

## CARIBBEAN DEVELOPMENT: THE PREMISES OF AN EMERGING AGENDA

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### I. INTRODUCTION: THE CARIBBEAN AS AN OPEN FRONTIER

The Haitian anthropologist, Michel-Rolph Trouillot, once described the Caribbean as an open frontier where harmony and discord work together; where the boundaries of culture are not easily defined, and where memories of 'roots' refuse to allow the past to be silenced or the society to be canceled ... a reminder of Europe's distant history of centuries-old rivalries and war time conflicts.

A place where the old and new worlds meet, where African, Asian and European peoples have converged and where the East-West and North-South fault lines sometimes surface. Truly, an issue of identity, yet a silent yearning for a common Caribbean stand, even perhaps a Caribbean State. "The peoples of CARICOM and their Governments must no longer think in narrow terms of a "Commonwealth Caribbean" but in wider terms of a "Caribbean Commonwealth," declared the West Indian Commission, in their 1992 report *Time for Action*.<sup>1</sup>

Two years later in the search for new economic and political space, the Association of Caribbean States (ACS) was set up with membership of all countries whose shores are washed by the Caribbean Sea. Cuba is a member. The United States is not. The platforms defining Caribbean economic and political space over the last forty years include the triangular trade of the pre- independence period, the era of multinational corporations and United States hegemony, and more recently, the IMF-World Bank structural adjustment programs. Out of this framework came theories of exploitation, neocolonialism and marginalization, and the export of protest diplomacy. There followed heavy moral and political overtures for protection, special consideration, aid, trade, and investment support from the developed world.

This approach may have been acceptable in the 1960s and 1970s, given the state of development thinking and the geopolitical structure of

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\* The opinions expressed herein are those of the author and do not necessarily reflect the views of the organizations to which he is attached.

the world economy in that period, but it is no longer sustainable. For decades, the plantation economy of the hinterland has adjusted only to persistent low level equilibrium, resulting in low levels of employment and incomes. Although the region's resource-based industries were integrated into the global economy, this resulted in economic enclaves within the domestic economy, without sufficient development benefits. Caribbean countries remain highly sensitive to exogenous factors; such as shocks, exchange rate manipulation and crisis, all of which can adversely affect their critical foreign exchange, their largely export-driven public revenues, and their competitiveness.

The financial and economic geography of the world have altered and have facilitated new flows of international capital. Now there is an increasing divergence between political and economic boundaries. There are now no privileged spaces. Yet, there is a high demand for Caribbean countries to create a new generation of exports to reduce the cost of doing business and to expand its production frontiers. How? And What are the options? Two further questions recur: Is our development strategy correct? Is our understanding of world politics insightful?

## **II. THE CHANGING PERSPECTIVES**

### **Objectives of Development**

Caribbean development, always challenged by the dichotomy between growth and development has been premised on the argument that growth is a necessary condition for development. Now the sequence may have changed as development has become a necessary condition for growth. What then did we and do we mean by development? In previous decades, development was seen as simply increasing GDP. Stiglitz argues that today, economists and planners have "a broader set of objectives in mind: the focus is on democratic development, on sustainable development, and on increases in living standards" (Stiglitz, 1997). As economists have long recognized, GDP accounting can no longer adequately capture changes in standards of living. The improvement of education and health care, the abatement of pollution, and the generation of externalities must all be taken into account if we are to arrive at a meaningful estimation of living standards. There has been a change in thinking about development strategies: a change in objectives.

This broadened set of objectives leads to quite different development strategies. In sketching the outline of an agenda for economic development for the coming century, Stiglitz concludes that "it includes a wider set of objectives than development agendas of the past" and "a changing role for

the state – a partnership between government and markets – that involves a catalytic role for government in helping to create markets”. Social income, once seen as being produced by the state, can now be the product of the market, behaving “within an appropriate regulatory structure- what is required is not deregulation but regulatory redesign”.

Policy matters and getting the prices right is not enough. The states can create markets, they helped regulate markets, and they used markets to achieve their development objectives. The sequence of reforms can affect not only the performance of the economy in the short-run, but also the momentum for the continuation of reforms. The simple lesson to emerge from this discussion is that incentives matter: that they matter in both the public and the private sector, that the government should make more extensive use of incentive mechanisms for guiding its own behaviour, and that government should take actions to improve the incentives within the private sector.

Development, as we recognize today, is more than the accretion of physical capital or of human capital. It also includes closing the knowledge gap between rich and poor economies. And it includes other transformations, such as those that result in the creation of social capital, the quality of growth rates and changes in the structure and behavior of economic organizations. Alberto Alesina (1997) asserts, based on a cross country data analysis, that countries with large public sectors and 'poor' institutions are gravely harmed in the development process. Now the external environment is an 'endogenous' factor and influences significantly the political economy of 'high and low growth' in both advanced and developing countries. In Stiglitz's view, the coming decade will see enormous growth in the developing world and a reduction in poverty. It will be a struggle. The challenges are great, but the opportunities are enormous.

### **Regionalism and Multilateralism**

The forces transforming the global environment are moving the international system in two seemingly contradictory directions. On the one hand, the world is moving towards multilateralism and global integration with strong commitment to open markets and international institutions. On the other hand, it is entering a new era of regionalism, as nations seek to guarantee their markets. Policies, strategies and institutions that are not in harmony with international regimes may not be tenable. The meshing of local policies with the external policy environment is an emerging issue

which may have prompted Robert Putnam<sup>2</sup> to design a 'two-tier framework' to analyze the domestic component of foreign policy.

The issue is more complicated with the resurgence of regionalism, as pointed out by Jagdish Bhagwati (1992). The first round of regionalism collapsed in the 1960s, primarily because the United States was intent upon following a multilateral 'course'. Now, regional thrusts are seen as a stepping stone to multilateral goals, thus widening the interest of the regional agenda to go beyond trade and investment issues into matters of security, common regulatory systems, environment and labour standards, and institution-building. This broadened agenda has set the stage for a new kind of 'moving integration' where the boundaries keep shifting, new frontiers keep emerging and the economic equations within the integration areas are changing. We are now in a dynamic integration process calling for a new model of integration.

