

Chapter 2

Neoliberal Exports and Regional Vulnerability: Overview and Critical Assessment

Thomas Klak

full citation:

2008. Thomas Klak and Ross Flynn, "Ecotourism-based Sustainable Development: General Principles and Eastern Caribbean Case Study" in *Placing Latin America*, Ed Jackiewicz and Fernando Bosco (editors). Lanham, Maryland: Rowman & Littlefield, pp. 31-50.

Introduction

Central America and the Caribbean can be characterized as a region of small, economically vulnerable and trade dependent countries. The region is sandwiched between larger and more industrialized and economically diversified countries to the north and south. Together with Mexico, Central America and the Caribbean is economically dependent on the United States. This is an important regional commonality, as distinct from the situation in South America. Central America and the Caribbean's high levels of trade dependency distinguishes the impacts of neoliberalism there compared to most of South America. Namely, neoliberalism puts pressure on these already highly trade-dependent countries to open their economies further and to export more.

This chapter provides an overview of the economic and geopolitical vulnerabilities that have constrained development in Central America and the Caribbean in recent decades. Since the 1980s international agencies and national governments in the region have

pursued neoliberal policies that have introduced a range of new development schemes for the purpose of generating new sources of foreign-exchange and employment. These include *maquiladoras* and free zones, export market niche agriculture, and offshore services. The chapter reviews the experience with these targeted sectors to understand why they have not delivered their promised development.

Enduring Dependency

Whatever the theoretical paradigm adopted to examine the development conditions in Central American and Caribbean countries, their position as colonial, neocolonial, dependent, peripheral or “price takers” within the international political and economic communities is a necessary point of departure. This chapter employs a theoretical perspective that extends from the dependency theory tradition and that is informed by contemporary world-systems theory (Gwynne et al., 2003). This perspective takes seriously the range of constraints on development policy options and the vulnerability to exogenous factors in Central America and the Caribbean due to the region’s position in the global economic periphery (Klak, 1998; Potter et al., 2004).

While trade dependence is a key economic characteristic for all Central American and Caribbean countries, the smaller islands of the Eastern Caribbean are significantly more trade dependent than the

larger islands and mainland countries. The United States is both the largest importer and exporter for virtually every Central American and Caribbean country, with the obvious exception of Cuba against which the United States has had a trade embargo since the 1960s. At the same time, the United States is among the world's least trade dependent countries (Klak, 2004). This extreme contrast in the account ledgers and therefore at the negotiating table has enormous implications in the neoliberal "free trade" era. Trade is not really free unless all participants can choose *not* to trade (Ikerd, 2002). When one side holds the vast majority of the economic and geopolitical power, coerced trade might be a more apt descriptor than free trade.

A major contributor to the region's contemporary weakness in policy negotiations was its foreign debt crisis, which began in the early 1980s but which endures to the present (Robotham, 2005). The neoliberal development policy paradigm was proposed as a solution to the debt crisis (Klak, 2004). It originated in the governments of Reagan in the USA and Thatcher in the UK, and has since been spread globally through the World Bank and the IMF (the International Monetary Fund; Harvey, 2005). Dick Peet aptly summarizes the neoliberal paradigm in the process of critically reviewing the work of Jeffrey Sachs, the world's most influential development economist:

“Under all existing aid and debt relief schemes, to get their money poor countries have to agree to open their markets to foreign competition, privatize public enterprises, withdraw the state from service provision, reduce state budget deficits, reorient their economies to export orientation, flexibilize their labor markets, and so on down a list written under the belief that markets and free competition can guide any economy into the magic realm of growth, up the ladder of development...” (Peet 2006, p.452)

For more than two decades now, representatives of the World Bank and the IMF have regularly visited the capital cities, not only of Central America and the Caribbean, but also of the larger countries of Latin America. During these visits, financial aid and debt restructuring are exchanged for commitments to the neoliberal transition, which is in the process moved slowly, incrementally but irreversibly along (Hey and Klak, 1999). Since the 1980s Latin American policymakers have committed to placing great emphasis on attracting foreign investors, especially ones proposing to earn foreign exchange. The Latin American state's role has therefore shifted away from direct ownership, production, and the provision of social services, and toward subsidizing export-oriented investors. The state's new role under neoliberalism is sometimes portrayed as one of downsizing, if not

retrenchment (Ohmae, 1995). However, it is more accurately viewed as a qualitatively different relation between the state, investors, popular classes and territories. For some neoliberal activities, such as promoting exports, creating and managing free zones and competing to attract investment, the Latin American state's role has actually considerably expanded (Peck, 2004).

The main point of this section is to place contemporary Latin American development policy in its recent historical context. The Latin American debt crisis since 1980 opened the way for a new era of development policy called neoliberalism that continues to the present. Neoliberalism, judged to be "the most successful ideology in world history" (Anderson 2000, p.17), has profoundly shaped the role of states and the organization of societies throughout Latin America, and indeed the world. However, it has had its greatest impact on smaller and more trade-dependent and thus vulnerable states such as those of Central America and the Caribbean.

