



## U.S.-Caribbean Relations

By Cedric Grant, Clark Atlanta University

U.S.-Caribbean economic relations since 1950 divide into two periods: 1) the cold war era, when security concerns about communism shaped U.S. policy, and 2) the post-cold war period, when the importance of the Caribbean to U.S. strategic interests has diminished, and U.S. policy is driven by a new set of concerns.

The Cuba trade embargo and the 1984 Caribbean Basin Initiative (CBI) were two economic initiatives that emerged due to U.S. security considerations. The CBI was a unilateral program of economic assistance and trade measures for Central America and the Caribbean that President Reagan established to counteract the perceived spread of communism. The CBI, which excluded Cuba, extended its programs to the Caribbean Community (Caricom), an economic grouping comprising the English-speaking Caribbean, Haiti, and Suriname. Reaction to the CBI was mixed in both the Caribbean and the United States. Although Caribbean countries welcomed both the infusion of economic aid and the trade openings to U.S. markets, the CBI's unilateral approach was criticized as "gunboat economics" and reminded the region's residents of the 200-year history of U.S. military interven-

tion. Under the CBI, U.S. corporations increased their operations in the region beyond their longstanding and significant interest in bauxite and oil.

Among the CBI shortcomings was the exclusion of textiles and apparel from duty-free treatment—a reflection of successful lobbying by U.S. business and labor. Although the CBI did spur export production, investment, and job creation in the Caribbean, U.S. commercial interests were the primary beneficiaries. The CBI turned a U.S. trade deficit with the beneficiary countries

of the Caribbean into a sustained surplus.

Following the cold war, U.S. economic initiatives tapered off, and three issues—narcotics, immigration, and, most recently, concerns about preferential tax regimes—have replaced the traditional concerns topping the U.S. security agenda. These new issues have engendered a confrontational relationship.

The U.S. has a certification policy that imposes financial sanctions against governments Washington deems uncooperative with its antidrug campaign. In 1996 the Clinton administration was apparently preparing to decertify Jamaica, although the threat was not enforced.

The dispute, however, did precipitate the U.S.-Caribbean Summit in Barbados in 1997.

But security issues do not follow a one-way street. Caribbean countries also have security concerns about relations with the United States. Caricom, for example, has voiced its concerns about gun smuggling from the U.S. and about the U.S. deportation of criminals of Caribbean origin back to the region. More fundamentally, Caribbean states contend that the security and stability problems in the region are rooted in economic development and thus cannot effectively be addressed in isolation from strategies to improve economic conditions. Accordingly, the Bridgetown Accord, the statement produced by the 1997 summit, "recognise[d] the inextricable links between trade, economic development, security and prosperity in [these] societies."

Although the new security interests play a part in defining the second period of U.S.-Caribbean relations, the changes occurring in the international arena are an even more significant factor. One is the demand by governments of developed countries for reciprocal (nonpreferential) trade to be globalized within the World Trade Organization (WTO)—meaning that the same trade rules would apply to all countries, regardless of their state of economic development. U.S. expectations that Caricom countries would comply with this demand were reflected in Washington's complaint to the WTO that the European Union (EU) arrangement for the preferential access of Caribbean bananas to the European market discriminates against U.S. corporate banana producers in Latin America.

The other major development was the establishment of the North American Free Trade Agreement (NAFTA), which the U.S. envisioned would expand into a hemispheric free trade zone. Caricom countries fear that both CBI benefits and those of other U.S. preferential arrangements (such as the Generalized System of Preferences and the Harmonized Tariff Schedules) will be undermined. A similar concern is that the international trade rules that give preferential access to poorer nations (as a means to address the asymmetries of the global economy) might be lost in the name of free trade.

In 1993, Caribbean countries began to lobby Congress and the administration to grant them NAFTA parity by offering the same market access conditions available to Mexico, until Caribbean economies become better prepared to embrace full reciprocity. In addition, the Caribbean nations hope to maintain or increase market access to the U.S. either by acceding to NAFTA or (more realistically) by becoming part of the proposed Free Trade Area of the Americas (FTAA), a hemispheric free trade agreement that is to be negotiated by 2005.

