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## REVIVING THE WILTING U.S. POLICY IN THE CARIBBEAN

### INTRODUCTION

From the very start of his Administration, Ronald Reagan gave high priority to the geostrategic importance of the Caribbean. He launched a bold Caribbean Basin Initiative--or CBI, as it generally is known--to forge a partnership with the private sector to pour billions of dollars and much human energy into resolving the region's pressing economic, political, social, and security problems. Young Americans, indeed, even fought and died for the freedom of Grenada. The new U.S. relationship with the nations of the Caribbean promised a glowing future for the region.

Yet today, the Caribbean's future seems barely brighter than it did six years ago. The U.S. gains in Central America, including blunting a communist takeover of El Salvador and taming Nicaragua's aggression, have not been matched by similar successes in the broad two million square mile Caribbean area with its more than one dozen island nations. Economic problems have not been alleviated despite massive amounts of U.S. aid. Cuban, Soviet, and even Libyan efforts to destabilize the Caribbean are increasing, and the strength of their leftist allies in the English-speaking islands is growing. As a result, the CBI is widely labeled a failure.

The time has come for reappraising U.S. policy toward the Caribbean. Doing so should prompt a number of actions. Among them:

- 1) Flaws in U.S. development assistance programs must be corrected, with greater emphasis on structural economic reforms and development based on master plans instead of a piecemeal approach.

2) Congress should remove remaining U.S. barriers to Caribbean imports and should offer tax incentives to private U.S. firms investing in the region.

3) To check the Caribbean network of pro-Soviet revolutionaries, Caribbean nations' police forces must be upgraded and strengthened.

4) Perhaps most important, the U.S. must emphasize to its Caribbean friends that no amount of financial aid will bring economic revitalization unless they are willing to adopt fully free market economic principles.

#### THE CARIBBEAN'S IMPORTANCE TO THE U.S.

The appearance of a Soviet satellite regime in Cuba in the early 1960s, followed in the next dozen years by Britain's withdrawal from the West Indies, gradually awakened U.S. policy makers to their new responsibilities in the region. Thirteen new nations have emerged in the Caribbean, nearly equalling in number the older independent countries of Latin America. These fledgling Caribbean democracies were vulnerable to communist destabilization because of economic and social weaknesses; coups d'etat brought Soviet-allied regimes to power in Grenada and Nicaragua, while leftist governments emerged in Jamaica, Guyana, Suriname, and elsewhere.

Recognizing that stable democracies and unrestricted economic growth represent the best obstacle to communist expansion, the Reagan Administration took an active role in promoting the transition from dictatorship to democracy in Central America and the Caribbean. Economic support and developmental assistance to the region reached unprecedented levels, topping \$1 billion in fiscal year 1985, while security assistance was provided to defeat Soviet-subsidized revolutionaries. The U.S. joined seven Caribbean democracies, Jamaica, Barbados, Antigua, St. Lucia, Dominica, St. Vincent, and St. Kitts-Nevis, to restore order and pluralism to Grenada and eradicate a strategically important Soviet-Cuban base.

The Administration's most important vehicle for transformation of the region was the Caribbean Basin Economic Recovery Act of 1983, which codified the CBI. Conceived as a means of coupling increased economic aid with giving most Caribbean exports unimpeded access to U.S. markets, the CBI had the potential of being one of this century's most important U.S. economic policies, comparable to the 1934 Reciprocal Trade Agreements Act and the 1947 General Agreement on Tariffs and Trade (GATT). Within the CBI context, the Reagan Administration sought to stimulate private investment in the Caribbean via tax breaks and risk insurance provided by the Overseas Private Investment Corporation (OPIC).

## THE CARIBBEAN TODAY

Despite such efforts, the economic and security situation has improved very little for the majority of Caribbean nations. The CBI has not sparked significant growth in the Anglophone islands of Jamaica, Grenada, St. Vincent, and their neighbors in the eastern Caribbean. Foreign direct investment has been slight. Pro-U.S. governments, moreover, are in serious political trouble, and the far left remains a potent force.

