 1981 data) the figures for the Netherland Antilles reported by the U.S. Department of Commerce are -\$792 and -\$22,956, respectively. These figures are negative because the Department of Commerce only reports the book value of U.S. direct investors' equity in and net outstanding loans to their foreign affiliates, not the resale value of the business. The figures are negative because they reflect only transactions with and positions in incorporated affiliates created chiefly to borrow funds abroad and to re-lend them to their U.S. parent companies. See Tom Barry et al., *The other Side of Paradise*, New York: Grove Press 1984, pp. 20-23.

Bahamas,⁶⁷ which together accounted for US\$10.1 billion or 83% of cumulative U.S. investment in the Caribbean. CARICOM states only received approximately 11.5%, or \$US1.39 billion of total U.S. direct investments in the Caribbean. A similar disproportionate amount of U.S. direct investment was channeled to these financial centers in 1980.⁶⁸ The vast majority of U.S. investments was in the form of finance capital owned by U.S. banks and insurance agencies.

Table 4.2 U.S. Direct Investment in the Caribbean, Selected Years
(US\$ million)

Country	1968	1973	1976	1977	1980
Bahamas (f.c)	377	632	1,049	997	2,712
Barbados*	6	20	20	26	40
Belize*	5	5	6	21	24
Guyana*	40	n.d.	21	3	10
Jamaica*	295	618	578	378	407
Trinidad - Tobago*	215	433	721	971	951
Bermuda (f.c.)	195	504	3,869	7,708	11,045
Dominican Republic	---	---	---	243	316
French Antilles	13	13	n.d	12	21
French Guyana	1	1	1	n.d.	n.d
Netherland Antilles (f.c)	155	378	191	1,430**	•6,652**
U.K. Islands	---	---	---	336	979
Caribbean Total ♦	1,537	2,957	6,809	12,163	23,157
Total Excluding Financial Centers	810	1,443	1,700	2028	2,748

Note: Figures from the Department of Commerce exclude U.S. investment in Puerto Rico and the U.S. Virgin Islands.

♦ The totals presented for the Caribbean are lower than the actual reported figures because the Department of Commerce has not published all country figures for reasons of confidentiality.

• Figure for the year 1981 (See: Tom, Barry et al., *The Other Side of Paradise*, New York: Grove Press, 1984, p. 21)

n.d. Suppressed to avoid disclosure of data for individual companies

– Not available

* Commonwealth Caribbean

⁶⁷The Bahamas did not become a member of the Community until 1983.

⁶⁸ The total for the Netherland Antilles was the 1981 value which was corrected to eliminate the effects of transfer through financing affiliates.

** The U.S. direct investment position calculated by the Department of Commerce is the book value (the historical cost of U.S. investment, not the resale value) of U.S. direct investors' equity in, and net outstanding loans to, their foreign affiliates. The Netherland Antilles is often chosen by the United States as an investment location for tax purposes, because it does not have a withholding tax on interest payments to third countries, and because most of its taxes on affiliates are structured to produce equal and offsetting credits for U.S. parent corporations. Since negative inter-company accounts (mainly funds the affiliates generate abroad and then re-loan to the parent company) tend to offset positive capital stock (equity by parent company to assist affiliates with capitalization) and the retained earnings component, the direct investment position in the Netherland Antilles tend to be negative. The negative figures represent only the transactions with, and positions in corporate affiliates created mainly to borrow funds abroad and relend them to their U.S. parent companies. The figures were corrected to eliminate the effects of transfer through financing affiliates.

Source: Tom Barry, et al., *The Other Side of Paradise*, New York: Grove Press, 1984, p. 21.

For further explanation see: Ramesh Ramsaran, *U.S. Investment in Latin America and the Caribbean*, New York: St. Martin's Press, 1985; For 1968, 1973 and 1976, *Selected Data on U.S. Investment Abroad 1950-1976*, U.S. Department of Commerce, Bureau for Economic Analysis, February, 1983; For 1977 and 1980, *U.S. Direct Investment Abroad: Balance of Payments and Direct Investment Positions Estimates 1977-1981*, U.S. Department of Commerce, 1986; For 1981, *U.S. Direct Investment Abroad Yearend 12-29-82*, U.S. Department of Commerce, February, 1983.

Table 4.3 U.S. Direct Investment in the Commonwealth Caribbean,
Selected Years (in US\$ millions)

Country	1968	1973	1976	1977	1980
Barbados	6	20	20	26	40
Belize	5	5	6	21	24
Guyana	40	n.d.	21	3	10
Jamaica	295	618	578	378	407
Trinidad & Tobago	215	433	721	971	951
Total	561	1,076	1,346	1,399	1,432

Source: For 1968, 1973 and 1976, *Selected Data on U.S. Investment Abroad 1950-1976*, U.S. Department of Commerce, Bureau for Economic Analysis, February, 1983; For 1977 and 1980, *U.S. Direct Investment Abroad: Balance of Payments and Direct Investment Positions Estimates 1977-1981*, U.S. Department of Commerce, 1986; For 1981, *U.S. Direct Investment Abroad Yearend 12-29-82*, U.S. Department of Commerce, February, 1983.

Indirect or portfolio investment, which refers to private capital flowing from one country to another, does not involve the purchase of equity in a foreign affiliate or subsidiary. One form involves the use of loans rather than equity to

finance overseas investments; this was increasingly used by the United States in the 1970s and 1980s to finance new operations in the Caribbean.⁶⁹

As Table 4.4 illustrates, United States investors invested in a variety of sectors in the Caribbean between 1973 and 1977. American investments, however, were concentrated in the areas of finance, petroleum, manufacturing and mining. The United States' investment in the finance category, in particular, increased sharply through these years, from US\$ 1,993 million (40% of the total) in 1974, to US\$8.8 billion, or 73% of all U.S. direct investment in the Caribbean in 1977 (see Table 4.4). The largest U.S. direct investment in the Caribbean in a non-finance related category, was in the petroleum sector; assets were heavily concentrated in the petroleum industries of the U.S. Virgin Islands and Trinidad and Tobago, the largest petroleum producer and refiner among CARICOM states.

A significant percentage of the economic activities in the Caribbean was financed by private international banks. Since these bank were involved in activities such as balance of payment obligations, international reserves, and development projects, the decision-making processes in these states were essentially subjected to considerable external input and control, thus reducing the autonomy exercised by these states in their financial affairs.⁷⁰ In some

⁶⁹ Falconbridge's nickel mine in the Dominican Republic, for example, was financed almost exclusively through this form of investment. See Tom Barry, et al., *op. cit.*, p. 21.

⁷⁰ Ransford Palmer, *Caribbean Dependence on the United States Economy*, New York: Praeger, 1979, p. 59.

cases, the response of [these] banks to the internal politics and government policies of Commonwealth Caribbean states, and to the United States' relations with these countries, have been known to influence the investment behaviour of other financial institutions and donors.⁷¹

Table 4.4 U.S. Direct Investment in Selected Caribbean ** Countries by Category, (in US\$ millions)

Category	1973	1974	1975	1976	1977
Mining	488	402	461	437	336
Petroleum	882	1,528	1, 258	1,277	945
Manufacturing	465	459	540	635	290
Trade	223	252	292	298	574
Banking	*	*	*	*	862
Finance (including insurance and real estate)	n.d	1,993	2,929	3,894	•8, 879
Other	n.d	220	218	n.d	269
Caribbean * *	2, 957	4,930	5,774	6,809	12,155
Total					

Note: * * Does not include French Guyana, Guyana, Suriname, Puerto Rico, and the U.S. Virgin Islands.

* Banking Category included finance

• Investment figures for the Netherland Antilles was corrected to eliminate the effects of transfer through financial affiliates

Sources: Tom Barry et al., *The Other Side of Paradise*, New York: Grove Press, 1984, p.19; *Selected Data on U.S. Direct Investment Abroad, 1950-1976*, U.S. Department of Commerce, Bureau of Economic Analysis, February, 1982; *Survey of Current Business*. August 1983.

⁷¹ For example, in reaction to Manley's pro-socialist government in the late 1970s, the United States launched an aggressive campaign to discourage American financial institutions from providing funding to, or investing in Jamaica. Along with the political favouritism practiced by the IMF, and the withdrawal of some U.S. investors from Jamaica, many international investors and financial organizations were deterred from engaging in financial/economic activities in that country.