### Key Points

- The CBI provided nonreciprocal duty treatment to a wide range of U.S. imports from the Caribbean.
- Consistent with the global trend toward trade liberalization, the U.S. is replacing preferential arrangements with reciprocity as the basis of its relations with the Caribbean.
- The U.S. has unilaterally determined the frameworks within which U.S.-Caribbean relations have developed.

# Problems With Current U.S. Policy

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The U.S. move to replace preferential trade treatment with tariff reciprocity as the foundation of its Caribbean policy faces the same problems that have bedeviled the CBI from its outset. Efforts to grant NAFTA parity to Caricom and other CBI countries repeatedly stalled in Congress. The sticking point has consistently been duty-free treatment for textile products, blocked by continuing opposition from fair trade groups, labor unions, and portions of the textile industry.

In May 2000, however, congressional leaders reached agreement on such legislation as part of the Africa-CBI trade bill. The legislation, which the president has signed, provides immediate tariff reduction to NAFTA levels for imports excluded under CBI, specifically some apparel, which received not only duty-free but also quota-free treatment. The new dispensation will be maintained until 2008, or until the FTAA or another relevant trade agreement enters force, if that date is earlier. The legislation is saddled with a number of conditions that could prevent the Caribbean from fully utilizing its benefits.

Another sticking point in U.S.-Caribbean economic relations is Caricom's longstanding request for an overall Caricom sugar quota (the amount of sugar the U.S. agrees to import annually at a rate above the prevailing world price). An overall quota would replace the country quotas and could then be reallocated among Caricom members in the event of a special need or export shortfall.

A related concern is the sharp decline in sugar quotas for Caribbean countries. Compounding this problem are Mexico's efforts to increase its sugar exports to the U.S. market at a faster rate than originally established in the side agreement accompanying NAFTA. Unless Mexico's request can be accommodated without a reduction in the quota currently allocated to the Caricom countries, the additional loss in preferential access to the U.S. market could have severe socio-economic consequences.

At the heart of the problematic character of U.S.-Caribbean economic relations is a differing approach to the global economy. As a rule, the U.S. holds to the neoliberal view that all countries should compete equally in the international market. For their part, the Caribbean nations, while eager to integrate into the global market, note that their small size, lower level of development, and primitive export structures undermine their capacity to participate effectively in global trade liberalization without special preferences, or at least their phased withdrawal. During the preparatory FTAA meetings, the U.S. did not appreciate these concerns. Caribbean negotiators also have not received any indication that the issue of smaller economies would be given adequate attention during the ongoing FTAA negotiations.

As the banana issue indicates, U.S. trade policy in the Caribbean makes little allowance for the development concerns of small economies. Caribbean countries predict that the U.S. effort to end preferential access to the EU market will ruin the economies of the banana producing countries, and they warn that, as a result, there will be more illegal migration of Caribbean job seekers

to the U.S., increased marijuana cultivation for export, and an upsurge in drug trafficking.

Lack of consultation with Caribbean nations helps explain the current strained state of U.S. relations with the region. Unilateralism—of which the CBI was a prime example—rather than bilateral consultations, has been the standard U.S. method for dealing with the region. The notable exception has been the Caricom/U.S. Trade and Investment Council, an instrument of negotiations established in 1991 as part of the Bush administration's Enterprise for the Americas Initiative. In 1996, U.S. strong-arm negotiating tactics sparked a confrontation between the U.S. and both Barbados and Jamaica. The controversy concerned implementation of the Shiprider Agreement, which was intended to advance international drug cooperation between the U.S. and the Caribbean. Barbados and Jamaica declined to sign the proposal, preferring instead a framework of cooperation based on democratic principles and respect for sovereignty.

