Congressional Research Service
The Library of Congress

Washington, D.C. 20540

CARIBBEAN BASIN INITIATIVE

IP0190C

On February 24, 1982, President Reagan announced an new program to assist approximately two dozen small, developing countries in the Caribbean, Central America, and northern South America. The original Caribbean Basin Initiative (CBI) proposed free trade arrangements, tax incentives for investments, and foreign aid to improve economic conditions which threaten political and social stability in the region.

During the 97th Congress, the foreign aid portion of the CBI was passed as part of the 1982 General Supplemental Appropriations bill, which became law (P.L. 97-257) on September 10, 1983. The trade and tax provisions of the CBI were not enacted.

On August 5, 1983, President Reagan signed Public Law 98-67, which provides duty-free entry into the United States for certain Caribbean exports and allows U.S. business people to take tax deductions for the expense of attending conventions in the Caribbean region.

This Info Pack includes information on the broad outline of the initiative; the reactions of the congressional, business, and international communities; legislative action during the 97th and 98th Congress; and information on the Caribbean Basin Business Information Center, which was created by the Department of Commerce to assist the business community in identifying trade and investment opportunities.

Members of Congress desiring additional information on this topic can contact CRS at 287-5700.

We hope that this information is helpful.

Congressional Reference
Division

Current
Policy No. 477

Secretary Shultz

Caribbean Basin Economic Recovery Act

April 13, 1983

United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is a statement by Secretary Shultz before the Senate Finance Committee, April 13, 1983.

I welcome this opportunity to continue our dialogue on the Caribbean region and specifically the Caribbean Basin Economic Recovery Act. The legislation we have proposed is a far-sighted response to a deepening economic and social crisis troubling some of our closest neighbors. It deserves to become law this year—the sooner this year, the better.

Our Vital Interests

Let me begin by reviewing our own vital interests in the Caribbean Basin. The Caribbean is an unfenced neighborhood that we share with 27 island and coastal nations. Their security and economic well-being have a direct impact on our own strategic and economic interests.

We do not have to go to Miami to come in daily contact with people born in the Caribbean region or to appreciate the rapid impact of turmoil there on our own society. In fact, our country has become a safehaven for thousands upon thousands of Caribbean citizens who pin their hopes for a better life on a dangerous, uncertain, and clandestine migration to this country. As a result, the basin area is now the second largest source of illegal immigration to the United States. This situation will not improve until the nations of the Caribbean Basin are better able to offer their people opportunities to build secure, productive lives at home.

Economically, the Caribbean Basin region is a vital strategic and commercial artery for the United States. Nearly half our trade, three-quarters of our imported oil, and over half our imported strategic minerals pass through the Panama Canal or the Gulf of Mexico. If this region should become prey to social and economic upheaval, and dominated by regimes hostile to us, the consequences for our security would be immediate and far reaching.

The health of the Caribbean economies also affects our economy. The area is now a $7 billion market for U.S. exports. Thousands of American jobs were lost when our exports to the region fell $150 million last year as income in the region declined. A large portion of the debt of Caribbean countries is owed to banks in this country. At the end of 1981, U.S. direct investment in the region was approximately $8 billion.

The Caribbean Basin Economic Recovery Act is the cornerstone of our effort to come to grips with these issues. This legislation recognizes the critical relationship between economic development and political stability. It is designed to promote self-sustaining economic growth; to enable countries in the region to strengthen democratic institutions; and to implement political, social, and economic reforms. Ultimately, its purpose is to help restore the faith of people of the region in their countries' ability to offer them hope for a better future.

Economic Problems

The societies of the Caribbean Basin republics are undergoing inevitable change that puts them under considerable stress. Declining employment in agriculture, high birth rates, and slow creation of urban jobs have diminished hopes for combating poverty and caused appalling rates of unemployment, especially among the young. Youth unemployment in Jamaica, for example, is estimated to be 50%. Without dramatic increases in investment to improve living standards and to create jobs, rising crime and urban instability will create a downward spiral of social disintegration. And because the Caribbean economies are so small, new investment—domestic as well as foreign—will not take place without assured access to outside markets.