In this rethinking process, regionalism is not about developing 'self-contained' blocs, it too must synchronize its formation in a global context. As Bhagwati noted; "regionalism need not necessarily be a stumbling block towards a multilateral trading system". The World Trade Organization is the most recent example of the evolvement of a global institutional framework, a trend that poses major reform requirements to other international bodies in the field of development. Development banks are likely to face new demands for change in a more competitive global financial setting. Indeed, political leaders and other executives of the public interest can no longer define interests primarily in terms of their geopolitical boundaries, but must increasingly do so in regional and global terms.

### **The Issue of Sovereignty of the Nation State**

However, as difficult as integration might be, collaboration on agreed upon agendas and shared responsibility for the promotion of common interests does not mean that the nation state will disappear, or that national sovereignty will be lessened. Indeed this issue has sparked much debate in the Caribbean recently, as nation states in the region strive for common interest positions as a means of pooling their 'sovereignty' for wider regional and global trade-offs. Sovereignty as Keohane (1993) argues, "is a twofold concept, incorporating both formal and operational sovereignty. As far as formal sovereignty is concerned, a state has "legal supremacy over all other authorities within a given territory, and is legally independent (...) except where it has accepted obligations under international law."

Operational sovereignty, on the other hand, involves "legal freedom of action". Nations sacrifice some operational sovereignty when they enter into international agreements, but they do so in return for reciprocal fruits on the other states. If entered into wisely such agreements will increase economic well-being at home and enhance government's ability to govern. The establishment of regional common interests and joint problem solving processes, far from limiting the state's power, therefore, may heighten national autonomy; particularly when these agreements are entered into with a view as to how one can benefit from a greater integration with the external world, while at the same time supporting the multilateral process.

### **Political systems are undergoing stress**

Governments in both the developing and developed world are facing the increasingly difficult task of managing their national economies in order to improve macroeconomic performance, to provide increased levels of public investment for job creation, education and health care, and to develop policies and institutions that will address the issues of poverty and inequity, in an increasingly laissez-faire global environment. Political systems are undergoing stress, as the economic forces for integration outstrip their capacity to make the requisite political adjustments. They are likely to endure only insofar as they are able to adapt.<sup>3</sup>

In the Caribbean and other developing regions, this scenario is further complicated by structural adjustment policies, which many argue are undermining the conditions for development. Others fear that building the requisite regional institutions for addressing these problems will result in a loss of national identity and sovereignty. Furthermore, as regionalism is by definition discriminatory, economists and decision makers are concerned about the possible trade-diverting effects of the future regional landscape.<sup>4</sup>

### **Size is not an issue**

We in the Caribbean have rationalized that our smallness constrains development, but in fact, size is not in itself an issue. The city-states of Hong Kong and Singapore have achieved high levels of prosperity and growth without significant natural resources, preferential trade accords, or proximity to the United States and European markets. They determined their cultural strengths and built on them, developing policies and strategies that unleashed the microeconomic forces for growth, and complementing these with the macroeconomic framework. This was a matter of clear goals, skillful strategies, and sound policy making, not market size.

China, on the other hand, with its authoritarian government, large internal market and substantial resources, was unable to modernize its economy outside the global framework; nor have other large nations, including India, Indonesia, Brazil, Russia, Pakistan, Bangladesh, Nigeria, and Mexico, been able to do so, though many have excellent resource bases (see Wolf, 1994). The point, then, is that the political and sociological legitimacy of the nation-state are not threatened by changes in operational sovereignty per se; rather, today's world requires that the nation-state cede more of its operational sovereignty, in order to hold its legitimacy and viability.

### **Is adjustment sufficient?**

Since the oil crisis of the 1970s, the path towards development in many of the world's poorest countries has been hindered by deteriorating terms of trade for export commodities and inappropriate development policies. With these difficulties, countries had to restructure their economies along the lines of structural adjustment policies. These programs consist of both short- and medium-term measures for improving the overall economic situation by such means as cuts in public spending, contraction of the money supply, changes in import restrictions, devaluation of the currency, and the privatization of state enterprises. In general, this new orthodoxy views the market as the major instrument of reform while the state is seen as the key obstacle to development.<sup>5</sup>

The structural adjustment policy debate in the Caribbean has centered around the sequencing of measures and a time period for these policies to work, when it should have focused on substance. After a decade of adjustment, development still remains an elusive goal. This is largely a static model, based on two-dimensional premises that cannot be supported. The neoclassical policy prescriptions for "getting the prices right," such as reducing costs, getting the right technology, flexible exchange rates, and removing price controls and subsidies, are all well and good in themselves, but competition is a complex, dynamic phenomenon in which price is only a single element.

Moreover, while strict fiscal and monetarist measures may promote stabilization, they will not unleash the internal forces for change that will result in growth; and while the divestiture of state enterprises, for instance, may be necessary to balance the books, unless privatization takes place within a post-structural adjustment framework for development, it will not result in a new platform from which output, income, and well-being can be increased. Furthermore, such a framework must engender the dynamics for

endogenous growth, so that the industrial structure of production may be transformed, creating new vehicles for the empowerment of peoples which will yield a high-level equilibrium and momentum for sustainable development.

Similarly, the measures for "getting the state out of the way" ignore the need for an enhanced state role in building meaningful regional institutions that will create and promote an environment of growth. The state is needed to enforce regulations, formulate and implement policy, build international linkages, forge collective public and private sector initiatives, and promote human resource development that will bring the disadvantage into the development process. The world that we now inhabit will likely call for constant economic adjustment; but if the foundations of social life are not to be further eroded, this process must be countered with a "high-energy politics ... capable of repeated basic reform", involving intensified public participation and democracy. Correcting economic accounts regardless of social costs can only destroy any basis for future growth.

The state's role in development must be redesigned, but not necessarily reduced. As Callaghy (1989) points out; "contrary to free-market mythology, the state has always played an important role in development...[and] economic adjustment in the Third World today requires a balanced tension..., between state and market forces". While the international financial institutions are slowly coming around to this view, this is the formula in the developed world. Interventionist strategies such as incentives and subsidies, are at the core of East Asian development. Furthermore, while the structural adjustment paradigm depends on externally propelled growth, these movements are cyclical, as W. Arthur Lewis has already pointed out, and there is nothing inevitable about the process.<sup>6</sup>

### III. THE EMERGING FRAMEWORK

#### Open Regionalism

Regionalism is an inescapable feature of the landscape. Open regionalism encourages nations to form sub regional trading blocs in ways that facilitate linkages with others, thus synthesizing the globalization and regionalization trends. It allows for the open ended participation of its members in other trading arrangements and regional schemes, so that these various groupings will function as building blocs towards global accords and an open and transparent international economy.