Although the figures presented above illustrate an active financial role by the United States in the Caribbean, they by no means indicate a substantial contribution to the long-term development needs of the region. Heavy dependence on foreign capital has resulted in a substantial leakage of profits or surplus due to the repatriation of earnings by corporations or the reinvestment of earnings into subsidiary operations. Rarely does money generated by foreign investors enter local capital markets in the Caribbean. There have been numerous cases where the outflow of profits exceed the inflow of investment. The disinvestment effects were demonstrated, for example, in the years from 1976 to 1981, when the cumulative amount of investment income (profits) leaving CARICOM countries, including Guyana, Jamaica, the Bahamas, Trinidad and Barbados, was four times the amount of new foreign investment in these countries.⁷² As noted in Chapter 2, there was no corresponding growth during this period (see page 59). In an effort to mitigate the drain, countries of the Commonwealth Caribbean enacted various measures to attract an increasing amount of foreign capital. The social contradiction inherent in this type of circular and counter-productive behaviour, however, only led to greater dependency.

In a regional group such as CARICOM, where member states are at different stages of development and have different levels of infrastructural development, foreign capital is likely to be more attracted to the more developed countries, thus, as noted previously, increasing the potential for polarization

⁷² U.S. Department of Commerce, *U.S. Direct investment Abroad, 1977 and 1981*.

among member states, and frustrating the process and objectives of integration. American investments predominantly occurred in this fashion and have been problematic for regional have integration. Between 1968 and 1980, U.S. investments were concentrated in the MDCs of CARICOM, with the LDCs receiving a relatively smaller proportion of investments. There is little question that effectively co-ordinated and implemented programs in CARICOM could have effected at least changes in, and perhaps even thwarted some of the affects of U.S. investment distribution.

During the 1970s, CARICOM began to ascribe more importance to the investment policies and behaviour of TNCs. It was clear that the private sector emphasis in U.S. investment policies in the 1970s and the development policies pursued by members of CARICOM during the 1950s and 1960s, had minimal positive impact on regional and national development. Significant changes in these areas required a substantial economic commitment, on a long-term basis. TNCs, which are geared toward maximizing profits, do not often provide for significant long-term benefits on a local or regional level. The general dissatisfaction with the minimal contribution this group has made to regional and national development, is expressed in the following statement by the government of Trinidad and Tobago:

...vital economic decisions affecting the country's economy have been taken externally...by metropolitan governments and metropolitan producers....In short, the economy has been acted

upon, with the local government and people playing a passive dependent role in the process.⁷³

In efforts to change the *status quo*, some members of CARICOM introduced a range of strategies aimed at reducing the power of TNCs and member states' reliance on the metropole. Guyana responded by nationalizing the Demerara Bauxite company in 1971 and the Reynolds Mines in 1975. In Jamaica, the government purchased some bauxite-rich lands, which were in turn leased to bauxite companies for 40 years, and acquired major ownership in others. Jamaica also implemented a levy on bauxite production in 1974, which, as noted earlier, subsequently led to the withdrawal of some U.S. firms and a 26% decline in the production of bauxite by in 1975.⁷⁴

Policies which ran contrary to, or were deemed to threaten the private sector focus in U.S. economic activities were frequently met with retaliation. Policies to increase autonomy, such as the nationalization of U.S. firms, were perceived by the United States as radical moves toward the left, to which it usually responded with measures to isolate and contain such tendencies. As was noted above and before, Jamaica's nationalization of the U.S. firm Revere Copper and Brass Inc. in 1975, met with harsh U.S. policies, including a severance of aid by the United States, the largest contributor of aid to Jamaica.

Mere acquisition of shares in foreign-owned assets, and other attempts to

⁷³Cited in Ransford Palmer, *op. cit.*, p. 87.

⁷⁴ Michael Kaufman, *op. cit.*, p. 106.

regulate the activities of TNCs, were not by themselves sufficient to reduce dependency. Notwithstanding such increase in control over the decision making process, the production patterns of these economies were still export-oriented, with relatively few inter-sectoral linkages and an extraordinary reliance on imports, and investors continued to channel a significant proportion of their investments into traditional areas such as mining and petroleum. In addition, other issues still lingered, such as the predominance of bilateralism in U.S. economic relations with the Caribbean, which was often used by the United States as political leverage to persuade CARICOM states to comply with U.S. private sector initiatives, and the problem surrounding the disbursement of U.S. investments. What was clearly necessary was the implementation of a common policy on foreign investment in the region. The Report by the Caribbean Group of Experts in 1980, reiterated the need to establish a set of guidelines and principles for foreign investment.⁷⁵ According to this group, the purpose of such a regime,

...is not to discourage foreign investment and the transfer of technology, but to seek through joint approaches to increase the region's bargaining power in this area in order to maximize the benefits and reduce the costs to the countries of such extra-regional inflows and to maximize the participation of national and regional ownership, entrepreneurship, management and technology in the process of national and regional economic development.⁷⁶

⁷⁵ Report by the Caribbean Group of Experts, *The Caribbean Community in the 1980s*, Georgetown: CARICOM Secretariat, 1981, p. 74.

⁷⁶ *Ibid.*, p. 74.

Despite advocating a common policy and undertaking efforts to increase localization of their respective economies, members of CARICOM were unable to formulate a regional policy. There are many reasons and explanations for CARICOM's inaction. Given the fact that foreign investment has historically played a crucial role in the economies of the Commonwealth Caribbean, is important for funding development, it is not surprising that CARICOM did not implement a regime or a common policy that would regulate or substantially restrict investors' activities, and thus perhaps result in discouraging foreign investors from investing in member states. Furthermore, since these countries were (and are) heavily dependent on foreign aid, they presumably felt that it was in their best interests to adopt the particular postures with respect towards foreign investment that they in fact embraced—or espoused.

In the midst of the controversy and negative criticism surrounding foreign investment in developing countries, it remains clear that foreign investment can play a role in the economic expansion and development of these states and regional groupings as long as it operates within a clearly articulated framework that conforms with local economic and social objectives. In the absence of such a mechanism, the United States has been able to promote its private sector interests unfettered in the Commonwealth Caribbean.

Conclusion

It is evident from the discussion in this chapter that the Commonwealth Caribbean exhibited a significant degree of dependence on the United States, prior to the Caribbean Basin Initiative. The dependence of these states was manifested in the following ways: "(1) dependence through foreign ownership and control of key sectors of the economy; (2) dependence through trade; (3) dependence through import consumption and production patterns; (4) dependence through foreign aid; and (5) dependence through reliance on foreign human resources and foreign know-how."⁷⁷ Although efforts were undertaken to reduce their dependence on the United States and the external environment in general, the problems were not only inherent at political levels (internally and externally) but also at the structural level. It was within this context of increased dependency on the United States that the Caribbean Basin Initiative, the highly touted "development program", was introduced to the Commonwealth Caribbean. The following chapter explores the impact of this initiative on regional integration in the Commonwealth Caribbean.

⁷⁷ William Demas, *Essays on Caribbean Integration and Development*, Jamaica: Institute of Social and Economic Research, 1976, p. 58.

⁷⁷ United States Congress, *Economic and Political Futures of the Caribbean*. Hearings 93rd Congress, 2nd Session, Statement by Abraham F. Lowenthal, September 19 - 21, 1973, p. 19.

Chapter V

The Impact of the Caribbean Basin Initiative on CARICOM

Dramatic changes in the international economic system, and in the policies of one of the Commonwealth Caribbean's leading trading partners--the United States--between the early 1970s and early 1980s, combined to have a crippling effect on virtually all the economies of the region. Increased external debt, declining growth rates, heightened regional unemployment, budgetary difficulties, and fiscal deficits were among the consequences of the crises. Within CARICOM, the crises were manifested in the escalation of intra-regional trade barriers, intra-regional polarization and a decline in intra-regional trade. The poor performance of intra-regional trade, in particular, thwarted the potential of other intra-regional arrangements, including the Caribbean Multilateral Clearing Facility and the Caribbean Investment Corporation, which both collapsed in 1983.

By the early 1980s, it was clear that CARICOM had reached a critical impasse in the process of regional integration. Only modest achievements were reported in the area of functional co-operation, one of the three key areas of joint activity outlined in the treaty establishing CARICOM. Despite its name ("Caribbean Common Market"), CARICOM had made no significant strides in advancing the integration process to the common market level, which in theory requires the free movement of capital and labour; at best, CARICOM was a free

trade area, which bore striking resemblance to its predecessor--CARIFTA.

The inability of CARICOM to break free from the constraints of dependency and to make notable advances in achieving its stated objectives gave impetus to the forging of bilateral ties between individual member states and extra-regional actors, and to the rise of ideological pluralism within CARICOM

The emergence of the crisis in CARICOM coincided with "unprecedented" challenges to the United States' global and regional hegemony. On the international front, the crash of the Bretton Woods system, surging public debt, negative trade balances, and mounting economic challenges from Japan and Europe were clear signs that the United States would no longer enjoy uncontested dominance of the global economy. On a regional level, the rise of 'radical', leftist regimes and instability in the United States' 'traditional sphere of influence'-- the Caribbean--also threatened to erode U.S. national interests and dominance in the region.

