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CARICOM: U.S. Should Push Back Against Chavez in the Caribbean

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The historically pro-American multilateral organization known as the Caribbean Community (CARICOM) has been struggling for decades to form a regional "Single Market and Economy" (CSME) to integrate the disparate islands and sub-continental economies of the Caribbean Basin into a common market based on sound democratic institutions and pro-market policies. The obstacles to this integration have been plentiful, but none has been as daunting in recent years as the assault on free enterprise in the Caribbean mounted by Venezuelan President Hugo Chavez.

Since taking power in 1999, Chavez has been enticing and outright bribing member countries to join instead his own statist regional creations: the Bolivarian Alliance of the Americas (ALBA) and "PetroCaribe." The U.S. should strongly support market democracy and free enterprise in the Caribbean while simultaneously encouraging CARICOM to reject and withdraw from ALBA and PetroCaribe.

CSME: The Long and Winding Road. CARICOM emerged in 1962 from a federation of former British colonies. The foundation was first set in 1968 with the Caribbean Free Trade Association, whose first members included Antigua, Barbados, Trinidad and Tobago, and Guyana. Since then, 11 additional members have joined the group. They vowed to form a political and economic union as well as a common market that would play an integral role in their future development. In the subsequent four decades, CARICOM moved toward greater integration, adopting the plan to create the CSME in 2001.

Since then, however, progress has slowed. The failure in the 1990s of the U.S.-led effort to create a Free Trade Area of the Americas (FTAA) contributed to the CSME stalemate, which was reconfirmed at a meeting of CARICOM heads of government in July 2012.

Along this bumpy road to integration, the United States has extended an encouraging hand. In 1982, President Ronald Reagan announced the Caribbean Basin Initiative, which unilaterally lowered duties and tariffs on goods imported into the U.S. from the Caribbean nations. Since 1984, this initiative has been made permanent under U.S. law, and it currently holds a waiver on preferential treatment in the World Trade Organization (WTO) until 2014.

A Caribbean single market would have significant benefits for its members. The free movement of labor, capital, and goods would allow economies to diversify—a goal of increasing consequence for Caribbean economies that are dependent on single exports such as oil or bananas. A single and open market would also improve efficiency. This is particularly important because of the very nature of CARICOM, a sparsely populated amalgamation of small island economies.

A single market would also increase economic freedom. Harmonization of laws and regulations, standardization of business practices, and creation of a Common External Tariff would permit easier negotiation of future bilateral and multilateral free trade agreements. Governance in these Caribbean nations would also improve, turning around declines in economic

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MAP 1

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freedoms that have been registered since 2006.

Snake-Oil Exports from Hugo Chavez. While Caribbean leaders have done themselves no favors with their foot-dragging and mismanagement of CSME implementation over the past two decades, the impact of Chavez's aggressive and fundamentally dishonest campaign of "oil diplomacy" has done much greater damage and has undermined the possibilities and incentives for full CSME integration.

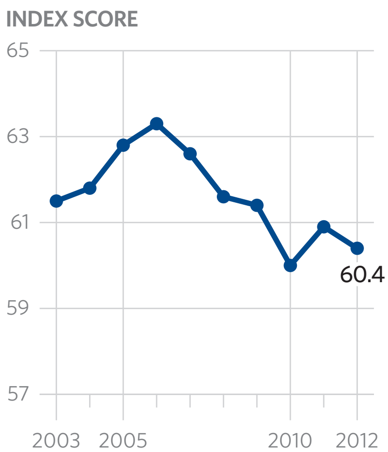
A long-time opponent of capitalism and free-markets, Chavez has bankrolled the political campaigns of many leftists in the region. His "Bolivarian" programs of foreign aid and lavish subsidies—under the pretense of fighting poverty—are really just ruses to increase CARICOM countries' dependency on Caracas.

Marketed as a replacement for the failed U.S. FTAA effort, ALBA is a regional political and trading bloc that includes CARICOM members Antigua, Dominica, and St. Vincent and the Grenadines. It is meant to reduce members' dependence on the U.S. Trade within the bloc has grown from $1.6 billion in 2004 to $5.8 billion in 2010.[1]

1. Editorial, "Latin American Integration," *The Economist*, November 26, 2011, http://www.economist.com/node/21540319 (accessed October 18, 2012).

CHART 1

Economic Freedom Index for CARICOM Countries



Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), http://www.heritage.org/index.

