

desert that do little more than parrot the free-market dogma emanating out of Washington (Klak and Das 1999; Marshall 2002).

Another answer is more sanguine about NWDT's legacy. It finds continuity and extensions from NWDT in certain scholarship since the 1980s (Beckford and Girvan 1989; Dupuy 1997; Klak 1998; Girvan 1999; Meeks 2000). Such work in the political economy tradition improves on NWDT in several ways. It is less deterministic and economistic, it is informed by past policy failures, and it takes account of the new realities emanating from the evolving conditions in the global political economy. The remaining challenges for such scholars are to consolidate the intellectual legacies from NWDT and to find ways to employ the theory to influence policy. Undoubtedly, since the 1970s, alternatives to mainstream thinking have been far less central to Caribbean theory and practice. Most Caribbean scholars are finding it difficult to imagine an alternative to development reliant on foreign investors (Dupuy 1991; Bourdieu 1998). However, the region's ongoing development problems indicate the continued need for such alternatives (Klak and Das 1999), as the next section suggests.

The debt crisis and the neo-liberal solution

The origins and ongoing impacts of foreign debt

If we wish to understand why development policies today in the Caribbean and elsewhere in the global South focus on attracting foreign investors to generate new exports, we need to trace them back to the debt crisis of the 1980s. The foreign loan taking itself occurred primarily during the 1970s. In the 1970s, international banks were awash in deposits, and therefore eager to make loans to both public and private concerns in Latin America and the Caribbean (Corbridge 1993). Most of these loans carried floating interest rates that, at that time, were below the rate of inflation. The loans were therefore hard to pass up, especially for countries seeking ways to stave off deteriorating terms of trade for their primary products, and to pump-prime their development efforts (Klak 1995).

The foreign loan-based development strategy in the global South was foiled by US monetary policy. President Reagan raised interest rates markedly in 1980–1981 to attract global capital to the USA, in part as a way to finance his administration's deficit spending (Reifer and Sudler 1996). The US interest rate hikes increased the real rate of interest on loans that were made earlier and that carried floating rates (Figure 8.1). This interest rate increase swelled third world debt and helped to push the world economy into recession. The interest rate hikes also contributed to making the foreign debts of most developing countries, including those of the Caribbean, unserviceable. Debt arrears accumulated. In turn, global recession meant that the vulnerable primary product and tourism sectors of the Caribbean lost many of their customers. Economic decline was precipitous regionwide. By the end of 1983, the economies of Barbados, Dominican Republic,

Back to the Future

The effective federal funds rate is at its lowest point since the Kennedy administration.

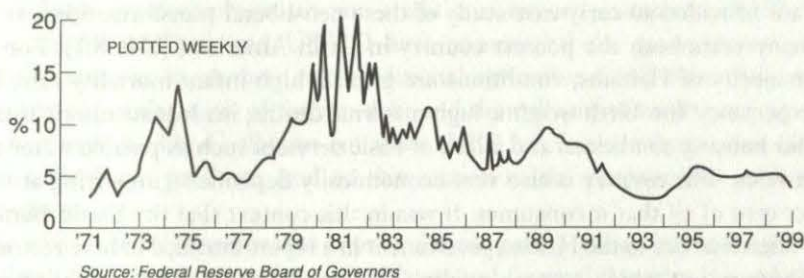


Figure 8.1 Graphs showing (a) US federal rates and (b) world real interest rates to show how (a) causes (b)

Guyana, Haiti, Jamaica and Trinidad and Tobago shrank an average of 17 per cent in real terms compared with 1980 (Conway 1998). Taken together, an array of related factors, from poor agricultural yields and prices to wasted windfall loans and political thinking that seeks industrialisation through foreign investment, led to governmental insolvency by the 1980s (Klak 1995). It took only a few more years for socialist Cuba to enter a crisis parallel to the capitalist Caribbean brought on by declining trade and agricultural production, and by mounting foreign debt. The case of Cuba is reviewed later in the chapter.

The many interrelated problems that we have outlined have provided strong motivation for Caribbean governments to approach the international development agencies seeking debt rescheduling, additional loans and, in the words of its leaders, the IMF's 'blessing' (McBain 1990; Killick and Malik 1992). Since the 1980s, Caribbean governments have needed to sign onto a series of agreements with the IMF and World Bank in exchange for financial bailouts. The bailouts come with strings attached. The international agencies seek to implement a new vision of how to develop the global economy and its member countries, which

has come to be known as neo-liberalism. This vision includes fiscal conservatism, privatisation of public assets, currency devaluation, economic opening, and aggressive promotion of foreign investment and non-traditional exports.

Haiti provided an early case study of these neo-liberal transformations. It has for many years been the poorest country in Latin America (Table 8.1). For the vast majority of Haitians, conditions are grim: a high infant mortality rate, low life expectancy, low birth weights, high maternal deaths, inadequate caloric intake, squalid housing conditions and a lack of basic services such as potable water and sewer lines. The country is also very economically dependent, importing around 70 per cent of all that it consumes. It was in this context that the World Bank in 1985 offered advice to the Haitian government in a report intended to have restricted distribution, but which became public. The report, entitled 'Haiti: policy proposals for growth', suggested the following reorientation of national priorities:

The development strategy must be export-oriented ... [Domestic] consumption ... will have to be markedly restrained in order to shift the required share of output increases to exports ... More emphasis will have to be put on development projects that support the expansion of private enterprises in agriculture, industry and services. Private projects with high economic returns should be strongly supported with accordingly less relative emphasis on public expenditures in the social services (Wilentz 1989: 272-3).

Given how reliant Haiti is on foreign assistance and investment, World Bank recommendations such as these carry a lot of weight in government circles.