It was within this context of regional frailty and increased dependence on the United States that the Caribbean Basin Initiative was launched by the Reagan administration to "win back" the region. Heralded as a "fresh view of development" to "improve the economic well-being of the Caribbean area,"¹ the CBI, when stripped of its elaborate patina, revealed a strategic-economic

¹*Public Papers of the President of the United States, Ronald Reagan, 1982*, "Remarks on the Caribbean Basin Initiative to the Permanent Council of the Organization of American States," February 24, 1982, Washington: Office of the Federal Register National Archives and Records Service, 1983, p.112.

initiative contrived (primarily) to safeguard U.S. political and security interests in the region. This chapter presents a critical analysis of the impact of the 1983 Caribbean Basin Initiative (CBI I) on regional integration in the Commonwealth Caribbean.² It is argued that from its conception to its conclusion, in 1989, the CBI was in fact inimical to the goal of regional integration, and utterly inappropriate for addressing the fundamental socio-economic and development needs of the Commonwealth Caribbean.

This paper is organized into three sections and begins with an examination of the politics and strategies behind the CBI and its implications for regional integration. The second section discusses the various components of the CBI and outlines CARICOM's position and response to the program. Finally, the third section assesses the performance of the CBI within the context of its stated goals and its impact on regional development and integration.

(5.1) The Politics and the Strategies Behind the CBI

The Reagan administration came to office with a mission to strengthen the United States' influence and hegemony, which had waned during the 1970s. The growth of 'radicalism' or leftist regimes within its 'traditional sphere of influence' was seen to necessitate a vigorous reassertion of the principles of *realpolitik* and

² The Caribbean Basin Initiative was passed by Congress in 1983 and was originally scheduled to run for 12 years (or until September 1995). However, business leaders and beneficiary countries argued that such a limitation would cripple the program, since investors would be unlikely to undertake sizeable investments in the regions. Thus, in 1989, the process was set in motion to make the provisions of the CBI /CERBA a permanent part of U.S. trade law—this became known as the CBI II.

a Cold War perspective in American Foreign Policy.

The East-West focus in the United States' Caribbean policy was stark. The very concept of a 'Caribbean Basin,' which encompassed the insular Caribbean and Central America (the two strategically sensitive areas), reflected Washington's preoccupation with security issues, and had little, if any, relevance to the various political, cultural, and economic realities of these regions.³ Within the confines of the Caribbean Basin, national identity became less relevant, and regional issues such as development and integration, which had acquired some significance and support during the Carter years, became eclipsed by the perceived more profound and urgent need (in U.S. foreign policy) to protect U.S. strategic interests in the region

The adoption of a militaristic policy in response to the instability in the Caribbean, however, "... elicited apprehension at home and abroad of imminent direct U.S. intervention and precipitated a crisis of legitimacy in the administration's Caribbean policy."⁴ Since retreating entirely from its 'hard line' policy was not an option, the administration sought to develop a strategy that would allow it to appear more legitimate, while it simultaneously pursued its confrontational policy in the region. What emerged was the Caribbean Basin Initiative, an economic recovery program for the Caribbean, whose fundamental

³Abraham Lowenthal, "The CBI: Misplaced Emphasis," *Foreign Policy*, No. 47, 1982, p. 116.

⁴Devanand Ramnarine, "The Political Logic of the CBI," in Abigail Bakan et al., (eds.), *Imperial Power and Regional Trade: The Caribbean Basin Initiative*, Waterloo, Ontario: Wilfred Laurier University Press, 1993, p. 11.

underpinnings mirrored those of the Alliance for Progress.

The strategy behind the CBI was three-tiered and geared towards “rolling back” the *status quo* in “unfriendly states,” “drawing the line” against further challenges to U.S. hegemony, and extending support to “friendly” countries in the region.⁵ This would have a direct impact on the regional integration movement in the Commonwealth Caribbean.

An important aspect of the development of the CBI strategy was the Reagan administration’s attempt to fashion Jamaica as a showpiece, under its conservative, pro-U.S. government. The rationale behind this was that an attractive model of U.S.-sponsored development would serve as a compelling alternative to the Cuban example. Jamaica was considered a symbolically appropriate place from which to begin implementing the CBI because it was “..the first country [which] by the decision of its own people, [has] thrown out a Marxist regime and turned back the private sector.”⁶ Thus, Reagan concluded, “...this opens the door for us to have a policy in the Mediterranean [the Caribbean--*sic*] of bringing ...back ...those countries that might have started in that direction or keeping them in the Western world, in the free world.”⁷

⁵*Ibid*, p. 11.

⁶Cited in “The Political Logic of the CBI,” in A. Bakan et al (eds.) *Imperial Power and Regional Trade* op. cit., p. 29. See Transcript of a White House briefing by Richard V. Allen, National Security Adviser, and David Rockefeller, Chairman, U.S. Business Committee on Jamaica, *American Foreign Policy*, 1981 Supplement, Document 1229, p. 7.

⁷“Remarks by President Reagan and Jamaican Prime Minister Seaga,” January 28, 1982, *American Foreign Policy*, 1982, Document 667, p. 1229.

This strategy was officially sanctioned, and the process was set in motion in a private meeting between President Reagan and Prime Minister Edward Seaga of Jamaica in January 1981. Plans were also discussed to generalize this strategy for the rest of the region, since it was regarded "crucial to stability and democracy in the Caribbean."⁸ It was here that the CBI began to take root.⁹

Although the program was in the earliest stages of conception, it nonetheless had an impact on CARICOM. As a showpiece, Jamaica not only received substantial injections of U.S. economic aid,¹⁰ but also Reagan's personal promise to provide support in mobilizing American investors to help rejuvenate the Jamaican economy.¹¹ This subsequently resulted in the formation of the United States Business Committee on Jamaica, which comprised 23 executive members from the American corporate elite, to advise private companies on Jamaican investment opportunities and to "bring to the attention of the government, the need for changes in laws, or to suggest the need for

⁸Transcript of a White House Briefing by Richard V. Allen, National Security Adviser, and David Rockefeller, *op. cit.*, p. 7. Cited by Richard Allen in background briefing.

⁹Some analysts maintain that the CBI originated from the "Mini-Marshall Plan," which was aggressively promoted by Edward Seaga prior to the 1981 meeting. This "Mini-Marshall Plan" consisted of creating a consortium of metropolitan and regional powers, and preferential access to the U.S. market. In support of this argument is a State Department source which was leaked to press stating that the U.S.-led "plan" was to be called the "Mini-Marshall Plan." See *Latin America Regional Reports: Caribbean*, 12 June 1981.

¹⁰For example, in 1983, Jamaica became the third largest per capita recipient of U.S. foreign aid in the world. See Tom Barry et al., *The Other Side of Paradise*, New York: Grove Press, 1984. Jamaica's aid increased from US\$38 million in 1978-79 to US\$208 million in 1981-1982.

¹¹ Kari Polyani-Levitt, "The Origins of the Caribbean Basin Initiative: Mortgaging Sovereignty?" *International Journal*, Vol. 40, No. 2, Spring 1985, p. 248.

technical assistance.”¹² While this was hailed by some as “an extraordinary chance to build an alternative showplace to Castro in the Caribbean,” others argued that Jamaica was “mortgaging its sovereignty.”¹³

In addition to its showpiece status, Jamaica was the first (and appeared to have been the only) member state of CARICOM to take part in discussions with the United States over the Caribbean Basin Initiative. This resulted in further challenging the fragile existence and future of CARICOM. By entering into bilateral economic discussions with the United States, Jamaica, in effect, violated one of the most fundamental guiding principles of the organization—the coordination of foreign policies. This called into question not only Jamaica’s loyalty to regional integration, but also the nature of its relationship with the United States. This would serve to set the tone in intra-regional relations—for much of the duration of the CBI—wherein the issue of ideological pluralism would subsequently dominate the regional agenda.

In an effort to make the program more legitimate to Congress and to regional governments, the administration attempted to co-opt Canada, Mexico and Venezuela, as partners in the CBI. However, once the political implications of the ‘plan’ became clear—that certain countries were to be excluded, including Cuba, Nicaragua, and Grenada—the multilateral negotiations collapsed. The Senate Committee on Foreign Affairs noted that “there were sharp differences in

¹²Transcript of a White House briefing by Richard V. Allen, National Security Adviser, and David Rockefeller, Chairman, U.S. Business Committee on Jamaica, *op. cit.*, p. 3.

