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The Caribbean: Austerity and Regional Stability



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An Intelligence Assessment

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April 1985

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The Caribbean: Austerity and Regional Stability

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An Intelligence Assessment

This paper was prepared by
 Office of African and Latin
American Analysis. It was coordinated with the
Directorate of Operations. Comments and queries are
welcome and may be addressed to the Chief,
Middle America–Caribbean Division, ALA, on

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The Caribbean: Austerity and Regional Stability

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Key Judgments

*Information available
as of 1 April 1985
was used in this report.*

The economy of the Caribbean area has worsened in the past two years despite generous US aid and more rational economic policies. The region's main exports—bauxite, alumina, and agricultural goods—have been hit hard by low world prices and growing competition from alternate suppliers. Oil refineries and transshipment terminals have lost business largely because of excess US refining capacity. The strong US dollar and aggressive advertising by European and other countries have begun to cap the growth of the area's tourist earnings.

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Moreover, future trends do not appear promising:

- World demand for Caribbean bauxite and its derivatives is likely to continue to deteriorate in the face of low-cost, readily available substitutes such as ceramics and plastics.
- Demand for Caribbean sugar, coffee, and bananas also will be weak because of a world oversupply, and, in the case of coffee, better quality available from producers elsewhere.
- The depressed world oil market is likely to encourage US firms to close unprofitable Caribbean oil-related operations.
- Tourism may still grow somewhat, but the increase is unlikely to match the boom levels of the early 1970s as long as the US dollar remains strong and bolsters competition from outside the region.

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In contrast to earlier periods of economic stress, the region's wealthier economies are no longer able to buoy the poorer ones by serving as local markets, aid donors, and magnets for jobseekers; the pervasive stagnation almost certainly will further undermine the cooperation needed for area-wide economic solutions.

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Taken together, all of these pressures are beginning to affect not only the political scene but also the willingness of governments to maintain austere economic policies. The three Caribbean governments relying on IMF-supported programs to rescue their economies—the Dominican Republic, Haiti, and Jamaica, together representing the majority of the area's population—so far show no signs of abandoning Fund programs. Even so, we believe protracted austerity is likely to weaken the resolve of national decisionmakers to implement the additional belt tightening required to gain support from international banks for debt restructuring and new loans. Maintaining the allegiance of already hard-hit groups, particularly organized labor, clearly will be the toughest challenge for many of the region's political leaders, especially in Jamaica. Growing differences among ruling elites over economic policy, as evidenced in rising public

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debate in such countries as the Dominican Republic and Jamaica, also will limit the maneuvering room of decisionmakers to accommodate IMF prescriptions. [redacted]

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With or without IMF-supported programs, deepening economic hardships will give opposition groups new opportunities to broaden their popular appeal. In our view, moderate opposition parties, particularly in the English-speaking islands, currently seem best positioned to score electoral gains. In the short run, most radical leftist groups are too weak and divided to cause much trouble, although, in our judgment, a new leftist-dominated front group in Dominica will be capable of mounting a strong challenge in the mid-1985 elections. [redacted]

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While homegrown radical movements appear ineffectual for now, Moscow and its allies are attempting to broaden their influence in the region,

[redacted] In addition to trying to improve ties with pro-Western governments through trade and cultural contacts, Cuba and the USSR are working to unify and strengthen leftists in such countries as Grenada and the Dominican Republic. They apparently view Guyana as their best hope to rebuild their position in the Caribbean. [redacted]

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Moscow and Havana are not the only radical left players from outside the region. There are numerous reports that Libya is working hard to broaden its contacts among Caribbean leftists. In addition to providing funding to regional leftists, Libya since 1983 has offered military training to radicals from the Dominican Republic, St. Lucia, and elsewhere. Tripoli's efforts to prod leftists into adopting more confrontational tactics—so far, unsuccessfully—contrast with Havana's and Moscow's emphasis on an electoral strategy. [redacted]

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Given the area's gloomy economic outlook and the ability of the range of opposition groups to pressure governments on economic issues, we expect pleas for US assistance to take on many forms and be marked by an increasingly urgent tone. Indeed, the Caribbean Basin Initiative appears to have raised expectations of significant US economic backing throughout the region, and many government leaders—especially Jamaican Prime Minister Seaga—have identified themselves closely with the initiative. In addition to calls for increased US economic aid, bauxite purchases, and security support, Caribbean countries are likely to ask Washington to grant even more preferential terms on trade and to take a larger hand in prodding other donors, commercial lenders, and private investors to maintain their financial stakes in the region. [redacted]

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Even if most Caribbean governments remain pro-US, as we expect, the magnitude of the region's economic problems and rising expectations for US help are likely to cause bilateral economic relations to become more contentious from time to time. For example, Washington's efforts to stem the illegal drug trade and reclaim money from Caribbean tax havens are likely to encounter declining cooperation. Moreover, regional economic stagnation, together with the flow of funds from the large numbers of Caribbean migrants already in the United States, is likely to prompt an upsurge in illegal migration to this country.

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Over time, there is always the chance that ineptly handled economic problems, coupled with the emergence of more effective leftist organizations, could spark widespread political unrest. This in turn would increase the chances for the emergence of pro-Cuban leftist regimes in the region. Although events in one Caribbean nation can directly affect its neighbors, we believe that the absence of a shared revolutionary ideology would preclude Washington from facing a series of simultaneous threats. As it is, we expect the sort of sporadic protests that occurred in the Dominican Republic, Haiti, and Jamaica during the past year to recur in these countries and possibly to emerge in Suriname, the Netherlands Antilles, Trinidad and Tobago, and Guyana. Although security forces throughout the region so far have been able to control outbursts, widespread disturbances could quickly overwhelm military capabilities, even in the larger countries. Because regional efforts to build a standing military force in the Caribbean have faltered, Washington might be called on to take action similar to the Grenada intervention to forestall any leftist takeover.

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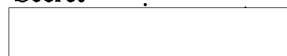
Figure 1
The Caribbean: A Global Perspective



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The Caribbean: Austerity and Regional Stability



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Introduction


The economic deterioration in the Caribbean area since the late 1970s has not been as precipitous as that in Central America, according to published data, but it has been longer and deeper.¹ Even though a number of Caribbean governments have evinced in recent years a more rational approach to economic decision making than previously, prolonged economic retrenchment and the accompanying popular resistance to austerity are narrowing the maneuvering room of policymakers. Moreover, the record shows that international bankers, anxious to prune their Latin American portfolios, are wary of extending new credits to Caribbean countries even when stabilization programs are in place. Worsening conditions, in turn, have frayed what political cohesion exists among Caribbean countries and stymied regional economic solutions. Trade protectionism has become commonplace and intraregional aid flows have all but dried up as even oil-based economies such as Trinidad and Tobago—once the region's primary local benefactor—have stumbled onto hard times. 

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The correctives required to restore economic growth and financial equilibrium are challenging, in our view, the political stability of several Caribbean countries as national decisionmakers try to juggle competing demands of influential interest groups. At the same time, we believe the cost to Washington of regional instability would be high. The United States is the region's largest trading partner and foreign investor. Moreover, one-third of US oil imports and one-half of US imports of strategic minerals transit Caribbean shipping lanes.² In addition, regional political stability


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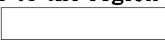
¹ The Caribbean area for purposes of this assessment includes Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Dominican Republic, French Antilles, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, St. Christopher (St. Kitts) and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Turks and Caicos Islands. 




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and economic development are clearly vital to US efforts to control narcotics traffic and illegal immigration. Finally, a resurgence of highly nationalistic, leftist regimes also would provide Moscow and its surrogates with new bases for regional adventurism. 

The Current Scene

The Caribbean region showed no economic growth in 1983 and 1984, and the area's foreign financial bind worsened dramatically, according to data from Embassy reporting and open sources. Sluggish demand for area exports—bauxite and its derivatives, sugar, coffee, bananas, and petroleum products—was largely responsible. The slight pickup in regional tourist earnings, the only foreign exchange earner to show any improvement, was not nearly enough to offset the losses in export receipts. Unfortunately, the only real upswings that did occur were in the wrong areas. Press and US Embassy reports indicate that drug-related activities and illegal migration have increased in response to the region's deepening economic problems. 