The diminutive size of individual Caribbean markets—averaging just 1.5 million people, with 16 countries under 0.5 million—makes them uniquely dependent on the outside world in ways we can only dimly imagine. The national incomes of most Caribbean Basin countries are less than that of a U.S. metropolitan area of 300,000 people, such as Omaha, Nebraska, or Charlotte, North Carolina. Dominica, for example, with a population of only 80,000, is the least developed country in the eastern Caribbean. It is also one of the most democratic and pro-Western. If small, vulnerable economies like Dominica are to be at all viable, they must have access to bigger markets. In Central America where the economies tend to be a bit larger, the disruptions in recent years of the Central American Common Market have made economies such as Costa Rica much more dependent on markets outside its region. As long as they are limited to production for their small and poor domestic markets, the small economies of the Caribbean Basin cannot diversify their economies. Nor can they develop the expertise and efficiency needed to become prosperous international traders.

We recognize that the Caribbean Basin economies will always be dependent to some degree on markets outside the region. But developments of the past few years have had a devastating impact. Prices of the non-oil commodities the Caribbean republics export—sugar, coffee, bananas, bauxite—have fallen drastically. And this is at a time when they are still struggling to cope with the massive increases of the 1970s in the price of their most basic import: oil. Recession in the United States has caused a steep drop in revenue from tourism. Foreign debt has mounted to increasingly burdensome levels. The withering of government revenues has stopped or delayed development projects. Real per capita incomes have declined throughout most of the basin region.

All this adds up to a massive problem: the governments of the Caribbean republics must find ways to assure sociopolitical stability and revive economic growth while also accommodating rapid internal change. Their success or failure in meeting this challenge will greatly affect the environment in which we live.

The Challenge/The Alternatives

The United States thus has a vital stake in helping its Caribbean neighbors pursue their goals of open societies and growing economies through productive exchange with us and the rest of the world. The Administration has approached this task with full recognition that we have great assets and advantages when it comes to supporting democratic development.

This becomes most clear when we look at the alternatives. One alternative is the closed solution: the society which, while not a viable economy, turns in on itself and enforces by fiat the distribution of the limited economic benefits a small economy can generate itself or receive in aid. This is a recipe for totalitarian force—because people will not take it willingly—and economic stagnation. It is the Cuban solution. It poses continuing threats to our interests in this hemisphere which we have had to counter for the last 20 years.

A second alternative is decline of the population to the level which a small economy can support on its own. With the young populations and high birthrates of these countries, this alternative entails massive emigration from the Caribbean Basin region. Our country is inevitably the preferred destination. As much as we welcome the rich contribution of the region's immigrants to our own life, massive immigration is not what we want. Nor is it what the countries of the region want. That is not at issue. Nor is it the only reason we care.

The President's proposed legislation supports a third alternative—democratic development. This is the only alternative that meets our vital self-interests and our nation's long tradition as a source of progress and hope in the world. Politically, the people of these societies have shown they want a voice in their own fate and that they reject totalitarian formulas. Two-thirds of the governments of the region have democratically elected governments. Significant progress toward democracy is occurring in others as well, despite the obstacles. Democracy represents a set of values that virtually all the peoples of the region see as sympathetic to their own aspirations. The Cuban and now Nicaraguan models stand as clear demonstrations of both political repression and economic failure.

Economically we have the assets that can be ultimately decisive in the orientation of Caribbean development. We represent a market economy that works, a natural market for Caribbean exports, the major source of private investment in the region, and the management and technology that come with it.

The Caribbean initiative of the Administration is an imaginative and comprehensive approach to bringing these assets to bear on the problems of our Caribbean neighbors. It is a forward-looking effort to boost both development and stability. Because it builds on private resources and enterprise, it has the potential to deal with their deep economic plight in a fundamental way. Because it can help to ease delicate social and political transitions before they create security problems of an international dimension, it is a program to get ahead of history, instead of just countering its unwelcome effects.

Caribbean Basin Program

Our program is part of a major multilateral effort. Other higher income countries of the region are also increasing their efforts significantly. Canada has embarked on a 5-year program for the area providing over $500 million. Canada currently provides duty-free treatment or preferential access for 98% of its imports from the Caribbean Basin. Mexico and Venezuela, despite their own financial difficulties, are continuing concessional credits to the region through their oil facility. Venezuelan financial support has been over $2.5 billion in the last 5 years. Colombia is initiating technical assistance of up to $50 million, new credit lines of $10 million per country, and additional balance-of-payments financing and a trust fund for less developed countries of the eastern Caribbean. The collective efforts of these democracies are a strong encouragement to open societies and democratic development in the region. But success would be imperiled without us. Our full participation is vitally needed.