The main point to take from this discussion is that the third world debt crisis ushered in a new global development paradigm. Since the 1980s, the representatives of the multilateral aid agencies have advocated the neo-liberal paradigm during their frequent visits to the capital cities of the developing world, and thereby have moved the neo-liberal transition slowly but irreversibly along (Stiglitz 2000). Policy makers, in the Caribbean and in other peripheral regions, have placed great emphasis on attracting foreign investors to produce for export. As states compete for the same foreign investment, investors are empowered to shape the negotiations to their advantage.

Neo-liberal reforms have had the effect of homogenising government policies across the Caribbean and indeed all of the third world. Distinctive development strategies, socialist or otherwise, are history. Developing countries are likely to continue along the homogeneous neo-liberal track in the future, in part because of the ongoing constraints of foreign debt. In 1996 the total foreign debt of Latin America and the Caribbean stood at \$622 billion, or \$189 billion more than in 1987, when bankers and first world politicians considered that the crisis was at its worst (IDB 1997: 256; Rosen 1997). Measured against population size or against various economic indicators such as foreign exchange earnings, the foreign debts of four Caribbean Basin countries (Guyana, Nicaragua, Honduras and Jamaica) are now the hemisphere's worst and among the most burdensome in the world.

Non-traditional export promotion as development policy

For the small countries of Latin America and the Caribbean, neo-liberal reforms have placed great emphasis on non-traditional export promotion (NEP). The IMF, the World Bank and USAID have encouraged the governments of the smaller countries to promote non-traditional agricultural and industrial exports as a way out of the crisis of foreign debt and the collapse of traditional, primary product exports. For Caribbean countries, NEP has focused more on industrial than agricultural products, and so this section of the chapter also emphasises manufacturing.

In 1983, the US government provided some partial policy support for a conversion of the economies of the Caribbean and Central America towards NEP through the Caribbean Basin Initiative (CBI). Note that the CBI was initially a disguised US *military aid* policy against leftists in Central America. As an *economic* development policy, the CBI primarily involved a further opening of Caribbean markets to US products, and a relocation of US garment factories to the Caribbean to take advantage of cheap labour and subsidised factory space (Deere *et al.* 1990). The CBI virtually ignored tourism, and thereby forwent its potential contribution to sustainable development (Chapter 10). The CBI's opening of the internal markets of Caribbean Basin countries to US products has had a pronounced effect. For many years, the United States has had a large and growing export surplus with the Caribbean, which along with the rest of Latin America, is the only world region with which the US has had a trade surplus.

NEP has also had a significant impact on Caribbean exports. As a result of both the decline in traditional exports and the expansion of new ones, a significant shift in the composition of Caribbean exports has indeed occurred. For many Caribbean countries, such non-traditional industrial exports were contributing one-quarter to one-half of total exports to the USA by the 1990s (Schoepfle and Pérez-López 1992). If measured by growth in foreign exchange earnings and employment during the 1990s, the Caribbean region's two most important economic sectors were manufacturing for export and tourism. As we will argue, however, upon closer inspection Caribbean non-traditional exports display a number of significant weaknesses.

For the host countries of the Caribbean, NEP involves a wide range of public expenditures and incentives designed to encourage investment: governments have established export-processing zones. States have also offered investors duty and tax holidays of 10–15 years or more, and the unrestricted repatriation of profits (Deere *et al.* 1990; World Bank 1992). Other public costs associated with the promotion of non-traditional exports include expenditures for staffing public agencies, advertising the free zones abroad, preparing, operating and maintaining the industrial sites, entertaining prospective investors, training workers, and assisting foreign managers to establish operations and new residences and to hire desirable workers. Incentives and associated expenditures such as these have become standard offerings in many peripheral countries. As a result, they have come to

serve as expensive antes into the international game of investment promotion, rather than as targeted and cost-effective means to expand exports (Klak and Myers 1997). As Dicken (1994: 112) put it, governments 'are locked in competitive struggles' over investment.

For all the efforts to conform to IMF dictates, the Caribbean has little progress to show for it. Jamaica is a case in point, having gone through more structural adjustment agreements over a longer time frame than virtually any other developing country. For Jamaica these began in the late 1970s when democratic socialist Prime Minister Michael Manley got into trouble with domestic investors, the USA and the international development agencies. Jamaica has for long done what the World Bank and IMF have requested but its exports have not increased (Mandle 1996), nor has it shown signs of being on a path towards development (Dookeran 1997; Meeks 2000).

A smaller state, or a different kind of state?

Under neo-liberalism, the state's role has shifted away from direct ownership of economic assets, production activities and the provision of social services, and towards attracting and subsidising export-oriented investors. The state's new role is often portrayed as one of downsizing (see Weiss 1997). However, it is more accurately viewed as a qualitatively different relation between the state, investors and workers. For some neo-liberal activities, such as promoting exports and competing for investment, the state's role has actually considerably expanded (see Box 8.1 on St Lucia's National Development Corporation).

Export-processing zones as development policy

Export-processing zones (EPZs) are labour-intensive manufacturing centres that involve the import of raw materials and the export of factory products. EPZs (more

Box 8.1: Promoting export-oriented manufacturing: the example of St Lucia's National Development Corporation

A central player in St Lucia's efforts to create new sources of foreign exchange is the National Development Corporation, a parastatal agency (i.e. governmental but with considerable autonomy from the traditional state). Within its array of duties, NDC seeks to promote foreign investment and to expand non-traditional exports, ranging from garments and electronics to processed agricultural goods and data. NDC's mission and approach reflects the general outline of the role assigned to peripheral states in the neo-liberal transition. This role is usually

(Box continued)

carried out by newly created parastatal agencies that were initially funded in whole or part by the US Agency for International Development (Clark 1997).