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From a policy perspective, the reaction to these trends has been mixed. Jamaica, the Dominican Republic, and Haiti—where 80 percent of the region's population lives—turned to the IMF for help. The other countries in the region are still casting about for different solutions, probably hoping to avoid implementing harsh new austerity measures. 

Dismal Economic Performance

The most important and visible problems facing Caribbean states are on the international front. Foreign currency reserves are low, debt servicing is increasingly difficult, and balance-of-payments deficits continue. On the trade side, the pace of Western recovery

***Prolonged Economic Difficulties
and Their Impact, 1974-82***

The oil price hikes of the 1970s were particularly disastrous to most Caribbean countries because they came at a time of sluggish world demand for the region's primary exports. The world recession that began in the late 1970s further curtailed demand for tropical and mineral products and battered tourist earnings already hurt by rising foreign competition. Most of those hit hardest resorted initially to borrowing on commercial markets, obtaining economic aid, accumulating payments arrearages, and drawing down international reserves to make ends meet. A few—Trinidad and Tobago, the Netherlands Antilles, and The Bahamas—had oil-based economic booms that began to spread to other sectors. Still, weighted average growth in the Caribbean region's output—roughly comparable in size to that of Colombia—slowed to little more than 2 percent annually, or less than half the Latin American average, during 1974-79. [redacted]

Subsequent belt-tightening reduced real growth of GDP to barely 1 percent annually during 1980-82. To qualify for IMF funding, Haiti, Barbados, and Dominica imposed strict import controls and public spending cuts. For its part, Jamaica, struggling to overcome seven consecutive years of economic decline,

experienced a spurt in growth largely owing to massive, but short-lived, injections of foreign aid following Prime Minister Edward Seaga's election in October 1980. Despite a surge in investor interest, few projects got off the drawing boards because of bureaucratic redtape and a shortage of skilled labor. Squeezed by the 1982 drop in oil prices—and in the case of Trinidad, falling production—even the oil-dependent economies slowed, and governments drew down reserves and borrowed heavily abroad to make ends meet. The smallest islands continued to face intractable development problems. A series of hurricanes slashed banana production, which normally contributed 40 percent of their export earnings, causing banana output to fall well below the 1979 level.

Only steady emigration kept unemployment within the 20- to 40-percent range in most countries. In the process, the continuing exodus of managerial and professional talent further drained the manpower needed to manage economic turnarounds. At least one out of every three Surinamers, for example, lived in the Netherlands during the early 1980s. [redacted]

has not been robust enough to boost demand for Caribbean exports. For example, export earnings in 1983—the latest year for which complete data are available—were below peak 1981 levels by 25 percent in the Dominican Republic, 30 percent in Jamaica, and more than 50 percent in Trinidad and Tobago. Even though almost all countries took deep import cuts, sluggish exports, coupled with high service payments, kept the region's 1983 current account \$1.5 billion in the red. [redacted]

Hit hardest by sluggish exports is the region's bauxite industry, which usually provides 25 to 35 percent of the total export earnings of Jamaica, Guyana, and Suriname. Statistics from industry sources show that many Western purchasers of bauxite and its derivatives during the past two years have increasingly

moved away from traditional Caribbean sources to suppliers in Guinea, Sierra Leone, Brazil, Australia, and elsewhere. The United States now imports less than half of its bauxite and 16 percent of its alumina supplies from the Caribbean, compared with nearly three-fourths and 20 percent, respectively, as recently as 1980. Data from industry publications indicate that this shift is due in part to falling demand for aluminum—many cheaper substitutes now exist such as ceramics and plastics—which is forcing refiners to economize by using higher grade bauxite than that mined in the Caribbean. [redacted] bauxite-rich countries outside the

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region, such as the African producers, generally have had weaker labor unions, lower wages and business taxes, and have been more receptive to foreign investors than their Caribbean counterparts. [redacted]

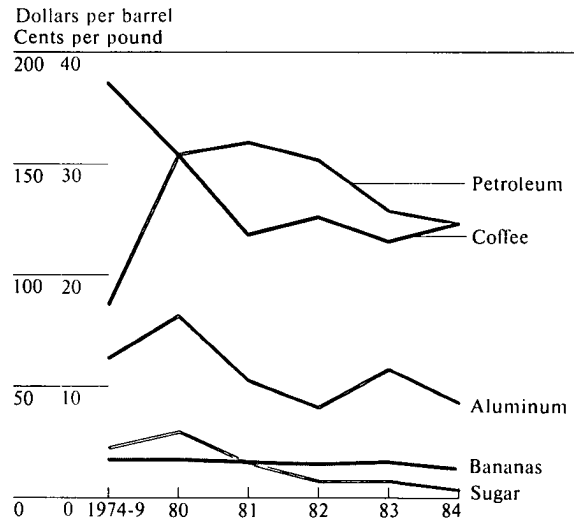
According to US Government experts and Embassy reporting, low world prices, inadequate investment in domestic production, and increased competition also have hurt earnings of the region's major agricultural products—sugar, coffee, and bananas—during the past two years. In addition, cheaper substitute sweeteners have crimped sugar profits, quality shortfalls have slowed coffee sales, and inclement weather has hurt banana receipts. At the same time that low prices are reducing the value of the region's agricultural exports on world markets, growers are having difficulty boosting the volume of output. In particular, financial strains on agricultural investment have limited the ability of most of the English-speaking Caribbean countries and Haiti to meet their production targets and take full advantage of US and European Community (EC) quotas and price supports for their exports, according to US Government experts.³ [redacted]

Several Caribbean islands have also seen their exports fall off because of the currently depressed oil market. Energy conservation and excess oil refining capacity in the United States have reduced usage of Caribbean refineries and transshipment terminals. US imports of refined petroleum from the Caribbean—predominantly residual fuel oil—have fallen from a peak of 1 million barrels per day (b/d) in 1973 to less than 400,000 b/d at present, [redacted]

- In the Netherlands Antilles, output at refineries on Aruba and Curacao was reduced to 200,000 b/d each—about 50 and 60 percent of capacity, respectively.
- In The Bahamas, the 500,000-b/d Borco refinery was processing only 110,000 b/d by 1984.

³ The English-speaking Caribbean countries include Anguilla, Antigua, The Bahamas, Barbados, Bermuda, British Virgin Islands, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, St. Kitts, St. Lucia, St. Vincent, Trinidad and Tobago, and Turks and Caicos. [redacted]

Figure 2
The Caribbean: Real Prices of Major Exports, 1974-84



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- In Trinidad and Tobago, the Pointe a Pierre refinery in 1984 processed only 65,000 b/d, barely 25 percent of its capacity, while the Trintoc facility processed less than 10,000 b/d or 10 percent of its capacity.

Sluggish demand also caused a drop in the region's transshipment of Middle Eastern and African crudes from an estimated peak of 4.4 million b/d in 1979 to about 1 million b/d in 1984, [redacted]

Besides the overriding impact of the region's depressed mineral, agricultural, and oil exports, we believe a number of other factors have contributed to the area's economic difficulties since 1982:

- *Debt.* Although the region's \$7 billion external debt is miniscule by Latin American standards, debt servicing has become even more burdensome for

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The Unraveling of CARICOM

The 13-member CARICOM was formed in 1973 to promote economic integration through a common market. In recent years, however, individual attempts to solve common economic problems have heightened intra-CARICOM trade squabbles and brought the organization near collapse. For example:

- *Jamaica in 1983 irked member states by imposing a two-tiered exchange rate system. Barbados floated its currency in retaliation, while Trinidad and Tobago slapped a licensing requirement on all Jamaican goods. Kingston's trading partners have balked at its recent devaluations, which are reducing the competitiveness of their exports to Jamaica.*
- *Other community members are angered by Trinidad and Tobago's recent cuts in imports—especially since Trinidad is CARICOM's wealthiest member—and its decision to require import licenses for all products, including those from its regional trading partners.*

Disagreements over the CARICOM Multilateral Clearing Facility—a clearinghouse for settling trade accounts and financing transactions through short-term credits—have been most debilitating. The failure of Guyana, which holds the lion's share of this debt, to repay Barbados, which underwrote the \$100 million facility, led Barbados to withdraw from the facility last year, in effect dismantling it. Intra-CARICOM trade now is conducted on only a bilateral payments basis.

