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THE CARIBBEAN: New Dynamics in Trade and Political Economy

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Contents

Preface and Acknowledgments i
Anthony T. Bryan

Acronyms v

Context and Concepts

1. The Caribbean in a New International Context: Are Freedom and Peace a Threat to Its Prosperity? 1
Jorge I. Domínguez

Trade and Integration

2. NAFTA: Challenges for the Caribbean Community 27
Henry S. Gill
3. Europe and the Caribbean: Toward a Post-Lomé Strategy 55
Anthony P. Gonzáles
4. Intra-Caribbean Relations: A Review and Projections 75
David E. Lewis

Political Economy

5. Challenges to Caribbean Economic Development in the 1990s 111
Ramesh Ramsaran
6. The Evolving Caribbean Business Environment 135
Dennis J. Gayle
7. Privatization and Employee Ownership: Jamaican Models ... 157
Vanessa Spence
8. Caribbean Options Under Global Neoliberalism 165
Hilbourne A. Watson

Competitive Strategies

9. Influencing U.S. Policy Toward the Caribbean: A Post-Cold War Strategy 209
Richard L. Bernal
10. Caribbean Economic Strategies and Competitiveness 231
Patterson A. Thompson

Epilogue

11. Coping with the New Dynamics *239*
Anthony T. Bryan

Contributors 253

Chapter 1

The Caribbean in a New International Context: Are Freedom and Peace a Threat to its Prosperity?

Jorge I. Domínguez

With the end of the Cold War, the prospects of superpower confrontation declined markedly, not only in Central Europe but also in the Caribbean.[1] In the early 1990s, the successor states to the former Soviet Union (including Russia) have not been able to project military power into the Caribbean, nor do they seem interested in doing so.

With the collapse of communism and, less dramatic but no less important, the spread of economic ideologies throughout Europe and the Americas that are hostile to state intervention in the economy, many governments have turned toward more market-based policies and have, to varying degrees, turned away from policies that were more interventionist in the functioning of the economy.

These history-making developments herald a time of peace and two kinds of freedom. For countries that have been or continue to be governed by communist regimes, the prospects for freer politics have strengthened. For individuals and firms that have been under the tutelage or protection of the

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state, the prospects for freer markets have grown as well. These freer markets may be viewed as possible threats to Caribbean prosperity. In the Caribbean in the past, many individuals and firms have gained from the state's intervention in the economy; for them, the prospect of freer markets may be undesirable.

Paradoxes implicit in the question — Are freedom and peace a threat to the prosperity of the Caribbean's peoples? — are explored in this paper. This question may shock some, even though the history of the Caribbean recalls the ravages of slavery and war. And yet, many aspects of the new peace and the new freedom do threaten some past bases of the Caribbean's prosperity. It is the challenge of the 1990s to reconcile the Caribbean's own stake in the spread of peace and freedom with strategies that may reduce the likelihood of harm to its people.

The Threat of Peace

For centuries, the Caribbean has been a preferred theater for international conflict and warfare between major powers. For the major powers, and especially for the United States, the Caribbean's sea lanes have been of strategic interest for their own sake and because they control the Atlantic Ocean access to the Panama Canal.

The Soviet-Cuban alliance (1960-1991) and the U.S. government's repeated efforts to crush Cuba's communist regime inserted yet another dimension of international conflict into the Caribbean. During the Cold War, the world came closest to nuclear armageddon at the time of the October 1962 Cuban Missile Crisis.

In response to its own growth into a major power and to the injection of superpower confrontation into the Caribbean, U.S. policies in the twentieth century have been typically expansive. The United States has occupied Puerto Rico, Haiti, the Dominican Republic, and Cuba for varying lengths of time and exercised de jure or de facto sovereign power over them. During the two World Wars, and especially during World War II, the United States deployed its forces throughout much of the Caribbean region.

In the 1990s, however, the Caribbean has lesser military importance in world affairs, even though there remain some significant military issues. In the aftermath of the Cold War, no country or power credibly threatens freedom of navigation through the region's sea lanes; nor does anyone wish to challenge the preponderant military power of the United States to defeat anyone foolish enough to seek to impair access to the sea lanes. Nor does the Panama Canal matter militarily any longer to the United States. The Canal is too narrow for transit by the warships around which the U.S. navy organizes its fleets; the existence of more than one U.S. fleet, moreover,

makes it unnecessary to move warships through the Canal for most purposes. Gone is the argument that the Caribbean matters to the United States for traditional geomilitary reasons.

Gone, too, is the U.S. fear of Cuba. Without a military alliance with the Soviet Union and given the collapse of the Cuban economy, Cuba is no longer capable of projecting its power overseas as it did from the early 1960s until the end of the 1980s. The Cuban armed forces can defend the homeland, but they can no longer perform the impressive military feats of years past. While the U.S. government would like to see Cuba governed under a different political and economic regime, U.S. policy toward Cuba under the Bush and Clinton administrations has been, for the most part, to let the Castro government fall by itself.

Gone, too, therefore, is any appreciable strategic reason for the United States and other developed countries to assist the Caribbean. Since the early 1980s, an important U.S. policy assisting the Caribbean has been the Caribbean Basin Initiative (CBI). Thanks to a 1990 amendment to the Caribbean Basin Economic Recovery Act of 1983, the CBI provides permanent duty-free access to the U.S. market for nearly all items exported from Caribbean Basin countries that meet rules of origin criteria as first laid down in the Recovery Act. Writing in 1984, Richard Feinberg (who, in 1993, joined the staff of the U.S. National Security Council with responsibility over the Caribbean and Latin America) summarized the reasons for heightened U.S. interest in the region that led the Reagan administration to sponsor the CBI: "For Ronald Reagan, it is essential that the United States act vigorously to preempt and defeat this strategic offensive by the Soviet Union and Cuba aimed at undermining the global position of the United States by striking at its vulnerable strategic rear" (Feinberg 1986, 1). Today, such reasoning seems quaint, as it no longer applies to current world conditions.