NDC's stated objectives are to use product differentiation and niche marketing to revive and reorient the country's manufacturing sector, and to increase its contribution to national development (MFSN 1997: 55). NDC pursues these broad objectives by planning and executing industrial site development on the vast land holdings under its authority. NDC also leases, maintains and eventually, after the foreign loans for construction are repaid, tries to sell the factory shells (thus far unsuccessfully). In accordance with national development plans that encourage investment in manufacturing for export, NDC charges rents for factory space that are priced at 'very reasonable concessionary rates', as the Permanent Secretary in the Ministry of Commerce, Industry and Consumer Affairs phrased it (Richardson 1997). Fifteen-year tax holidays (which are usually extended when they near their end), tariff-free import of industrial inputs, unlimited repatriation of capital and profits, and worker training programmes round off the St Lucian government's offerings to qualified investors (NDC 1997a).

Agencies such as NDC that promote investment and exports cannot expect to recover their operational costs through the income they receive from the rental or sale of land and factory shells. On the contrary, proffering significant subsidies to (primarily foreign) investors has become a mandatory component of this development strategy, as the following comments by the head of NDC illustrate. In November 1996 Jacki Emmanuel Albertini became the general manager of NDC after years of work in the private sector. At a meeting soon after taking office with her more senior counterparts from Barbados, Jamaica and other Caribbean countries, Albertini rather naïvely asked when and under what conditions an agency such as NDC can be expected to move into the financial black. Their response, as she put it, was, 'child, it will never be'. Short of the seemingly impossible goal of financial solvency, Albertini is instead more modestly 'trying to keep her head above water' regarding the scale of NDC's financial deficit (Albertini 1997). Furthermore, NDC has limited funds to deliver quality service to its investor clients. The agency's burdensome expenses associated with investment promotion, site development, maintenance, management and unpaid factory rental bills have left it with inadequate cash flows, limiting its capacity to service its factory shells and to respond to tenant requests for basic assistance. NDC's inadequate site servicing and responses to its customers undercuts the broader national development policy of using state agencies and national resources to create pro-investment conditions.

In sum, NDC is a significant user of foreign exchange. No one knows how much net income it generates for St Lucia because a full cost accounting of the EPZ strategy has never been done. The agency is also financially strapped, overburdened and overextended in terms of responsibilities and projects. A ramification of these constraints is that NDC has little room for forward thinking and planning that could identify and aggressively pursue emerging market niches in which St Lucia could be competitive.

often called 'free zones' by their supporters) are extraterritorial sites in which manufacturing can proceed outside local regulations. EPZs have been created to streamline importing and exporting and to sidestep national laws that privilege some domestic social groups over foreign industrial exporters (Gereffi and Korzeniewicz 1994; Klak 1995). Most of the new export-oriented manufacturing occurs in state-designated free zones. In some cases, such as Barbados, the state has not designated free zones proper, but nonetheless offers a package of infrastructure and incentives to encourage foreign investment for export manufacturing which parallels that found in countries with official EPZs (Schoepfle and Perez-Lopez 1989).

More than 90 countries worldwide now offer export-processing zones. This global homogenisation of development policy emerged from a confluence of three exogenously controlled factors (Mody and Wheeler 1987; Klak and Rulli 1993): (1) massive foreign exchange shortfalls in less developed countries (that is, the debt crisis described earlier in this chapter); (2) the search by international investors for cost-saving components in manufacturing; and (3) the spread of neo-liberal ideas that encourage open economies, foreign investment and non-traditional exports (Williamson 1990, 1993).

EPZs primarily attract manufacturers seeking bargain-priced and compliant labour as a cost-saving component of global commodity chains. Many researchers have raised concerns about the overemphasis placed in NEP on the availability of low-wage, unorganised and low-skill employees (Warr 1989; Safa 1992; Klak 1998). In relation, other researchers argue that NEP is a self-contradictory development policy, inasmuch as the competitive advantage rests on labour cost minimisation rather than on more development-oriented criteria such as the productivity/wage ratio (Deere *et al.* 1990). Furthermore, investors are often prepared to relocate if provoked by social instability or by exogenous changes in trade policies or production methods (Gereffi and Korzeniewicz 1994; Klak 1995). This degree of exogenous control over export processing suggests that Caribbean countries have only limited latitude for capturing benefits (Kaplinsky 1993). EPZs are emblematic of the broader neo-liberal agenda, inasmuch as both emphasise open economies, foreign investment, non-traditional exports, privatisation and a withdrawal of the state to the role of 'market facilitator' (Williamson 1990; Krueger 1993).

Caribbean governments have aggressively promoted and subsidised non-traditional exports, including garments and high-value agricultural commodities such as pepper sauces and other condiments (Klak 1998). These efforts can be likened to a 'shatter-shot' approach to searching out export market niches, defined as new, high-value products that the Caribbean and other parts of the global South could sell competitively abroad. Even in the smallest countries, policy makers have been actively promoting investment in a host of non-traditional activities. In tiny Dominica, for example, these range from tourism, assembly operations and data processing to vegetables, fruits, seafood and cut flowers (Wiley 1998). Such experimentation raises the question of whether Caribbean countries can identify product niches with considerable promise or whether they are replacing monocrop

and single market dependence with a new form of vulnerability. In other words, are Caribbean countries trying to do many things at once while not doing any of them well?