Political infighting has exacerbated trade problems. The organization has often split along ideological lines, especially when Maurice Bishop still represented Grenada, but the schism became even more dramatic following the US-led intervention in Grenada. Indeed, the armed action was not supported by Trinidad and Tobago, Guyana, Belize, or The Bahamas.

Members were able to put aside political and economic differences temporarily at their summit meeting last July in Nassau. The participants tentatively agreed to eliminate some intra-CARICOM trade barriers and to increase tariffs on goods produced outside the region. They also agreed to grant observer status to the Dominican Republic, Haiti, and Suriname. Nevertheless, no substantial progress was made in dealing with the region's basic economic troubles.

Indeed, since the meeting, regional trade difficulties have worsened. Protectionism has increased, especially by such larger traders as Trinidad. In addition, according to Dominica's Prime Minister Charles, little progress has been made to resuscitate the trade clearing facility, despite an offer by Barbados of a loan to Guyana out of blocked community funds to allow Guyana to take part in a new facility.

many Caribbean countries. Jamaica's per capita debt, for example, is higher than that of Brazil. On the whole, debt service now absorbs about 20 percent of the region's export earnings, compared with 11 percent in 1980.

- *Intraregional trade.* Numerous press reports indicate that squabbles within the Caribbean Community and Common Market (CARICOM) have severely limited regional trade and economic cooperation. According to a press report, Dominica's Prime Minister Eugenia Charles has indicated that intra-CARICOM trade fell 13 percent in 1983 alone.

- *Tourism.* Data from the Caribbean Development Bank show that tourist earnings, moreover, have picked up only slightly because of increased competition from Western Europe and other markets that have become more affordable as a result of the strong US dollar.

Taken together, all of these difficulties have done more than simply translate into a string of dismal economic statistics. They also have had some practical

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impact, ranging from internal migration flows to narcotics trafficking. As far as emigration is concerned, economic difficulties have encouraged job-seekers in the region's poorest countries to migrate to what they perceive to be better opportunities on other islands. US Embassy reporting for example indicates that as many as 50,000 illegals—mainly Haitians—are residing in The Bahamas. Concerns about rising unemployment have prompted the Bahamian Government to try to expel these immigrants. For its part, Suriname recently expelled some 2,000 Guyanese who, according to press and US Embassy reports, had fled Guyana because of economic deprivation over the past few years. [redacted]

On the narcotics front, numerous reports indicate that growing economic difficulties have contributed to an increasing number of Caribbean countries becoming more heavily involved as growers, money laundering centers, or transshipment points. To date, Jamaica and The Bahamas appear to be the only countries to benefit much from drug income. We believe, for example, that Jamaica nets about \$100-225 million annually from marijuana smuggling. On the basis of information from narcotics experts in the US Government, most of the money goes to brokers, who assemble bulk loads for shipment and provide security, while Jamaican growers, who provide jobs for many of the rural poor, are paid only a small share. According to US Embassy officials, recent US Government efforts to constrict more direct drug trafficking routes—particularly through The Bahamas and Jamaica—also are beginning to push drug-related activities toward such secondary areas as Haiti and Trinidad. [redacted]

Casting for Solutions

It is against this environment that the individual countries of the region have been searching for solutions. In general, most regional leaders, especially those in the larger Caribbean states, have opted to follow a path that involves establishing performance targets with the IMF. Since 1979, Barbados, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, and Jamaica at various times have had IMF-supported programs. During 1983-84, however, only three were under IMF-supported programs:

- The Dominican Republic increased income taxes, slashed government spending, banned luxury imports, and transferred others to the costlier parallel

exchange market in laying the groundwork to obtain a three-year, \$408 million Extended Fund Facility in early 1983.

- Haiti, in late 1983, negotiated a two-year, \$63 million standby program with the IMF immediately after successful completion of a 13-month standby accord that emphasized making the country's finances less opaque by instituting formal government accounting procedures and a national budget.
- Jamaica instituted hefty devaluations and other cost-cutting measures to win a one-year, \$140 million standby program in June 1984. [redacted]

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In our judgment, belt-tightening under IMF auspices has yielded some benefits but has yet to lay the foundation for economic recovery. US Embassy reporting shows that those countries with IMF relief packages now in place have improved tax collection, trimmed and redirected the bloated public sector away from make-work projects toward more productive investments, raised interest rates to encourage domestic savings, and stimulated the search for foreign investment. Nevertheless, the failure of potential international commercial lenders to respond adequately to the IMF lead has undermined economic revitalization, according to US Embassy reporting. Moreover, popular protests against deepening austerity—particularly against currency devaluations and subsidy cuts that trigger immediate hardships—have further complicated economic management in these countries. [redacted]

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Although austerity, with or without IMF-supported programs, already has cost several Caribbean governments a good deal of domestic political capital, most remain committed—or ultimately resigned—to working with the IMF. Indeed, President Jorge Blanco of the Dominican Republic has campaigned hard to win popular support for IMF programs. Even for those few countries that have backed away from the IMF path, such as Suriname and Guyana, we have no credible evidence that their leaders believe they have found any alternative solutions for their economic difficulties. Suriname's unsuccessful pleas for aid, for example, have prompted some senior government

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**Austerity and Political Unrest:
A Review of the Literature**

Many observers believe there is a strong link between adverse economic conditions and political unrest. Given the importance to US interests of stability throughout the Third World, the Central Intelligence Agency has explored this topic, looking for systematic linkages between periods of political instability and periods of poor economic performance. Contrary to conventional wisdom, [redacted]

[redacted] found that deteriorating economic conditions alone were not a dominant cause of political unrest. [redacted]

Although the Agency's study concluded that general economic conditions can worsen dramatically without sparking unrest, it also documented that government measures designed to address economic problems can provide a rallying point for public discontent. The timing and presentation of sudden policy changes can help to determine the intensity of public reaction. The paper found that subsidy cuts on key consumer goods—rice, bread, and petroleum products, for example—and government-mandated wage controls seem to be key catalysts for strong political reactions. [redacted]

After reviewing subsidy cuts and their political impact in more than 30 Third World countries, an academic study, *Consumer Subsidy Cuts, Violence, and Political Instability*, similarly concluded that protests to austerity have not been especially consequential for political stability. The academic

researchers further discovered that the vast majority of violent reactions to subsidy cuts involved basic foodstuffs, transportation, or petroleum products—akin to the Agency's findings—and were overwhelmingly spontaneous and thus hard to sustain. This study also documented that, in those countries where subsidy cuts did not trigger a violent reaction, the government prepared public opinion and shifted the debate from questions of equity to the need to lay the groundwork for long-term economic growth and prosperity. [redacted]

In the Caribbean context, the Dominican Republic probably is the best example of the behavior documented by the CIA and outside contractors. In April 1984, President Jorge Blanco, without advance notice, sharply reduced food subsidies to comply with the country's IMF program. The resultant riots left nearly 60 people dead and 200 to 300 injured. In January 1985, after nearly a year of building public support for an adjustment program, the government—having dispatched troops to key locations—boosted food and petroleum prices to try to gain a new IMF-supported program. The ensuing protests generally were peaceful; no deaths and few injuries were reported. A nationwide work stoppage in February also was peaceful, although a presidential decision to roll back prices on a few items helped to keep order. [redacted]

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officials to again urge negotiating for an IMF program, according to a generally reliable source. Even nearly bankrupt Guyana is attempting to pay off its debts to the Fund in order to restore its eligibility. Moreover, other newly troubled economies, such as Trinidad and Tobago, are considering—albeit as a last resort—asking the Fund for help. [redacted]

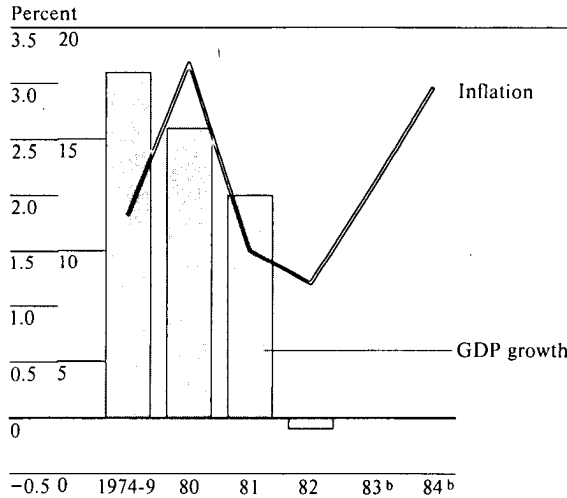
Economic Outlook in the Near Term

We see little possibility of any improvement in the region's economic conditions over the next several years. We believe growth rates are likely to average less than 1 percent annually, at best, because of slack export demand, the resulting foreign exchange limits