The U.S.-Caribbean Summit in 1997, on which Caricom had insisted, reflected the region's preference for dialogue. The ensuing Bridgetown Accord committed the U.S. and Caricom to cooperate on a wide range of mutual concerns and interests. The leaders outlined several measures to enhance their trade relations, including continuing "to work with all concerned parties to achieve mutually satisfactory marketing arrangements for Caribbean bananas, recognizing the critical importance to Caribbean countries of the continued access of Caribbean bananas to the traditional markets of the EU."

Since the summit, the offshore tax regimes in the Caribbean have surfaced at the top of the U.S.-Caribbean agenda as a

contentious economic and security issue. Igniting this dispute was a 1998 report by the Organization for Economic Cooperation and Development (OECD) entitled *Harmful Tax Competition: An Emerging Global Issue*. The OECD proposed that member countries take unilateral action against perceived tax havens, blacklisting these countries, and possibly imposing economic sanctions. The U.S., an OECD member, has individually expressed concerns that numerous Caribbean countries offer U.S. nationals opportunities to avoid taxation and to launder drug money. Caricom countries contend that the OECD actions are high-handed and illegal, because they have established the criteria to judge Caribbean tax regimes. Consequently, the Caricom countries say it would be more appropriate for the issue of tax practices—and more generally the maintenance of international financial markets—to be addressed in multilateral institutions, where adequate regard can be given to the interests of small states.

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## Key Problems

- Protectionist forces have routinely thwarted legislative efforts that would grant CBI beneficiary countries NAFTA parity by providing the same market access conditions Mexico receives.
  - U.S.-European banana dispute damaged U.S.-Caribbean relations.
  - Washington's preference for unilateral action in the Caribbean strained the U.S. relationship with the region, until the 1997 Bridgetown Accord established a consultative mechanism.
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# Toward a New Foreign Policy

The ongoing U.S.-Caribbean dialogue that began with the 1997 summit has offered Washington an opportunity to address several obstacles to improving relations with the region. U.S. trade policy toward the Caribbean needs to be reconstructed. Underlying any reform must be a greater appreciation of the difficulties that small countries face when trying to effectively participate in the global economy. Because of their size, Caribbean

nations risk being disenfranchised. As the WTO protests in Seattle and the IMF/World Bank protests in Washington demonstrated, the issues of inequity in current globalization patterns, the need for more democratic global economic governance, and the plight of less developed nations are being repeatedly raised.

In its trade policy, the U.S. should take these concerns to heart. Changing U.S. banana policy in such a way that recognizes the Caribbean's continuing need for preferential

market access would be a good place to start. Also worthy of consideration is the recent request by the African Caribbean and Pacific Group of countries (ACP) and the EU that they be granted a waiver from WTO rules. Such a waiver would permit the preferential market access arrangements granted under the fourth Lome Convention (which expired in February 2000) to continue under the new ACP-EU Partnership Agreement. Unfortunately, the U.S. and several Latin American banana producing countries have reacted negatively (or coolly at best) to this request. Although it has offered no official resistance to the waiver, the U.S. has reserved the right, at any time, to request the EU to change its banana regime. Instead of categorically linking the request for a waiver to a resolution of the banana dispute, however, the U.S. appears to recognize that the two issues could be pursued on parallel tracks. In any case, the inclusion of a preferential banana regime has not been finalized and will depend on the outcome of negotiations between the EU and its trading partners. In the meantime, the U.S. needs to use its influence in Latin America to dissuade Panama from acting on its threat to stall the implementation of the waiver until the EU amends its banana regime. With regard to sugar quotas, the U.S. should implement Caricom's recommendation that there be no reduction in the sugar quotas assigned to the region, and that the quotas for individual countries be consolidated into an overall regional quota.

## Key Recommendations

- The U.S. should be more attuned to the small size and vulnerability of Caricom countries.
- Washington should eschew linking the ACP-EU request for a WTO waiver of their new preferential market arrangement to the resolution of the banana dispute.
- The U.S. should establish a Caricom sugar quota consistent with the region's efforts to create a single Caricom market and economy.