Open regionalism is seen as a way of achieving a development model in which economic growth and social equity are enhanced simultaneously. Accordingly, the horizontal expansion of aggregate demand as a result of market integration would be compounded by vertical expansion of demand, owing to country level social integration. In this connection, integration agreements between countries not only may be compatible with the goal of steadily increasing international competitiveness but may also be instrumental in achieving it. Their purpose is to usher in a more open, transparent international economy. In other words, integration is seen as a building block of a future international economy free of protectionism and barriers to the exchange of goods and services.

The open regionalism approach should be designed with certain characteristics in mind; they should contribute to a gradual reduction of intra regional discrimination, to macroeconomic stabilization in each country, to the establishment of suitable payment and trade promotion mechanisms, to the building of infrastructure and to the harmonization or non-discriminatory application of trade rules, domestic regulations and standards. Moreover, the reduction of transaction costs and discrimination within the region could be reinforced by sectoral arrangements or policies to take advantage, in turn, of the synergistic effects of integration.

### **The Rise of Regional Economies**

Kenichi Ohmae (1995), asks the question whether "nation states – notwithstanding the obvious and important role they play in world affairs – [are] really the primary actors in the world economy? "Indeed, as Ohmae suggests, it is doubtful whether, in today's world where economic borders are progressively disappearing, "nation states are the best window on the global economy; whether they provide the best port of access to it; whether arbitrary, historically accidental boundaries are genuinely meaningful in economic terms; and, if not, what kinds of boundaries do make sense?" In other words, exactly what are "the sufficient, correctly sized and scaled aggregations of people and activities" with which to tap into the global economy.

As Ohmae notes, one way to answer these questions is to observe the flows of what he calls the four "I's": namely, Investment, Industry, Information Technology and Individual Consumers. Taken together, the mobility of these four "I's" makes it possible for viable economic units in any part of the world to attract whatever resources are needed for development. They need not look for assistance only to pools of resources



close to home. Nor do they need to rely on the formal efforts of governments to attract resources from elsewhere and funnel them to ultimate users. This makes the traditional "middleman" function of nation states – and of their governments – largely unnecessary. Because all the global markets for the four "T's" work just fine on their own, nation states no longer have to play a market clearing role. Global solutions will flow to where they are needed without the intervention of the nation states. On current evidence, moreover, they flow better precisely because such intervention is absent (Ibid.:4).

In essence, therefore, as Ohmae argues, "region states are economic not political units, and they are anything but local in focus. They may lie within the borders of an established nation-state, but they are powerful engines of development because their primary orientation is toward – and their primary linkage is with – the global economy. They are, in fact, among its most reliable ports of entry. "Indeed, what defines the region state is "not the location of their political borders but the fact that they are the right size and scale to be the true, natural business units in today's global economy. Theirs are the borders – and the connections – that matter in a borderless world"(Ibid.:5).

### **The "flying geese" metaphor in economic growth**

Takatoshi Ito (1997:2) put forward a very interesting observation that the pattern of development takes place through a "flying geese" formation. Based on his study of East Asian countries, he concluded that the Asian economies are like a group of geese flying in V-formation. Japan, flying at the front, is flanked by Hong Kong and Singapore, followed by the Republic of Korea and Taiwan. Behind them are Malaysia and Thailand, the Philippines and Indonesia. The order of the formation is that of the stage of industrialization and per capita income.

The argument is based on shifting comparative advantage. As rich countries shift their production to technologically advanced new products, lower value added versions of these products are produced by neighbouring less developed lower cost countries which, taken together, generates a dynamic process of development. As an example of this type of phenomenon, one can look at Japanese investment behavior in East Asia in electronics and autos industries. Japanese investment behavior in their manufacturing sectors shift from Japan in the late 1970s, first to Hong Kong, Singapore, Taiwan and Korea, then to Malaysia, Indonesia and now to China.

Is this pattern likely to be replicated in other regions of the world? In other words, would economic take-off now take place in clusters of economies rather than through national economies or satellite economies? In the new economic geography, the regional economy diverges from the established political boundaries, it now appears that it is the regional economy, not the national economy or even the satellite economy that will become the basic unit upon which a dynamic process for economic growth and development can be predicated.

Ito goes on to argue in his paper that for countries endowed with little natural resources, like Japan, Korea, and most East Asian economies, growth means industrialization. Two indicators of the level of economic development are agriculture's share of GDP and machinery's share in exports. As economic growth increases, a resource shift takes place to the manufacturing sector, and in this process the product composition of exports changes. Production and exports shift from textiles and light industrial products to more sophisticated goods such as machinery, steel and automobiles.

Is this sequencing appropriate for Caribbean industrialization? Empirical evidence of industrialization performance do not support this process of resource shift. The early thinking on this matter focused on the "value added" concept where more returns are being sourced from the existing resource use leading to downstream and linkage industries. As a result, specialization and resource shift were given lower priority in the development of industry in the Caribbean. According to Dennis Pantin (1995), CARICOM developed an industrial allocation scheme to target specific "light industries" in the smaller Caribbean economies. This scheme has had limited results.

What is emerging is the distinction between a strategy for economic development based on the value added idea as opposed to a strategy based on "resource shift." Many sunset industries in the Caribbean have been retained on the argument that new investment could diversify the outputs, and create a dynamic for growth based on the old expenditure patterns. To some extent, this explanation is attractive because of its political appeal. There are no real losers, only winners. The need for de-industrialization to precede re-industrialization is clearly addressed in the "resource shift" idea where dynamic development will be sustained only through major shifts in national expenditure from "sunset" to "sunrise" industries.

Ito argues that the key lesson that can be learned from the experience of East Asia is to understand how incentives have worked in that

environment, and the efficacy of government intervention in these economies.

In both respects, there was a common policy approach by the countries in the cluster region which facilitated the emergence of the flying geese formation in economic change. In this regard, there are wide spaces in policy coordination among Caribbean countries, in spite of valiant attempts to establish common approaches in external trade matters and monetary cooperation. It would seem that the flying geese metaphor in a Caribbean context may require an integrated policy framework at both the policy and operational level. The framework must be based on new pillars of growth that are sustainable through the working of the market system, including perhaps the issue of a policy framework for the knowledge-based economy. This continues to remain a major challenge to the political economy of development in cluster economies.