The U.S. contribution integrates three types of mutually reinforcing economic measures—trade opportunities, tax incentives, and aid. The program has

2

been developed in continuing consultation with the governments and the private sectors of the regions. It reflects their own priorities and assessment of their needs.

As you know, we were able to make a start on our Caribbean economic initiatives last summer, when the Congress approved an emergency supplemental aid package of $350 million—a key element in the President's original Caribbean Basin program. Our aid requests for both FY 1983 and FY 1984 reflect the new higher priority we have given to the Caribbean Basin area in the allocation of our scarce economic assistance resources. As a percentage of our overall economic assistance budget, assistance to the Caribbean region will double in FY 1983 and 1984, over FY 1980, from 6.6% authorized in 1980 to 13.6% proposed in FY 1984.

Most of the $350 million appropriated last year has been obligated for use by the private sector in those countries with the most serious financial problems. This assistance has helped many established, productive private firms continue to obtain needed raw materials and equipment from the United States. In addition, it has provided critical support for balance-of-payments problems and infrastructure projects in the small, least developed countries.

We have also been able to use a portion of these funds to support training and scholarship opportunities for individuals from the Caribbean region with leadership potential. These opportunities support our goal of transferring knowledge and skills, enhancing economic cooperation among nations of the region and strengthening political ties between recipient countries and the United States. We are currently offering 1,300 scholarships each year. As new money is available, the number of scholarship recipients will continue to increase. These programs have high development, economic, and political impact and are a key element in our assistance to the Caribbean Basin region.

But as the President said when he requested that emergency CBI [Caribbean Basin Initiative] appropriation, financial assistance is only a short-term remedy. Indeed, financial assistance and development projects will be wasted if the development process is not a broad-based and integrated process. We believe that such development can only be achieved through a strategy which encourages private initiative and investment.

The U.S. Market

The key to new production and employment in the Caribbean is assured access to its natural market in this country. Suppliers in the Caribbean need help to get started in the competition with larger, more experienced, and established producers elsewhere. That suggests a bold solution that reinforces the natural pole of attraction of the U.S. market.

The President's proposal to grant duty-free entry to Caribbean Basin products for a 12-year period is the centerpiece of the Caribbean Basin Initiative. It can provide a decisive boost to Caribbean development. The proposal is dramatic and simple. It offers long-term economic benefits of free trade and the immediate impact of a major political commitment to the region. By assuring duty-free access to the vast U.S. market, this measure will provide strong and continuing incentives for investment, innovation, and risk taking in Caribbean countries.

As I have pointed out, the domestic economies of most Caribbean Basin nations are simply too small to permit the diversification essential for noninflationary growth. An opening of the U.S. market to the nontraditional products of these countries will provide important opportunities to develop new production and an incentive to produce more efficiently. Increased and diversified production will mean higher wages, a strengthened middle class, more resources available for education and health—and more demand for raw materials, equipment, and finished goods from the United States.

I recognize that these are difficult economic times in our own country. Understandably, there is concern over the impact this legislation will have on workers in the United States. I am convinced that the impact on our economy will be positive. Because the Caribbean countries are so closely linked to our economy, our sales to them will grow apace with their economies. Excluding petroleum trade, we have a $2 billion trade surplus with the Caribbean Basin and are already the major trade partner of most countries there. A stronger Caribbean Basin will be an even better and more reliable customer for U.S. products. As countries in the region produce more, they will import more. American workers will share in the fruits of that growth.

The Caribbean Basin economies are equal to only 2% of our GNP, and our imports from the region are less than 4% of our total imports. Imports not already entering duty-free are an even smaller percentage. Therefore, even a significant increase in Caribbean Basin production and exports will not have a significant negative impact on our economy. And if American industries are injured by Caribbean imports, they have the remedy of seeking relief under the safeguard provisions of the 1974 Trade Act.