¹³See for example Kari Polyanai-Levitt, *op. cit.*

interpretations as to the rationale for the program, the political conditions and appropriate policy regarding specific countries, as well as the appropriate level of contributions to the development effort by each country."¹⁴

In any case, Canada, Mexico and Venezuela had already negotiated with the countries of the Commonwealth Caribbean as a regional grouping, and some countries of Central America as well. Moreover, these countries were already providing assistance, which was considerably more, in respect to their resources, than the U.S. was willing to supply through the CBI.¹⁵

Despite the apparent breakdown of multilateralism, the Reagan administration continued to promote the program as a "multilateral" initiative. This appeared to have been a useful tactic to assuage domestic and international criticism at the time when the legitimacy of the administration's ideologically-based policy was being challenged.¹⁶

From the above discussion, it is clear that political and security interests, rather a genuine concern for the region's economic development, were the driving forces behind the CBI. Within this political/security framework CARICOM was destined to be marginalized and further polarized.

¹⁴Committee on Foreign Affairs, U.S. Senate, 9th Congress, 2nd Session, Calendar No. 781, Report No. 92-541, September 10, 1982, p. 2.

¹⁵Kari Polyani-Levitt, *op. cit.*, p. 263.

¹⁶Devanand Ramnarine, "The Political Logic of the CBI," in A. Bakan et al (eds.), *op. cit.*, p. 31.

(5.2) The CBI Package and CARICOM's Response

Apart from the early consultations with Jamaica on a development program for the region, no other member state of CARICOM was involved to any significant degree in the early stages of formulating the CBI. Thus, in 1981, the countries of the Commonwealth Caribbean, and indeed the regional movement, were presented with a situation where "an entire agenda for its economic and political development had been created without its input, knowledge, or collective behest."¹⁷

In light of the emerging bilateral core of the CBI, and its apparent disregard for regional integration, several working groups and committees were convened in 1981, at the request of the CARICOM Foreign Ministers, to study the CBI, and to formulate a set of common principles, which would serve as a regional position in negotiating with the United States. They included, *inter alia*, that the program be open to all territories in the region, respect the sovereignty and integrity of states, reflect and respect national priorities for development and be geared towards enhancing regional integration.¹⁸ Nevertheless, despite the

¹⁷ Fauzya Moore, "The CBI and the Caribbean Community: The Implications of the CBI for the Regional Integration Movement," in A. Bakan et al (eds.), *Imperial Power and Regional Trade*, op. cit., p. 209.

¹⁸ "Memorandum by the Caribbean Community (CARICOM) Secretariat," 86/81-82/FM, in *Fifth Report of the Foreign Affairs Committee of the House of Commons The International Crisis in the Caribbean: Caribbean and Central America*. For a discussion of the proceedings see Anthony Payne, *The International Crisis in the Caribbean*, Baltimore: John Hopkins University Press, 1984, pp. 14-16.

See also the *Communiqué of the Ninth Meeting of the SCMFA*, the *Ocho Rios Declaration*, the *Communiqué of the Third Conference of the Heads of Government of the Caribbean Community*, Ocho Rios, Jamaica, November 16-18, November 1982; and the "Communiqué of the Fourth

apparent consensus, it was evident that Jamaica was willing to forgo its commitment to regional integration for the benefits of the CBI.

Notwithstanding its attempt to influence the focus and content of the impending CBI, CARICOM's efforts proved fruitless. In the absence of a framework or a forum in place to conduct joint negotiations with the United States over the CBI, the voice of the Community was in effect muted. Thus, the CBI package, which was officially unveiled by President Reagan in February 1982, had no regional scope or input. The fact that CARICOM contained the socialist-oriented government of Guyana, and revolutionary Grenada, which was particularly a thorn in the side of the U.S., made the establishment of a dialogue between the United States and CARICOM an impossibility.

The following discussion highlights the specific aspects of, and the reaction of CARICOM to the proposed CBI.

At its official unveiling in February 1982 before the Organization of American States (OAS), the CBI was promoted as a "comprehensive", "multilateral," development strategy--involving the United States, as well as Canada, Mexico and Venezuela. According to Reagan, the CBI represented "a long-term commitment to the countries of the Caribbean and Central America to make use of the magic of the market place, the market of the Americas, to earn their own way toward self-sustaining growth."¹⁹ The focus on the socio-

Conference of the Heads of Government of the Caribbean Community," Port of Spain, 1983 (unpublished).

¹⁹*Public Papers of the President of the United States, Ronald Reagan, 1982, op. cit.*, pp. 211-212.

economic and development needs of the region, however, was overshadowed by a more urgent call to address the issues of the U.S.' vital security interests, and communist infiltration by "the foes of freedom" in the Basin. Indeed, Reagan candidly revealed the basis of his focus in the Caribbean when he stated that:

The Caribbean region is a vital strategic and commercial artery for the United States. Nearly half our trade, two-thirds of our imported oil and over half our imported strategic minerals pass through the Panama Canal and the Gulf of Mexico. Make no mistake: The well-being and security of our neighbours in this region are in our own vital interests I wouldn't propose it [CBI] if I were not convinced that it is vital to the security interests of this nation and of this hemisphere.²⁰

The fact that the CBI was portrayed as a program designed to protect the national interests of the United States while responding to the socio-economic concerns of the Basin, had the effect of convincing the majority in Congress that the administration had departed from its earlier militaristic and confrontational posture in its relations with the Basin.²¹

As initially proposed, the CBI comprised three main components—trade preferences, investment incentives and supplemental aid—which were to be integrated to allow " ...a real spur toward...entrepreneurial dynamism."²² The proposed trade component, which was viewed as the locomotive of growth and

²⁰*Ibid.*, pp. 211 & 213.

²¹See for example *Congressional Record*, Vol. 129, No. 98, July 14, 1983, p. H5147.

²²"Transmittal of the Proposed Caribbean Basin Economic Recovery Legislation," March 17, 1982, *American Foreign Policy*, 1982, Document 681, p. 1434.

the fulcrum of the CBI, allowed the President to grant duty-free access for a period of twelve years to virtually all Caribbean Basin products from designated beneficiary countries, with the exception of textiles and apparel (two of the Commonwealth Caribbean's most viable exports). The rationale for this was partly based on the argument that trade concessions would increase the Basin's exports to the United States, which would, in turn, generate export earnings, expanded trade, regional employment and higher levels of income.²³ However, in order to be eligible for duty free status, individual countries would have to "discuss with the United States its own self-help measures."²⁴

When the Caribbean Basin Economic Recovery Act (CERBA), which officially created the Caribbean Basin Initiative, was passed in 1983, a number of other products, in addition to textiles and apparel, were excluded from duty free status, including canned tuna, selected leather products, footwear, watches and watch parts, and petroleum and related products, also key exports of the Commonwealth Caribbean, and Basin states in general.

The administration also proposed a 10% tax credit to encourage American investment in the Basin. This was later replaced by a provision that allowed businesses and individuals to deduct convention expenses from their taxes.²⁵ In

²³Carmen Deere et al, *In the Shadow of the Sun: Caribbean development Alternatives and U.S. Policy*, Boulder: Westview Press, 1990, p. 155.

²⁴*Public Papers of the President of the United States, Ronald Reagan, 1982, op. cit.*, pp. 211-212.

²⁵Such deductions were allowed if the country involved had signed a Tax Information Agreement or other similar agreements with the United States Department of the Treasury. The proposed tax incentive was dropped by Congress because it was unpopular with labour groups and Congressional members who feared job flight from the U.S.

addition to the creating of opportunities for U.S. firms to take advantage of the cheap labour in the Basin, it was anticipated that increased U.S. investment would serve a larger U.S. geostrategic function. It was expected that heightened investment would stimulate economic growth, employment, etc., which would ultimately result in diffusing the region's socio-economic crisis and political instability, thus creating a placid 'backyard' in which the U.S. could aggressively promote its interests. It was also expected that increased U.S. investment in the region—especially the Eastern Caribbean, where U.S. influence was not strong—would provide justification for augmenting military operations there.²⁶

The aid component of the CBI consisted of US\$350 million in supplementary economic support funds which were to be distributed through USAID to CBI beneficiaries in 1984. These resources were geared toward specific countries and it was implicit that countries designated 'communist' were to be excluded from beneficiary status under the CBI.

The reactions in the Caribbean Community to the OAS address were mixed, ranging from the most enthusiastic supporter, Edward Seaga, who referred to the proposal as "bold , historic and far-reaching in concept," to Maurice Bishop, from Grenada, who denounced it as "nothing but an insult to the region," and "the biggest confidence game of the century."²⁷ The majority of CARICOM

²⁶Karthy McAfee, *Storm Signals: Structural Adjustment and Development Alternatives in the Caribbean*, London: Zed Books Ltd., 1991, p. 37.