### Economic Problems

During the nearly three years that the CBI has been in effect, the value of exports from CBI-designated nations has declined significantly; overall exports to the U.S. from the Caribbean region fell 23 percent last year.<sup>1</sup> Unemployment now averages between 15 and 25 percent of the Caribbean Basin's work force, constant dollar per capita income has fallen, and regional debt has mounted. To stave off economic collapse, many island-states are dependent on U.S. Economic Support Funds (ESF) and multilateral loans, yet Latin America and the Caribbean are now repaying the U.S. for previous development assistance loans at a level that exceeds new U.S. loans to the region. This means that, as far as loans go, more dollars are leaving the region than arriving. Inflation throughout the islands is rampant, and imported goods are so expensive relative to average income that purchasers of automobiles in some countries need 15 years to pay for them, taking out loans similar to U.S. real estate mortgages.

In Jamaica, nearly \$1 billion of U.S. assistance has made little economic impact. This has embarrassed the White House since Jamaican Prime Minister Edward Seaga boasted that his nation was "the best example of what the Caribbean Basin Initiative can accomplish."<sup>2</sup> The government bureaucracy is such an impediment to legitimate businessmen that, according to the Jamaican Chamber of Commerce, the underground economy now accounts for over half of the island's total economy.<sup>3</sup>

Grenada, another country designated as a model of the triumph of the free market over socialism, is also virtually dependent on foreign

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1. James Canute, "Trade Preference Scheme Under Fire," Financial Times, October 1, 1986, p. 3.

2. Edward Cody, "Luster off Jamaican 'Example,'" The Washington Post, January 21, 1986, p. A11.

3. CANA, October 22, 1986; FBIS Latin America, October 27, 1986, p. S1.

assistance and has yet to see the expansion of its tourism and manufacturing industries on a scale large enough to justify the Point Salines International Airport and the impressive road system completed by the U.S.

Haiti's uncertain political future has frightened away investors, while the Dominican Republic remains burdened by one of the Caribbean's largest and most inefficient public sectors--an area targeted for reform by recently elected President Joaquin Balaguer.

#### Political and Security Problems

The Caribbean's economic problems have fueled discontent and have weakened moderate, pro-Western governments throughout the region. Edward Seaga's ruling Jamaica Labour Party (JLP), for example, suffered a major setback from the leftist People's National Party (PNP) during the island's local elections this July. Public opinion polls indicate that the PNP will win the next general election.

Popular dissatisfaction with Grenada's Prime Minister Herbert Blaize has led to rifts in his coalition New National Party (NNP) and to calls for his resignation.<sup>4</sup> The Blaize government's political and economic problems may be giving new life to the corrupt and once discredited former Prime Minister Sir Eric Gairy as well as to remnants of the communist New Jewel Movement (NJM), which ruled Grenada from 1979 to 1983. The NJM has been reborn as the Maurice Bishop Patriotic Movement (MBPM), whose chairman, Kenrick Radix declared: "The Grenada events were a disaster for the left but what is clear is that the right doesn't have the solutions. We are the party of the future."<sup>5</sup>

On Dominica, the Marxist-oriented Dominica Labour Party (DLP) won three of the parliament's 21 seats in the island's 1985 elections. Nearby Guadeloupe, meanwhile, was engulfed in turmoil in 1984 and 1985, triggered by two movements calling for the island's independence from France. In July 1985, more than 70 youths from Barbados, St. Vincent and the Grenadines, St. Lucia, Grenada, Dominica, Guadeloupe, Martinique, Guyana, Trinidad and Tobago, Jamaica, and the Bahamas were flown to Moscow by Cubana airlines to attend a World Festival of Youth and Students. All expenses were paid for by Komsomol, the youth arm of the Soviet Communist Party.<sup>6</sup> In Haiti, the Haitian Communist Party (PUCH) is actively working to subvert the country's fledgling democratic process. Recent attacks on U.S. military

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4. "Blaize on Way Out," Grenada Informer, October 17, 1986, p. 1.