The non-traditional export activities that employed the most people and were most widespread in the Caribbean at their peak in the mid-1990s were the *maquiladoras* or assembly factories. Virtually every Caribbean state created export-processing zones and took loans to build and service factory shells within them. Garments have been by far the most common product, although electronics, plastic goods and shoes have also been produced. At their peak, tens of thousands of mainly young females were employed in such factories in Jamaica and Haiti. St Lucia and Grenada had more than a thousand workers each. The Dominican Republic had attracted the most garment assembly factories by far. Employment reached over 160,000 factory workers, whose products were worth \$4.1 billion, or 82 per cent of the country's exports, in 1998 (Sealey 2001). Even there, however, the assembly plants have been low-paying economic enclaves with minimal positive impacts on the local economy. Since NAFTA in 1994, many foreign factory owners have left the Caribbean in favour of much lower-wage sites in Mexico and especially in China (see Box 8.2).

Although it is widely claimed that the assembly plants are net economic gains for Caribbean countries, that assertion would need to be validated through a thorough cost accounting, which appears never to have been undertaken (Klak 1995, 1998). The gross income from low factory wages and subsidised rents and utilities would need to be weighed against the public costs of promoting the country as an investment site, building, operating and maintaining the factories and related infrastructure, and training workers (see Box 8.1). The main beneficiaries of the low-cost products made in Caribbean assembly plants are the corporate

Box 8.2: Footloose investors and underpaid workers: export industries in St Lucia

In 1997, St Lucia's formal sector workforce included 3,565 manufacturing employees, who worked in 70 different factories (NDC 1997b). This represented 9 per cent of the formal sector workforce, or an average of 51 workers per factory. Since then there has been a precipitous decline in export-oriented manufacturing in St Lucia. The total number of factory workers has declined primarily because a number of garment and electronics factories have left the island. Garments have contracted the most, declining in terms of both output and value in each of the last six years for which data are available (MFSN 1997: 58). Because the industrial sites offered by the National Development Corporation (NDC) provide the majority of the island's total factory space, the pullout has worsened the agency's financial disequilibrium. Twenty-seven per cent of NDC's available factory space was vacant as of September 1997. In

(Box continued)

addition, firms fleeing as of 1996 owed over US\$1 million to NDC in rents, and over US\$4 million more in social security contributions (*St Lucia Business Focus*, 1996). These declines and losses have left most St Lucians, from policy makers to people on the street, less than sanguine about foreign manufacturers on their soil. As one official in the Ministry of Commerce, Industry and Consumer Affairs, which oversees the promotion of foreign industrial investment, laments, 'many establishments that came here in the early days were what are called "footloose"' (Richardson 1997). Amid these absolute declines in the industrial sector, the national workforce continues to grow by about 3,000 per year, thereby making the task of providing sufficient numbers of decent jobs ever more difficult.

Over 90 per cent of workers in the existing export industries are women. This statistic is largely explained by their willingness to work for lower wages and to be more tolerant than men. As in other Caribbean Basin countries, the unemployment rate for women is higher than for men, and is highest among young women, many of whom are also heads of households. Young women are therefore quite desperate for work. NDC can take credit for providing jobs for some of them, although the wage rates for most factory jobs are inadequate. Ironically, one of main reasons that factories have been closing down in St Lucia is that industrial wages, which are usually between US\$1 and \$2 per hour, are higher than in many countries competing for the same investment. Wages are relatively high in St Lucia because they are buoyed up by the high cost of labour reproduction. Labour costs are relatively high in St Lucia for at least two reasons. Firstly, the standard of living in St Lucia is higher than in virtually every other Caribbean Basin country offering lower wage rates. Secondly, the cost of living in St Lucia is relatively high by regional standards. Because less than a third of the island's arable land is devoted to growing food other than bananas, and because of St Lucians' partiality for foreign products, much food is imported (Barrow 1992). In other words, both the small domestic food supply and a large import component make local prices relatively high.

However, to say that wages in St Lucia are relatively high should not be taken to mean that they are adequate. Indeed, the combination of relatively high wages and expenses creates an especially difficult situation for the St Lucian women working in the export factories. For the typical female factory worker, the pay level is less than what is required to reproduce her own labour power. These women have been forced to resort to a wide range of additional and creative survival strategies. For many St Lucian women these strategies include some combination of wage work, informal sector activities, homework, backyard gardening, food provision by relatives and neighbours, monthly support payments from one or more fathers of the children in the household, and rural living to minimise the cost of living. The factory pay rates are not high enough to allow many of the workers to live in an urban area, where public services and other amenities are better, but rents are higher and subsistence food production is not possible (Klak 1998).

brand names they carry, the department stores where they are sold, and US consumers who buy the low-priced products.

The threat and the allure of NAFTA

NAFTA (the North American Free Trade Association), which took effect on 1 January 1994, has decreased the Caribbean's economic importance in the global economy, and has relocated manufacturing investment to Mexico. Mexico's foreign investment and exports have grown relative to the Caribbean since 1994. Members of CARICOM (the Caribbean Community and Common Market) have reacted to NAFTA by altering their trade and investment policies to better match US preferences. As Demas (1997: 20) laments for CARICOM, 'We have already conceded far too much, far too quickly, by way of trade liberalisation'. CARICOM countries have also been pressing the United States for trade concessions. The most urgent recent aim from the Caribbean is parity with Mexico within NAFTA, so that the region will no longer be comparatively disadvantaged as an export platform. After years of Caribbean lobbying efforts, then US President Bill Clinton signed into law a modest trade bill compared with Caribbean demands. It is called 'NAFTA for the Caribbean and Central America', although it is also referred to as an extension of a Reagan-era bill, the Caribbean Basin Initiative. US garment retailers and producers predicted a great increase in production from Central America and the Caribbean as a result of this bill, but it has not been enough to overcome the forces producing a decline in the region's maquiladoras since 1994.