In response to the renewal of the Cold War in the late 1970s, net external transfers to Caribbean countries from major Western government donors from 1978 to 1982 (especially the United States, Canada, the Netherlands, and the United Kingdom) and international financial institutions more than doubled. Net external transfers from all over the world to the Caribbean fell, however, from a high of $1.142 billion in 1982 to $15.3 million in 1988. Consider also the same problem just for the Reagan administration. Its official net transfers to the Caribbean doubled from 1981 to 1984 (the aftermath of the intervention in Grenada), when U.S. net transfers peaked at $353.5 million. In Reagan's last year (1988), U.S. net transfers to the Caribbean were $44.5 million (Skeete 1990). In short, net external transfers to the Caribbean were already down when the Cold War ended. In the 1990s, U.S. aid appropriations have continued to decline. Since the Soviet Union has undergone a complete change, if Grenada's New Jewel Movement govern-

ment is gone, and if Cuba no longer concerns the United States beyond the very nature of the Cuban regime, why should there be much international assistance to the Caribbean, especially when countries such as the United States suffer significant budget deficit constraints?

The new international peace, therefore, threatens to undermine the basis on which the Caribbean Basin Initiative was constructed and the case for international preferential treatment for, and assistance to, the Caribbean.

The Threat of Justice

Poverty alleviation might be a reason to revive the political case for U.S. and other international assistance to the Caribbean. In fact, by world standards the Anglophone Caribbean has a weak case to make for assistance on these grounds. As the 1990s began, Jamaica's gross national product (GNP) per capita was higher, and its life expectancy was greater than the respective statistics for Colombia, Peru, or Ecuador. By the same measures, St. Kitts-Nevis, Antigua-Barbuda, and Trinidad-Tobago were better off than any former communist country of Europe (Banco Mundial 1992, 214-215, 281).

However, to focus directly on poverty, in 1989 Jamaica tied Costa Rica for the lowest level of "extreme poverty" in a World Bank study of eighteen countries in the Western Hemisphere. By a less stringent measure of poverty, over 12 percent of Jamaicans were counted as "poor" by the World Bank, a proportion lower than all the countries studied except Argentina, Chile, and Costa Rica. There were, alas, more poor and more extremely poor people in oil-rich Venezuela than in Jamaica.

On poverty alleviation grounds, the Anglophone Caribbean is unlikely to receive much official assistance, or even preferential trade treatment under the CBI. The case for aid to alleviate the ravages of poverty is much stronger, of course, with regard to Haiti and strong enough with regard to the Dominican Republic; in the future, it may be so in the case of Cuba. But one needs to look to other issues to think about how to improve the chances that the Anglophone Caribbean, too, might obtain international cooperation. The Anglophone Caribbean today suffers internationally from its "excessive" success at home in enabling its people to live for the most part above the "extreme poverty" line. The commitment to the achievement of justice at home is worthwhile in itself but not helpful in the current international context.

The Threat of Free Trade

Caribbean countries have had preferential trade relationships with the United States, Canada, and the European Community. From 1960 to 1990, Cuba, too, had preferential trade relationships with the Soviet Union. In the early to mid-1990s, these preferential trade relationships are already

threatened and are likely to continue to come under sustained attack. Cuba's preferential trade relationship disappeared along with the disintegration of the Soviet Union. On January 1, 1994, the North American Free Trade Agreement (NAFTA) went into effect among the United States, Canada, and Mexico. The implications of NAFTA for the Caribbean are worrisome.

Will an international investor equally assured of free trade access to the U.S. and Canadian markets choose to invest in Mexico or in St. Kitts? The sheer size of the Mexican internal market argues for an investment in Mexico once there is no trade barrier benefit to investing in one place over the other. Mexico is likely to receive a disproportionate share of future investment and, as a result, divert future trade from the Caribbean. Moreover, from the perspective of the future exporter to the United States (and, hence, from the perspective of the future investor in export production), NAFTA is superior to the CBI in certain product lines.

Under NAFTA, for example, Mexican textiles and apparel will benefit from a progressive tariff reduction over a ten-year period; non-tariff barriers will also be gradually phased out. Once NAFTA is fully in effect, wholly Mexican-made apparel as well as apparel assembled in Mexico of U.S. fabric will enter the U.S. market without quotas and duty free. Duties will still be charged on the value added to apparel imports from the CBI countries that enter the United States under Section 807 of the U.S. Tariff Code (this apparel is assembled from U.S. inputs).

Under Section 807-A, duties are charged only on the value added by offshore assembly which, in the 1990s, has been, on average, about 40 percent of the value of the garment. The duty on that 40 percent is typically about 20 percent. That means that the duty is the equivalent of about 8 percent of the value of the garment. Under NAFTA, that 8 percent will no longer be added to the price of a garment coming from Mexico. (The average profit of U.S. apparel firms is only about 4 percent.) Along with the slightly easier and cheaper transportation between the United States and Mexico, this duty-free entry of Mexican garments can place the Caribbean — and especially its main producers of apparel, the Dominican Republic and Jamaica — at a disadvantage because the CBI did not extend duty-free trade preferences in apparel. Apparel exports have been one of the Caribbean's success stories in the 1980s and early 1990s.