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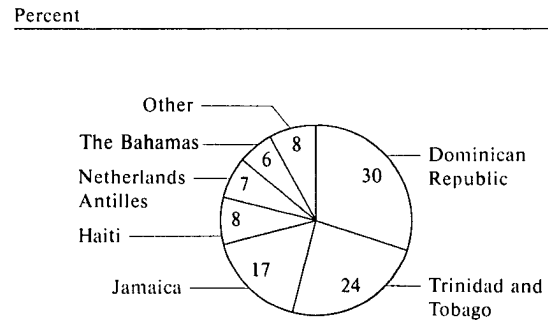
Figure 3
The Caribbean: Weighted Average Real GDP Growth and Inflation, 1974-84^a



^a Excludes smallest islands for which data are incomplete.
^b GDP growth in 1983 and 1984 was zero.

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Figure 4
The Caribbean: GDP by Major Contributor, 1981



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on importing critical goods, and the impact of financial austerity on government spending. Indeed, given the kinds of fiscal and monetary measures needed to lay the foundation for sustainable, noninflationary growth over the longer term, and the typical lag in implementing them, policy considerations alone will hold down GDP growth for some time to come.

If economic conditions are anywhere near what we expect, the unemployment picture will become worse as the flagging regional economy further reduces the affordability of government make-work projects. The steady exodus of jobseekers to destinations inside and outside of the region will aggravate unemployment concerns in the host countries and further drain the pool of skilled labor and managerial talent, particularly of the poorer states. As a result, we expect additional campaigns to expel illegal entrants, which will further erode regional cooperation.

Prospects for Foreign Exchange Earners

Given the open nature of the region's economies, the role of exports in determining growth prospects will

remain pivotal. Unfortunately, the outlook for traditional Caribbean products is as bleak for the future as it has been in the past few years. This is because of growing foreign competition and relatively slow growth, by historical standards in the industrial world. Looking at the key export sectors:

- Bauxite and alumina sales are likely to remain depressed. With their US smelting facilities already operating well below capacity, large US aluminum companies almost certainly will not hesitate to close marginally profitable operations in the Caribbean; Reynolds and Alcoa already have done so in Jamaica.
- Sugar sales should fare no better. Industry experts expect world sugar prices to stay weak over the near term unless global production is cut sharply through acreage reductions or a series of poor growing

seasons. On the demand side, the increasing number of low-cost sugar substitutes already have caused the United States to reduce its 1985 import quotas. Indeed, according to US Government experts, the Caribbean share of the US quota will be cut by nearly 25,000 metric tons this year; the EC is considering similar action, according to press reports.

- Coffee prospects parallel those of sugar. [redacted] world coffee prices should remain low over the next few years, assuming no major weather disruptions. With a large surplus stock of coffee worldwide, Caribbean exporters can expect virtually no improvement in their coffee receipts unless the quality of their production can be raised substantially.
- The outlook for bananas is also dim. US Government experts expect that, despite falling demand, world production will rise, causing further reductions in prices.
- As far as petroleum products are concerned, current industry plans offer little promise. In Trinidad and Tobago, the planned shutdown of one of the country's two refineries could idle between 2,600 and 3,400 workers and push the unemployment rate to about 25 percent. Moreover, Exxon already has closed its refinery in the Netherlands Antilles, and Royal Dutch Shell has announced that it will pull out soon unless costs can be cut. Oil product sales generate 97 percent of the Netherlands Antilles' export earnings. Closure of both refineries would push the unemployment rate there to nearly 30 percent. [redacted]

We believe that, among traditional foreign exchange earners, only tourism will continue to post any real growth. Even then the gains will be mixed, depending on the country in question. The Dominican Republic, for example, probably will benefit from sizable investment in this sector since the mid-1970s and a recently stepped-up advertising campaign. We expect Grenada's tourist industry to benefit some from the opening in October 1984 of the international airport at Point Salines and increased cruise ship arrivals. Several cruise ship lines already have decided to make Grenada a regular port of call for the 1984-85 season,

according to the US Commerce Department. In Jamaica, however, the January protests over fuel price hikes have sharply cut tourist receipts, according to Embassy reporting. Moreover, even with the expected increase, Caribbean tourism is likely to fall short of the boom levels experienced during the first half of the 1970s. As long as competitors maintain energetic advertising campaigns and the US dollar remains strong, Western Europe and other vacation spots usually not affordable for the average traveler will continue to cap the Caribbean's tourist potential. [redacted]

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**Economic Restructuring:
Challenges and Prospects**

It is against this economic backdrop that Caribbean leaders will have to decide what policy path to follow. The next steps will not be easy. Attempts to restructure through long-term adjustments—such as broadening the export base, raising domestic interest rates, cutting consumer subsidies, and streamlining bureaucracies—will compound domestic hardships over the short run. Moreover, there are no guarantees that the resulting austerity programs would be enough to revitalize the region's economies. Certainly the adoption of long-term growth-generating policies would in time help attract financing and technical expertise, especially under the Caribbean Basin Initiative (CBI). Even with a comprehensive restructuring program in place, however, recovery is not possible, in our view, unless Caribbean countries can sell their products abroad. [redacted]

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Considering these difficulties, we see some possibility that the immediate costs of adjustments will lead countries to back away from the kinds of policies needed to lay the foundation for longer term growth. Popular resistance to tougher austerity measures in a number of Caribbean countries only underscores this concern. At best, we believe governments already under various stages of IMF adjustment programs will try to maintain reform efforts wherever possible; nonetheless, they, and those countries without IMF programs, are unlikely to institute strong new policy

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measures.⁴ In practice, some policy backsliding is more likely. As far as the individual countries in the region are concerned:

- In *Jamaica*, continued IMF support could be jeopardized soon if, as we expect, Prime Minister Seaga falters in his commitment to make even deeper cuts in government spending to offset the unexpected loss in revenues from Alcoa's recent closure of its operations and the downturn in tourism. With local elections to be called by June, Seaga might be tempted to delay further public payroll cuts and to launch make-work projects to provide jobs for Jamaica's unemployed, now nearly 30 percent of the labor force. Such action could cause negotiations for a new Fund program—the current one ends in mid-1985—to drag on even longer than in the past and leave the country some months without IMF help.
- In the *Dominican Republic*, the Jorge Blanco government agreed to the IMF's repeated calls for unification of the country's exchange rate in January, causing sharp increases in prices for many basic commodities. The popular backlash so far has been less violent than last April, when similar price hikes sparked riots that left over 60 dead. A successful one-day work stoppage in February, however, prompted the President to cut prices of some basic commodities. Further backsliding almost certainly would delay agreement on a Fund program.
- Growing problems in maintaining austerity in *Haiti*, in particular curbing government spending, may well cause the abrogation of its standby accord, despite recent negotiations to get the Fund program back on track. We believe Haitian President-for-Life Duvalier will resist spending cuts and other reforms that might limit his ability to provide key supporters with access to government largess. [redacted]

Even if there are temporary problems, we doubt that these three key Caribbean governments—especially the Dominican Republic and Jamaica—will abandon IMF-supported programs altogether. In our opinion, [redacted]

their leaders understand that no single Caribbean economy is large or diversified enough to spur economic recovery alone and that, without a workable IMF program, other international lenders would be unlikely to offer more than token help. Moreover, even if they press more energetically for softer financial terms, we also believe they realize that their countries, unlike the large Latin American debtors, lack clout with the major commercial lenders. [redacted]

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It is not only the countries under IMF-supported programs that face difficult policy choices over the next few years. Unaccustomed to hard times, the oil-dependent economies of *The Bahamas*, *Trinidad and Tobago*, and the *Netherlands Antilles* have delayed slashing imports and government spending because, we believe, they are unwilling to risk the political backlash from harsh adjustments at the same time that the oil industry slump has cut their export earnings and employment. If oil sales pick up, this strategy could work. The odds, however, are against such an outcome. Barring an unexpected improvement in world energy markets, these countries as a group will in time face even more onerous adjustments to bring their external imbalances into line. [redacted]