There is more hard evidence of the impacts of NAFTA on Mexico since it came into effect in 1994. Note that Caribbean and Central American countries seek NAFTA membership despite their competitiveness *vis-à-vis* the USA for little beyond low-wage labour. And they do this despite all the hardship in Mexico over NAFTA's initial years (Anderson *et al.* 1994; Schrieberg 1997). For example, open unemployment in Mexico increased from 3.4 to 7.3 per cent during NAFTA's first two years, while real median salaries fell by 50 per cent and interest rates and foreign debt soared. Mexico's per capita GDP was lower in 1997 than in 1982. Somewhere between 45 and 75 per cent of Mexico's nearly 100 million people live in poverty (Otero 2000). The distribution of NAFTA's benefits has also been economically and spatially unequal. Only 2.2 per cent of Mexican companies account for 80 per cent of the country's non-oil exports (Gayle 1998). Furthermore, benefits have been concentrated in Mexico's northern states. In southern states such as Chiapas impacts are largely negative and have fuelled the Zapatista rebellion.

The fact that Caribbean policy makers want to make their countries like Mexico suggests their *comprador* class positions. They are able to benefit personally from international ties that may not be in the interest of local residents (Cardoso and Faletto 1979). Indeed, investment promotion agencies have expanded throughout the Caribbean under neo-liberalism. The Caribbean continues to engage in what has been called a 'race to the bottom', whereby countries of the global

South compete with each other by offering foreign investors more subsidies and cheaper and more compliant labour (Green 1995). This race to the bottom suggests neo-liberalism's hegemony as a global development policy. It also serves to underscore the Caribbean's abject dependency and limited development options.

The data-processing industry: technopoles or electronic sweatshops?

The export market niche strategy that has become popular during neo-liberalism may be conceptually appealing, but the Caribbean's experience with it shows that it is fraught with difficulties. The problems are well illustrated by the data-processing sector, which Caribbean policy makers have hailed as a globally competitive industry that bodes well for the region's future. In order to contribute to Caribbean development, the data-processing sector would need to incorporate many local workers and to nurture local firms to take advantage of expanding opportunities in the global data-processing industry, which earns \$1 trillion yearly (Plate 8.3).



Plate 8.3 The Montego Bay Free Zone in Jamaica specialises in data processing. The female workers prefer the more pleasant computerised work environment to that of textile factories. Unfortunately, the number of jobs available and the pay levels in either data processing or the textile industry have been far below the workers' needs
Source: Tom Klak

Mullings (1995, 1998) draws on a detailed analysis of the rise and fall of information services in Jamaica to explain why this industry, which has real potential (however narrow) for growth in employment, wages, managerial expertise and backward linkages into the local economy, has stagnated in terms of all these criteria. She identifies four factors that have hampered the industry:

- inadequate state support for local firms;
- continued policy steering and dampening by a traditional, non-dynamic private elite;
- investment fear on the part of foreigners;
- an extremely narrow role allotted to Jamaican firms and workers by US outsourcing firms.

Rather than propelling Jamaica to a heightened position in the international division of labour as the neo-liberal model predicts, the information services sector has slumped and entrenched the gender, class and international inequalities that have long characterised this peripheral capitalist country.

Despite Jamaica's negative experience, eastern Caribbean policy makers have in recent years been promoting the data-processing industry. With the garment sector collapsing, the World Bank has deemed it a viable new export industry for the eastern Caribbean (NDC 1998). Ironically, St Lucian policy makers view Jamaica's data-processing sector as a model they can emulate. The St Lucian state's own evidence of obstacles to the expansion of the data-processing sector would seem to be enough to discredit the idea. It hired two outside consulting firms to evaluate the prospects. The joint report by the Chicago Group and Wolf, Arnold, and Cardoso notes obstacles such as the following:

Voice grade services cost US\$1.85 per minute from St Lucia, while similar services with volume discounts cost US\$.22 per minute from the Jamaica Digiport International [at the Montego Bay Free Zone] and as little as US\$.10 per minute in the United States (*Diagnostic Evaluation of the Enabling Environment for Informatics in St Lucia* 1995: 19).

The negotiations of Caribbean states with the British firm Cable and Wireless, which has for decades commanded a telecommunications monopoly in Jamaica and elsewhere (Dunn 1995), were unable to open the telecommunications sector to competition or to bring local rates down to competitive levels through the 1990s (Vitalis 1998). Jamaican officials, followed by their eastern Caribbean counterparts, were finally able to loosen Cable and Wireless's monopoly after 2001. However, the question remains as to whether the Caribbean can overcome its long-term telecommunication disadvantages and now quickly rise to be internationally competitive for telecommunication-based industries. Despite the many reasons for scepticism, Caribbean governments are aggressively pursuing telecommunication services, as this policy position from St Lucia's National Development Corporation illustrates:

Information services is without a doubt the fastest growing industry in the world today. The NDC believes that St Lucia is well placed to benefit from this business development both in terms of the export of information services and the technology infusion within all sectors of the economy.... The informatics companies... require more attractive work spaces which more closely resemble commercial office space... [Thus the existing vacant factory shells are unsuitable and new shells are being built] (NDC 1997c: 13–15).

Caribbean experiments with socialist development: narrow manoeuvring room *vis-à-vis* the USA

↙ Global capitalism has not been generous to Caribbean people, some of whom have therefore experimented with an alternative model of development and societal organisation. Cuba has had a socialist regime since 1959. Three other Caribbean territories have had briefer and more modest socialist experiences: Guyana in 1961–1964 under Cheddi Jagan; Jamaica in 1972–1980 under Michael Manley; and Grenada in 1979–1983 under Maurice Bishop.