The proposed solution for assisting the Caribbean countries is H.R. 1403 and S. 1155, "The Caribbean Basin Free Trade Agreements Act." In essence, it would provide Caribbean countries with "NAFTA parity": It would extend to the Caribbean those provisions that apply to Mexico under NAFTA for a three-year transitional period. While such parity would protect the Caribbean from "NAFTA shock," these bills also would put the Caribbean countries on notice that the CBI is about to die as it was initially conceived. Even if it were

to remain in operation formally, its effectiveness in fostering trade and investment would virtually vanish. The CBI was a one-way trade concession from the United States; NAFTA parity means that the Caribbean countries will have to liberalize their own trade policies to reciprocate those of the United States. Without H.R. 1403 and S. 1155, the region would suffer economic losses, but even these bills allow for Caribbean economies to go through a major economic adjustment. By the late 1990s, Caribbean industries that have benefited from trade protection would have to compete with imports within a free trade area.[2]

One alternative to this proposed legislation is to forego any link to NAFTA and simply continue with the CBI, recognizing its competitive disadvantages. But the CBI itself is at risk in the new international environment. To NAFTA opponents, the CBI is truly an abomination. To NAFTA supporters, the CBI is also highly undesirable. Both NAFTA opponents and NAFTA backers prefer NAFTA to CBI. NAFTA provides for reciprocal free trade policies; the CBI is a unilateral U.S. trade concession justified in the past for strategic reasons that no longer apply. It is not an unreasonable forecast to expect a U.S. congressional initiative designed to repeal or dilute the CBI.

Launched in 1986, Canada's Caribbean and Canada Trade Agreement (CARIBCAN) is its own equivalent of the CBI, though it excludes the Spanish-speaking countries of the Caribbean and Central America. CARIBCAN, too, is a unilateral program that extends Canadian trade preferences to the Caribbean. The same general costs of NAFTA ratification borne by the Caribbean apply with regard to Canada. Canadian investors are likely to flock to Mexico more than to St. Lucia; the Caribbean will incur opportunity costs in foregone investment and trade. In Canada, moreover, there has been a sustained critique of the existing free trade agreement with the United States. Rising protectionism in Canada could lead to an eventual curtailment of CARIBCAN preferences (Lande and Crigler 1990).

Canadian officials also find it increasingly difficult to justify politically the continued high levels of economic assistance to and other preferences for the Caribbean, in part for the same reasons that obtain in the United States, namely, the end of the Cold War and budget constraints. In addition, Canada's foreign assistance legislation seeks to focus Canadian aid on the poorest countries. Virtually no Anglophone Caribbean country other than Guyana would qualify if this standard were applied strictly.[3]

European countries have designed a complex and comprehensive set of economic arrangements with most former European colonies in Asia, Africa, and the Caribbean (Payne and Sutton 1992-93). These have been codified through the four Lomé Conventions, the first of which was signed in 1975. The current one, Lomé Convention IV, runs from 1990 to 2000; as with earlier conventions, its beneficiaries include the independent countries of the Anglophone Caribbean and Suriname as well as, for the first time under

the Lomé system, Haiti and the Dominican Republic. The Lomé Conventions grant trade preferences and various additional means of financing and assistance. The conventions require the European Community to provide more favorable treatment to agricultural imports from beneficiary countries, including the Caribbean, than to most-favored-nation imports from third countries. The Lomé Conventions include special protocols for sugar, rum, and bananas, which embody their most important trade concessions to the Caribbean (Beltrán and Serbin 1992).

Within the context of the Uruguay Round negotiations under the General Agreement on Tariffs and Trade (GATT), Central and South American governments have launched an assault on the European Community's preferential treatment of bananas exported under the Lomé Conventions. The Union of Banana Exporting Countries has worked with various governments and firms to overturn the European Community's new policies for the banana market that went into effect on July 1, 1993. Central and South American banana exporters have built an unusual coalition. The German government, as well as major international import-export firms engaged in the banana trade, have filed suits before the European Court to overturn the Lomé regime on bananas and, more generally, to persuade the European Community to move toward freer trade in bananas (*Financial Times* 1993b; Foreign Broadcast Information Service, Latin America, 1993b, 7; 1993c, 1).

The fate of these policy trends is uncertain. In any case, there is already a risk of repeal or dilution of the non-reciprocal U.S., Canadian, and European trade preferences from which the Caribbean has benefited. This risk is compelling because it comes from two coalitions that rarely agree. Both free traders and trade protectionists agree that non-reciprocal trade preferences are bad. The Caribbean is vulnerable because it tries to defend a "gift" that it receives, not a mutually binding contractual agreement. In the 1990s, the coalitions of free traders and protectionists have advanced their cause because the political or military and strategic arguments for non-reciprocal trade preferences have virtually disappeared. Both free traders and trade protectionists would like to change the Caribbean's international trade environment. In the United States and Canada, NAFTA's approval threatens the Caribbean because it represents a policy direction adverse to the CBI. In Europe, the banana policy debate threatens the Caribbean's previously existing comfortable trade arrangement. The Caribbean's trade interests have always been threatened by protectionism. In the 1990s, they are also threatened by free trade.

The Threat from Cuba

Some years ago, the notion of a threat from Cuba to the remainder of the Caribbean might have referred to political, ideological, or military factors.

The new threat from Cuba is the risk of its social and economic collapse. Some of the risk is evident from desperate acts of illegal migration, clearly evident in the demographic explosion of the summer of 1994. There are Cubans stranded in various countries from the Cayman Islands to the Dominican Republic. Caribbean countries lack the resources to take in even relatively few refugees.

The history of Cuban relations with the Anglophone Caribbean calls to mind Luis Buñuel's film, "The Discreet Charm of the Bourgeoisie," in which the invited guests for a sumptuous and elegant dinner sit down but are constantly interrupted and cannot eat. Distant Cuban-Anglophone Caribbean official relations during the 1960s were replaced with warmer relations in the 1970s that were weakened and, at times, interrupted by a combination of bilateral problems with nearly all the countries of the region (Jones 1979; González 1991). By the early 1980s, Cuban relations had deteriorated with Jamaica, Trinidad-Tobago, Guyana, and Barbados compared to relations during the previous decade. In 1983, relations took a decided turn for the worse when Jamaica, Barbados, Dominica, St. Vincent and the Grenadines, St. Lucia, and Antigua-Barbuda requested and joined the U.S. invasion of Grenada to overthrow its government.