The Banana War

Banana exports were economically prominent during the twentieth century in many parts of the Western Hemisphere, and led to the banana war that began in 1996. Beginning in 1899, United Fruit Company (called Chiquita since 1968) amassed more than 3.4 million

acres of rainforest in Central America and the Colombian Caribbean. It cleared large sections of these exceptionally biodiverse regions, and created plantations and vertically integrated production systems that brought bananas to stores in the United States and throughout the world. After 1958, Standard Fruit (Dole) and Del Monte joined Chiquita to become the three major banana suppliers of global markets (Wiley, 2007).

The origin of banana exports from the Caribbean was different. Beginning in the 1950s, Britain instructed small farmers in its Caribbean colonies such as St. Lucia, Dominica and St. Vincent (all part of the Windward Islands) to plant bananas and to export them to a guaranteed market in the UK through the British company Geest. This British policy was part of a series of international trade agreements, the name of which changed over time. Europe's Banana Protocols began in 1957 and were followed by four successive Lomé Conventions and one Cotonou Agreement. France, Greece, Italy, Portugal, and Spain have also provided protected markets to former or current colonies (Gonzalez-Perez and McDonough, 2006). Taken together, these policies have provided special market access to more than seventy former European colonies, and which are now called the ACP (Africa-Caribbean-Pacific) countries. The special market access applies mainly to commodities such as coffee, sugar, and bananas.

Only twelve ACP countries export bananas to Europe, and seven of these are members of CARICOM (the Caribbean Common Market).

The guaranteed British/EU market for bananas from its former colonies created one of the few exceptions in the Western Hemisphere to the rule of U.S. trade dependency. For years, St. Lucia, Dominica, and St. Vincent each earned more than half of all their foreign exchange from bananas, which placed them among the countries of the world most dependent on the export of a single cash-crop (Cater, 1996). Perhaps even more telling of banana dependence, in 1993 banana farmers in Dominica, for example, were 20 percent of the entire labor force (Wiley, 1998). In addition to bananas, agricultural products that generate foreign exchange for these Eastern Caribbean countries and that are also grown by small farmers include coffee, cocoa, vanilla beans, citrus fruit, soap, and bay oil. These same farmers also grow a host of traditional Caribbean subsistence crops which are crucial to local survival.

Europe's guaranteed import of Eastern Caribbean bananas made it an advantageous form of trade dependency, at least in the medium term. Although farmers have felt powerless against Geest (and, since 1995, against Fyffes, which acquired its Caribbean operations), bananas fueled significant growth in middle class prosperity on the islands. Gains were especially solid for the three islands' 50,000

banana farmers, whose prominence and vitality are unusual in Central American and the Caribbean region dominated by large land holdings (Barrow, 1992). Banana exports helped Dominica, St. Vincent, and St. Lucia climb to the top half of countries of the world ranked by the Human Development Index. In addition, the public educational systems of these three Caribbean islands among others in the region have for long been national assets. This reservoir of human capital offers potential when looking toward an uncertain and vulnerable, but hopefully more sustainable, future.

The British banana trade arrangement, by creating opportunities for thousands of small holders to earn steady livable incomes by farming in ways that did not severely degrade the land, contributed to social development. It could have contributed to longer-term national sustainable development but it came under scrutiny in light of the global neoliberal paradigm. The implementation of the Single European Market in 1993 and the creation in 1995 of the World Trade (WTO) Organization were institutional manifestations of a global trend toward neoliberalism. Managed trade arrangements like those offered by Lomé/Conotou essentially violated WTO principles. Unfortunately for the Eastern Caribbean islands, their lack of trade dependency on the United States created a bigger problem. The U.S. successfully argued to the WTO on behalf of Central America and Ecuador that the

guaranteed banana market in the EU is illegal and must be terminated (Klak, 2004).

European Union trade preferences for bananas expired on January 1, 2006, and were replaced by a tariff system that offers just a 176 euro per ton preference for Windward Island bananas. This is considered insufficient to preserve their banana industries. Preferences on their other agricultural exports to the EU are due to expire by the end of 2008. The immediacy of the situation leaves little time to adjust to the harsh economic realities imposed by neoliberalism. Thanks to the WTO ruling against the EU, the Eastern Caribbean banana sector has severely contracted. By 2003 Dominica's banana earnings had fallen to U.S.\$5m, down from \$30m in 1992 (*Economist*, 2004), and the decline has only continued since then. Unemployment already exceeded 20 percent in recent years and the banana sector collapse has significantly worsened the problem. Unemployment in St Lucia and St Vincent has similarly risen to over 15.5 percent (UN, 2000). These countries have also lost a key middle class sector in the form of small banana farmers that worked the land in relatively benign ways compared to the large scale Central American, Colombian and Ecuadoran banana plantations that have now usurped most of their European market share (Barrow, 1992; Grossman, 1998; Wiley, 2007).