The essential challenge for the Caribbean's socialist regimes has been to harness an underindustrialised and unequal peripheral economy and to rapidly expand the productive forces and redistribute resources more fairly. This is in itself a tall order, made more difficult because it runs against the tide of global capitalism and US hegemony. Such departures raise broad questions such as 'How can a Caribbean country, in the US "backyard", pursue a non-capitalist path without the trade, capital and blessing of the United States and the rest of the largely capitalist world?' 'How can internal resources be progressively redistributed when there are few to go around, and when societies are poor and unequal and therefore prone to internal divisions, unrealisable pent-up popular expectations, and patronage systems?' The challenges are many and the successes not surprisingly are few.

Shutting down the socialist development option

↙ Although this chapter has focused on economic development issues, they can never be divorced from geopolitics. The economic power of the United States in the region allows it to express its geopolitical power. Since the 1950s, direct or covert intervention by the United States in several Caribbean countries (e.g. Cuba, Guyana, the Dominican Republic, Grenada and Haiti) attests to the importance the superpower places on pursuing and maintaining its interests in the region (Blum 1986; Dupuy 1997; Walker 1997). Grenada felt Washington's political pressure in the early 1980s (see Box 8.3). The US economic embargo against Cuba is over four decades old and was only strengthened with the passage of the Helms–Burton Amendment in 1996 (LeoGrande 1997).

**Box 8.3: Grenada, from 'Not for Sale' to 'For Sale':
US opposition to its socialist experiment**

'We are not in anybody's backyard, and we are definitely not for sale'. Maurice Bishop spoke these words in 1979, one month after taking power in Grenada's New Jewel Movement revolution (Conway 1983: 3). (How ironic his words were!) The Reagan administration was not amused by such defiance, and soon after taking office in January 1981 began work towards toppling Bishop's regime. At an OAS meeting in Washington in 1981, Reagan made an assessment and a warning that everyone knew was directed at Grenada:

In the Caribbean we above all seek to protect those values and principles that shape the proud heritage of this hemisphere. Some, however, have turned from their American neighbors and their heritage. Let them return to the traditions and common values of this hemisphere and we all will welcome them. The choice is theirs (Hersh 1991).

Then the United States chose to distance itself diplomatically from the tiny island and conducted a mock invasion exercise on the Puerto Rican island of Vieques that was clearly aimed at Grenada. When Bishop traveled to the US capital in 1983 to assuage concerns about Grenada's international relations and development priorities, he got the cold shoulder. Upon his return home from cajoling Washington, the radical fringe of the New Jewel Movement arrested him and murdered him amid the ensuing chaos and struggle for power. In the words of the US ambassador to the eastern Caribbean at that time, Sally Shelton Colby, that murder and power struggle provided the United States with 'an enormous piece of luck' that it could use to justify the invasion it had long been planning (Hersh 1991). A predictable sequence of events followed: an election of the US-chosen presidential candidate, an inflow of modest US aid (including funds to complete the airstrip Reagan insisted Bishop was building for Soviet warplanes), and a pro-US policy. Although these events have perhaps left it less sanguine than many of its neighbours about neo-liberal development policy (Wiley 1999), the Grenada government now joins the chorus by selling its country and people to foreign investors in non-traditional export sectors. In March 2003, key planners of the US invasion, including Oliver North and former CIA operative Dana Rohrabacher, participated in a well-publicised cruise to and tour of the island under the theme of 'Celebrating the 20th Anniversary of the Liberation of Grenada' (www.freedomalliance.org/). (For further analysis of Grenada's brief socialist experiment, see Ambursley 1983; Conway 1983, 1998; Clark 1987; Brierley 1985; Hudson 1989; McAfee 1991).

As Grenada's disastrous power struggle in 1983 illustrates, the Caribbean's economic and geopolitical dependency on the United States is a constant factor weighing on the region's policy makers. This is in contrast to the relative decision-making autonomy enjoyed by the American hemisphere's larger

countries, especially those of South America (Gwynne and Kay 2004). Caribbean countries must always take account of how the United States will react to their policy proposals. For Cuba's socialist regime, US animosity has been a constant preoccupation since the 1959 revolution.

Enemies from within and without (mainly the USA) have worked systematically against socialist regimes in the Caribbean. Included in the active enemies of Caribbean socialist experiments is the news media, as illustrated by the scare tactics employed by Jamaica's *Daily Gleaner* and the *New York Times* from the USA. These opponents capitalised on any of the inevitable errors in leadership, and they sabotaged the Caribbean's socialist experiments before their developmental capabilities could be ascertained (Blum 1986; Sunshine 1988; Booth and Walker 1993). While Cuba retains elements of socialism, Cuba is following the rest of the Caribbean region by courting foreign capital with special labour codes and incentives, and by relying on international tourism as its economic mainstay (see Chapter 10 and Pattullo 1996).

Economic development policies in Cuba: the Soviet era

→ Socialist Cuba's recent economic problems are not unrelated to those of the capitalist countries of the region. Since the nineteenth century Cuba has essentially had a one-crop (sugar cane) exporting economy, with the concomitant vulnerabilities of output and price fluctuations and deteriorating terms of trade (see Chapter 3 on agriculture). In part, Cuba's crisis is unique to its experience in CMEA (Council for Mutual Economic Assistance), the now defunct trade alliance among state socialist countries led by the USSR. Rather than embarking on a major post-revolutionary economic diversification effort from the 1960s through the 1980s, Cuba was encouraged to specialise primarily in sugar exports and to import most other requirements from other CMEA members. A one-for-one trading deal with Russia, sugar in exchange for petroleum, encouraged Cuba's specialisation and yielded a \$5 billion annual subsidy compared with open market prices (note however that little sugar actually trades on the open market). The USSR also availed to Cuba a generous line of credit that has left an outstanding debt of \$20 billion, in addition to the island's \$11 billion of debt to Western creditors (Table 8.1).