Cuban relations with the Anglophone countries improved again in the early 1990s. At the July 1993 Caribbean Community (CARICOM) summit, CARICOM agreed to set up a joint commission with Cuba to oversee cooperation in various areas, including trade, the sugar industry, livestock and fisheries development, and research on biotechnology. The CARICOM heads of government also called on the United States to lift its trade embargo of Cuba. As a practical matter, however, Cuban trade with Caribbean countries has been quite modest. During the second half of the 1980s and through 1991, the value of Cuba's total trade with CARICOM never exceeded $10 million. The main exception was $60 million worth of imports from Trinidad-Tobago in 1989-1990. The value of Cuban exports dropped steadily during those years while the value of Cuban imports rose generally, not just from Trinidad-Tobago. In effect, CARICOM had to extend trade credits to Cuba to cover the rising trade deficit (Comité Estatal de Estadísticas 1989, 251, 255, 259; Central Intelligence Agency 1993, 1, 3). The value of Cuba-CARICOM trade is likely to remain modest because Cuba's severe economic difficulties limit what it can export and import, regardless of its government's wishes. Luis Buñuel's dining table guests may remain hungry.

CARICOM's decision to improve relations with Cuba brought the expected U.S. government effort to dissuade CARICOM from taking such a step (James 1993). It also brought the less expected intervention of the chairman of the House Subcommittee on Western Hemisphere Affairs, Robert Torricelli, and the three Cuban American members of Congress, Lincoln Diaz-Balart, Robert Menéndez, and Ileana Ros-Lehtinen, also members of the Western Hemisphere Affairs Subcommittee. This subcommittee shares jurisdiction over efforts to enact H.R. 1403's NAFTA parity into law. They wrote to each of the CARICOM heads of government "to express our shock and dismay" at CARICOM's action. They referred to the efforts to construct a free trade area in the Caribbean — presumably H.R. 1403 — and threatened to "reconsider our support for it. It is simply not possible for us to support the extension of trade benefits to the Caribbean region if we believe that the ultimate beneficiary will be the Cuban dictatorship" (Bohning 1993).

In fact, NAFTA parity for the Caribbean would accord Cuba no more additional benefits than NAFTA itself would, which are very few. Canada and Mexico already trade with Cuba far more than all of CARICOM put together. The volume of Canadian and Mexican trade with Cuba is constrained not by the U.S. trade embargo on Cuba but by Cuba's own lack of productivity; Cuba cannot export much, nor can it import much. Moreover, the NAFTA rules of origin on products would also apply to the Caribbean under NAFTA parity. These rules of origin would prevent Cuban efforts to use the Caribbean as an indirect export platform to the United States, in the unlikely event that Cuba's current regime could reactivate its economy.

Whatever one's views may be on the actions of the U.S. government or of the above-mentioned members of the U.S. Congress, the point is that Cuba is a political problem for CARICOM, as it is also for Haiti and the Dominican Republic (which trades quietly but intensively but does not have a formal diplomatic relationship with Cuba). Cuba will remain a problem with the potential to become worse in the years ahead for the entire region.

Paradoxically, the Caribbean's interests may be threatened if there are any changes in Cuba. Suppose, for example, that circumstances in Cuba and in U.S.-Cuban relations change enough so that the United States lifts its trade embargo. One effect will be increased competition for Caribbean firms that trade with or invest in Cuba. As a practical matter, the continuation of the U.S. embargo protects Caribbean firms from competition with U.S. firms in the Cuban market — an analytical conclusion diametrically opposed to CARICOM's official position in favor of the cancellation of the U.S. embargo on Cuba.

If there were a major change in Cuba's political regime, Cuba would be likely to draw some foreign investment away from the rest of the Caribbean. Cuba's comparative advantage would be a well-educated and relatively healthy work force with low international wage costs and weak labor unions. Cuba is a much larger country than others in the region with more to offer to international tourists; in the 1950s, Cuba demonstrated a significant capacity for tourist development. Cuba is also likely to receive the bulk of U.S. assistance and other means of support that might be allocated to the

Caribbean. No doubt, there will be some business opportunities for economic collaboration, trade, and investment between a post-communist Cuba and its Caribbean neighbors (Preeg 1993), but there is a significant risk of opportunity costs to the Caribbean in foregone investment, foregone tourism, and foregone international assistance. For example, Proctor & Gamble's soap might easily take away Dominica's huge (for Dominica!) soap market in Cuba.

Cuba poses a "threat" to the rest of the Caribbean, therefore, not because of the actions of its current government — which seeks, almost desperately, to cultivate friendships and constructive relationships wherever it can — but just because it is "there." The U.S. government and certain members of Congress will object to any relations between Caribbean countries and Cuba as long as Fidel Castro's government remains in office. Were the U.S. government to drop its embargo on Cuba, Caribbean traders and investors might suffer. And a post-Castro Cuba in any conceivable variant will impose adjustment costs on the rest of the Caribbean.

The manner in which Cuba's social, economic, and political systems could disintegrate may also affect Cuba's neighbors, even beyond the effects of illegal migration. Suppose that at some point the United States were to intervene militarily in Cuba to help to overthrow its government, and suppose that the U.S. government would ask Cuba's neighbors to help "launder" the U.S. intervention by "requesting it" and by participating in it, as several Anglophone Caribbean countries did in the case of Grenada in 1983 and in the case of the overthrow of the Cédras regime in Haiti in 1994. Would Dominica stop exporting to Cuba and, instead, ask U.S. troops to land in Cuba to ensure the loss of its soap exports market? Would Jamaican police officers keep the peace in Guanabacoa? What should Caribbean countries do to prevent this violent outcome while continuing to support Cuba's democratization?