### **The Missing Link in Economic Progress**

In most Caribbean countries the first generation of reforms – macroeconomic policy, trade reform, financial reform and privatization – are in process. The theme now is to make a permanent shift toward growth following adjustment. There is the need now to go beyond the adjustment process into an agenda of second generation reforms. The situation in each country differs. Trinidad and Tobago, for instance, has embarked on a highly complex process of change that has not yet run its course. Will the present policy matrix sustain external balances and deepen the process of structural change? What are the key elements of a second phase program that will maintain a momentum for growth and development?

Nancy Birdsall (1996), saw the key elements as the three “E’s”: Export, Education and Enabling Government, which she described in her chapter as the missing ingredients for the economic success of the Caribbean. She argues that the growth of exports encourages the rapid growth of employment and eventually wages, which raises the demand for labor and contributes to the relative equality of incomes. Exporting may also create a second advantage in that it forces countries to be globally competitive, thereby generating rapid productivity gains.

The second key variable which Birdsall alludes to is education. Education needs to be accorded a high priority as it contributes not only to wage and productivity growth but also to fertility decline, which makes higher investment in education per child possible. The third element Birdsall refers to in her list of second generation reforms is an enabling government. In her view, government should be viewed not as an engine of

growth but as an enabler or catalyst of private sector growth. In particular, governments need to create a predictable and reliable environment for investors, and thus an environment friendly to the business sector. Birdsall's "missing links," now perhaps part of the old orthodoxy, necessitates a development framework that will remove these missing links.

The growth of an economy depends on how stabilization efforts and structural reforms work in a particular setting. The environment takes into account the microeconomic behavior, the functioning of factor markets and the performance of the regulatory system. The interplay of micro and macroeconomics, says an ECLAC publication (March, 1996), is the new challenge to policy makers in the Caribbean and Latin America. Growth alone is not enough. There are also conditions on the microeconomic and systematic levels that are essential for creating externalities that will internalize the transformation process with a special objective of increasing the income of the poorest.

The setting goes beyond the national economy. The strategy to capture global technology flows, to be competitive in an integrated regional economy, and to respond to the global business cycle will determine the growth rate and the income level at which the economy may reach a 'steady state' equilibrium. That equilibrium may produce an externality that 'opens or close' the gap between private and social returns to investment, depending on how the management of social policy takes place. The missing challenge in strategic economic programming in many Caribbean countries are to design a logistics that will link:

- short-run macroeconomics and medium-run growth;
- public institutions and the production and trade structure;
- micro and macroeconomics;
- the national and global economy;
- economic and social efficiency and political feasibility

This leads to the construction of an agenda for second generation reforms which in broad outline may cover, *inter alia*, the management of the public sector, a prospectus for 'unshackling' the private sector, choices and change in financial and monetary management and sustainable social programming (Dookeran, 1996b).

## New integration agenda

The ECLAC study on *Open Regionalism* emphasizes two critical aspects of integration: one dealing with technical change and the other dealing with social integration. It argues that technical progress in integration requires government to play a catalytic role in Latin American and Caribbean economies in order to build appropriate business structures and information networks that are required to facilitate technological change. With respect to social integration, ECLAC argues for a strategy that will change production patterns with social equity and in this respect outlined a series of measures in microenterprise development aimed at reducing marginalization and increasing participation of lower income people in the actual business of development.

In the search for a new integration paradigm, three main pillars upon which such a strategy can be designed have been identified (Dookeran, 1995). The first is with respect to the search for external economies of scale. In the midst of a world that is now less dependent on physical resources and commodities, the identification of such industrial strategy remains a key area of enquiry. The development of geographically compact economies is another pillar where strategic niches can be built upon and corporate partnerships and alliances can be encouraged. The third pillar upon which the integration paradigm can be constructed is the search for extending the range of Caribbean economies so that regional capacity can be enhanced to play a competitive role in world commerce. These considerations along with the concept of dynamic integration alluded to earlier is but a starting point in the building of an integration approach.

Development in the Caribbean entails a comprehensive political economy of change, including the development of endogenous growth capacity to drive the economy. Only then can the region benefit from the new and flexible world economy, in which ends and means are readily adjusted to changing opportunities in different countries. This will require an integration model that transcends trade and converges at the institutional level, and facilitates backward and forward, macro- and microeconomic linkages. Eventually, a virtuous cycle should be created, in which the region can expand its political space and gain greater negotiating strength in the international arena. Merging into a greater political-economic whole should help to free individual states from rent-seeking power bases, bring about greater economic efficiencies, and allow governments to concentrate on governance.

Sustainable development is an affirmative political-economic process, linking economic logic – the measures needed to pursue economic

efficiency in both the international and domestic spheres – with political logic, in a synergism that allows them to reinforce one another. Merely opening the economy to the outside will not induce sustainable growth; to the contrary, it will result in further social and economic destabilization. As integration progresses and the state reduces its direct role in the economy, public policy will have an even greater impact on society. There will be winners and losers; to address this situation, the government must be strong enough to manage the transition and alter the opportunity structure, so that lower- and middle-income groups will not bear disproportionate burdens. The government's challenge is to ensure that poverty issues are systematically addressed with visible effect.

### **Competition Policy**

The issue of the competitiveness of the Caribbean economy has now emerged as a key requirement for the successful integration of these economies into the global economic system. Serious issues do arise in determining the path and process for improving competitiveness. These issues include matters of macroeconomic policy, changes in the structure of specific industries, the financing of infrastructure development, and institutional systems to promote competitiveness.

In the new agenda for global trade, the issue of an international agreement on competition policy has emerged. The argument is that the elimination of trade barriers do not ensure that markets are genuinely contestable. The WTO currently does not require its members to meet binding obligations to implement competition policies. There is no entity responsible for ensuring that global markets are competitive. A single set of rules could, in principle, provide more coherence than the current system.

The negotiation of these rules cover a wide range of topics:

- Elimination of antidumping and countervailing duties rules.
- Antitrust laws.
- Business practice that restrict market access.
- Creation of an international competition office.
- Implications for preferential tax treatments.
- Constraint on domestic competition policy.
- Competition rules may outlaw market sharing agreements.