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Other countries face similar intractable problems. We believe the leaders of *Suriname* and *Guyana* will continue to resist efforts to revamp their economies to avoid jeopardizing the perquisites of the military and other key interest groups, thereby precluding IMF accords. In *Guyana*, the progressive deterioration of capital stock, emigration of skilled labor, and erosion of farmland fertility is likely to prevent any recovery over the near term at least. In *Grenada*, the new Blaize administration will have to deal quickly with the island's 30-percent unemployment rate and deteriorated power, transport, and other facilities that are discouraging the foreign investment needed to sustain *Grenada's* recovery over the longer haul. In our judgment, such small economies as *St. Kitts*, *Montserrat*, and *St. Vincent*, even with successful policy reforms, are not viable without indefinite infusions of aid. [redacted]

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The Caribbean Basin Initiative

The Caribbean Basin Initiative, in place since January 1984, is a US program of trade and tax measures designed to help 27 Caribbean and Central American countries expand regional employment and raise living standards. The program's centerpiece consists of 12-year, duty-free access to US markets for a wide range of agricultural and manufactured goods. To foster tourism, the CBI also allows US tax deductions for the cost of attending business conventions in the Caribbean Basin. [redacted]

So far, the combination of tariff and tax advantages, relatively low wages, and proximity to the US market are attracting the attention of many investors. The most interest has come from businessmen in East Asia—Taiwan, Hong Kong, South Korea, and Singapore—where wage rates are rapidly rising and transport costs to the United States are high. Hong Kong's scheduled absorption into China in 1997 has also sparked considerable hope for the Caribbean as an alternative business base. [redacted]

It is too early to tell how much the Caribbean economies will benefit from the CBI. US trade officials estimate that the initiative will eventually boost exports to \$9.5 billion annually—still below the \$10.3 billion peak of 1980. About 80 percent of Caribbean-produced goods already enter the United States duty free under the Generalized System of Preferences (GSP). In addition, many products—textiles, apparel, footwear, leather goods, canned tuna, and petroleum products—that the Caribbean could produce most easily because of underutilized capacity are exempt from the CBI in order to protect US industries. [redacted]

Infrastructural development is so weak in the ministates that the biggest economies will continue to attract most new investments. In some cases, transport costs to the US market from the smallest islands appear to exceed shipping charges from East Asia. This is largely because most Caribbean ports cannot accommodate larger, cost-efficient container ships. In Grenada, for example, only one ship can dock at a time. On some islands, goods have to be barged out to ships anchored offshore. Additionally, strong unions in many of the ministates keep the wages of dockworkers high. [redacted]

Specific complaints about the CBI also have emerged. Many CBI-eligible countries have complained about

the rigorous process they must endure and the confidential information they must turn over to the US Government to win certification. In addition, some countries have balked at CBI regulations that do not provide exemptions to a range of US trade laws that were on the books long before the initiative was put in place. Trinidad has become especially disgruntled, complaining about US quotas, countervailing duties, and quality controls. [redacted]

Despite the recent encouraging interest of potential foreign investors in the initiative, recent adjustments to US trade laws and regulations—for which the CBI provides no exclusions—could slow progress under the program. We believe the renewal and revision in October 1984 of the Generalized System of Preferences will deter some investors, particularly from East Asia, at least initially. The extension of GSP duty-free benefits until mid-1993 has dampened the enthusiasm of some potential investors attracted to the CBI by the anticipated lapse of the GSP in 1984. GSP legislation reduced imports eligible from any country from 50 to 25 percent of total US purchases of a particular product, thereby helping smaller LDC suppliers to the US market, but this does not become effective until January 1987. Caribbean beneficiaries additionally were hurt by the law's formal exclusion from coverage of many of those goods excluded by the CBI. [redacted]

We also believe the recent tightening in "Origin of Product" regulations governing textiles—currently not afforded CBI coverage—could further hurt Caribbean exporters. Under the international Multifiber Arrangement, textiles and apparel imports are regulated by providing bilateral quota agreements. Until late 1984, some large exporters circumvented their quotas by shipping partially finished goods to other countries—many in the Caribbean—for completion and reexport to the United States. These goods either entered quota-free or were counted against the second country's quota, if applicable. Under new US regulations, however, US imports must be counted under the first exporter's quota unless it can demonstrate that the value added in the second country was enough to cause "substantial transformation." This regulation, if strictly enforced, could discourage Asian exporters from using the Caribbean as a finishing center. [redacted]

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Political Obstacles

Caribbean governments already have paid high political costs in adhering to austerity. In the Dominican Republic and Jamaica, for example, recent public opinion polls indicate that the popularity of President Jorge Blanco and Prime Minister Seaga are at record lows. With elections looming in both countries, these leaders will be reluctant to push hard for increased belt-tightening measures. Elsewhere, we believe, leaders will be hard pressed to balance demands for an end to falling standards of living with the need to introduce tough economic reforms aimed at setting the stage for longer run growth. Strong democratic institutions, stepped-up aid from Washington, and intangibles such as generally good human rights records have helped to reduce tensions so far. Still, the political climate for policy changes will be made more difficult in the months to come by the internal dynamics at play in many countries. In this regard, internecine bickering among ruling party leaders, alienation of key interest groups, and the growing influence of opposition parties have the potential to set back needed economic adjustments and touch off disruptive incidents in several countries. [redacted]

Ruling Party Divisions

Differences among governing elites over economic policy, in our view, could damage prospects for additional corrective measures and, in the extreme, turn economic crises into political ones. To date, arguments within ruling parties over economic policy have been particularly disruptive in the Dominican Republic and Jamaica. The unwillingness of influential members of the Dominican Revolutionary Party to support key aspects of Jorge Blanco's economic program have hurt the President's efforts to implement adjustment measures and stalled moves to raise revenues, according to US Embassy officials. Recent reports from the US Embassy in Kingston [redacted] indicate that Prime Minister Seaga's key lieutenants are increasingly uneasy with his economic policies and autocratic leadership.⁵ [redacted]

[redacted]

Over time, we believe the odds favor increased problems within ruling elites. This is largely because the highly personalistic nature of Caribbean politics has resulted in fragile intraparty cohesion. Party leaders, according to academic sources, rely largely on personal attributes, familial ties, and patronage rather than ideological considerations to maintain loyalty:

- [redacted] senior leaders of the ruling People's National Movement in Trinidad are disenchanted with Prime Minister Chamber's leadership. 25X1
- The US Embassy in Grenada reports that Prime Minister Blaize's domineering style is alienating some members of his coalition.

Consequently, we expect most governing elites, in charting economic strategy, to take directly into account the need to preserve party harmony even if it means undercutting sound economic policies [redacted] 25X1

Pressures From Key Interest Groups

While the ruling parties debate how to come to grips with their countries' economic difficulties, continued economic woes are likely to cause important interest groups to step up pressure on Caribbean governments to backtrack on belt-tightening. We believe that alienation of labor poses the greatest threat. Labor's clout is strongest in the English-speaking Caribbean where, according to some academic observers, almost half of the work force and nearly all public-sector workers are unionized. Because most political parties there emerged from labor organizations, unionists exercise considerable behind-the-scenes influence, according to academics. [redacted] 25X1

Recent sporadic strikes and demonstrations in the major Caribbean countries underscore, in our view, organized labor's determination to deflect policies perceived as detrimental to its interests:

- In the Dominican Republic, labor-backed work stoppages last April were particularly disruptive and, according to press and US Embassy reports, contributed to the President's decision to temporarily abandon talks with the IMF for a new standby agreement. 25X1 25X1 25X1 25X1