The Threat from Haiti

It is difficult to tell what most Haitians want because systematic research in Haiti on this question has been so difficult. But perhaps most Haitians seem, in their observable behavior, to want what Isaiah Berlin once called "negative liberty." Most Haitians seem to want to be "free from" — the abusive Haitian military establishment (overthrown by U.S. military intervention in 1994), exploiters of their labor in Haiti, Dominican government racist harassment at work places in the Dominican Republic and deportation back into Haiti, and the U.S. Coast Guard's blockade that prevents them from reaching a land they associate with freedom and prosperity (Stepick 1992). In this search for freedom, Haitians have become, alas, an international problem, enough so that the United Nations Security Council could persuade itself to act because there is a "threat to the peace."

As Haitian democracy slouches toward its own Bethlehem to be born, uncertainties about its future stability abound (Fauriol 1993). There are, however, two reasonable forecasts about Haiti's future. Suppose that there is a full consolidation of constitutional government under President Jean-Bertrand Aristide, and that Haiti's political actors act constructively and with statesmanship to make their agreements work. Since the beginning of the U.S. military intervention in 1994, Haiti has received very substantial international official economic assistance, which makes it more difficult to allocate such funds to other countries in the Caribbean. Haiti might even receive certain targeted trade preferences not available to the rest of the Caribbean, which would become politically feasible in the United States, Canada, or the European Community on exceptional grounds.

Suppose, on the other hand, that Haitian political actors behave in the mid-1990s as they have for the most part since the fall of Jean-Claude Duvalier. Then political instability would resurface, and some level of political violence would likely reappear. Would Haiti be neglected, allowing Haitians to murder each other? Or would the international community intervene repeatedly? If the latter were to occur, who would maintain the peace in Haiti? Presumably, there could be several hundred international security personnel stationed in Haiti indefinitely (some in civilian garb, some in police or military uniform) from the United States, France, Canada, and, yes, Caribbean countries. Grenada in late 1983 was easy; foreign forces could be withdrawn quickly. Haiti might not be: the occupation could linger.

Consider the issue from a different angle. Suppose we are told that one country has a GNP per capita (in 1990 dollars) that exceeds those of Portugal, Greece, Chile, and Czechoslovakia; a long-term (1965-1990) growth rate of real GNP per capita that exceeds those of the United Kingdom and Australia, just a bit below that of West Germany; a life expectancy at birth that compares comfortably with that in Western Europe and that is just one year lower than that of the United States; and an uninterrupted tradition of constitutional democracy, vigorous political competition, and alternation of parties in office.

Suppose we are told that country two has a GNP per capita lower than those of Togo and the Central African Republic; a long-term growth rate of real GNP per capita lower than those of Bangladesh and Burkina Faso; a life expectancy at birth below those of Pakistan and Ghana; an adult literacy rate lower than those of Zaire and Madagascar; and a tradition of predatory and kleptocratic politics with recurrent levels of violence (Banco Mundial 1992, 214-215, 281).

What, therefore, do Barbados and Haiti have in common (the two countries respectively described above)? Nothing beyond the accident of the color of the skin of most of their respective peoples and the fact that others, above all the U.S. government and international institutions, think that they

do have a shared future. It is risky to deploy peacekeepers to a country where the likelihood is high that the peace will break down. The support at home for placing those peacekeepers at physical risk may vanish if citizens in the countries that deploy such personnel believe that there are no interests to warrant such risk. Caribbean leaders must be ready to defend the policies that they are about to implement. Why does it make sense for Caribbean states, including Barbados, to participate in a peacekeeping mission in Haiti?

How, then, might the Caribbean respond to the potential threats from the various kinds of peace and freedom that are breaking out all over? The time has come for the countries of the Caribbean to think of themselves as "normal" small countries.

Responding to Economic Challenges

"Normal" countries do not ask for trade preferences that they are not prepared to reciprocate at some future time. Normal countries do not expect such trade preferences to linger once the original rationale that led powerful countries to grant them has disappeared (the Cold War) or is likely to weaken (post-colonial guilt and nostalgia). If such trade preferences exist, normal countries use the time available to prepare effectively for the moment when such preferences will be canceled. They do not expect to receive economic assistance when they are not strategically significant and not victims of extreme poverty.

Normal small countries have a "productive" concept of sovereignty. At times, many countries in the Caribbean have had a "consumption" conception of sovereignty. When sovereignty is a consumption item, then it is an end in itself. Citizens take pride in the greatness of the nation's sovereignty; they adopt and promote measures to enhance sovereignty even if substantial costs are incurred. The newly independent Anglophone countries wanted, quite understandably, to act independently. They wanted economic independence, and to achieve it nearly all governments in the larger islands developed large public sectors ready to manage state enterprises. This experiment in state-led economic independence was noteworthy in the 1970s in Guyana, Jamaica, and Trinidad-Tobago; to varying degrees, it was also in evidence earlier in Haiti under "Papa Doc" Duvalier, in the Dominican Republic since the early 1960s, and in Suriname in the 1980s after its independence. Since 1959, of course, Cuba has exemplified the extremes to which a consumption approach to sovereignty can go. The consumption approach to sovereignty in the Caribbean placed at risk the economy of nearly every country that tried it, and it contributed to bankruptcy in Haiti, Guyana, and Cuba.