Whatever the agenda items, it is clear that an international competition policy will have direct impact on the trade and commercial practice, and will have differential effects on different groups of countries.

It may well lead to the categorization of countries on the basis of their degree of integration with the world economy. It may be that the incremental approach to incorporating competition policy within the international trading system is likely to be the most feasible approach. The Caribbean region's framework for negotiations is now an urgent assignment.<sup>7</sup>

#### **IV. MANAGING POLITICAL TENSIONS**

##### **Development and Political Management**

Fragmentation and social incohesiveness at both the national and regional levels have raised questions about the readiness of Caribbean states to confront inescapable global realities and challenges emanating from a dynamic environment. In the post-independence period, political development and the forging of relevant social institutions have received little attention. A formula to harness and exploit the potential of multi-ethnic, multi-cultural societies remains elusive despite increasing evidence that politics and culture can impact positively on the development process. Replacing many of the old theories and approaches are paradigms which recognize the need for inclusiveness in promoting social stability and addressing problems of equity. The imperative now is to forge new forms of governance involving greater national consensus and wider community participation in decision making. There is much to learn from countries that have moved ahead.

Weaknesses in management at the national level have their counterparts at the regional level where progress towards a stronger and more powerful Caribbean Community has been stymied by fear over loss of national sovereignty and a wavering commitment that finds it difficult to discern the full relevance and potential of a vibrant Caribbean. Political skills have been in short supply, and increasingly not even the rhetoric can hide the failure and the disappearing vision.

##### **Is the Westminster System under stress?**

Political systems are undergoing stress, as the economic forces for integration outstrip their capacity to make the requisite political adjustments. Consequently, they are likely to endure only insofar as they are able to adapt. There is the fear that building the requisite regional institutions for addressing regional problems will result in a loss of national identity and sovereignty.

Anthony Payne (1993) notes that the emergent forms of politics in the post-independence Commonwealth Caribbean have been shaped by the

historical legacy of British colonialism, that this inherited political order has been adapted to Caribbean conditions in a creative and distinctive way, and that the resulting system, which can be described as democratic, offers the region a workable, although far from flawless, basis on which to defend its political practice into the 1990s, and beyond.

Despite the dominance of the Westminster model, however, Arend Lijphart (1990) begs the question which form of democracy is the most suitable for countries like Grenada and others in the Eastern Caribbean area. His answer is that the consensus model of democracy – characterized by such features as power sharing, proportional representation, multipartism, and federalism – should be given serious consideration as the major alternative to the Westminster or majoritarian model, because most of the Eastern Caribbean countries are plural or deeply divided societies.

According to M.G. Smith's (1965) conception of the plural society, a "plural society is one in which sharp differences of culture, status, social organization, and often race also, characterize the different population categories which compose it." Smith's definition is roughly similar to Lijphart's own definition, namely, that plural societies are "societies that are sharply divided along religious, ideological, linguistic, cultural, ethnic, or racial lines into virtually separate sub-societies with their own political parties, interest groups, and media of communication."

In Lijphart's view, because the Eastern Caribbean states tend to be deeply divided societies, the consensus model of democracy appears to be more suitable for them than the majoritarian model. Consensus democracy can almost be said to have been especially designed to manage the tensions inherent in such societies (Lijphart, 1990:336).

### **The Caribbean Regional Security System<sup>8</sup>**

Security is a highly contested concept with a variety of definitions and usage. However, it is generally considered as part of a country's "high politics". As some experts believe, non-military developments can pose genuine threats to long-term security and the quality of life. Traditional concepts of sovereignty cannot cope with significant transborder flows of narcotics, money, AIDS, arms, and immigrants. However, no single country can combat these threats alone and new regional and international rules and institutions will be needed to cope with the non-military threats facing most nations. Moreover, not only are states no longer the only critical actors in the international arena, non state actors abound, and some of them wield considerable power, oftentimes more than states.



There are three structural and operational features of the still-transforming global environment with direct implications for the region:

- The changed structure of global military and political power.
- Alterations in economic relationships.
- Policy reprioritization.

As Jorge Domínguez (1995) rightly observed, the Caribbean now has lesser military importance in world affairs. However, the end of the Cold War does not negate the strategic value of the Caribbean. The region's strategic significance is reflected in economic, geographic and communications attributes that have transcended East-West geopolitics. Also, the Caribbean is not only of strategic importance to states, but also to non-state actors, notably drug-barons.

As the relevance of military threats and military alliances decline, geo-economic priorities are becoming increasingly important in state actions as countries seek new alignments to advance economic prospects. The transition to a new world economy is already marked by conflict and the accompanying uncertainties will pose major challenges for the region. The megabloc phenomenon with its multiple implications occurs at a particularly unpropitious time for the region, given the significant impact of the global and regional turbulence, which includes depressed banana, bauxite, and sugar production, high public debt, and high unemployment. .

The military-political changes caused by the end of the Cold War have had tremendous causal and consequential links to the third general feature of the new strategic environment that is critical to the Caribbean: policy reprioritization. Reprioritization by these countries is the result of several factors. These include budgetary constraints, economic recession, shifting foreign policy focus, the demand by domestic constituents for more attention to domestic concerns, and leadership changes which may cause policy revaluation. In tangible terms, this has meant reduced aid, aid reallocation, preferential trade readjustment, reduced foreign investment guarantees, and diplomatic downgrading of some Caribbean countries.

### **Move away from the traditional position of protest diplomacy**

The Caribbean must accept the realities of the new global economy, and a policy environment must emerge to provide a development buffer zone, as we strive to emerge on a higher international platform. In this context, the establishment of the ACS can be seen, not as an integration process per se, but as an attempt to strengthen the region's negotiating position in international diplomacy. This poses an opportunity for the Caribbean to move away from its traditional posture of protest diplomacy

towards a more affirmative stance, in which its vital interests are identified and promoted in anticipation of changing balances in world politics. Furthermore, it lends credence to the notion that a non-sovereign "regional state" – one which could exhibit the same sort of cooperation in world affairs that the Scandinavian countries often demonstrate, and perhaps move towards regional cooperation on economic policy matters, the funding policies of the international financial organizations, as well as cooperation in the United Nations and other multilateral organizations – may well be more appropriate to the conduct of international relations than the nation-state.