Central America, Colombia and Ecuador are on the “winning” side in this banana war, and therefore can expect strong global demand for their bananas in the future. However, unlike the “losing” side that includes the former British colonies, Central American, Colombian and Ecuadoran banana workers generally do not own their own small farms. Instead, they toil for low wages on huge plantations that sell their product to the world’s largest and oligopolistic fruit companies (Chiquita, Dole and Del Monte). Throughout the twentieth century, these workers’ collective actions to improve their conditions have met serious resistance from owners supported by the state. Pesticide dangers and poisonings have also been well documented (Gallagher and McWhirter, 1998; Gonzalez-Perez and McDonough, 2006). Thus, judged in terms of sustainable development, both sides of the dispute in Latin America are losers. U.S. banana corporations have won greater access to the EU, and EU consumers have won cheaper bananas. Neither of these victories advances sustainability in Latin America or in the core countries. For Latin America, the banana war illustrates the many vulnerabilities and obstacles in the way of sustainable development. The Eastern Caribbean region in particular now needs to vigorously expand other sources of foreign exchange.

The Neoliberal Transition and Non-Traditional Agricultural Exports

Neoliberal policies have had many impacts on agriculture besides bananas, and also on a range of urban economic sectors. In the 1980s, most Central American and Caribbean countries shifted the axes of their economies away from traditional agriculture toward a new focus on promoting the export of higher-value manufactured and "market niche" agricultural products. In the 1990s, there was yet another economic shift. The focus became international services, including tourism (already central to many economies), but also offshore financial services and other telecommunications-based services. Through these shifts, the region continues to face the monumental challenge of replacing traditional sources of income with new ones suitable to the present neoliberal era of more open trade relationships, and shielding themselves from the vulnerability associated with relying on a relatively few products and North Atlantic markets.

These multifaceted neoliberal development policy efforts can be seen as a "shatter-shot" approach to searching out export market niches in agricultural and beyond (Klak, 1998). The strategy has been to diversify crops and the economy as a whole in order to generate new sources of foreign exchange and to help protect themselves from

any particular volatile markets. Even in the smallest countries, policy makers are actively promoting investment in a host of nontraditional activities. In tiny Dominica, for example, these range from tourism (see Chapter 6), assembly operations, and data processing, to vegetables, fruits, seafood, and cut flowers (Wiley, 1998). Such experimentation raises the essential question of whether product niches with considerable foreign exchange earning power and stability can be secured, or whether they are replacing monocrop and single market dependence with new forms of neoliberal vulnerability? In other words, are exporters and the state behind them trying to do too many very challenging things at once while doing little to build toward a sustainable future?

Under neoliberalism, Central American and Caribbean countries have also been under pressure to reduce the trade barriers that have protected labor-absorbing domestic producers. This includes farmers who have traditionally served domestic markets. Farmers now find themselves unable to compete in the U.S. market and against U.S. imports. U.S. crops are produced on a larger-scale, with more chemical inputs, and are underwritten with federal subsidies (Ikerd, 2002). The results have not been encouraging in Central America and the Caribbean, but governments have continued to follow the

neoliberal approach of aggressively promoting and subsidizing an array of nontraditional exports (Klak, 2004).

The export of fruits, vegetables, and flowers, labeled NTAEs (nontraditional agricultural exports), by definition have high value by volume and area under cultivation. Central America has been more successful than the Caribbean in meeting the demand for NTAEs in United States and other North Atlantic markets. However, the NTAE sector has had several problems that have restricted benefits, even in Central America. The sector is characterized by dominance by firms from the U.S. and other core countries, inadequate state support to develop the sector, shaky performance and low to no growth for small-scale local producers, and poor working conditions for the employees (Thrupp, 1995).

The Rise and Fall of Maquiladoras

Over recent decades international development agencies and national governments in Central America and the Caribbean have promoted and pursued many non-agricultural exports for the purpose of earning foreign-exchange and generating employment. These include *maquiladoras* (assembly plants for such things as clothing, electronics, plastic goods, shoes and sporting goods) and the so-called free zones, many of which are state subsidized, that house the

maquiladoras (see also Chapter 5). New sources of foreign exchange also include data processing and other offshore services. *Maquiladoras* are discussed in this section followed by an overview of offshore services placed in the context of U.S. global financial policies in response to 9/11.

Haiti was one of the earliest entries into the *maquiladora* sector in the region. Employment expanded between 1970 and 1984 under the Duvalier dictatorship, after which jobs began to move elsewhere as Haiti became less stable and other countries opened free zones as a component of the neoliberal transition. Even during peak *maquiladora* employment, however, Haiti was a net exporter of capital. This is because foreign investors and Haitian managers moved most of their profits abroad, and more consumer and producer goods came in than were exported as manufactured products (Dupuy, 2005). Since the 1990s Haiti's political instability has repelled more *maquiladora* investment than its sub-fifty cents an hour wages have attracted. Wages are already minimized; any lower and workers literally could not survive (McGowan, 1997).