The production approach to sovereignty recognizes that small island countries should not build the walls of a castle in the water, nor the castle on the sand. Sovereignty is not an end in itself but a resource to be used by talented and skillful peoples. The most sustained and successful example of a production approach to sovereignty is, of course, the construction and evolution of the European Community. European countries large and small sought peace, democratic freedom, and economic prosperity as their central goals. They used their sovereignty as a bargaining tool to accomplish such ends. The NAFTA is but the most recent example of a production approach to sovereignty.

In the Caribbean, the smallest countries have understood best the production approach to sovereignty. The Eastern Caribbean countries as a group — with occasional exceptions — have been least obsessed by the consumption approach to sovereignty and, not surprisingly, have served their people's interests more effectively. Their monetary institutions, especially a common currency and a single shared central bank, have worked well enough to spark interest in a wider CARICOM common currency and central bank (Worrell 1992). The Organization of Eastern Caribbean States (OECS) has also fostered effective economic and political collaboration. Compared to the larger countries of the Caribbean, the small Eastern Caribbean countries have had a superior economic performance in recent decades (Worrell 1993).

More generally, normal small countries insert themselves in international markets, expecting to have to match the rigors of competition. Consider two countries that have approximately the same population size, life expectancy, and literacy rates: Singapore and Jamaica. In 1950, Jamaica was more prosperous than Singapore. Singapore is smaller than Jamaica, but its real GNP per capita (in dollars) in 1990 was more than seven times higher than Jamaica's. Singapore's long-term (1965-1990) real GNP per capita growth rate was one of the world's highest, while Jamaica's growth rate was negative during those years (Banco Mundial 1992, 214-215). Singapore inserted itself vigorously into the international economy at about the same time that Jamaica built economic walls around the island.

A related strategy for some small countries (especially likely for the smallest of all) is to associate themselves with larger countries in free trade areas. Guyana is much larger than Andorra, Monaco, Liechtenstein, or San Marino, but the latter four have performed far better economically than Guyana because they used their sovereignty productively.

To succeed in world markets, small countries must reorganize their domestic politics to reach a consensus on the production approach to

sovereignty and reorder their domestic politics to foster cooperation among business, labor, and government; reduce internal strife; and enhance collaboration for the sake of the nation's shared prosperity. On normative grounds, I have a strong preference for democratic politics and commend to the Caribbean the examples of small European countries that have sustained high economic growth rates and open, stable democratic politics. They include countries that had a history of severe internal strife, such as Austria before World War II, or profound ethnic divisions, such as Switzerland and Belgium (Katzenstein 1985; Lijphart 1977).

The main long-term option for the Caribbean in the mid-1990s is, therefore, H.R. 1403 and S. 1155, which would grant the Caribbean temporary parity with Mexico under NAFTA and prepare the region to become part of a wide free trade area toward the end of the 1990s. (Interim agreements short of entry into NAFTA will leave the Caribbean vulnerable and uncompetitive.)

Even if Caribbean governments were to prefer to pursue interventionist economic policies, they lack the resources to carry them out. The costs of adjustment to a free trade environment are real, but they are less threatening than the alternatives, namely, uncompetitive price disadvantage with regard to Mexico under NAFTA or the unilateral U.S. cancellation of the CBI under assault from the coalition of NAFTA supporters and opponents.

Free trade is not a threat but an opportunity for the Caribbean to complete the economic reorientation that is already under way and to ensure that the countries of the region can remain competitively engaged in world markets. The Caribbean has been moving in the direction of a production approach to sovereignty, more so in the Eastern Caribbean and least so in Cuba. To their credit, most Caribbean governments have not been asleep. They have been implementing economic policies that are appropriate for effective insertion in world markets; this economic policy reorientation already is impressive in the OECS and in the Dominican Republic, but it is under way throughout the Caribbean, even to some extent in Cuba.

It also follows that most Caribbean countries can do little to avoid the lost economic opportunity costs — trade, aid, and investment diversion — that may result from changes in political circumstances in Haiti and Cuba. Particularly in preparing for Cuba's future, Caribbean countries should focus on possible means of economic cooperation, including trade and investment. The Caribbean may find market niches in a future Cuba, and some even under present conditions. The Caribbean tourist industry may find it beneficial to invest in Cuba in the certain knowledge that its tourist industry will grow. Though the opportunity costs will not vanish, some joint gains may develop nonetheless.

Responding to Political and Military Challenges

The Caribbean should welcome improved prospects for peace resulting from the end of the Cold War and, in particular, the reduction in the likelihood of U.S.-Soviet confrontation in the Caribbean. The end of the Cold War has made it less likely that the United States would intervene in the domestic affairs of Caribbean countries for the same reasons as in the past, namely, the fear of communism or of a "second Cuba"; this, too, would lessen the chances of bloodshed in the Caribbean.

For the first time since the "foundation" of the modern Caribbean early in the sixteenth century, a single country — the United States — has uncontested military supremacy in the region. At issue in the Caribbean is whether the United States will intervene unilaterally for other reasons: concerns about democracy, immigration, human rights, or drug-trafficking. The concerns about democracy, immigration, and human rights are especially poignant in Haiti. The concerns about drug-trafficking are one part of the explanation for the first U.S. post-Cold War military invasion in Panama in 1989. Caribbean states have complained justifiably about the imperiousness with which they have been treated at times by the U.S. government. And yet in the 1980s and 1990s, at least three governments (the Bahamas, the Turks and Caicos, and Antigua-Barbuda) were seriously implicated in drug-trafficking operations (Sanders 1993; Maingot 1993).

The United States will not deny itself the right to intervene unilaterally in the region unless there are effective collective means to protect constitutional governments under forcible assault from criminal elements or from factions within their own security forces. To ward off such U.S. actions, the Caribbean has a stake in strengthening international institutions and intergovernmental agreements to combat drug trafficking and the governments that support it and in creating the means of assisting constitutional governments that find themselves under attack. These are worthwhile objectives in themselves and, in achieving them, the Caribbean would also render U.S. unilateral, intrusive, or abusive behavior less likely in the countries of the region.