Cuba's CMEA trade relationship delivered a fair assortment of industrial inputs and consumer goods until the unexpected events of the late 1980s. With the collapse of the Soviet bloc in 1989–1991, Cuba lost 75 per cent of its trade flows and imports, and aid worth 22 per cent of national income (Marshall 1998). Cuban imports fell from \$8.1 billion in 1989 to only \$2 billion in 1993, and its economy went into a free fall. Independent of a country's political-economic organisation, it is hard to imagine any country enduring such vast economic losses, hardships and required transitions without a major internal upheaval. Cubans have sombrely belt-tightened, coped, and adjusted to their suddenly transformed reality.

*Economic development policies in Cuba today:
socialist island amid global capitalism*

Castro coined the euphemism 'The special period in the time of peace' to describe the post-Soviet era of massive shortages, daily hardships and new policies that encourage private initiative and court foreign investors. Cuba's domestic policies now allow farmers to sell their surplus directly to consumers, private vendors to offer many other consumer goods, and all citizens to use the US dollar as legal tender. New production policies include encouraging foreign investment by allowing (at least partial) foreign ownership of enterprises in Cuba, promoting tourism, reorienting state investment to enhance product development for global markets, and reconfiguring large state farms into autonomous and productive cooperatives (Susman 1998).

Figuring out creative ways to obtain food and other daily necessities now preoccupies most Cubans. Habaneros have been left especially vulnerable since CMEA's collapse because they are the most isolated from rural food production. The shortages of items of basic needs have encouraged the theft of state resources and black marketeering. For example, nearly 30 per cent of all tobacco produced on state farms is stolen for illegal sale, Cuban authorities admit (Chauvin 1998). Cuban officials have been forced to legalise a range of other capitalistic practices (Plate 8.4). The foreign tourism sector has acted like a magnet, drawing Cubans



Plate 8.4 Illegal informal vending at Varadero Beach, Cuba. Since this photo was taken in 1993, the Cuban government has legalised the US dollar and has offered licences to informal vendors. The government taxes and restricts the activities of small businesspeople, fearing that they may accumulate inordinate wealth and contribute to social inequalities. As a result, the number of licence holders for small businesses peaked at 208,000 in 1995, but fell to 115,000 by 2000

Source: Tom Klak

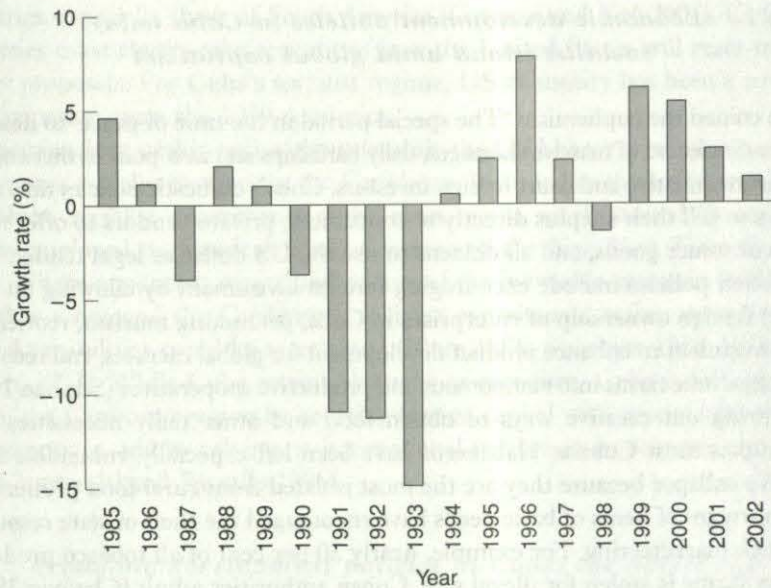


Figure 8.2 Cuban economic growth rates, 1985–2002

Note: Figures for 1985–1989 are GSP (global social product), while those for 1990–2002 are the more standard GDP (gross domestic product); for an analysis of their differences, see Zimbalist and Brundenius (1989)

Source: *Anuario Estadístico de América Latina y el Caribe*, United Nations, Santiago, Chile, various years; *Latin America Press*, *Inter-Press Service*, and others

of all stripes away from skilled professions and towards the dollar-earning possibilities. A highly trained professional now earns much more driving a taxi cab or mixing drinks for tourists than at her/his formal sector job (Segre *et al.* 1997). A result is an ‘inverted income pyramid’, whereby low-skill jobs pay much more than those requiring higher education.

The Cuban economy bottomed out in 1993 and has since haltingly recovered due to expanded domestic supplies of petroleum and foreign exchange earnings from tourism, nickel and cobalt (Figure 8.2). On top of that, in October 2000, President Hugo Chavez of Venezuela, which has more petroleum reserves than any country outside the Middle East, offered Castro the Caracas Energy Accord. It provides oil to Cuba and other Caribbean countries at reduced prices, with low interest and with the option of payment in kind. Many economic problems remain in Cuba, however. The 1998 sugar harvest of around 3 millions tonnes was the lowest since 1959. Cuba has therefore had little alternative but to join most other Caribbean islands that are members of the Caribbean Tourism Association, and to rely on foreign tourism as its main economic sector (see Chapter 10). Cuba’s tourism receipts reached \$1.5 billion by 1997, six times higher than in 1990.

While the United States continues to try to isolate Cuba, other countries such as Canada, Mexico and Spain are taking advantage of the profitable opportunities in tourism, as well as in mining, utilities, biotechnology and many other sectors

availed by the lack of competition from US firms. Pressure on the US government from domestic farmers and industrialists to open trade with Cuba continues to mount. This pressure has thus far been checked by adept lobbying by the Cuban American National Foundation (CANF), and more broadly by the inertia of 40 years of policy attempting to isolate the socialist renegade 90 miles from Florida (Alzugaray 1999).