Elsewhere in Central America and the Caribbean, *maquiladora* employment peaked in the early 1990s. Tens of thousands of mainly young females were employed in factories in Jamaica, Haiti and each Central American country. Most of the Eastern Caribbean countries had

more than a thousand workers each. The Dominican Republic attracted the most assembly operations and had over 160,000 factory workers. But even there, the assembly plants were low paying economic enclaves with minimal positive impact on the Dominican economy (Willmore, 1994; Kaplinsky, 1995). Since the mid-1990s *maquiladora* employment has declined throughout Central American and the Caribbean. More and more non-core countries, particularly in Asia, have sought assembly operations and lured investors away from the region with promises of state support, lower wages and more abundant non-union workers.

Observing the rise and fall of *maquiladora* sector in St. Lucia, one official in the ministry overseeing the promotion of foreign industrial investment lamented, "many establishments that came here in the early days were what are called 'footloose'" (Richardson, 1997). But the English-speaking Caribbean has virtually no maneuvering room to attract and keep manufacturers. Prevailing wages of \$1-2 per hour are the absolute minimum needed to offset the high cost of living on the import-dependent islands. However, these rates are uncompetitive in the Global South where there is so much poverty. State subsidies to investors are ubiquitous in Central America, the Caribbean and beyond. They therefore simply cancel each other out and undermine the effort to generate foreign exchange.

Economic globalization has increased capital mobility and there are now too many low wage countries competing for the same limited *maquiladora* investment. Even low wage Central America began to lose jobs when NAFTA came on line in 1994 and shifted much of the free zone employment Mexico. The many garment producers that have abandoned Central America and the Caribbean left behind tens of thousands of unemployed workers and many vacant factory shells, a good share of which were built when governments took international loans they have been unable to repay. Governments have had to admit that "the move to diversify the economy to include export-oriented services (and increasing tourism), as well as non-traditional exports such as apparel manufacturing has not yielded the economic development gains expected" (Government of Jamaica 2002, p.18). Central American and Caribbean states therefore have not been able to provide decent and long-term income opportunities through the *maquiladora* sector. The sector's rise and fall over time, and its "race to the bottom" logic, demonstrates its fundamental flaws (Klak and Das, 1999; Klak, 2004).

Anticipating the negative impact of NAFTA for export manufacturing, Caribbean governments and international institutions such as the World Bank's Caribbean Group for Cooperation in Economic Development (CGCED) began exploring economic

alternatives, as discussed in the next section. But even in Mexico, *maquiladora* employment peaked at over 1.5 million in 2000. Since then, hundreds of thousands of jobs have moved to Asia, particularly China, where there is a vastly greater supply of laborers earning around twenty-five cents an hour (J. Ross 2002). Further, the kind of investment and other neoliberal economic changes that NAFTA has brought to Mexico has increased productivity and exports, but also lower real wages, particularly in manufacturing, and sent millions more people to live in poverty (Anderson and Cavanagh, 2003).

Online Gambling

In the mid-1990s, CGCED recommended that Caribbean governments promote international service industries such as tourism, offshore banking, data processing, and offshore services as alternative economic activities to the failed ones discussed above (World Bank, 1994). Offshore services have taken many forms, ranging from insurance and ship registration, to psychic healers, phone-sex and Internet gambling. Central American and Caribbean countries established some of the world's first offshore regulatory environments for Internet gambling (Martin, 2001). As of May 2001, there were about 1,400 offshore gambling sites worldwide, operated by about 250

companies. All of these online gambling sites are located outside of the United States, and most are in Central America and the Caribbean.

Costa Rica hosts about fifteen per cent of all gambling sites. In Costa Rica, about 3,000 workers, mostly college students and foreigners staying on after teaching English, earn U.S.\$4-5 per hour taking bets or answering customer queries over the phone. Worldwide, online wagers were about \$300 million in 1997 and \$1.6-2.2 billion in 2000, and were projected to reach \$100 billion in 2006. Note that no U.S. law explicitly prohibits gambling over the Internet inside the United States. What is invoked is a 1961 U.S. law called the "Wire Wage Act" that prohibits gambling operations to use interstate telephone lines. The prohibition is generally understood to include the Internet.

Big U.S. casinos have for years lobbied the U.S. government to legalize online gambling inside the country. For its part, U.S. Congress has in recent years considered legislation that would more directly criminalize online gambling in two ways. Legislation would explicitly prohibit and prosecute Internet gambling operations and customers, and it would force Internet providers to attempt what computer specialists say is not technologically feasible: to block access to offshore gambling sites. For now, so long as U.S. law restricts Internet gambling within its borders, Central American and Caribbean countries

that host offshore gambling sites can earn some foreign exchange and create some jobs for foreign language proficient residents. But this equates to a highly tenuous offshore services sector because its advantages would be eliminated if the U.S. were to legalize domestic Internet gambling or prosecute it internationally. The events of 9/11 and U.S. policy responses to it have revealed additional aspects of regional vulnerability, including the fragility of other offshore services, to which we now turn.