In the international context of the 1990s, to make international institutions work successfully requires the active participation of member states. "Normal" countries are expected to respond to the requests of international institutions for assistance in keeping the peace. The Caribbean should be no exception. There are Uruguayans in Cambodia and Argentines in Croatia. In the early 1990s, Fiji, a small country of islands, had over 700 police and troops deployed under UN auspices in Lebanon, Kuwait, Somalia, and Cambodia (United Nations 1993).[4] The international community naturally expects that the Caribbean countries should also do their part to

enable the United Nations and the Organization of American States (OAS) to consolidate constitutional government and maintain the peace in Haiti.

Several Caribbean countries have already risen to the challenge. The executive director of the joint OAS/UN International Civilian Mission to Haiti has been a senior Trinidadian career foreign service ambassador. Observers from St. Lucia and Dominica, among others, played an important role during Haiti's 1990 elections. Various Caribbean governments have indicated their willingness to continue to play a constructive role in stabilizing Haiti's politics under a constitutional government.

The Caribbean has a large stake in the effective functioning of collective security and international peacekeeping. Most Caribbean countries cannot defend themselves alone in the face of military aggression. In the 1990s, the most likely military threat to Caribbean states comes from armed forces organized, financed by, and at the service of drug traffickers. Each Caribbean state has an interest in the maintenance of international institutions capable of coming to the effective rescue of a country under such attack, making it unnecessary to appeal to the United States for military assistance.

There are also some unresolved boundary disputes in the region; particularly significant are those between Venezuela and Guyana and between Belize and Guatemala. Relations between Guyana and Venezuela have been good in the early 1990s, but the border between them remains unsettled. In the Guatemala-Belize territorial dispute in 1991, the governments of President Jorge Serrano and Prime Minister George Price reached a settlement. Guatemala recognized Belize's independence, and Belize agreed to grant Guatemala certain maritime rights. In May 1993, the United Kingdom followed with an announcement that it would phase down its military presence in Belize over a fifteen-month period from fifteen hundred to two hundred troops because the threat to Belize had faded.

Two events threatened this "happy" outcome. In late May 1993, President Serrano attempted and failed to stage a coup against the Congress and the courts. President Ramiro de León Carpio's new government confirmed Guatemala's recognition of Belize's independence and the exchange of ambassadors, but it insisted that there had been no agreement on border limits or on maritime limits, which in his government's view remained unsettled (Foreign Broadcast Information Service, Latin America, 1993a, 11-14). On June 30, 1993 Manuel Esquivel's United Democratic Party defeated George Price's People's United Party in Belize's national elections. Esquivel's government suspended the Maritime Areas Act, which had changed Belize's maritime boundaries to grant Guatemala unimpeded access to the Atlantic Ocean through Puerto Barrios via a navigation channel in the Gulf of Honduras. This act had been ratified by Belize's legislature and had been the basis of the agreement with Guatemala (*Caribbean and Central America Report* 1993, 2; *Financial Times* 1993a). The territorial and boundary demarcation issues remain unsettled as a result. Fortunately, neither government pressed its case further, and subsequently each government behaved with moderation. As the United Kingdom completes the withdrawal of its troops from Belize, the main future guarantee of Belize's independence and territorial integrity lies with international institutions, principally the United Nations.

Service in international peacekeeping forces, moreover, can have two long-term salutary effects within the sending countries. First, the nature of the training necessary for international peacekeeping operations is likely to transform the very nature of security forces. Well-trained peacekeepers may be less likely to become would-be coup-makers because effective peacekeeping recognizes the importance of tolerating and respecting differences between the actors in conflict (not imposing unanimity), working cooperatively with disputants (not commanding compliance), and respecting constituted authority (not overthrowing it). Much peacekeeping is akin to police work, which would also help transform military establishments toward less martial tasks. Second, the sending countries are reimbursed for the costs incurred and, consequently, lower their own costs of maintaining security forces at home.

Caribbean countries that deploy peacekeeping personnel to Haiti are on the vanguard of the region's adjustment to the new, increased importance of international institutions in circumstances where military force is used. For the first time ever, in 1994 the United States sought and received United Nation Security Council authorization prior to the invasion of Haiti. Caribbean governments must take care, however, to train and equip their personnel effectively for the missions to be performed. Ill-trained, ill-equipped peacemakers can turn into coup-makers. For example, some Venezuelan officers who had served in 1990 on a peacekeeping mission in Nicaragua took part in coup attempts in 1992 to overthrow the Venezuelan government. Reportedly, they did so because they believed that a government that would send its ill-equipped soldiers abroad on an international mission had violated its own oath of office.[5] In order to reduce the likelihood of bloodshed, Caribbean governments must also seek to spell out the mission's terms of reference, sensitive to contingencies that may arise and to the understandable sensibilities of Haitians in the face of a foreign presence in their homeland yet one more time this century.

Finally, there is the Cuban question. Caribbean countries are in good company when they oppose the U.S. government or U.S. politicians with regard to Cuba. Most governments in the Americas, Europe, and Asia have a similar approach toward Castro's Cuba: to deal with it diplomatically, to trade, and to encourage its government to open up the nation's politics and markets. Cuba, the United States, and the Caribbean will not benefit from the

logical consequence of the current U.S. policy toward Cuba, namely, misery as a means to provoke violence to bring about a political regime change. The European Community, Canada, and several Latin American governments are challenging U.S. efforts to impose its will on its allies and trading partners by means of the extraterritorial extension of U.S. law and policy on Cuban matters; Caribbean governments should seek protection behind this collective shield in the face of U.S. pressures.