²⁷See Latin America regional Report, RC-82-03, March 26, 1982, p. 1.; Sunday Express, Caribbean Basin Supplement, March 28, 1982.; and, K. Polyani-Levitt, *op. cit.*, p. 263.

members, however, were disappointed with the proposed CBI, on several levels.

First, the program's emphasis on bilateralism was of particular concern for regional members, who had not begun to recover from the traumas suffered from previously described external environment shocks, and who found themselves increasingly dependent on the United States. Increased emphasis on bilateral relations promised to further fragment the regional movement, by fuelling competition among member states for financial benefits from the U.S., and by placing particular individual countries at a disproportionate disadvantage in their negotiations with this dominant external actor.

In light of the waning internal cohesion, caused largely by the intensification of the ideological conflict, the prospects for regional integration seemed bleak, and the opportunity costs of participating in CARICOM, increased considerably. The bilateral program was in effect becoming a more attractive alternative for some member states.

Second, regional members were also disturbed by the political focus of the CBI, which was conspicuously displayed in the administration's insistence on excluding revolutionary Grenada, Nicaragua and Cuba from the CBI, and in its excessive and overt favouritism towards Jamaica in the allocation of supplemental aid.²⁸ An examination of Table 5.1, which highlights the proposed appropriations and the subsequent Congressional amendments, serves to

²⁸The Eastern Caribbean countries (LDCs), in particular were against the proposed allocation of aid to Jamaica, which was approximately 5 times the proposed amount for these states. See for example, Kari Polyani-Levitt, *op. cit.*, pp. 264- 265.; and Patricia Robinson, "The American Initiative." *Caribbean and West Indies Chronicle*, Vol. 98, No. 1570., 1982, p. 15.

illustrate the primacy of politics in the aid component of the CBI. As was expected, Jamaica (as a client state) received US\$50 million in aid, the largest appropriations to any country of the Commonwealth Caribbean. In the absence of a 'special relationship' with the United States, however, the countries of the Eastern Caribbean, were offered a mere US\$10 million, which was grossly inadequate for addressing the relatively greater problems of development encountered by these states.²⁹

Table 5.1 CBI Proposed and Approved Allocations for Fiscal Year 1982
(in US\$ millions)

Countries	CBI Original Proposal	Congressional Change
El Salvador	128.0	75.0
Costa Rica	70.0	75.0
Jamaica	50.0	50.0
Dominican Republic	40.0	45.0
Honduras	35.0	40.0
Haiti	15.0	15.0
Belize	10.0	12.0
Eastern Caribbean	10.0	15.0
Dominica	---	8.0
Antigua & Barbuda	---	5.0

Source: *Caribbean Contact*, June 1982, p.11.

The subsequent marginal increase of funds, to \$US15 million, was met with much disappointment by CARICOM members. Overall, the total proposed

²⁹Although the centrality of politics was evident in the case involving Jamaica, nowhere, however, was it more profound than in the case of Central America (where the need to restore a U.S. centred paradigm was more urgent), which accounted for 70% of the total proposed funds under the CBI. El Salvador, which was a particular preoccupation of the Reagan administration, was initially promised US\$128 million, or more than a third of CBI funds. Note: although Belize is a member of the Commonwealth Caribbean, under the CBI it is recognized not as a member of an integration union, but as a Central American state.

CBI fund of \$US350 for Basin states was regarded as a superficial attempt by the United States to respond to the development needs of the countries.³⁰

The isolation of revolutionary Grenada from a "development package" which purported to have the greater socio-economic need of the region in mind, resulted in further dividing the regional movement into different ideological camps. In reaction to its exclusion from the CBI, Grenada adopted more nationalistic policies and reinforced its ties with Cuba.³¹ Rather than attempting to salvage regional unity, Jamaica responded to the isolation of Grenada by indicating that it would not object to Grenada's exclusion from the CBI, since other states would be fulfilling its needs.³²

Third, the strong emphasis placed on investment and trade in the proposed CBI engendered criticism from CARICOM states, particularly the LDCs, which argued strongly in favour of direct development aid, appropriately apportioned for strengthening the region's weak infrastructure. It was necessary for suitable infrastructure to be in place in order for CARICOM states to reap the investment benefits of the CBI.³³ The Reagan administration, however, had a very different prescription for development, which required the Caribbean to

³⁰See for example Rosina Wiltshire-Broder, "Instability and Crisis in the Caribbean: The Demystification of the Caribbean Basin Initiative. *The CARICOM Bulletin*, No. 4, 1983, pp. 23-24.

³¹Richard Frinberg and Richard Newfarmer, CBI: A Bilateral Gamble," *Foreign Policy*, No. 47, 1982, p. 136.

³²Anthony Payne, "The politics of Regional Co-operation in the Caribbean: The Case of CARICOM," in Andrew Axline (ed.), *The Political Economy of Regional Co-operation: Comparative Case Studies*, London: Pinter Publishers, 1994, p. 89.

³³Cited in Kari Polyani-Levitt, *op. cit.*, pp. 263.

"...seek prosperity by pulling up their own economic socks instead of counting on handouts from the United States and other industrialized countries."³⁴

There was also considerable disquiet with the Reagan administration's proposal to bypass regional economic organizations, such as the Caribbean Development Bank (CDB) and the Caribbean Group for Co-operation and Economic Development (CGCED), and to administer aid bilaterally through the private sector. Moreover, the conditions that were to be attached to the assistance also provoked criticism. At a conference of the Committee for the Caribbean in 1982, Prime Minister Adams of Barbados openly expressed his opposition to U.S. guidelines which made it obligatory for beneficiaries of CBI investment aid to provide the United States with "information not limited to nationals or residents of the United States or of the beneficiary country, but would include information concerning third parties that would otherwise be subject to non-disclosure under local law."³⁵ The challenge which these policies posed to the sovereignty of beneficiary states, and to the regional movement's capacity to generate funding for the strengthening of the process of integration, was stark.

Fourth, the export-oriented development strategy on which the CBI was based, marked a direct return to the 'Operation Bootstrap' model which was

³⁴Cited in Michael Erisman & John D. Martz (eds.), *Colossus Challenge: The Struggle for Caribbean Influence*, Boulder: Westview Press, 1982, p. 214. See also, Thomas W. Ottenad, "Reagan: Poor Nations Must Help Themselves," *St. Louis Post-Dispatch*, October 15, 1981, pp. A1, 18.

³⁵*Ibid.*, pp. 265-266. See also *Caribbean Contact*, January 1983.

unsuccessfully pursued by Puerto Rico in the 1940s and 1950s.³⁶ This model, as well as the strategy 'Industrialization by Invitation,' which was implemented in the Commonwealth Caribbean, was fostered by a strong injection of U.S. investment into the economies. The effect, however, proved devastating to the host countries, and highly profitable for American corporations. The fact that the administration was advocating a strategy which had been demonstrated to be ineffective in aiding development, while proposing to do so in the absence of appropriate funding and measures to assuage the negative impact of TNCs, reinforces the argument that security was the principal motivating factor behind the CBI. In the opinion of Rosina Wiltshire-Broder:

...the CBI private sector thrust is likely to fail because it is not based on a careful study of the historical experience of the Caribbean and what is most likely to create genuine economic growth and development, and hence a lasting stability and peaceful change within the Caribbean region.³⁷

The controversy surrounding the CBI and its far-reaching implications for regional integration, served as the impetus to the gathering of CARICOM member states, at the Third Heads of Government Conference, in November 1982. The conference was viewed as an opportunity to bury the animosity, which many were convinced was instigated by the United States, and to reaffirm

³⁶The CBI differed from the Puerto Rican model in two key ways: the CBI offered no free migration of surplus labour to the United States, and no massive financial transfers to CBI beneficiaries. The Puerto Rican model was initially successful; however, it had a negative long-term impact on the economy.

³⁷Rosina Wiltshire-Broder, *op. cit.*, p. 25.

their commitment to regional integration. Despite this, the issue of ideological pluralism dominated the proceedings, overshadowing other urgent matters relating to regional integration, such as the poor state of intra-regional trade and the moribund CARICOM Multilateral Clearing Facility, and structural adjustment needs. Yet, even within this recriminatory atmosphere, member states emerged committed to regional integration, and to the principles of ideological pluralism and the right of member states to pursue their own course of development, free from the sanctions of other.³⁸ They also urged the United States, in addition to evolving bilateral aid programs, to give consideration to contributing on a grant basis to the Unified Special Development Fund and the Caribbean Development Bank.³⁹

Yet, despite its efforts to influence the development of the CBI, CARICOM's requests were ignored, as evident in Reagan's remark: "No regional objective has a higher priority than the passage of this legislation."⁴⁰ In the end, as noted above, Congress passed the Caribbean Basin Economic Recovery Act (CERBA) in August 1983 (which officially created the CBI) without any regional input or emphasis.⁴¹

³⁸Third Conference of Heads of Government of the Caribbean Community, Ocho Rios, Jamaica, 16-18 November, 1982, Press Release 52/1982.