Post-9/11 Vulnerabilities and Offshore Services

The events of 9/11 occurred as the U.S. economy was beginning a downturn after nearly eight years of sustained growth. The convergence of recession and the fear of terrorism in the U.S. created a heightened sense of socioeconomic, as well as strategic, insecurity. President Bush's calls to American citizens to go on with their lives, travel and spend, translated into more domestic travel and spending, rather than foreign travel and spending (CTO, 2004). The reduction of U.S. international travel after 9/11 followed a pattern seen after the first war with Iraq in 1991. Then U.S. citizens became more fearful of flying abroad and the Caribbean's vulnerable tourism sector, otherwise unrelated to the source of fear, suffered.

Similarly, an immediate effect of 9/11 was a generalized fear of flying internationally among citizens of the U.S. and also some parts of the EU (e.g., Britain, France, Germany). The stricter security measures adopted after 9/11 may also have discouraged leisure travel.

Caribbean tourism contracted even in locations where Europeans outnumber Americans, such as Barbados, the Dominican Republic and Cuba. During the first semester of 2002, European tourist arrivals to the Dominican Republic declined by 17.1% and to Barbados by 13.1% (CTO, 2004). The second war with Iraq worsened the contraction in Caribbean tourism. The Caribbean Tourism Organization announced in a March 25, 2003 "War in Iraq" bulletin that there have been "fewer cancellations than expected". However, Air Jamaica, after surviving a U.S.\$80 million financial loss in 2002, saw reservations fall by almost 40% during the first two weeks of hostilities. This decline forced Air Jamaica to reduce flights to some U.S. cities it regularly services, thereby worsening the decline in passengers. The Caribbean's regional airlines that serve the smaller islands went even further into arrears and required additional state subsidies to continue operating. Tourism reservations for Mexico similarly declined by 17.1% overall and by more than 30% from U.S. visitors (CTO, 2003). One needs to pause and consider the reverberating impacts of sudden exogenous-induced declines of this magnitude, even though they were temporary,

throughout societies dependent on tourism revenue. Not until early in 2005 did international travel finally rebound to its pre-9/11 level. For the Caribbean region, so reliant on international tourism, this represents a three and one-half year setback.

The global economic slowdown, the war on terrorism, and the war in Iraq have influenced the spending decisions of investors and citizens in the U.S. and in Europe. The flows of foreign direct investment (FDI) to Latin America and the Caribbean, which the region's neoliberal economic opening was supposed to increase, peaked in 1999 at \$86.3 billion and then decreased consistently through 2003. FDI has rebounded since then, reaching \$47.3 billion in 2005, but this is still below the \$50.2 billion recorded in 2002 (ECLAC, *various years*). Part of the explanation for the tepid investor interest is that the most attractive targets for FDI are already gone. Many large state companies have been offered and purchased by foreign interests. Global investors are now focusing their attention on Asia (UNCTAD, 2004). This shift leaves most of Latin America, and particularly the smaller countries, in the periphery or the backwaters of the global economy. The region's main value to TNCs is its untapped consumer markets, which the neoliberal policy paradigm, most recently in the form of CAFTA (Central American Free Trade Agreement), has continued to nudge open.

The second Iraq war's predictable negative economic implications for the Caribbean region were enough to push CARICOM to issue a resolution in February 2003 opposing a U.S. invasion. The U.S. Assistant Secretary of State for Hemispheric Affairs, Otto Reich, responded to CARICOM's declaration with a thinly veiled threat:

"I would urge CARICOM to not only study very carefully what it says, but the consequences of what it says. ... We are not going to take retaliatory action or punitive measures, but the American people do listen and our Congress listens. It is not just the executive branch. These kinds of resolutions and this kind of language doesn't help lead to a better understanding between our countries" (BBC, 2003).

Given CARICOM's pre-existing vulnerability to exogenous forces and its trade and geopolitical dependence on the United States, Reich's warning is dire. It illustrates an enduring regional dilemma: Should the Caribbean support U.S. policies even when they are seen as contrary to regional interests (let alone policies seen as immoral or unlikely to promote global stability), or should it prepare to face additional "consequences"?

Since 9/11 the U.S. government, in concert with the OECD (Organization for Economic Cooperation and Development), has sought and achieved greater regulatory oversight of offshore financial

centers (OFCs), a large portion of which are in Central America and the Caribbean (Klak, 2002). A major component of these efforts is directed at disclosing sources of money laundering. They include blacklisting suspected individuals and organizations, freezing of assets and investigating the internal records of U.S. banks and their foreign affiliates. The Bush team is also pressuring OFCs with bank secrecy laws to cooperate with the FBI and other U.S. government agencies by providing information on depositors. Nearly all governments hosting OFCs are cooperating and some, such as Grenada, have gone as far as to shut down most of these banks. The result, according to a British international financial investigator quoted in *The Observer of London* (24 February 2002), are treaties that "make your eyes water when you see them. It's classic U.S. extra-territorial lawmaking." The result is a reduction of capital flows through, and therefore revenues going to, the offshore centers, particularly the smaller, poorer and less regulated ones (Klak, 2002).