## V. DEVELOPMENTS IN CARIBBEAN EXTERNAL AFFAIRS

### **From Multilateralism to a Multi-track Trade Policy**

The term "globalization," first used in 1986, really reflects the investment surge of the 1980's. During the period 1985 to 1990, global investment averaged nearly 30% per year, four times the rate of world output and three times the rate of trade. Most of the investment was in capital and technology intensive sectors. Technology flows between the first and second half of the 1980s increased from a negative growth rate of 0.1 to 22%.

These outflows reflect underlying structural forces as the revolution in information and communications technology altered the production function of the firm and industries on an economy wide basis. The investment surge, fuelled by technology flows had a profound effect on the structure of world output and trade. At the same time, the movement toward new trading pacts accelerated.

U.S. trade policy, long rooted in the strong advocacy of multilateralism and the GATT shifted to a multifaceted trade policy: multilateralism, regionalism, bilateralism and unilateralism. The U.S. trade policy continued to emphasize the need for a multilateral trading system, eventually leading to the establishment of the World Trade Organization. At the same time, track two of U.S. policy pursued further relations through regional arrangements like NAFTA and FTAA as well as bilateral ones like the arrangements concluded with Israel and also CBI. The third track based on a unilateral focus on Section 301, and the expanded sequence 201 of 1988 will become a dominant aspect of the "trade politics" between the U. S. and Japan.

At the December 1994 Summit of the Americas in Miami, Florida, the democratic countries of the Western Hemisphere announced their intention to form a hemispheric free trade area to be known as the Free

Trade Area of the Americas (FTAA). In particular, they committed to (1) begin immediately to eliminate barriers to trade and investment; (2) conclude the negotiations no later than the 2005; and (3) make concrete progress toward the attainment of this objective by the end of this century.

In the absence of a single path to the FTAA many alternative strategies are evolving simultaneously. Existing trade arrangements and the proliferation of new initiatives may either hinder or contribute to the eventual creation of a FTAA.

Existing bilateral trade agreements seek both to liberalize and facilitate trade. The proliferation of such agreements, however, has created a confusing array of rules of origin and regulation. This overlapping of agreements is likely to hinder trade rather than promote it. The simplification that is expected to result from a single FTAA would be a significant benefit.

Substantial economic liberalization has been achieved in the majority of countries in Latin America and the Caribbean. However, the state of preparedness to participate in and benefit from the FTAA varies widely.

However, as Richard Bernal notes; "By the early 1990s, a 'new Latin America consensus' had emerged, based on competitive markets, macroeconomic stability through reduction of public sector deficits, opening of the external sector to foreign competition, and reducing the role of the state by privatization and deregulation. The extent of trade liberalization reflects a variety of structural economic features, policy orientations, and political perspectives. Further complications arise from limited and tentative political support for economic reform and liberalization, partly due to the fact these policies were prompted by the frustration with import-substitution and protectionism during the profound economic crisis of the 1980s. The circumstances in which the more complex stages of liberalization must be implemented are made difficult by more unequal distribution of income and increased incidence of poverty that have accompanied economic reform and liberalization. The recent experiences of Venezuela and Mexico reveal the fragility of the process" (Bernal, 1997).

Whether the Latin American and Caribbean countries are able to take advantage of access to the larger hemispheric market or to larger regional groupings to expand exports will depend on both government policies and also on the readiness and ability of the private sector to compete effectively. Even where an economy has a comparative advantage it can be offset by the lack of a competitive advantage. Economic reform, liberalization, and adjustment are necessary preconditions for participation

in the FTAA. Trade liberalization, on the other hand, is a necessary but not sufficient condition. Governments must of necessity address the economic, social, and political difficulties of adjustment if the goal of hemispheric free trade is to be realized.

### **The Bridgetown Declaration - US Caribbean Summit<sup>9</sup>**

The Bridgetown Declaration signed in Barbados on the May 1 1997 between the United States and fifteen Caribbean countries was an attempt to strengthen cooperation in responding to challenges of the coming millennium. The Declaration recognises the important link between trade, economic development, security and prosperity in countries of the region. It therefore aims to improve the economic well being and security of all citizens, to defend and strengthen democratic institutions and to provide for social justice and stability.

As the Declaration notes; "As we enter a new century marked by rapid expansion and globalization of finance and investment, production and commerce, driven by revolutionary developments in technology, we acknowledge the need for a new era in our partnership. [In this regard,] We note the increasing role of the human, technological and communication capacities required for operating in this new competitive international environment and the current reality in most Caribbean States and to accept the need for systematic, cooperative initiatives to strengthen the quality of their human resources and technological capacity. "

Some of the key provisions of the Bridgetown Declaration can be categorized under Institutional and Policy Support and Resources to the Caribbean (See Boxes 1.1 and 1.2).

With respect to trade matters, the Bridgetown Declaration pledges to enhance Caribbean-U. S. trade relationship by working jointly towards the further reduction of trade barriers between the United States and the Caribbean countries and endeavouring to refrain from introducing new import restrictions, consistent with World Trade Organization (WTO) rules.

There has been a shift in U.S. trade policy which focuses not so much on Caribbean membership but on building transition space through CBI parity mechanism prior to the eventual establishment of FTAA. Many Caribbean countries which, therefore, had hopes of membership in NAFTA should take that out of their agenda based on the Summit Declaration. U.S. interests will dominate over the Caribbean's interests outside the United States.

**Box 1.1****Institutional and Policy Support**

The Caribbean region shares the common goal of achieving stable, sustainable economic development and widespread prosperity for all citizens in the region. To this end, the Declaration affirms the region's strong commitment to:

- internationally recognized labor standards and worker rights, especially freedom of association and collective bargaining;
- the empowerment of women to permit their full participation in the political and economic spheres, through fair access to education, health care and credit while recognizing that addressing and preventing violence against women is an important step toward the goal of strengthening democracy;
- finding, at the earliest opportunity, a mechanism to facilitate rapid consultations on trade related issues;
- endorsing the recommendations of the Working Group on Smaller Economies to provide opportunities to facilitate the participation of the smaller economies during the negotiations and their effective integration in the FTAA, to make every effort to reduce the transitional costs and minimize dislocation to their economies during their implementation;
- encouraging the smaller economies in the Caribbean to consider the early implementation, to the extent possible, of internal adjustments which will enhance their ability to participate effectively in the FTAA.
- Finding institutional mechanisms, including Trade missions to encourage dialogue between the Caribbean and U.S. private sectors.