Conclusion: where do all these development schemes leave the contemporary Caribbean?

After a half-millennium of development schemes, the Caribbean today is economically vulnerable and dependent on the United States. Some trade statistics will provide a sense of the scale of the problem (Table 8.3). The first column of data expresses trade dependence as a ratio of exports and imports divided by GDP. The lower the value, the greater the share of a country's economic activity that involves domestic suppliers, producers and consumers. In other words, lower values mean more economic autonomy. The data indicate that, by and large, Caribbean countries are considerably more trade-dependent than the larger and more industrialised countries represented in the table. Values of well over 100 for three of the Caribbean countries indicate extreme trade dependency.

Note the contrasts with mainland Latin American countries. Caribbean countries are significantly more trade-dependent than Guatemala, the least dependent on trade of the Central American countries. Guatemala has a value similar to that of Chile, the most trade-dependent of the South American countries shown. Indeed, Chile's pronounced primary product-based export orientation has been the subject of considerable attention and debate in scholarly and policy circles (Gwynne and Kay 2004). However, Chile has a diversity of trading partners and is not only considerably less dependent on imports from and exports to the United States, but its exports there are now surpassed by those going to the EU (and to Japan). The UK is similarly trade-dependent, but with a diversity of trade partners.

The patterns just described for Caribbean trade dependency are extended by the data for imports to and exports from the USA in Table 8.3. For virtually every country shown, the United States is both the largest importer and exporter. At the same time, note that the USA is the least trade-dependent country in the table (it has a value of 13 in the middle column). This is testimony to the profound economic power of the USA in the American hemisphere. The only exception to the rule of US trade dependency among the Caribbean countries shown is St Lucia, whose banana shipments to a guaranteed UK market dominate its exports. Dominica and St Vincent display similar trade patterns. Unfortunately for these eastern Caribbean islands, their lack of trade dependency on the United States has only created a bigger problem. The USA has successfully argued to the World Trade Organization that the guaranteed market in the UK is illegal and must be terminated.

Table 8.5 Trade dependency: selected Caribbean countries in comparative perspective

Region	Exports+Imports/ GDP %	Exports to USA %	Imports from USA %
<i>The Caribbean</i>			
Bahamas	130	51	55
Barbados	117	13	36
Dominican Republic	48	48	60
Jamaica	82	47	54
St Lucia	166	22*	34
Trinidad and Tobago	96	48	48
<i>Central America</i>			
Guatemala	35	30	44
Honduras	59	53	50
Panama	77	39	40
<i>South America and Mexico</i>			
Argentina	20	9	21
Brazil	15	17*	23
Chile	38	15*	25
Colombia	28	39	36
Mexico	22	85	69
<i>Industrialised countries</i>			
United States	13	n.a.	n.a.
United Kingdom	48	13*	12*

* The USA is the largest export outlet and import source for all countries listed except those marked with an asterisk. For St Lucia, 56 per cent of exports go to the UK; for Brazil, 28 per cent of exports go to the EU; for Chile, 25 per cent of exports go to the EU; for the UK, 13 per cent of exports go to Germany and 15 per cent of imports come from Germany.

Sources: Exports+Imports/GDP: Baumol and Wolff (1996: 877); the data are for 1950–1990 with slight differences for Bahamas, Barbados and Jamaica; exports to and imports from the USA: *The World Factbook 1997*, www.odci.gov/cia/publications/factbook/indexgeo.html; the data are for 1993, 1994 or 1995, depending on the country

Besides Chile and St Lucia, the other exception to the rule of US trade dependency in Table 8.3 is Brazil, which also stands out for its exceptionally low level of trade dependency. Brazil, together with Argentina, stand out as the most economically autonomous of the Latin American countries in Table 8.3. Note that the USA heavily dominates the international trade of Mexico. However, the fact that imports and exports are only 22 per cent of Mexico's GDP indicates more economic autonomy than most other countries, especially those of the Caribbean.

Trade dependency is a key economic characteristic for all of the Caribbean, but countries differ in terms of level. The smaller islands of the eastern Caribbean are more trade-dependent than the larger islands. Despite the variations between

Caribbean countries, however, there is much regional commonality. On average, the Caribbean is more dependent on trade, and is less industrialised, than mainland Latin America. The Caribbean's economic dependence on the United States is also an important element of regional commonality, as distinct from the situation in South America. The Caribbean's relatively high levels of trade dependency distinguishes how neo-liberalism is applied there compared with most of South America. Neo-liberalism puts pressure on already highly trade-dependent Caribbean countries to export more. The Caribbean's relatively low levels of output and industrialisation also contribute to its peripheral status in the global economy.

The Caribbean region has endured many economic cycles and policy experiments over the decades. Despite these economic and political twists and turns, the Caribbean remains on a similar course. The Caribbean has been and continues to be a peripheral region in the global economy. Today, as the Caribbean travels further along the neo-liberal free-market path, the region appears to have few available policy options. Fortunately, the Caribbean people's historically refined and tested attributes of adaptability, creativity and ability to cope with external change and adversity will provide them with some protection during the neo-liberal era.

Note

- 1 These direct and indirect benefits associated with a politically dependent status in part explain why a slight majority of Jamaicans polled immediately before the 40th anniversary of the island's independence in August 2002 felt the island was better off under British colonial rule.

Useful websites

www.acs-aec.org/ is the website for the Association of Caribbean States, with a wide range of up-to-date economic and trade data.

www.planningcaribbean.org.uk/ is the website maintained by Dr Jonathan Pugh devoted to participatory planning in the Caribbean and related topics.

www.giraldilla.com is the website that reports policy trends in the USA toward Cuba and in Cuba itself that are relevant to US investors.

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