The United States is the world's most open major market. A large share of the Caribbean Basin's exports to the United States already enter duty free. Petroleum accounts for almost 60% of our imports from the region. In 1982, 70% of our nonpetroleum imports from the Caribbean Basin entered duty free. Sixteen percent of these nonpetroleum imports entered under GSP [generalized system of preferences]. But GSP is due to expire next year. While the Administration strongly supports the extension of GSP, it contains competitive need restrictions and product exclusions which limit its usefulness as a stimulus to broad-based recovery by the small Caribbean Basin countries. The products that would be extended duty-free entry as a result of the proposed CBI legislation comprised only one-quarter of 1% of U.S. imports in 1982. Yet these products represent an important area of potential new production for the Caribbean Basin countries.

I would like to mention briefly a section of this bill that was not included when I addressed this committee last August on this legislation. I refer to the convention tax deduction. This provision recognizes the vital importance of tourism and travel to the economies of many Caribbean nations. I should emphasize that this provision would simply grant Caribbean Basin conventions tax status equal to that presently enjoyed by Mexico, Canada, and Jamaica. In our consultations with Caribbean Basin business and government leaders, they have frequently cited the disadvantageous present tax treatment of Caribbean conventions as being an obstacle to the recovery of their travel industries. We should also keep in mind that many American travel dollars spent in the Caribbean come back via U.S.-owned airlines, hotels, and recreation facilities.

Let me reiterate the important role that Puerto Rico and the U.S. Virgin Islands have in the Caribbean Basin Initiative. Since the earliest days of this Administration, we have consulted closely with the governments of Puerto Rico and the U.S. Virgin Islands to fashion the initiative in a way that would foster the development of the U.S. Caribbean. The legislation reflects that in several ways. It liberalizes duty-free imports into the United States from insular possessions. It explicitly permits industries in Puerto Rico and U.S. territories to petition for relief under the safeguard provisions of U.S. trade law. It also modifies environmental restrictions on the U.S. Virgin Islands rum industry and constructs the rules-of-origin requirements to encourage the use of products of Puerto Rico and the U.S. Virgin Islands. An important provision would transfer excise taxes on all imported rum to the treasuries of Puerto Rico and the U.S. Virgin Islands. In sum, the facilities, skills, and people of Puerto Rico and the U.S. Virgin Islands are a major component of our development cooperation efforts elsewhere in the Caribbean.

The Political Dimension

The political dimension of Caribbean progress is of great and ultimate importance to us. We do not seek clients. Our goal is a region of independent countries in which people can choose their leaders and their own path to economic and social progress. We are confident that will produce societies and regimes which are not hostile to us. That same belief underlies the strong commitment of the other democracies in the region to the Caribbean initiative. Together with Mexico, Venezuela, Colombia, and the region's other democratic governments, we seek to encourage economic and social reforms which address the real grievances of various sectors of the population of Central America and Caribbean countries.

Stability in societies based on free association rather than coercion must depend on addressing people's right to own their own land. They must be able to organize in cooperatives and unions to promote their economic interests. And they must be able to exercise their political rights, free of intimidation. That is the course we encourage through our support in the Caribbean Basin region. That is also the course which the peoples of the region seek—as they have shown repeatedly in their own political life.

Conclusion

The Caribbean Basin Initiative is solidly grounded in the tradition and values of both this country and the Caribbean region. It is a strong and multilateral effort in which the U.S. Government has cooperated and consulted with the Governments of Canada, Venezuela, Mexico, and Colombia; with other donor countries; and with the international financial institutions. The proposals before this committee are the result of extensive discussions with business and government leaders in the Caribbean Basin region about the obstacles to their economic revival. The focus of our efforts is on the private sector, which must be the engine of a lasting economic growth.

The nations of the Caribbean Basin are counting on us. It is now over a year since President Reagan outlined his Caribbean Basin Initiative proposals before the Organization of American States. Those proposals were warmly, even enthusiastically, received by most government, labor, and private sector leaders in the region. For those in the Caribbean Basin countries who believe in cooperation with the United States, in pluralistic democracy and private enterprise, the announcement of the initiative demonstrated that the United States realizes the importance of urgent and far-reaching action to promote the region's prosperity. They were bitterly disappointed that this legislation did not reach the Senate floor during the last Congress. If we fail to act now, our inaction will be interpreted as lack of interest and a broken promise. It would undercut moderate leaders in the region who have geared their policies to cooperation with the United States and to serious efforts for economic development and democracy. It would extinguish the hopes that have been raised in the region that the United States is willing to give significant help to foster economic and social progress in the Caribbean Basin.