The international community's ultimate shared goal with regard to Cuba is consistent with the Caribbean's own values, the promotion of democracy in Cuba, and its own interests — a peaceful change that neither permits nor requires military intervention from the outside. A peaceful political transition in Cuba is the process of change that is least likely to affect the Caribbean's own interests adversely and the one most likely to foster an early consolidation and stabilization of post-Castro Cuba, a goal that would benefit Cuba itself as well as the rest of the Caribbean and the United States.

Conclusions

The peace of the post-Cold War world, the trends toward freer trade, and the prospects of major political changes in Haiti and in Cuba impose some costs on the rest of the Caribbean. Gone is the strategic argument that has underpinned the Caribbean Basin Initiative and much international assistance. Gone may be the protection from competition from Cuban tourism and other industries. Trade, investment, and aid may be diverted from the Caribbean to benefit Haiti and Cuba in the future. With NAFTA's ratification, Mexico has gained trade advantages over the Caribbean countries. There is little that the Caribbean can do, however, about trends beyond its control.

The Caribbean can respond to these international challenges by continuing and deepening the economic policies that have been under way in nearly all countries of the region. These policies will make their economies more competitive and more capable of participating effectively in world markets. There will be domestic costs in the Caribbean from joining a NAFTA, but the costs of remaining outside NAFTA would be greater. Caribbean governments ought to create the means to join such a free trade area and to secure a period of transition toward it in order to permit domestic adjustment to occur. Reciprocal trade is much less vulnerable than nonreciprocal trade preferences to the vagaries of politics in donor countries; therefore, reciprocal trade is a much stronger basis for attracting new international investment.

Engagement in a wider free trade area may help the Caribbean countries to work collectively with the United States on some time-honored problems, such as migration within the Caribbean and between the Caribbean and the United States (Commission for the Study of International Migration and Cooperative Economic Development 1990; Pastor 1985). The Caribbean will have to export goods and services or people. The connections between goods and services markets and labor markets can best be assessed in the context of a free trade area.

Fortunately, Caribbean leaders have a long record of adaptability to changing world economic trends. Indeed, this paper was written with the confidence that Caribbean countries can continue to execute the economic policy re-orientation that has been under way for some years in every country and that has already brought considerable successes to the OECS countries. Moreover, Caribbean leaders have long been successful in international negotiations — witness the very existence of the Lomé Conventions, CARIBCAN, and CBI.

Additionally, by the 1990s the Caribbean had years of experience with international economic institutions, especially the International Monetary Fund, the World Bank, and the Inter-American Development Bank, as well as those that Caribbean countries had created for the region as a whole (CARICOM, the Caribbean Development Bank, and the University of the West Indies) and in the eastern Caribbean (the OECS, the Eastern Caribbean Central Bank, and the common currency). Since 1977, the Caribbean Group for Cooperation in Economic Development, chaired by the World Bank, has coordinated the economic assistance work of Caribbean governments and multilateral and bilateral donors. More recently, the Caribbean has become the object of increased attention from international institutions concerned with the environment. Caribbean states have used such institutions to protect a threatened shared environment on which so much of the health, safety, prosperity, and enjoyment of the region rests (Serbin 1992).

The Caribbean has recognized the new importance of international institutions beyond the economic and environmental areas. In the 1990s, the United Nations and the OAS have played an unprecedented role in Haiti's internal affairs (just as they have in Nicaragua, El Salvador, and Guatemala), a role likely to require further Caribbean participation for it to be successful.

Caribbean countries would be better prepared for the future by strengthening international institutions and procedures to combat drug-trafficking, protect states under military assault from drug traffickers, help to remove government officials who cooperate with drug traffickers, and more generally protect constitutional government. These are valuable goals; their accomplishment would render U.S. unilateralism unnecessary, which is also a valuable goal.

The Anglophone Caribbean and the Dominican Republic are especially well positioned to expect the cooperation of the United States, Canada, and

the European Community in support of effective multilateral political and economic institutions for action in the Caribbean because of their long, sustained record of constitutional democratic government. The Anglophone Caribbean and the Dominican Republic demonstrate in their political practices, despite occasional setbacks and foibles, the democratic public goals that the industrial democracies proclaim lie at the center of their foreign policies toward the so-called Third World. These Caribbean countries ought to continue to make the case that they are the exemplary partners in the defense of stable constitutional democracies and that, for these among other reasons, they continue to merit the support of the industrial democracies as each Caribbean country adjusts to a rapidly changing world.

The Caribbean can do little about the threats to its prosperity from international changes it has not caused and over which it has no control. However, the Caribbean can do a great deal to ensure that peace and freedom serve the interests and values of its peoples, by taking measures to enhance the region's prosperity within a competitive international economy and to bolster the international institutions that will protect the region's peoples and advance their objectives. That is the challenge posed for the region by the new international context.

Notes

1. This paper follows this project's convention, defining the Caribbean as the islands, the Guianas, and Belize. For the most part, I discuss the independent countries only. An earlier version was presented at the conference, The Caribbean: Range of Choices for the '90s, held at the North-South Center, University of Miami, 10-11 September, 1993. I am grateful to conference participants and especially to Anthony Maingot and Georges Fauriol for comments on the earlier draft. Of course, I am solely responsible for any mistakes that remain.

2. See the ample information in U.S. House of Representatives, 1993. See especially statements by the Hon. Richard L. Bernal, ambassador of Jamaica, as well as by the Amalgamated Clothing and Textile Workers Union and the American Apparel Manufacturers Association. I am grateful to Andrea Olivos for research assistance on these matters.

3. Confidential interviews with Canadian officials, 1993.

4. I am grateful to Julian Brash for research assistance on these issues.

5. Confidential interviews, 1993.

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