To summarize, 9/11 occurred at the beginning of an economic recession in the United States and triggered a series of other events leading to a significant shift in U.S. domestic and foreign policies. What can be termed "the post 9/11 shift" refers to a combination of negative factors around the 9/11 critical event: fear of flying, tighter travel security measures, economic recession, the call to Americans to

continue on with their lives and spend domestically, a crackdown on OFCs, and the war in Iraq. The post 9/11 shift has thus created a new international environment that negatively impacts Caribbean economies, particularly the international services sectors, that neoliberal policy had already weakened and made more vulnerable (Pantojas-García and Klak, 2004).

These post-9/11 vulnerabilities have not dissipated with time. Instead they have become institutionalized in U.S. policy and in its foreign policy. For example, tiny Dominica has recently needed to spend U.S.\$3 million on upgrades to its port facilities in order to conform with U.S. requirements regarding ships entering U.S. ports. The impacts of 9/11 and the international campaign in response to it reveals how global priorities are set. The anti-terrorism campaign demonstrates how a critical event in core countries can quickly and decisively shift global priorities, marginalize and effectively discredit other concerns, and dominate the global agenda. Further, the post-9/11 shift in U.S. policies lay bare the persistent vulnerability of Central America and the Caribbean to international economic and political events. Their governments and entrepreneurs cannot influence the international economic and political frameworks that condition their policy options. Even in their new role as international service centers, Central American and Caribbean economies remain highly

vulnerable (arguably more so) to changes in the international prices of commodities and in the regulation of trade and banking.

Remittance Economies and Phantom Landscapes

Taken together, the decline of most Central American and Caribbean economies successively as agricultural exporters, manufacturing export platforms, and now international service centers places them on the path to what has been labeled “peripheral postindustrialization” (Pantojas-García, 2001). The obvious questions are, what can people do to make a living, and how can these countries generate foreign exchange?

- Figure 1 about here -

Take the example of Guatemala, which has one of the strongest natural resource bases and economic profiles in the region (Klak, 2004). Official unemployment now exceeds 50% and unofficially may be 75%. The civil war killed over 100,000 people and finally ended in 1996. The peace opened previous remote and dangerous parts of the country for increased settlement. The huge Petén rainforest region of northern Guatemala has received thousands of peasant migrants who have come to clear and burn land for farming (Figure 1). The

supportive infrastructure needed to make these small farms viable, such as agricultural extension services, loans, and transportation to get products to market, is inadequate. Peasants therefore fail as farmers and sell their recently cleared parcels, which are now worth more on the market than when they grew trees, to cattle ranchers who consolidate them. The peasants then move on to clear more forest. This process has cleared hundreds of thousands of acres of rainforest during the last decade alone (Figure 2).

- Figure 2 about here -

With most agricultural and industrial sectors on the decline, Central American and the Caribbean countries now have essentially service and remittance economies. Services that are growing as a result of tourism promotion include the hotel and restaurant sectors, formal and informal vendors, and taxi and tour drivers. Tourists from core countries also inadvertently bring with them the "demonstration effect," whereby locals are exposed and grow accustomed to an affluent consumer lifestyle (Pattullo, 1996). The dominance of U.S. television and films similarly carries with it this demonstration effect (Potter *et al*, 2004). Other services that have expanded in recent years include the standard array of other items associated with global

consumer culture such as cable and satellite TV, shopping malls, fast food chains, and U.S.-style subdivisions.

- Figure 3 about here -

Across Central America, the Caribbean, and Mexico as well, the principal export has become workers who migrate legally or illegally to the United States and other core countries (see also Chapters 12 and 13). About 800,000 Haitians live in the USA and Canada and keep their homeland afloat through remittances. According to Mexico's President Vicente Fox, by 2003 remittances became "our biggest source of foreign income, bigger than oil, tourism or foreign investment." He added that "the 20 million Mexicans in the United States generate a gross product that is slightly higher than the \$600 billion generated by [the 90 million] Mexicans in Mexico" (Alonso Lugo, 2003).

Services are also driven by the remittance-receiving family members who have income-earning relatives in the U.S. and other core countries. These family members can consume at a middle class level without the associated gainful employment. Their purchasing power is demonstrated by new homes and home additions, trendy clothes and electronic goods, high-tech appliances, fancy vehicles, and

domestic service workers. These landscapes and their inhabitants convey the false impression that there is much local economic vibrancy, stability and productivity, and hence earn the label “phantom landscapes”.

Underneath the visual prosperity is economic malaise, or worse. In Jamaica, for example, neoliberalism has cut deep into public resources, so that the state is no longer financially capable of maintaining clientelistic relationships with constituents (Sives, 2002; Gray, 2004). In poorer parts of Kingston, the state has been upstaged by drug dons who now control neighborhoods and protect and provide for residents better than the state can. The emergent wealth from drug trafficking also distorts the landscape, as Robotham (2005 p.211) observes: “we have witnessed prolonged contraction of the formal economy over the very same period that this frenzy of house construction and car buying has occurred.”