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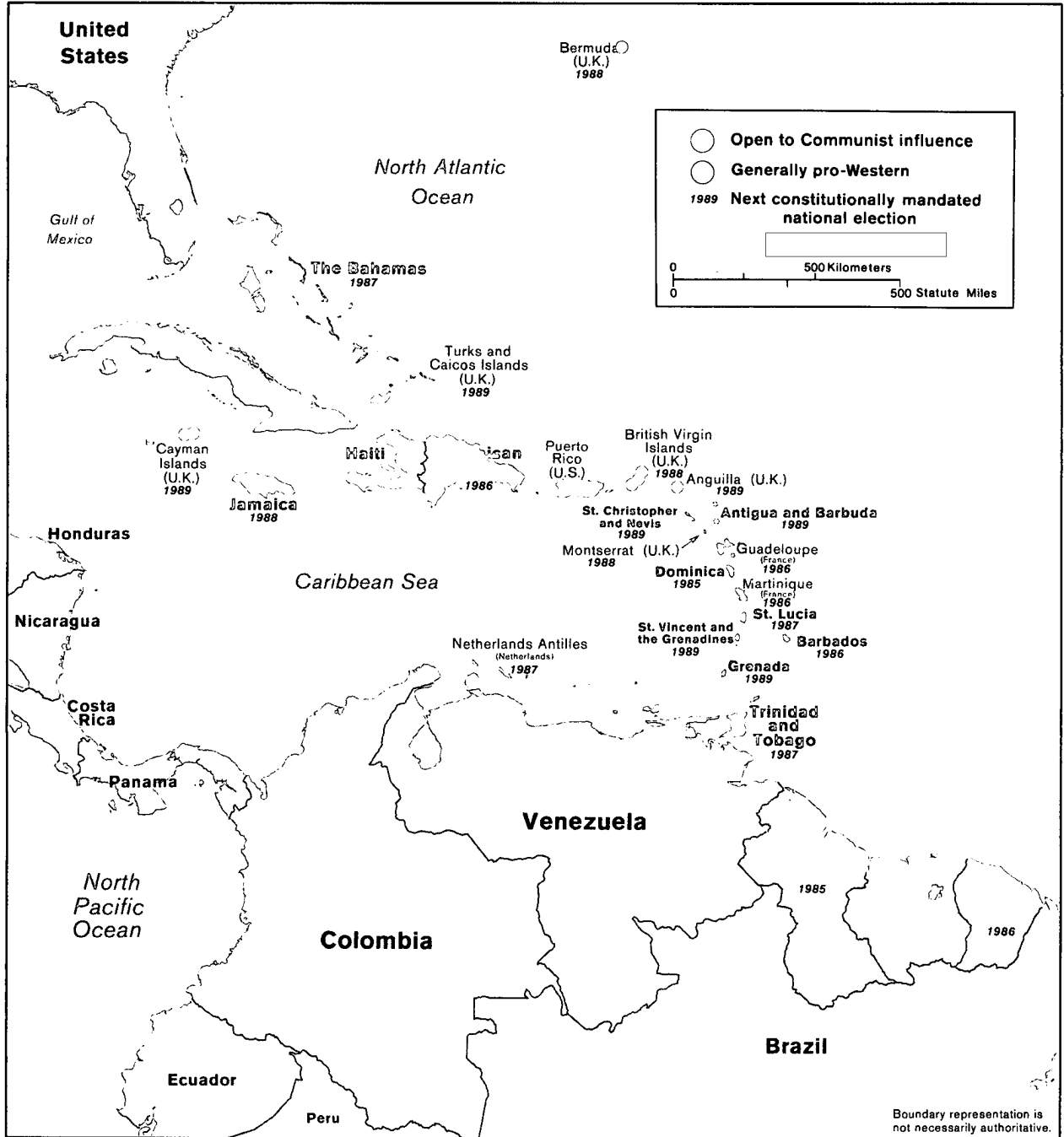
Caribbean Nations and Leaders

	Leader (Last Election)	Major Parties and Orientation ^a
Anguilla	Chief Minister Emile Gumbs (1982)	<i>Anguilla National Alliance (ANA)</i> , moderate; Anguillan People's Party (APP), moderate.
Antigua and Barbuda	Prime Minister Vere Bird, Sr. (1984)	<i>Antigua Labor Party (ALP)</i> , moderate; United People's Movement (UPM), moderate; Antigua Caribbean Liberation Movement (ACLM), leftist-nationalist.
The Bahamas	Prime Minister Lynden O. Pindling (1982)	<i>Progressive Liberal Party (PLP)</i> , moderate; Free National Movement (FNM), moderate.
Barbados	Prime Minister Bernard St. John ^b (1982)	<i>Barbados Labor Party (BLP)</i> , moderate; Democratic Labor Party (DLP), moderate; Movement for National Liberation (MONALI), leftist.
British Virgin Islands ^c	Chief Minister Cyril Romney (1983)	<i>Virgin Islands Party (VIP)</i> , moderate; United Party (UP), moderate.
Cayman Islands ^c		No organized political parties.
Dominica	Prime Minister Eugenia Charles (1980)	<i>Dominica Freedom Party (DFP)</i> , moderate; United Labor Party (ULP), leftist-dominated front group.
Dominican Republic	President Jorge Blanco (1982)	<i>Dominican Revolutionary Party (PRD)</i> , centrist; Social Christian Reformist Party (PRSC), conservative; Dominican Liberation Party (PLD), leftist.
French Antilles ^d (Guadeloupe, Martinique, and French Guiana)		Parties correspond with those in France.
Grenada	Prime Minister Herbert Blaize (1984)	<i>New National Party (NNP)</i> , moderate; Grenada Democratic Labor Party (GDLP), moderate; Maurice Bishop Patriotic Movement (MBPM), leftist.
Guyana	President Linden Forbes Burnham (1980)	<i>People's National Congress (PNC)</i> , leftist-personalistic; People's Progressive Party (PPP), leftist.
Haiti	President-for-Life Jean-Claude Duvalier ^e	Government preparing to allow political parties to begin operating.
Jamaica	Prime Minister Edward Seaga (1983)	<i>Jamaica Labor Party (JLP)</i> , moderate; People's National Party (PNP), leftist; Worker's Party of Jamaica (WPJ), Marxist.
Montserrat	Prime Minister John Osbourne (1983)	<i>People's Liberation Movement (PLM)</i> , moderate; Progressive Democratic Party (PDP), moderate.
Netherlands Antilles	Prime Minister Maria Liberia-Peters (1982)	No national political parties exist. Each of the six islands in the federation has its own local government.
St. Christopher and Nevis	Prime Minister Kennedy Simmonds (1984)	<i>People's Action Movement (PAM)</i> , moderate; Nevis Reformation Party (NRP), moderate.
St. Lucia	Prime Minister John Compton (1982)	<i>United Workers' Party (UWP)</i> , moderate; Progressive Labor Party (PLP), nationalist-leftist; St. Lucia Labor Party (SLP), moderate.
St. Vincent and the Grenadines	Prime Minister James Mitchell (1984)	<i>New Democratic Party (NDP)</i> , moderate; St. Vincent Labor Party (SVLP), moderate.
Suriname	Lt. Col. Desire Bouterse ^f (1978)	Proscribed.
Trinidad and Tobago	Prime Minister George Chambers (1981)	<i>People's National Movement (PNM)</i> , moderate; National Alliance for Reconstruction (ANR), moderate.
Turks and Caicos Islands ^c	Chief Minister Nathaniel Francis	<i>Progressive National Party (PNP)</i> , moderate; People's Democratic Movement (PMD), moderate.

^a Ruling parties are in italics.^b St. John became Prime Minister in March 1985 when the incumbent Tom Adams died unexpectedly.^c British Crown Colonies with limited autonomy.^d Overseas departments of France. Local elections held in 1985.^e Jean-Claude Duvalier took power in 1971.^f Bouterse is de facto ruler. Frederick Randat-Misier holds ceremonial office of President.