Another pending issue that warrants Washington's reconsideration is the expansion of NAFTA through accessions of additional partners. Instead of expanding to become the FTAA, NAFTA could coexist as one of an increasing number of subregional groupings in this hemisphere. The negotiating parties have agreed that the FTAA will be a comprehensive, hemispheric, single undertaking.

The repeated delay in securing fast-track negotiating authority for the U.S. president—including its application to NAFTA expansion—and pressures from the dynamics of subregional integration have raised the issue of whether the FTAA should supersede NAFTA as the principal prism through which Washington would view its relations with the Caribbean. Indeed, the U.S. acknowledged the relevance of this issue by linking the duration of the recently enacted NAFTA parity to the establishment of the FTAA or any other similar regional accord.

As an overarching principle, U.S.-Caribbean economic relations should be shaped more by consultations than unilateral actions by the United States. A case in point is the U.S. government and OECD countries' concern regarding the presence of tax havens in the offshore banking centers in the Caribbean. Rather than unilaterally resorting to sanctions or penalties designed to restrict such tax havens, Washington should consult with Caribbean governments about the character and future of offshore banking. Along with tourism, the banking industry has helped diversify the region's economies, and Caribbean governments are now concerned that new U.S. and OECD threats may undermine their weak economies.

A positive development is the June 2000 U.S. pact with Trinidad and Tobago to more appropriately and effectively manage the deportees problem. Another encouraging development in keeping with a new consultative relationship was the U.S. Department of Commerce's establishment of the Caribbean-U.S. Trade and Investment Forum in 1999. A \$30-million U.S. Agency for International Development-Caribbean Regional Strategy and Five-Year Program of Assistance was developed. This program is designed to enhance the region's capacity to participate in the WTO and FTAA processes and to improve its banana marketing capabilities as well as other components of the agriculture and service sectors.

This assistance signifies a recognition that healthier U.S.-Caribbean relations will depend in large measure on the extent to which Washington considers the economic needs and interests of the Caribbean to be an integral part of U.S. security concerns in the region.

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# Sources for More Information

## Organizations

### American Apparel Manufacturers Association

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### Banana Link

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### Caribbean Community Secretariat

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Website: <http://www.caricom.org/>  
Contact: Byron Blake

### Caribbean Export Development Agency

Box 34B  
Brittons Hill  
St. Michael, Barbados  
Voice: (246) 436-0578  
Fax: (246) 436-9999  
Email: vrenwick@carib-export.com  
Website: <http://www.carib-export.com/>

### Caribbean/Latin American Action

1818 N St. NW, Ste. 500  
Washington, DC 20036  
Voice: (202) 466-7464  
Fax: (202) 822-0075  
Email: info@claa.org  
Website: <http://www.claa.org/>  
Contact: Michael Rooney

### The Dante B. Fascell North-South Center

University of Miami  
Box 248205  
Coral Gables, Florida 33124-3027  
Voice: (305) 284-6868  
Fax: (305) 284-6370  
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Website: <http://www.miami.edu:80/nsc/>  
Contact: Anthony Bryan

### Manchester Trade Ltd.

1155 15th St. NW, Ste. 302  
Washington, DC 20005  
Voice: (202) 331-9464  
Fax: (202) 785-0376  
Email: delewis@erols.com  
Contact: David Lewis

## World Wide Web

### Banana Action Net

<http://bananas.agoranet.be/>

### Free Trade Area of the Americas

<http://www.alca-ftaa.org/>

### Georgetown University Caribbean Project

<http://www.georgetown.u/sfs/programs/clas/>

### United States Trade Representative

<http://www.ustr.gov/index.html>

## Publications

*Americas Trade* (a biweekly publication by Inside Washington Publishers, Box 7167, Ben Franklin Station, Washington, DC 20044).

*Caribbean/United States Summit: Partnership for Prosperity and Security in the Caribbean* (Bridgetown, Barbados: Caribbean Secretariat, 1997).

Ransford W. Palmer, *The Repositioning of U.S.-Caribbean Relations in the New World Order* (Westport, CT: Praeger, 1997).

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