- Figure 4 about here -

Conclusion

Sustainable development requires a strong and secure set of economic activities in communities that do not degrade the environment. With this goal in mind, the chapter examined a variety of

export sectors that have been pursued before and during the neoliberal policy transition. The small countries of Central America and the Caribbean have been particularly hard hit by the recent changes in the global trading regime that have led to sharp declines in their ability to generate foreign exchange through exports. It can be viewed as ironic that perhaps the most successful recent export from the region is their workforces that have gone to core countries to earn and remit money back home. The neoliberal transition has been incompatible with sustainable development because it has undermined autonomy and empowerment at the national and local scales. Neoliberalism has created additional problems by pressuring already highly trade dependent countries to trade more and thereby decrease their self-sufficiency and self-determination.

From the perspective of world-systems theory, these results are unsurprising. Sustainable development policies are unlikely to be delivered by indebted, neoliberalizing, peripheral states, with so little maneuvering room and so narrowly tied to powerful economic interests at home and abroad. Central American and Caribbean countries are therefore facing major challenges regarding how to cope with their new economic realities. Their ability to replace failed exports with new productive activities will determine the stability of those societies in the years ahead. With so few options, governments have

felt compelled to embrace the "last resorts" (Pattullo, 1996), i.e. various forms of tourism development. Chapter 11 examines mass tourism, whereas Chapter 12 explores ecotourism-related sustainable development. These emerging policies are arguably the front-runners to replace the various fallen exports reviewed in this chapter.

Bibliography

Alonso Lugo, Luis 2003 "Remittances are Mexico's biggest source of income, says Fox." *Associated Press*
<http://www.signonsandiego.com/news/mexico/20030924-2051-us-mexico.html> (14 May 2007).

Anderson, Perry 2000 "Renewals." *New Left Review* Vol 1, 5-24.

Anderson, Sarah and John Cavanagh 2003 "Factsheet on the NAFTA record: A 10th Anniversary Assessment" *ZNet*
<http://www.zmag.org/content/showarticle.cfm?ItemID=4865> (13 May 2007).

Barrow, Christine 1992 *Family Land and Development in St. Lucia*. Cave Hill, Barbados: Institute of Social and Economic Research, University of the West Indies.

BBC (BBC Monitoring International Reports) 2003 "CARICOM Should Rethink Its Opposition To US-Led War On Iraq, USA's Reich Says" April 3.

Cater, E. 1996 "Ecotourism in the Caribbean: A Sustainable Option for Belize and Dominica?" In L. Briguglio, R. Butler, D. Harrison, & W.L. Filho (Eds.), *Sustainable Tourism in Islands & Small States: Case Studies*. London: Pinter, A Cassell Imprint, 122-146.

CTO (Caribbean Tourism Organization). 2003. Mexico's Tourism Hit Hard by War.
<http://www.onecaribbean.org/information/documentdownload.php?rowid=1226> (13 May 2007).

CTO. 2004. Caribbean Tourism Performance 2003, Prospects for 2004 <http://www.onecaribbean.org/information/documentview.php?rowid=2391> (14 May 2007).

Dupuy, Alex 2005 "Globalization, the World Bank, and the Haitian Economy" in *Contemporary Caribbean Cultures and Societies in a Global Context*. Edited by Franklin W. Knight and Teresita Martínez-Vergne. Chapel Hill: University of North Carolina Press, 43-70.

ECLAC various years. *Latin Business Chronicle* <http://www.latinbusinesschronicle.com/> (14 May 2007).

Economist 2004 "Easy Money", 7 April.

Gallagher, Mike and Cameron McWhirter 1998 "Chiquita: An empire built on controversy" *The Cincinnati Enquirer* May 3. also at: <http://www.mindfully.org/Pesticide/chiquita/> (13 May 2007).

Gonzalez-Perez and McDonough, 2006). 2006 "Chiquita Brands and the banana business: brands and labour relations transformations" CISC (Centre for Innovation & Structural Change, National University of Ireland) Working Paper No. 23 January http://www.cisc.ie/publications/detail.php?publication_code=7544 (14 May 2007).

Government of Jamaica 2002 *A Five-Year Strategic Information Technology Plan for Jamaica*. Kingston: Government of Jamaica <http://www.mct.gov.jm/GOJ%20IT%20Plan%20-%20Revised%20Version%20March%2020021.pdf> (13 May 2007).

Gray, Obika 2004 *Demeaned but Empowered: The Social Power of the Urban Poor in Jamaica*. Mona: University of West Indies Press.

Grossman, Lawrence 1998 *The Political Ecology of Bananas: Contract Farming, Peasants, and Agrarian Change in the Eastern Caribbean*. Chapel Hill: University of North Carolina Press.

Gwynne, Robert, Thomas Klak and Denis Shaw 2003 *Alternative Capitalisms: Geographies of "Emerging Regions."* London: Edward Arnold Publishers, and New York: Oxford University Press.