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Figure 5
Political Orientation of Governments in the Caribbean, 1985



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- Unionists in Trinidad—among the most powerful in the Caribbean, according to US Embassy reports—are punctuating demands for pay hikes with work slowdowns.
- Civil servants and taxi drivers in Martinique recently held a 24-hour work stoppage.
- Strike threats last year by workers in Suriname’s vital bauxite industry forced the government to backtrack on plans to raise taxes. [redacted]

Labor’s influence can also be felt directly on the political front. While we believe many unionists are reluctant to change their political allegiances dramatically—in large part because opposition groups did no better in managing their countries’ economies when they were in power and since then have offered few realistic alternatives—union disenchantment is still likely to lead to some increased support for opposition groups. For example, we believe eroding labor support for Trinidad’s ruling party contributed greatly to the party’s trouncing in last year’s elections to the Tobago House of Assembly and could undermine Chambers’s chance of reelection later this year. [redacted]

Because labor backing is essential for social peace in most countries, the ruling elites will have to weigh union demands seriously when reviewing policy options. Possible exceptions include the Dominican Republic, where President Jorge Blanco’s demonstrated willingness to use force, together with strong support from the military and influential businessmen, may, over the longer haul, give him enough leverage to handle labor. Likewise, the reputation of Haiti’s autocratic leaders is that they will not brook trouble from unions. [redacted]

Labor is not the only key interest group with a stake in the evolving policy debate. To date, middle-class groups and the business community have generally supported conservative economic policies. There are signs, however, that this support may be flagging. According to US Embassy and press reports, both groups are increasingly frustrated with the fall in living standards. There are also signs of stirring in the small business community. Embassy reports indicate that small businessmen in the Dominican Republic, for example, have protested by closing their shops

temporarily. We believe that, over the short run, businessmen throughout the region will be increasingly likely to vent their frustration through a greater exodus of capital and manpower. If sizable enough, such developments will probably trigger strong governmental responses; [redacted] the Netherlands Antilles recently instituted strict foreign currency controls to stem capital flight. Regardless of how the groups react, we believe that, in the longer run, many members of the middle class could become more susceptible to mobilization by opposition political parties. [redacted]

The Political Opposition

Opposition parties, although tarred in a number of countries by their past unresponsiveness to their countries’ economic plight when they were in power, are likely to gain support as dissatisfaction over austerity grows. US Embassy officials in Santo Domingo, for example, say that the conservative Reformista Party and the leftist-leaning Dominican Liberation Party are gaining support because of dissatisfaction with ruling party infighting and economic hard times. In Jamaica, a recent public opinion poll indicates that the left-leaning People’s National Party—which is attempting to project a moderate image—could unseat Seaga, although the poll also revealed no voter groundswell in support of early national elections. Given Embassy reporting and past performance, we judge that centrist parties elsewhere in the English-speaking islands have the greatest potential to capitalize on popular disenchantment. Because most of these parties are politically moderate, their rise to power would help reinforce the strength of the region’s democratic traditions. [redacted]

Radical leftist parties are trying to take advantage of economic hardships to broaden their mass appeal. Many leftists are thus downplaying Communist rhetoric and trying to form alliances with political moderates, according to US Embassy reporting. US Embassy reports from throughout the region indicate that leftist parties, hoping to reverse the membership losses suffered in the wake of the Grenada episode, are actively courting youths and others hurt by falling standards of living. [redacted]

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Leftist elements in Dominica probably have the best chance to gain new ground. According to Embassy reporting, they have succeeded in forming a unified front group and are trying to build support among the general population. If the alliance holds together, it could pose a serious threat to the reelection of Prime Minister Charles, whose popularity has suffered because of the sluggish economy. Opposition vote splitting was largely responsible for her landslide victory in 1980, according to the election tally. [redacted]

Although the circumstances that brought Bishop to power in Grenada—a repressive, autocratic regime and an opportunistic, popular opposition—do not exist in any Caribbean nation today, we cannot rule out the possibility of a rise to power of a leftist government similar to that in pre-1983 Grenada. Many observers believe that electoral gains made by moderate political elements in recent years will lack permanency unless underwritten by economic stability. [redacted]

Some Other Factors

Considering the cultural, social, and economic diversity of the Caribbean, a variety of island-specific issues also could increase sectarian infighting and further heighten political tensions regardless of economic prospects. For example, we foresee that renewed allegations of official corruption against Bahamian Prime Minister Pindling might further reduce public confidence and prompt dissident ruling party members to call again for his ouster. Heightened racial tensions between blacks and East Indians, particularly in Guyana and Trinidad might spark serious political violence. Resolving the succession issue in Antigua could be difficult; ruling party notables publicly oppose the plans of longtime Prime Minister Bird to pass the mantle of leadership to his son. Likewise, the death of former Barbadian Prime Minister Adams could touch off disruptive squabbles within the ruling Barbados Labor Party. Aruba's determination to separate from the Netherlands Antilles Federation, despite rising economic problems, could exacerbate tensions among the Federation's hierarchy, we believe. [redacted]

Coping With Threats

The openings that economic conditions give for strengthening the legitimate opposition are not the

only political pressures with which Caribbean leaders will have to contend, in our view. We agree with US Embassy officials stationed in the area that mounting economic problems will increase the chances for social violence, especially if decisionmakers inadequately prepare public support for austerity measures. Sporadic protests similar to those that broke out in Jamaica, Haiti, and the Dominican Republic during the past year are likely to recur in these countries, and possibly to emerge in Suriname, the Netherlands Antilles, Trinidad, and Guyana, largely because the populace in these countries has not yet accepted the need for additional belt-tightening. Moreover, the recent bombing incident in Guadeloupe⁶ underscores US Embassy reports from throughout the region that suggest that a number of extremist groups are willing to take violent steps to achieve their goals. Because most leftists reject armed action, largely because they fear provoking harsh government retaliation and alienating the public, according to US Embassy sources, we judge that the chances for widespread organized violence in most countries are low. [redacted]

On the basis of a review of US defense attache and Embassy reporting, we believe that the ability of Caribbean security forces to handle the type of domestic unrest we envision—sporadic riots and demonstrations—varies widely. Military establishments in larger countries—especially the Dominican Republic—can reasonably be expected to cope with most civilian disturbances. The willingness of officials in the Dominican Republic to take preemptive steps, including detention of leftist labor and political leaders, also will help to keep potential troublemakers in that country in line. Security forces in Haiti, supplemented by a large unofficial militia, probably will continue to prove effective in identifying and neutralizing dissidents. We believe, however, that constabularies in the Caribbean ministates, despite the training they have received through the newly created Regional Security System, can deal with only minor and

⁶ A bomb, presumably set by proindependence terrorists, killed several people in early March. [redacted]

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sporadic incidents.⁷ Moreover, disagreements over financing have caused Caribbean leaders to abandon plans for a mutual defense force, according to US Embassy and press reports. [redacted]

Widespread and prolonged internal unrest would strain the capabilities of most Caribbean military forces, even in the larger countries, to the breaking point. In our view, longstanding problems, including lack of training, poor logistics, command and control deficiencies, shortages of spare parts, and outdated equipment, would hinder efficient responses to serious challenges in Jamaica, the Dominican Republic, and Haiti. According to US defense attache reports, recent budget cuts also have played havoc with morale, recruitment, and equipment maintenance. [redacted]

Prospects for Foreign Meddling

The region's combination of worsening economic conditions and political tensions presents some potential for exploitation by Moscow and its allies. Cuba and the USSR, however, have been hampered by the strong rightward swing that the area has experienced since 1983. Prime Minister Seaga's hostility to the Castro regime, in particular, has been unremitting. Nonetheless, other players are now in the wings. Libya and, to a lesser extent, North Korea and China also have sought to turn the region's economic woes to their advantage. Tripoli has sought particularly to expand links with radical groups in the French Antilles. [redacted]

Cuba and the Soviet Union

In the wake of the Grenada debacle, Havana and Moscow are using a building-block approach to try to regain their influence in the Caribbean. In addition to providing funds, training, and political guidance to a

⁷ The Regional Security System was created as a result of the memorandum of understanding signed in October 1982 by Antigua, Barbados, Dominica, St. Lucia, and St. Vincent. It was designed to fill the security gap left by the United Kingdom's departure after these states gained independence. The agreement provides for the development of a self-defense capability by its members and enables any state to call upon the others to help put down a threat from a foreign or extralegal group. Since its creation, Grenada and St. Kitts have joined the arrangement. [redacted]

wide variety of leftist groups, Cuba and the USSR are encouraging cooperation among regional leftists. Havana has sponsored several unity meetings—attended by most leftist and Marxist parties from the region—to help heal the ideological rifts within the left widened by the Grenada events [redacted]

Reflecting the USSR's and Cuba's narrowed political options, and their realization of labor's strong clout in the region, they are stepping up efforts to improve their ties with trade unionists. Cuba sponsored a publicly reported conference for Caribbean labor leaders in mid-1984 and dispatched labor officials to tour the region. [redacted]