³⁹*op. cit.*, *Communiqué* No. 7.

⁴⁰*Public Papers of the President of the United States*, Ronald Reagan, 1982, "Letter to Venezuela on World Peace and the Situation in Central America and the Caribbean," Washington: U.S. Government Printing Office, 1983, p.1434.

⁴¹Selected countries (conservative members of CARICOM) including, Jamaica, Barbados, and the OECS members, were invited to meet with President Reagan, at the May 1982 luncheon in the Caribbean. Prime Minister Simmond of St. Kitts expressed his desire to "continue working with

The approved CBI was equipped with stringent conditionalities, which placed great constraints on the pursuit of domestic politics by beneficiary states. Under the legislation, the United States retained discretionary authority to grant or deny beneficiary status to a country, based on certain conditions. Rather than stressing "need" as a necessary condition for eligibility, these conditions were devised to gauge, and to some extent, reward political loyalty to the United States. Countries designated "communist" were excluded from the program. Also denied CBI status were countries that:

- (a) expropriated or utilized property controlled by US citizens without adequate compensation;
- (b) provided preferential treatment to commodities from a developed country other than the United States, which adversely affected trade with the U.S.;
- (c) failed to take adequate measures to co-operate with the U.S. in combating the trafficking of narcotics;⁴²
- (d) violated U.S. copyright laws overseeing broadcast material;
- (e) failed to enter into an extradition treaty with the U.S.; or
- (f) nullified or revoked contracts with, or awards made to, American citizens.⁴³

There also were other criteria left to the discretion of the United States in determining eligibility. They included, *inter alia*, whether a country agreed to provide equitable and reasonable access to its markets and basic resources to the United States; the degree to which the rights of labourers are protected; and

Grenada" within the framework of CARICOM, and Prime Minister Adams of Barbados emphasized the need for Cuba and the United States to agree on "some sort of détente," so that economic development of the Caribbean could become a priority. See Kari Polyani-Levitt, *op. cit.*, p. 264; and *Caribbean Contact*, May 1982.

⁴²Panama's beneficiary status was revoked in 1988 following the indictment of its leader, Manuel Noriega. It was later reinstated following a U.S. invasion.

⁴³The president may waive several of the conditions for reasons of "national, economic, or security interests"; See U.S. Department of Commerce, *1989 Guidebook: Caribbean Basin Initiative*, Washington D.C., 1989, p. 14.

the degree to which a country used export subsidies, or imposed export performance requirements or local content requirements that could distort international trade.⁴⁴ The political parameters were thus clearly defined, and participation in the CBI essentially meant a willingness to operate within these narrow boundaries.

The granting of CBI beneficiary status to all but two members of CARICOM (Grenada and Guyana), and the decision of these countries to take part in the program, sharply contrasted with the position taken by CARICOM towards the economic aggression waged by the United States against Grenada in 1981 (note i.e., the offer of a grant to the Caribbean Development Bank, on the condition that Grenada be excluded).⁴⁵ This resulted in not only weakening the internal mechanism for the co-ordination of foreign policy, but it also "made respect for the principles of ideological pluralism impossible."⁴⁶ Indeed, the issue of ideological pluralism was not put to rest as a result of the November 1982 meeting; it was clear that as long as the United States continued to exclude CARICOM member states from CBI membership on the basis of ideology, and while Jamaica maintained its confrontational posture within the Community, that the issue would continue to divide and weaken the fabric of CARICOM.

⁴⁴U.S. Department of Commerce, *1989 Guidebook Caribbean Basin Initiative*, Washington, D.C., October 1989, p. 14.

⁴⁵The Bahamas became a member of the Community in 1983 and a CBI beneficiary country on May 14, 1985.

⁴⁶Fauzya Moore, *The CBI and the Caribbean Community: The Implications of the CBI for the Regional Integration Movement*, in A. Bakan et al (eds.), *op. cit.*, p. 213.

The events surrounding the invasion of Grenada marks one of the most fragile periods in the history of regional integration in the Commonwealth Caribbean. The ideological antagonism, which had scarred intra-regional relations, reached its apogee in the U.S. invasion of Grenada in 1983, following the collapse of the Bishop government. The regional movement was thrown into chaos when it was revealed that a number of CARICOM members, including Jamaica, Barbados, and virtually all of the Eastern Caribbean islands, were party to the United States' invasion plans to 'restore peace.' Anthony Payne notes that the damage to Caribbean integration was "enormous," as member states "...deliberately connived to conceal their intentions from their remaining CARICOM partners."⁴⁷ The severity of the problems in CARICOM called into question the relevance and future of regional integration, with general sentiments expressed in phrases such as "CARI-GONE."⁴⁸

At the 24th Common Market Council of Ministers Meeting in January 1984, Lester Bird, the Deputy Prime Minister of Antigua, acknowledged the vulnerability of the regional movement to external forces when he stated that:

By our own actions, we have aided the process of external manipulation. We have ignored resolutions, labouriously devised and painstakingly negotiated, we have sought relationships in contravention of the Treaty establishing the Community and we have fallen prey to the lure of external agencies, even at the expense of our own solidarity ... we cannot absolve ourselves from blame for that contradiction,

⁴⁷*Ibid.*, p. 222.

⁴⁸Byron Blake, "Whither Caribbean Integration?," *Courier*, No. 112, 1988.

nor can we lay responsibility in the laps of our people. For no government ... has asked its people for a mandate to destroy, disrupt or delink the Caribbean Community.⁴⁹

With a declared democratic government installed in Grenada,⁵⁰ courtesy of the United States, and the acceptance of bilateral relations with this external actor, under the Caribbean Basin Initiative, the wheels were set in motion to realign the region into a U.S.-centred strategic and economic framework, where regional integration was certain to be marginalized. According to Anthony Payne, "After the invasion of Grenada, the difficulty is less one of ideological pluralism than of a new ideological conformity to the United States wishes."⁵¹

Having established in the above discussion the political-security objective behind the CBI, its far-reaching implications for regional integration, and the deliberate attempts by the United States to undermine the regional movement, it would, *apriori*, appear somewhat astonishing that CARICOM member states accepted the initiative. However, there are a number of factors which may have directly, or indirectly, influenced their decision-making. First, the psychology of dependence has loomed large in regional and national policy-making, and extra-regional affairs. At the time when the CBI was proposed, the Commonwealth

⁴⁹"Special Supplement: Opening Addresses, 24th Common Market Council of Ministers Meeting, January 27-28, 1984 " *CARICOM Perspective*, No. 23, (January-February) 1984, p. 3.

⁵⁰Grenada became a CBI beneficiary country in 1984, following the invasion. Guyana was not designated a CBI beneficiary country because of the degree of state ownership and 'socialist-orientation' of its government. However, it became a CBI country in 1988 following a change of government, reduced state ownership, and U.S. rapprochement with the country.

⁵¹ Anthony Payne, "Wither CARICOM? The Performance and Prospects of Caribbean Integration in the 1980s," *International Journal*, Vol. 40, No. 2, 1985, p. 227.

Caribbean had significantly increased its dependence on the United States, which was the largest trading partner for the majority of these countries. Thus, their vulnerability to the policies of, and need to maintain and possibly enhance their economic relations with this external actor, may have ultimately swayed their decision-making.

Second, the Commonwealth Caribbean was not in a position to refuse another economic offer by the United States, as it did in 1981. It was felt that "while the U.S. proposal did not adequately address all of the issues or fulfil expectations for a comprehensive plan for the development of the economies of Caribbean states, it nonetheless would make a positive contribution."⁵²

Finally, given the East-West focus in American foreign policy at the time, it was possible that refusal of another American initiative would have been interpreted as a rejection of the United States—its policies and ideology—and a movement into the Soviet camp. This would have likely been met with hostility—economic or otherwise.

Given the scope and constitution of the CBI it was evident that its effect on regional integration and development would be considerable.

(5.3) CBI Accomplishments and Impact on CARICOM

When the CBI package became effective on January 1, 1984, CARICOM members Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Jamaica,

⁵²"Seventh Meeting of the Standing Committee of Ministers of CARICOM Responsible for Foreign Affairs," Caribbean Community Secretariat, Press Release 16/1982.

Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago were among the 20 countries which began to receive CBI benefits.⁵³ Guyana was, as noted, denied CBI status because of its 'socialist-oriented' government and the relatively 'high' degree of state ownership in its economy; however, it became a CBI beneficiary country in 1988, following a change in government, reduced state ownership in the economy and rapprochement with the United States. The Bahamas, which became a member of the Community in 1983, was granted CBI status in March 1985.

Beyond the larger political-security objective of the CBI, the promotion and protection of American private sector interests in the Caribbean Basin was also a key goal of the initiative. Indeed, the three aspects of the CBI—trade, investment and aid—offered considerable benefits to U.S. capital and multinationals. As the “centerpiece” of the CBI, free trade was viewed as the “engine of development,” and a departure from traditional economic programs, which depended primarily on financial aid. In order for countries to benefit from this aspect of the CBI, it was necessary to free up private enterprise and rely on “the magic of the market place” to allocate resources.⁵⁴ Thus, it was implicit that CARICOM member states would have to undergo far-reaching economic reforms, including reducing the role of the public sector and the establishing of liberal trade regimes. However, Winston Griffith notes that if in industrialized countries adherence to

⁵³Grenada was granted CBI status following the invasion by the United States in 1983.

⁵⁴*Public Papers of the President of the United States, Ronald Reagan, 1982, op. cit., pp. 211-212.*

the principles of *laissez faire* economics has harmed some of their industries, it would be no surprise if the pursuit of similar policies entwining the economically weak CARICOM states and the far larger and more potent economy of the United States, in fact impaired regional industries.⁵⁵ Indeed, under the CBI, regional industries, which were already at a disadvantage, were demonstrably further undermined by the increased openness of their markets.

In support of the CBI, a number of analysts have cited the growth of non-traditional exports (specifically textiles and apparels) as evidence of the CBI's ability to transform the region's economy. However, careful examination has revealed that these exports were largely assembled, rather than produced in the region.⁵⁶ Griffith observed that, "At the same time Jamaica is exporting assembled garments to the United States, its liberal trade regime is making domestic garments vulnerable to U.S. imports."⁵⁷ Similar effects were reported in the small food sector of the Commonwealth Caribbean, where efforts by U.S.-based groups to promote American produce, not only resulted in the weakening of this industry, but also aggravated national and regional efforts to diversify agriculture;⁵⁸ this in turn, contributed to an increase in the region's dependence

⁵⁵Winston Griffith, "CARICOM Countries and the Caribbean Basin Initiative," *Latin American Perspective*, Vol. 17, No. 1, 1990, p. 47.

⁵⁶*Ibid.*, p. 48.

⁵⁷*Ibid.*

⁵⁸*Ibid.*

on food imports.⁵⁹

As stated previously, the trade component of the CBI originally offered duty-free treatment for selected products from designated Basin states, for a period of twelve years.⁶⁰ However, most of the products that were granted duty-free access into the U.S. market by the CBI were already exempted from duties under the General System of Preference (GSP). Economists estimated that the share of the Basin's exports which were permitted to enter duty-free as a result of the CBI ranged from only 7% to 10%.⁶¹ Furthermore, this modest increase did not allow CARICOM members to accrue significant profits, since seven out of the twelve leading products which were permitted duty-free access into the United States were largely supplied by U.S. corporations operating in the Basin.⁶² Moreover, the exclusion of some of CARICOM's most vital exports, particularly petroleum and petroleum derivatives, and textiles and apparels, to protect similar U.S. products, significantly limited the potential to increase trade revenues and to further promote these industries. In the case of textiles and apparels, 'favourable access' was finally granted the Basin's exports in February 1986, but only on the

⁵⁹Kathy McAfee, *op. cit.*, p. 54.

⁶⁰Unlike the CBI, the Lome, which is negotiated with the EU and the African, Pacific, Caribbean countries (ACP) which includes CARICOM states, is reviewed every 5 years.

⁶¹General Accounting Office (GAO), *Caribbean Basin Initiative: Impact on Selected Countries*, Report to the Chairman, Subcommittee on Western Hemisphere and Peace Corps Affairs, Committee on Foreign Relations, U.S. Senate, July 1988, p. 17.

⁶²See Alyster McIntyre, "Developing Tourism," *Caribbean Affairs*, Vol. 1, No. 1, 1988, pp. 174-175; and B. Zargaris & L. Emery, "Tourism: The Orphan of Caribbean Programs," *Journal of Tourism Research*, Vol. 26, 1988, pp. 24-28.

condition that they are produced from U.S. fabric.⁶³

Although sugar was allowed to enter into the United States duty-free, it remained subject to non-tariff barriers such as quotas and import fees. The imposition of quotas between 1982 and 1988 contributed to a number of sugar mill closures in Guyana, Belize, Trinidad and Tobago, and Barbados.⁶⁴ In its vigorous promotion of "free trade" it appears that the United States was not willing to adhere to its own *quid pro quo*.

Given this, it was not surprising that U.S. corporations and industries benefited disproportionately from the trade aspects of CBI, since these *ipso facto* undermined regional and national development. Between 1983 and 1989, U.S. imports from CBI countries declined from US\$8.5 billion to US\$6.6 billion. During the same period, however, U.S. exports to the region increased from US\$4.9 billion to US\$8.3 billion.⁶⁵

In the Commonwealth Caribbean, Trinidad and Tobago's and the Bahamas' share of exports to the United States declined between 1983 and 1988 (see Table 5.2). This was partly due to a reduction in U.S. imports of petroleum. In contrast, the Eastern Caribbean's share of exports to the U.S. more than doubled during this period—although this had only a marginal effect on these economies. In relative terms, Jamaica and Belize benefited the most in

⁶³U.S. Department of Commerce, *1989 Guidebook Caribbean Basin Initiative*, *op. cit.*, p. 32.

⁶⁴Deere et al., *op. cit.*, p. 161.

⁶⁵Cited in Kathy McAfee, *op. cit.*, p. 42. See also U.S. Department of Commerce, CBI Office.

terms of increasing their share of exports to the United States.

Table 5.2 U.S. Imports from CBERA-Designated Countries, 1983-1988 (in US\$ thousands)

	1983	1984	1985	1986	1987	1988
Antigua	8,809	7,898	24,695	11,849	8,621	6,893
Bahamas	1,676,394	1,154,282	626,084	440,985	377,881	268,328
Barbados	202,047	252,598	202,194	108,991	59,110	51,413
Belize	27,315	42,843	46,951	50,181	42,906	52,049
Dominica	242	86	14,161	15,185	10,307	8,530
Grenada	211	766	1,309	2,987	3,632	7,349
Guyana ¹	---	---	---	---	---	50,432
Jamaica	262,360	396,949	267,016	297,391	393,912	440,934
Montserrat	924	989	3,620	3,472	2,413	2,393
St. Kitts-Nevis ²	18,758	23,135	16,258	22,278	23,793	20,822
St. Lucia	4,700	7,397	13,798	12,269	17,866	26,044
St. Vincent-Grenadines	4,276	2,958	9,643	7,836	8,493	13,950
Trinidad-Tobago	1,317,534	1,360,106	1,255,498	786,405	802,838	701,738
Total	3,523,570	3,250,007	2,481,227	1,760,329	1,751,772	1,650,875

Source: U.S. International Trade Commission, *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers*, Fourth Report, 1988, Washington D.C.: USTIC, 1989, Table 1.3.

1) Guyana was excluded from beneficiary status until November 24, 1988.

2) Anguilla, which was not designated a beneficiary country for the period outlined above, has been included in the data for St. Kitts-Nevis for 1985.

The performance of the CBI in the area of investment was negligible. Although it generally takes a longer time for investment to respond to changes in legislation than trade, in 1986, nearly three years after the legislation was passed, the Caribbean Development Bank noted that it was uncertain as to

whether direct foreign investment had increased in CARICOM as a result of the CBI.⁶⁶

While there appeared to have been some difficulty in ascertaining the CBI's contribution to investments, the Central Bank of Barbados reported that major contributors to economic growth in CARICOM were tourism and traditional agricultural goods—which were ineligible under the CBI—and not manufacturing as had been anticipated.⁶⁷ Subsequent reports revealed that although the CBI did eventually make some noticeable contributions (albeit modest) toward increasing investment in CARICOM, the majority of the investments were concentrated in one area—textile production. However, since the garment industry was not given duty-free access to the U.S. market unless the fabric was 100% American, garment production in CARICOM was substantially limited to assembly operations.

In addition to harming regional garment industries, CBI investments also undermined regional transformative potential by reinforcing old structures. Griffith explains that:

The vast majority of CBI ...garment production in CARICOM is at the bottom of the firm's value. CBI legislation promotes this international division of labour....[since] such functions do not require a body of skilled labour that the less developed countries have in order to be competitive in a technologically dynamic world.⁶⁸

⁶⁶Caribbean Development Bank, *Annual Report*, Barbados: Letchworth Press, 1986, p. 38.