Harvey, David 2005 *A Brief History of Neoliberalism*. Oxford University Press.

Hey, Jeanne and Thomas Klak 1999 "From Protectionism Toward Neoliberalism: Ecuador Under Four Administrations (1981-1996)" *Studies in Comparative International Development*. 34, 66-97.

Ikerd, John 2002 "The real costs of globalization to farmers, consumers and our food system" on line at: <http://www.ssu.missouri.edu/faculty/jikerd/papers/Globalization.html> (14 May 2007).

Kaplinsky, Raphael 1995 "A Reply to Willmore." *World Development*. 23, 537-40.

Klak, Thomas 1998 (ed) *Globalization and Neoliberalism: The Caribbean Context*. Lanham, Maryland: Rowman and Littlefield.

Klak, Thomas 2002 "How Much Does the Caribbean Gain from Offshore Services?" in: *The Association of Caribbean States (ACS) Yearbook* (5th Edition). Edited by Mark Blacklock. ACS & International Systems and Communications Limited: Port of Spain & London, 88-103.

Klak, Thomas 2004 "Globalization, Neoliberalism and Economic Change in Central America and the Caribbean," in: Robert N. Gwynne and Cristóbal Kay (eds.) *Latin America Transformed: Globalization and Modernity* (2nd Edition). London: Edward Arnold Publishers and NY: Oxford University Press, 67-92.

Martin, A. 2001 "A Sure Thing." *Harper's Magazine*, April, 96.

McGowan, Lisa 1997 "Democracy Undermined, Economic Justice Denied: Structural adjustment and the aid juggernaut in Haiti" The Development Group for Alternative Policies, Inc. http://www.developmentgap.org/americas/Haiti/Democracy_Undermined_Economic_Justice_Denied_Structural_Adjustment_&_Aid_Juggernaut_in_Haiti.html (14 May 2007).

Ohmae, Kenichi 1995 *The End of the Nation State: The Rise of Regional Economies*. NY: Free Press.

Pantojas-García, Emilio 2001 "Trade Liberalization and Peripheral Post-industrialization in the Caribbean", *Latin American Politics and Society*, 43, 57-78.

Pantojas-García, Emilio and Thomas Klak 2004 "Globalization and Economic Vulnerability: The Caribbean and the "Post-9/11 Shift"" in

Ivelaw Griffith (ed) *Caribbean Security in the Age of Terror: Challenge and Change*. Kingston, Jamaica: Ian Randle Publishers, 176-98.

Pattullo, Polly 1996 *Last Resorts: The Cost of Tourism in the Caribbean*. NY: Monthly Review Press.

Peck, Jamie 2004 "Geography and public policy: Constructions of neoliberalism." *Progress in Human Geography* 28, 392-405.

Peet, Richard 2006 "Review of 'End of Poverty: Economic Possibilities for our Time' by Jeffrey Sachs". in *the Annals of the Association of American Geographers*. 96, 450-3.

Potter, Robert, David Barker, Dennis Conway and Thomas Klak 2004 *The Contemporary Caribbean*. Essex, UK: Addison Wesley Longman & Prentice Hall.

Robotham, Don 2005 "Crime and Public Policy in Jamaica." In Anthony Harriott (ed) *Understanding Crime in Jamaica: New Challenges for Public Policy*. Mona: University of West Indies Press, 197-238.

Ross, Jon 2002 "Maquila Meltdown: Plants Flee Mexican Wages." *Now Toronto*. November 28, http://www.nowtoronto.com/issues/2002-11-28/news_story4.php (13 May 2007).

Sives, Amanda 2002 "Changing patrons, from politician to drug don: clientelism in downtown Kingston, Jamaica" *Latin American Perspectives*, 29, 66-89.

Thrupp, Lori Ann 1995 *Bittersweet Harvests for Global Supermarkets: Challenges in Latin America's Agricultural Export Boom* Washington, D.C.: World Resources Institute.

UN 2000 "Call for action" Office of the UN Resident Coordinator, Barbados and the OECS, Bridgetown
http://www.bb.undp.org/pdfs/call_for_action.pdf (14 May 2007).

UNCTAD 2004 *World Investment Directory: Volume IX Latin America and the Caribbean 2004 Parts 1 and 2*. NY: UN.

Wiley, James 1998 "Dominica's Economic Diversification: Microstates in a Neoliberal Era?" T. Klak (ed) *Globalization and Neoliberalism*, 155-178.

Wiley, James 2007 *The Banana: Empires, Trade Wars, and Globalization*. Lincoln: University of Nebraska Press.

Willmore, Larry 1994 "Export Processing in the Caribbean: Lessons from Four Case Studies." United Nations Economic Commission for Latin America and the Caribbean, Report Number LC/CAR/G.407.

World Bank, Caribbean Division 1994 *Coping with changes in the external environment*. Washington, D.C., World Bank Report no. 12821 LAC.