**Box 1.2****Resource Flows**

The region welcomes the continuing commitment of the United States to assist Caribbean nations in their economic reforms by:

- seeking to support measures including technical assistance, in support of programs that promote internal structural adjustment;
- the provision of technical assistance to Caribbean countries to support their economic diversification and in particular, to assist the OECS countries in pooling their resources in order to enhance the competitiveness of their products ;
- facilitating the Caribbean's implementation of its Uruguay Round commitments. In so doing, the United States will initiate a three year grant agreement with Caribbean countries to provide technical assistance for trade liberalization and trade and labor relations;
- the need for technical assistance to strengthen Caribbean human, institutional and infrastructural development necessary to assist in the development necessary to assist in the adjustment process and to enable them to participate meaningfully. In this regard, we urge Caribbean countries to analyze their particular circumstances and identify their specific technical assistance needs; and
- exploring ways by which current bilateral and multilateral debt management programs can support adjustment efforts in highly indebted countries;
- joining in the call to the IDB to meet its eighth replenishment, to target 35 percent of Bank lending to smaller economies, including those in the Caribbean

With respect to resource flows, the Communiqué calls for an increase in technical cooperation and called on the IDB to honour its eighth replenishment commitment to channel more funds to smaller economies including the Caribbean. In this respect, the Summit did not provide the confidence that there will be additional resource flows to the region. It merely underlines the existing resource situation, with the promise of some technical assistance. The Bridgetown Declaration would not alter in any fundamental way the economic relations between the Caribbean and the United States. Rather it opts for incremental change that will come about at the current pace of movement.

### **Green Paper on Relations between the European Union and the ACP countries<sup>10</sup>**

In November 1996, the European Commission issued a long awaited Green Paper on "Relations between the European Union and the ACP countries on the eve of the Twenty-First Century: Challenges and Options for a new partnership". The Commission presented its Green Paper as a "discussion tool" whose aim is "to provide food for thought, trigger wide-ranging debate and pave the way for dialogue between those concerned by the expiry of the Lomé Convention. It does not flame any formal proposals and the options put forward in no way predetermine the proposals that the Commission may table in due course".

The core hallmarks of the European Union's positions and the basis of the policy, according to George Huggins, and hence of negotiations appears to revolve around a number of tenets derived both from the main trends of political globalization and from the experience of Europe itself. These include:

- expanded role of the private sector vis-à-vis that of the State, with the State acting as a catalyst for development, and the private sector taking the leadership for development;
- institutional reform for improved public sector management and progress in private sector led growth among a clear line of democratic participation are a precondition for earning partnership;
- transparency and efficiency in the use of resources by ACP countries; both to ensure accountability to the European donor public and to promote development discipline;
- a shift towards a duality, at least, and certainly a stratification of ACP members: those likely to make it into the inner ranks of partnership, through reforms and successful private promotion and those that have

severe difficulties in doing so. The EU proposes for the latter a heavy helping hand, assuming direct responsibility for carrying them along.

The first area of cooperation, i.e., the social and economic dimension, has two intertwined aspects: economic development and poverty alleviation. The main vehicle for economic development has been identified as the private sector. Indeed, a persistent reality of many ACP countries is the relatively low state of development of their private sector. However, it must be borne in mind that private sector led growth will not necessarily lead to social redistribution and reduction of concentration and thus to development.

The second area of cooperation, the institutional and public sector dimension, is an essential element for the development of ACP countries and regional organizations. This area of cooperation should be the first priority, as it conditions both the development of the ACP countries and the efficiency of aid. However, it is how the institutional reform is carried out that will determine its success.

According to the ECDPM Synthesis of ACP Independent Comments on the Green Paper of the European Commission on Partnership 2000, three broad areas of recognition may be called for:

- the political will for sustainable development, with particular reference to the profound internal cultural, social, institutional and policy issues and with all the implications for internal restructuring and external space of the entire society;
- sustained moral, political, financial and other forms of support for the long process of poverty reduction, equal access by all sectors to resources and services;
- genuinely open democratic context of cooperation and participation.

The ACP response to these measures remains somewhat blurred. One of the key issues emerging in the deal so far is whether the ACP should be kept as a combined forum or should be broken down in its constituents: pan-African, Caribbean and Pacific. Caribbean countries appear to support the continuation of the ACP forum, but are yet to work towards common cooperation goals that need to be achieved on a wider global basis. A second issue facing this debate is the continuation of the preference arrangements and its compatibility with the new world trading discipline reflected in the WTO. Recent decisions of the WTO to support the argument against Caribbean bananas is an adequate illustration of this incipient conflict.

Other issues that emerged in this debate relate to the question of political conditionalities working through issues such as human rights,

environment and labour standards. When the Lomé protocol was established, they derived their motivation from the need to establish an equal union between the European and the ACP countries. Now, it would appear that the continuation of these protocols are predicated on a combined European foreign policy towards the Caribbean, Africa, and Pacific countries. In this sense, the new arrangements are more likely to be fitted to a European vision of its global presence than it is to add new life to an old partnership, not withstanding the call in the Green Paper for a new Partnership in the "Global 2000."

## **VI. CONCLUSION**

### **Changing roles in a changing world**

Today, as trade matters in the Caribbean are faced with a built-in agenda, the region has to identify its vital economic interests in the various concentric circles surrounding it. Apart from the WTO, FTAA, EU-ACP trade relations, the Caribbean has to contend with the Latin American options, including MERCOSUR and more recently the ACS. The ACS with a clear mandate of increasing trade and investment among its members have not been able to get an emerging consensus on how. CARICOM'S call for a free trade area in the ACS is still some distance away from the expectation of other ACS members adding new concentric circles as CARICOM attempts to expand its geographical base. The waters are indeed murky. The question that must be brought to the fore at all times is whether the waves echo the past or signal a future.

These changing roles have led the region into a 'stand alone' position. Alan Henrikson (1998) talks about Clinton's Caribbean policy 'altering in nature but not in depth'. This is what President Clinton told Caribbean leaders at a meeting at the White House. President Castro's quick response to his exclusion from the Miami Summit was; "we are not going to negotiate the normalization of our relations on the basis of concessions". Henrikson raises the issue; "without Cuba, the Caribbean cannot be regionally integrated ... yet with Cuba still under Fidel Castro's leadership, the Caribbean countries cannot acceptably negotiate as a region with the United States. The Caribbean's diplomatic charge is to resist 'protest diplomacy' and adopt a more affirmative foreign policy stand where vital interests are negotiated in the world councils.