⁶⁷Central Bank of Barbados, *Annual Report*, Barbados: Letchworth Press, 1987, p. 12.

⁶⁸Winston Griffith, "CARICOM Countries and the Caribbean Basin Initiative," *Latin American Perspective*, Issue 64, Vol. 17, No. 1, 1990 33-54, p. 42.

Invariably, the forward and backward linkages from such activities were minimal.⁶⁹

The relatively modest amount of U.S. investments in CARICOM states, and in the Basin in general, is attributed to a number of factors. First, the proposed 10% investment tax incentive, which would have increased investment opportunities, was never passed by Congress. Since the provision would have applied to existing, as well as new investments in CBI-designated countries, it was considered potentially harmful to U.S. domestic labour interests. Therefore, there was no direct mechanism left in place to stimulate investment in the region.

Second, although it was recognized that many countries of the region did not have the appropriate conditions and infrastructure necessary for attracting large-scale investments, the CBI contained no provisions to directly address this concern. Thus, a number of the Commonwealth Caribbean countries (especially the LDCs) were virtually excluded from the marginal benefits of the CBI investment provision.

Third, the short lifespan of the CBI served to deter investors from undertaking sizeable investments in the Caribbean. The kind of programs envisaged by CARICOM—which would provide a genuine long-term commitment to regional development and integration—were not offered in the CBI.

⁶⁹Ralston Smith, "The Caribbean Textile and Apparel Industry," Paper presented to the Center for the Development of industry and presented at the Regional Industrial Co-operation Meeting-Caribbean Region, June 13-17, Castries, St. Lucia, 1988.

Finally, by the time the CBI began to make some discernible contributions in the area of investment, not only had the United States' political-strategic focus shifted away from the relatively stable Caribbean, to the more volatile Central America, but its economic interests as well shifted to Mexico, where labour was comparably cheaper. According to a 1988 U.S. Department of Labour report, the devaluation of the Mexican peso had made Mexico the cheapest location for U.S. manufacturers.⁷⁰

One of the officially stated goals of the CBI was to increase employment in CBI beneficiary states. Although figures are not readily available to assess its impact on reducing the high unemployment rates in CARICOM member states, its performance on this score was likely negligible.

The third and final feature of the CBI--aid--was also linked to the promotion of the private sector and market activity in the Basin. Under the CBI, aid was channelled away from multilateral or regional organizations such as the Inter-American Development Bank, the Caribbean Group for Co-operation and Economic Development, and the Caribbean Development Bank, to private organizations where it was administered bilaterally. The majority of the \$350 million in CBI supplemental aid, which was to be distributed through USAID to the governments of the region, was "obligated for use by the private sector in those countries with the most serious financial problems."⁷¹

⁷⁰See U.S. Labour Department, *Journal of Commerce*, 1987.

⁷¹George Schultz, Statement before the Senate Finance Committee, April 13, 1983, p. 3.

The bilateralization of aid, and the concomitant reduction in U.S. contributions to multilateral agencies, consequently heightened the pressures on the poor and threatened ongoing regional efforts at economic co-ordination and development co-operation. Moreover, this created a situation where regional economic institutions had to compete vigorously with the various other interests for funds. Hayden Blades, CARICOM Director of Trade and Agriculture testified before Congress in 1988 that:

The process of regional integration was hijacked by the United States by means of the CBI. All the pressure from the U.S. has been for closer bilateral ties, and this has undermined regional integration plans.⁷²

Although the CBI contained no formal military component, as noted earlier, security concerns were at its core. In concert with the CBI, military aid to the Caribbean Basin soared between 1982 and 1985.⁷³ In the Commonwealth Caribbean, sharp increases were noticed in Jamaica and the Eastern Caribbean, prior to, and after the Grenadian invasion.⁷⁴ The militarization of the region was denounced by some regional members, who asserted that "... security and development in the Caribbean are not dependent on guns, but on accelerated development."⁷⁵

⁷²Testimony Before the Congressional Subcommittee on Western Hemispheric Affairs, February 6, 1988, Bridgetown, Barbados.

⁷³For a discussion see Carmen Deere et al., *op. cit.*, p. 176.

⁷⁴Kari Polyani-Levitt, *op. cit.*, p. 266.

⁷⁵"Growing concern, Over Caribbean Basin Initiative," *Caribbean Insight*, Vol. 4, No. 10, p. 1.

Conclusion

This final chapter focused on the impact of the Caribbean Basin Initiative on regional integration in the Commonwealth Caribbean. As a strategic-economic initiative fashioned to primarily safeguard and bolster U.S. security interests in the Basin, the CBI was, *ipso facto*, entirely inappropriate for addressing the urgent and long-term development needs of the Commonwealth Caribbean and its regional integration movement. The CBI resulted not only in further fragmenting the regional movement, but also undermining its integrity and capacity to effectively tackle some of the most formidable challenges to development. In the process, the CBI succeeded in re-establishing U.S. pre-eminence in the Basin, as virtually every state came to accept the United States' view of development, and its political ideals.⁷⁶

⁷⁶See for example Anthony Payne, "U.S. Hegemony and the reconfiguration of the Caribbean," *Review of International Studies*, Vol. 20, 1994, pp. 159; and Devanand Ramnarine, "The Philosophy and Developmental Prospects of the CBI," in Abigail Bakan et al., (eds.), *Imperial Power and Regional Trade: The Caribbean Basin Initiative*, Waterloo, Ontario: Wilfred Laurier University Press, 1993.

CONCLUSION

This thesis explored the Commonwealth Caribbean's post-independence attempts to spur development through regional integration—as the optimal structural means through which to achieve economic independence and structural transformation at the national and regional level. In addition to its examination of the role and impact of external actors on the process of integration in the developing world, this thesis primarily focused on analyzing the effects of the United States as an external hegemonic actor on the integration processes and aspirations in the Commonwealth Caribbean. It discussed the peculiar economic ramifications of hegemonic asymmetrical-impact relationships for integration theory in general, and suggested a more appropriate theoretical framework—one which incorporates or accommodates a quintessentially realist approach.

The thesis described the Commonwealth Caribbean's colonial and post-colonial dependence on the metropole—first the UK, then the USA—, the Commonwealth Caribbean's *de facto* evolution as a never enfranchised adjunct of the metropole's 'domestic' political-economic system. It also provided a detailed assessment of the region's integrative efforts, and of the internal and external variables and dynamics that accounted for its lacklustre record. The facts and ramifications of dependence, and the relentless and ever-so imposing political posture of the United States, emerged as the most crucial determinant of

the regional process.

Despite the changes in rhetoric, the United States' record of involvement in the region reflects the underlying constancy and priority always accorded *strategic* geopolitical, political and economic considerations, and self-interest--the *sine qua non* of foreign and foreign economic policy. Location (astride vital Sea Lanes of Communication, or SLOC, and abutting continental USA) and resources (especially bauxite and petroleum) imbued the less and under-developed Caribbean island states with strategic importance that belied their small size landmass and populations and their relatively puny economies. Purely regional political and developmental efforts were effectively subordinated to "greater" American objectives. These dictated a longer history of military interventions against perceived or feared future security threats and a more recent history of aid and investment policies designed to tie each island state ever-more firmly and bilaterally to the economic infrastructure of the metropole (with obvious deleterious consequences for regional integration aspirations), and to render alternative political and development postures economically ruinous.

The Reagan administration's Caribbean Basin Initiative, touted as a "development program," was introduced at a time of already increased Commonwealth Caribbean dependence on the US--manifested in US ownership and control of key sectors of the economy, control over terms of trade, import consumption and production patterns, terms and conditions of aid, and, finally, dominance over the supply of foreign human resources and know-how.

Notwithstanding its presentation, the CBI was a strategic-economic initiative designed primarily to safeguard and further bolster US security interests in the Basin. It was, *ipso facto*, entirely inappropriate for addressing the urgent and long-term development needs of the Commonwealth Caribbean and its regional integration movement. The CBI in fact further fragmented the regional movement, and undermined its integrity and capacity to tackle the more fundamental challenges to development. It re-affirmed US pre-eminence in the Basin, compelling virtually every state to accept the Washington-preferred 'developmental model', and Washington-embraced political ideals. The Clinton administration has occasioned no departure from this posture, this reality.

The fact that CARICOM nevertheless survived is testimony to its resilience and still-manifest commitment to advancing the process of development through regional integration—if now, perhaps from within a more realistic appreciation of the parameters that constrained its evolution.

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