5. Albuquerque Journal, July 21, 1985, p. B5.

6. CANA, July 13, 1985; FBIS Latin America, July 17, 1985.

installations in Puerto Rico have been linked to the Matcheteros, a Marxist revolutionary group trained and funded by Cuba. And in Suriname (formerly Dutch Guiana), an increasingly leftist regime is believed to have received some 200 military advisers from Libya.<sup>8</sup>

## POLICY RECOMMENDATIONS

### The CBI

The Caribbean Basin Economic Recovery Act was crippled from the moment it took effect on January 1, 1984. By the time the bill had been passed by Congress, it had been stripped of its most important features, prompting Business Week to call it "more a symbolic gesture than the ambitious program for economic stimulus" originally designed by President Reagan.<sup>9</sup> A wide range of goods, some of which are key Caribbean exports, were denied the preferential treatment that the bill was supposed to grant Caribbean products. Among them: textiles and garments, petroleum products, canned tuna, frozen citrus juices, and leather goods such as footwear and luggage. Heavy lobbying by the AFL-CIO, moreover, blocked Reagan's proposal for a 10 percent tax credit for new U.S. investments in the region.

Although union concerns about the possible loss of U.S. jobs to Caribbean-based competitors are understandable, the data indicate that U.S. domestic employment and industrial production actually might benefit from an undiluted CBI. In fact, the region's deteriorating economy has led to a decrease in demand for U.S. goods; for example, a \$300 million decline in U.S. exports to the Caribbean costs the U.S. economy some ten thousand jobs.<sup>10</sup>

Total production of the Caribbean Basin is equivalent to only about 2 percent of the U.S. Gross National Product, and imports from the region account for less than 4 percent of total U.S. imports. Even a major increase in Caribbean production and exports, therefore, would not have a significant impact on U.S. domestic production. In any case, U.S. companies that believe they have been hurt by Caribbean imports can seek relief under the 1974 Trade Act.

When Congress reconvenes in January, it should review the CBI legislation. Greater access to U.S. markets for a broader range of

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7. The Washington Post, October 29, 1986, p. A22.

8. NRC HANDELSBLAD, October 13, 1986; FBIS Latin America, October 17, 1986, p. U1.

9. "Whittling Away at the Caribbean Initiative," Business Week, July 11, 1983, p. 28.

10. Lawrence S. Eagleburger, "Caribbean Basin Recovery Act," Department of State Bulletin, August 1983, p. 79.

Caribbean goods should be encouraged, as should preferential tax benefits for U.S. investors willing to open businesses in the region. The 12-year limit on the CBI program should be removed; the legislation was not meant as an economic "quick fix," but as a catalyst for long-term recovery and growth. It often takes years for major development projects to begin operation in the Caribbean.

The U.S. should encourage Japan, South Korea, and other Asian nations seeking cheap labor pools for high-technology manufacturing to consider investing in the Caribbean. Development of semi-conductor and other electronics-related industries closer to the U.S. would be of strategic benefit for the U.S., helping to ensure an alternate source for such products as well as providing jobs less susceptible to the shocks of falling international commodity prices.

### U.S. Development Assistance

Because of justified cuts in the U.S. foreign aid budget, U.S. development assistance funds must be used very selectively. Emphasis should be placed on basic infrastructure development for essential services such as water and electricity rather than on less vital projects such as the highway program in Grenada. The large number of relatively costly and unproductive feasibility studies funded for individual projects throughout the region also should be reduced in favor of single development master plans, such as the one proposed for Belize by that country's Prime Minister Manuel Esquivel and the U.S. firm of J. Bruce Hildebrand and Associates. Master plans would allow the governments of developing nations to make timely, better informed decisions in an integrated rather than piecemeal way. Such plans could save millions of dollars, now spent unnecessarily, because they would prioritize projects and make sure they were done at the right time, in the right place, and for the right price.