[redacted] A Soviet labor delegation recently visited Suriname and, according to US Embassy reports, invited key labor leaders to visit the Soviet Union. [redacted]

Havana and Moscow also are trying to strengthen ties with the two leftist-leaning regimes in the Caribbean, Guyana and Suriname. Viewing Guyana as the best available hope for rebuilding their position in the area, the Cubans and Soviets over the past year have renewed their push for Burnham to invite Cheddi Jagan and his pro-Moscow party to form a coalition government, [redacted]

[redacted] Prospects for this occurring are poor, in our view. Aside from the obstacle of Burnham's demonstrated desire for absolute power, any plans for true power sharing with Jagan and his Indo-Guyanese followers would threaten Burnham's traditional support base among Afro-Guyanese. We believe, therefore, that the political risks involved militate against Burnham agreeing to a meaningful coalition, even in the unlikely event that substantial Cuban or Soviet economic aid were offered. Havana and Moscow probably hope that continued limited trade and aid inducements will be enough to persuade the Guyanese leader to allow

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Jagan's party to gain a few cabinet posts. They probably calculate this would put them in a better position to take advantage of the political vacuum likely to occur with the eventual departure of Burnham from power. [redacted]

In Suriname, the Soviets are likely to help Bouterse build grassroots political support by providing assistance to the 25 February Movement, an embryonic radical political party. [redacted] Cuba, however, apparently is not pressing to reopen its Embassy in Paramaribo, which Havana closed in late 1983 after Bouterse expelled the Cuban Ambassador because of concerns about increasing Cuban influence in Suriname. [redacted]

In addition to developing better ties with leftist government and political groups, the Soviets and Cubans are trying to improve relations with some pro-Western countries through trade and cultural contacts. [redacted]

[redacted] Cuba has won a large public works contract in Trinidad and possibly a partnership in its state-owned steel company. A public works team in Trinidad would be Havana's first major gain in the region since the fall of the Bishop regime. [redacted]

[redacted]

Because of the prevailing conservative political climate in the Caribbean and Moscow's and Havana's present focus on Central America, we doubt that they will deviate sharply from their traditional low-key approach over the near term. They also probably realize that regional leftists at present are neither sufficiently strong nor broadly based to seize and maintain power. [redacted]

[redacted] both countries, however, maintain contacts with violence-prone groups—such as the Worker's Party of Jamaica—probably in hopes of benefiting from any leftist resurgence that could occur if the region's economic problems worsen. US Embassy

reports also indicate that Havana has links with a small radical group in the Dominican Republic. [redacted]

Libya

As part of Libyan leader Qadhafi's efforts to undermine US influence wherever possible, Tripoli is pursuing a more active campaign in the Caribbean. [redacted]

[redacted]

[redacted] Tripoli's leverage over most Caribbean leftists appears limited, however, in large part because of their traditional rejection of violence. We believe most leftists also will continue to resist adopting radical tactics because of their concern over public rejection and, in some cases, fear of government retaliation. [redacted]

North Korea and China

Although we believe North Korea and China see potential for gain from the region's economic problems, they are, in our view, secondary actors on the Caribbean stage. To expand its influence at the expense of South Korea, P'yongyang is courting Suriname heavily. [redacted]

[redacted] Continuing military aid, [redacted]

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**US Economic Relations
With the Caribbean**

Over the years, the United States, the principal economic actor in the Caribbean region, has assumed an ever larger role as former European colonial powers have attempted to reduce the region's economic dependence on them:

- *The United States is the Caribbean's largest trading partner. In 1983, the United States bought more than 80 percent of total Caribbean exports to the West, purchasing the lion's share of foodstuffs (including coffee, cocoa, and sugar), manufactures (including chemicals, light machinery, and consumer goods), raw materials (especially metals), and petroleum products. The United States also provided more than 50 percent of Caribbean imports from the West, primarily raw materials and fuel.*
- *Gross US direct investment totaled more than \$18 billion in 1983. On a net basis, however, this investment totaled only \$2 billion, due largely to the nearly \$16 billion negative US investment position in the Netherlands Antilles because of US assets held by Netherlands Antillean firms. Most US equity is centered in the petroleum and bauxite*

and alumina industries and is dominated by several large US corporations—Texaco, Exxon, Reynolds Metals, and Alcoa, among others.

- *US commercial bank exposure stood at \$3.5 billion at the end of 1983, including US balances at offshore banking centers in The Bahamas, Bermuda, British Virgin Islands, and the Netherlands Antilles. Even excluding these balances, the United States still accounted for more than 35 percent of commercial bank loan balances in the region.*
- *Of the \$485 million in OECD commitments of official development aid to the region in 1982, the latest year for which complete data are available, the United States accounted for 55 percent of the total. Washington contributed more than 80 percent of aid committed to the Dominican Republic, 72 percent to Jamaica, and 48 percent to Haiti. Moreover, the United States, as a major contributor to the IMF, the World Bank, and the Inter-American Development Bank, also has been a significant source of multilateral support [redacted]*

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mainly training, to Guyana underscores North Korea's interest in improving relations with the Burnham regime. [redacted]

[redacted] According to US Embassy reports, Beijing's Caribbean policy seems motivated by its desire to undercut Taiwan's influence. Its few links with leftist groups appear to us exploratory and limited to the English-speaking islands. [redacted]

Implications for the United States

On balance, the Caribbean area's grim economic prospects and the pressures such conditions are putting on governments throughout the region almost certainly portend increased petitioning of Washington for help in revitalizing the region's economies. The

CBI has raised popular expectations of significant US economic backing for the region. We believe many area leaders who back the initiative—particularly Prime Minister Seaga—will be watching its progress as a bellwether of the US commitment to the area. [redacted]

In addition to increasingly urgent requests for concessional economic aid, additional bauxite purchases, and increased security assistance, we judge that Caribbean governments will seek indirect support from Washington for their economic policies. For example, US Embassy reports indicate that leaders in the Netherlands Antilles and Jamaica believe that the US Government can effectively dissuade investors from

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curtailing their operations or pulling up stakes altogether, even if ventures are not profitable. Thus, we foresee increased pressure from these countries and others for Washington to deter or compensate for any substantial disinvestment. Caribbean countries also are likely to ask the US Government to take a larger hand in prodding the IMF, aid donors, and commercial banks to make new funding available. In these circumstances, we believe grating episodes between Washington and most Caribbean nations will increase, even though their governments generally will remain pro-US. [redacted]

In addition to the likelihood of more contentious economic relations, we believe the current environment in the region could add new pressures to already existing stress points in US-Caribbean ties. For example:

- Resistance by the regime in Haiti to perceived pressure from Washington to institute political reforms could result in a repetition of last year's threats to expel several US diplomats.
- The apparent unwillingness of the military regime in Suriname to relinquish power and Guyana's warming relations with Havana and Moscow probably will further strain relations between these countries and Washington.
- The traditional push-pull factors contributing to illegal migration to the United States probably will intensify. The US Embassy in Haiti, for example, reports that US Coast Guard detentions of Haitians jumped fivefold last year. Given academic studies and US Embassy reports, we believe that monetary repercussions from earlier emigrants are allowing larger numbers of unskilled, poorly educated individuals to move northward.
- US efforts to stem the illegal drug trade and reclaim money from Caribbean tax havens are likely to be hurt by stiffer resistance to cooperation from those countries that stand to lose the most funds and by the rise of new trafficking and laundering centers. Moreover, the region's deepening economic slide may diminish the willingness of government leaders to pursue crop eradication vigorously.

- The failure of US help, particularly the CBI, to meet expectations also would provide grist for Soviet and Cuban propaganda. [redacted]

In the unlikely event that the region's economic difficulties become unmanageable and lead to widespread political instability over the near term, Washington's problems could be magnified. In such circumstances, the chances for the emergence of leftist regimes opposed to Washington and its policies would grow. US and other foreign-owned firms might become targets for nationalization, and the Soviets and their surrogates would have new bases for regional adventurism. The failure of the small English-speaking islands to form a quick-reaction security force raises the chances that Washington might be called on to take unilateral action to prevent another leftist takeover. Although events in one Caribbean nation can directly affect its neighbors, we believe that the absence of a shared revolutionary ideology would preclude Washington from facing a series of simultaneous threats [redacted]

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