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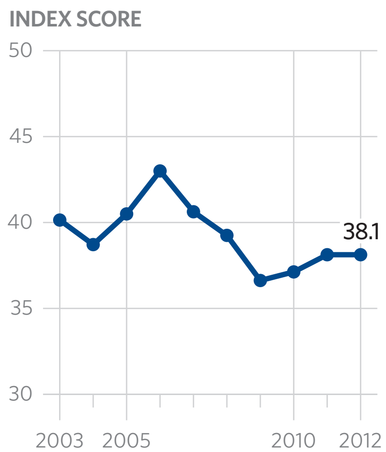
CHART 2

Rule of Law Index for CARICOM Countries



Source: Terry Miller, Kim R. Holmes, and Edwin J. Feulner, *2012 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2012), http://www.heritage.org/index.

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ALBA is twinned with PetroCaribe, a scheme to provide subsidized petroleum loans to 18 Caribbean nations through which Venezuela promises to finance up to 50 percent of the cost of the oil over a 25-year period. In practice, however, PetroCaribe is far different, dishonestly and deceptively allowing leftist leaders in beneficiary countries to deploy the program's many vote-buying benefits up front through "creative financing" arrangements and initial concessional terms that dump the bulk of loan repayments on future generations.

Through PetroCaribe, populist leaders have been able to fund comparatively generous packages of social benefits through official government channels while also diverting some PetroCaribe proceeds and using them for their private re-election campaigns.

President Daniel Ortega of Nicaragua is a particularly egregious example. Using proceeds from PetroCaribe, he has bought votes by showering constituents with social programs and party giveaways. As if that weren't enough, a private holding company called "Albansia" that is controlled by Ortega's inner circle has been able to profit from asset purchases using Venezuelan funds.[2] As Venezuela expert Javier Corrales argues, PetroCaribe and other aid from Chavez "consists mostly of unaccountable financing of campaigns, unelected social movements, business deals, and even political patronage by state officials" that allows leaders like Ortega to enrich themselves and further entrench their own political power.[3]

Over the years, PetroCaribe has increased the dependence of the 15 participating CARICOM members on Venezuelan oil imports and morphed into the largest single source of concessional finance in the Caribbean region[4]—adding to the burden, for example, of Jamaica's already out-of-control $1.9 billion sovereign debt. These programs not only undermine open markets, but also help to draw regional countries into a Venezuelan voting bloc that could oppose the U.S. and join Venezuela in strategic alliances with Iran, Russia, and China.

U.S. Should Pivot to Its Own Backyard. While the Obama Administration has touted its "pivot" toward Asia in recent years, it has failed to address CARICOM's problems in America's own backyard. The Obama Administration and Congress should take the lead in pushing back against Chavez by:

- Making support for continued trade preferences under CBI contingent upon withdrawal from trade and financing regimes like

2. Jean-Michel Caroit, "Flush With Chávez Petro-Dollars, Nicaragua's Ortega Eyes Controversial Third Term," *Le Monde*, November 4, 2011, http://www.worldcrunch.com/flush-ch-vez-petro-dollars-nicaragua-s-ortega-eyes-controversial-third-term/world-affairs/flush-with-ch-vez-petro-dollars-nicaragua-s-ortega-eyes-controversial-third-term/c1s4043/ (accessed October 5, 2012).
3. Javier Corrales, "Using Social Power to Balance Soft Power: Venezuela's Foreign Policy," *The Washington Quarterly*, October 2009, pp. 97–114.
4. Norman Girvan, "ALBA, PetroCaribe and Caricom: Issues in a New Dynamic," May 8, 2008, http://www.normangirvan.info/wp-content/uploads/2008/05/alba-petrocaribe-and-caricom1.pdf (accessed August 27, 2012).

ALBA and PetroCaribe. In particular, the U.S. should refuse to reapply for its WTO waiver in 2014 if CARICOM members have not withdrawn from these Venezuela-backed programs.

- Signaling a renewed interest in CARICOM's CSME efforts.
- Reaffirming U.S. commitment to free trade in the region and showing support for regional free trade champions such as Trinidad and Tobago.
- Holding hearings to expose this growing regional threat to U.S. national security and requiring testimony about it from Administration officials.

U.S. Should Support Growth. For CARICOM to grow, it needs to embrace open trade and free markets, not a policy throwback to the protectionism and failed import substitution policies of a bygone era. By supporting sound economic policy initiatives such as the CSME, the U.S. can lead the way for the nations of CARICOM to claim a better seat at the global economic table.

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