Clearly, in this changing world there are changing roles. Development financing institutions are also being challenged to a changing role. Is development banking in the Caribbean sensitive to the agonizing choices and anguishing changes that are being advocated for Caribbean



development? I raise the question with great timidity, but also with an instinct that this question may soon arise. Already, development banks are being forced in the 'commercial' arena in national economies. Central bankers are facing new challenges in an era of 'floating exchange rates' and perhaps a return to currency boards. In the post-liberalization world, commercial banks have begun to restructure as changes in the financial markets are the result of global practices. Long-term development finance is likely to be more accessible in the international private capital market.

The debate on 'conditionalities' has now shifted from the broad economic platform to micro- management and political concerns through the search for good governance. The effectiveness of development finance is now being questioned, particularly as the gap between delivery and expectations widens. The growing gap in the Caribbean between expectations and performance, and the rising tension between intention and reality, has widened the space between the art of politics and the discharge of governance. This is the politics of illusion, where yesterday's hopes remain unfulfilled, and new hopes emerge with little expectations that they would happen, or is it 'backward expectations'?

### **Forward Expectations**

Poverty and social capital concerns, and the workings of the political system are now at the top of the political economy agenda in today's Caribbean. So too is the choice of international road maps. Caribbean economist, Anthony Gonzales (1995), recently stated that a free trade area between the European Union (EU) and the Caribbean 'would appear in the long-term to be a superior instrument to most favored nation treatment (MFN), Generalized System of Preferences (GSP) and the Lomé Convention'. Trinidad and Tobago's Foreign Affairs Minister, announced his Government's intention to seek membership in MERCOSUR while maintaining its berth in NAFTA.

CARICOM, although it may have reached its limits and may have in economic terms 'come to a dead-end' may be widened beyond Suriname to include the Dominican Republic and Haiti. The ACS, like 'a medicine in search of a disease' is searching for its own platform. The process for the construction of the Free Trade Area of the Americas (FTAA) has commenced. There are now many road maps, and although still in outline stages, may inspire the mapping of possible blueprints. The growing divergence in our political and economic boundaries must be addressed, for groups of nations rather than the 'nation-state' will now be the main actors in the conduct of international politics. Perhaps, the stage is set for

the emergence of a different notion of the regional state as a vehicle for creating political and negotiating space in the international arena. Perhaps, Keohane's distinction between 'operational' and 'formal' sovereignty may now be incorporated in the new theoretical framework for institutional behavior in the Caribbean region. A clear political statement which can be credible and effective may now be required so as to place the region's agenda in the global dialogue. It is in this context that we may look at a different notion of the regional state as the vehicle to achieve this goal.

In the post-cold war era, the geo-strategic role of the Caribbean has now been reduced and US interest in the region is based on specific concerns that fits into the US domestic political agenda. A recent Canadian foreign policy review has placed the Caribbean in a Latin American framework, and gone is the term 'special relationship', which at one time was used to describe the (British) Caribbean- Canada links. With the formation of the single market in Europe, as well as the enlargement of EU membership to include near and far Europe, and the strategic importance of the Mediterranean countries to the European Union, the Caribbean now has a lower priority in European foreign policy agenda. The link between the English-speaking countries of the Caribbean and the Commonwealth of Nations is now much weaker as common interests now diverge.

A society is largely defined by citizens who possess a common notion of their identity and a common loyalty to shared ideals. As we move into the next millennium, Caribbean society must create a new sense of civic identity in which people feel free to express themselves, speak their own languages, practice their cultural traditions and transmit these to their children, as they embrace common goals with the larger society. The agenda before us is enormous, but we can neither succumb to the forces of history, nor surrender to the new vulnerabilities that will surface in the path ahead. Today, the agenda before us has widened considerably. Covering the old issues of democracy, development, and integration, but at the same time responding to the new issues of sustainable development, good governance and a new integration paradigm for the region. Perhaps now more than before our resilience is being tested, and the sense of our own Caribbean identity is quickly changing. Our response must therefore be able to build an enduring commitment to confidence in the Caribbean future, that will at the same time retain a sense of Caribbean nationhood.

## Notes

- 1 The West Indian Commission, *Time for Action: Report of the West Indian Commission*, (Barbados: Wildey, 1992).
- 2 For an analysis of the two level game of international relations and domestic economic and political policies, see Putnam (1988).
- 3 On this and related issues see Galbraith (1994).
- 4 Examples of the confusion surrounding these issues are readily apparent- The MERCOSUR trade bloc (Argentina, Brazil, Paraguay and Uruguay), for instance, which formed the world's second customs union in January 1995, will not establish a supranational court to settle trade disputes, as some members felt that it would reduce their sovereignty. Many in the U.S. Congress — even those considered free-traders — were reluctant to pass the Uruguay Round (UR) legislation in late November-December 1994; they feared that the World Trade Organization (WTO), by eliminating the one-country veto and establishing tribunals to rule on trade disputes, would dilute U.S. sovereignty and force the changes in a wide range of U.S. environmental and labor laws. In a recent nationwide referendum, Norway voted not to join the EU, feeling, at least in part, that its resource base was strong enough to keep foreign bureaucrats from interfering in its "internal" affairs. And the Caribbean Community Common Market heads of state were determined to keep its expansion under the ambit of elected governments, in part because they feared a devolvement of their sovereignty. In each case there were serious debates as to what constituted the national interests and how integration would affect national sovereignty.
- 5 The five basic strategies of structural adjustment programs include the reduction of domestic demand, resource allocation, the increase in foreign and domestic savings, and increased economic efficiency in the use of resources. (For specific economic measures see IMF 1986).
- 6 Sir W. Arthur Lewis, a leading West Indian economist, won a Nobel Prize for Economics in 1979.
- 7 For a discussion of this, see Ostry (1997: Ch.7).
- 8 Griffith (1996), "Caribbean Security on the Eve of the Twenty-First Century".
- 9 Bridgetown Declaration of Principles, Bridgetown, Barbados, May, 1997.
- 10 This section is based on George Huggins (1997) and ECDPM (1997).

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