The U.S. also should insist much more than it has that U.S. economic support be contingent on recipient governments' efforts to adopt free market policy and institutional reforms.<sup>11</sup> To ease the region's enormous debt burden, the U.S. should consider writing off Alliance for Progress and later loans under the proviso that at least half of the funds be invested in the recipient nation.

### Security

Budgetary problems in many Caribbean countries have handicapped severely the ability of governments to deal effectively with terrorism, subversion, narcotics trafficking, and general crime. Domestic security is vital for attracting foreign investment and

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11. U.S. General Accounting Office, Agency for International Development's 1978 and 1986 Programs for Jamaica, Kenya, and Senegal, April 1986.

tourists, yet some countries are so poor that police forces lack vehicles, radios, or funds for overtime pay. The U.S. already is subsidizing and training Special Security Units (SSU) in the eastern Caribbean. While the SSUs may help guard against such coups d'etat as the 1979 takeover of Grenada, these forces are not trained to deal with domestic crime, espionage, or sabotage. Security assistance to Caribbean democracies thus should include funds for upgrading and training of island police forces.

### Caribbean Domestic Policies

The CBI's poor performance to a great extent is the fault of Caribbean leaders who refuse to abandon the statist policies that stifle economic growth. Even without CBI, Caribbean nations could accomplish a great deal by making structural changes. Among them:

Tax reform. Although Jamaica has cut some taxes to spur investment, rates remain high in most other countries of the region. The tax collection system in most countries is so antiquated that little revenue is actually collected, leading countries such as Grenada to replace income taxes with an unusually heavy 20 percent value added tax (VAT). The VAT has hurt small consumers and contributed very little to government revenues, for business activity has moved underground. VAT rates should be reduced to between 5 and 10 percent so that the cost of paying the tax becomes less than the cost of avoiding it. This would dramatically improve collections. Another approach could be a flat tax in the 15 to 20 percent range applicable to all incomes above a certain level.

Privatization of Parastatals. The region has privatized few state-owned enterprises, even in such vocally pro-free market countries as Jamaica and Grenada. While not many local businessmen have the capital to buy such enterprises as oil refineries and electric power plants from the state, public offerings of shares in these assets could be made on a new regional stock exchange. This would open new sources of capital. Caribbean governments also should remove obstacles to foreign investors who wish to purchase divested assets. The policy of debt/equity swapping--forgiving debt in exchange for shares in businesses--now being practiced by other developing nations could serve to reduce foreign debt while easing the sale of nonessential state enterprises.

Regulation. Although most governments have created special agencies to facilitate foreign direct investment, most of these agencies seem to compound the problems of an unwieldy bureaucracy. Review of proposals, haggling over investment incentives, and granting of licenses may take months, predictably causing some frustrated investors to abandon their projects. The CBI countries should streamline investment promotion agencies and give them greater autonomy; the overall level of regulation also should be reduced throughout the Caribbean.

**Trade.** Jamaican Prime Minister Seaga is asking the U.S. to increase substantially the amount of textiles that the Caribbean is allowed to export to the U.S. under the Multi-Fiber Agreement. This extra allotment would offset the decrease in Asian textile exports to the U.S. mandated by the latest version of the Agreement. An expansion of free trade throughout the region, meanwhile, would open additional markets for U.S. producers of raw materials. Both the U.S. and Caribbean governments also should consider creating a Caribbean Common Market encompassing Central America and the Caribbean "rim" countries of Colombia and Venezuela. Liberalized trade policies would spur investment by contributing to the free flow of capital throughout the region.

## CONCLUSION

The Caribbean is far more than a region of struggling young democracies and fragile economies of little importance to Americans except as exotic vacation spots. In a very real sense, the region is the United States' fourth border. History has demonstrated that a great power's ability to maintain its global strength can be achieved only by ensuring the security of its borders. The well-being of the U.S. is therefore inextricably linked with the economic growth and political stability of the Caribbean. For this reason, it is vital for the CBI to be restored to its original form.

Just as important, the U.S. must insist that its Caribbean neighbors carry out structural reforms to foster free market development. By helping to create lasting political and economic stability in the region, the U.S. is serving the best interests of its own people.

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