I am confident that after careful examination, this committee and the Senate will recognize that this legislation is important to the interests of the United States and the Caribbean Basin countries. I strongly urge favorable action. ■

Published by the United States Department of State · Bureau of Public Affairs
Office of Public Communication · Editorial Division · Washington, D.C. · April 1983
Editor: Colleen Sussman · This material is in the public domain and may be reproduced without permission; citation of this source is appreciated.

By Mr. DOLE (by request):

S. 544. A bill to promote economic revitalization and facilitate the expansion of economic opportunities in the Caribbean Basin region; to the Committee on Finance.

CARIBBEAN BASIN ECONOMIC RECOVERY ACT

● Mr. DOLE. Mr. President, I am pleased today to introduce President Reagan's Caribbean Basin Initiative. This legislation reflects the extensive work of the House of Representatives and the Finance Committee on the President's original proposal in the 97th Congress. Senators BAKER, PERCY, DANFORTH, HEINZ, SYMMS, and WALLOP join me in presenting to this Congress an important program designed to assist our southern neighbors to develop economically and to join in a new, mutually beneficial relationship with the United States.

The bill contains two titles. The first would extend for 12 years duty-free status to articles from eligible beneficiary countries. There are several exceptions for import-sensitive products, and imports will be subject to safeguards to protect domestic industries against injurious import surges. The exceptions are those voted by the House and Finance Committee last year, and include textiles and apparel articles subject to textile agreements; footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not currently eligible for GSP; tuna; and petroleum and petroluem products. Title I also contains the eligibility requirements for the beneficiary countries; generally, the countries must be engage in constructive self-help measures that will enable them to benefit fully from the program.

Title II offers a tax incentive to boost development in the tourist and service industries of the beneficiary nations. Instead of the investment tax credit proposed last year, the bill includes the convention business-expense deduction passed by the House of Representatives. This would allow U.S. taxpayers to deduct necessary and proper business expenses associated with attending conventions in the beneficiary countries, an allowance already made for attending conventions in Canada, Mexico, and Jamaica. In order for the deduction to be available, however, a beneficiary nation must agree to exchange data with U.S. officials as necessary and appropriate for the enforcement of tax laws, and the beneficiary nation's tax laws must not discriminate against conventions held in the United States. The revenue loss from this provision is expected to be negligible.

Finally, the bill includes some of the measures the President intends to implement to promote the growth of Puerto Rico and the Virgin Islands, and to protect them from significant competitive harm arising from the duty-free trade arrangement. Puerto Rico and the Virgin Islands long have enjoyed preferential market access to the United States that has enabled them to develop economically much faster than their similarly situated Caribbean neighbors. The one-way duty-free trade area may diminish this competitive advantage. The President therefore will undertake a number of compensating and protective measures, not all of which will require legislative action. Included in this bill, however, is authority to remove duty-free treatment of rum from the beneficiary countries when it threatens the revenues Puerto Rico and the Virgin Islands now derive from rebates of Federal excise taxes on rum to them. The bill further provides that excise taxes on rum from other nations will be rebated to Puerto Rico and the Virgin Islands. In addition, the President proposes to increase the maximum foreign content permissible for duty-free entry of products from the insular possessions; to treat producers there as domestic industry for purposes of import relief; and to exempt effluent discharges associated with the manufacture of Virgin Islands rum from provisions of the Federal Water Pollution Control Act.

THE PROFOUND U.S. INTERESTS IN THE CARIBBEAN

Mr. President, this should be the year we demonstrate to our Caribbean friends the leadership that will show them the way out of their economic malaise and strengthen their democratic institutions. The beneficiary nations of the CBI are widely divergent in cultures, histories, languages, economies, and governments. But they share some common characteristics: Most are suffering severe economic hardships; they are increasingly oriented economically, politically, and socially to the United States—and together they form our southern border. Too long has this country failed adequately to comprehend our national interests in this integrated region, and to take full advantage of the mutual opportunities greater cooperation offers. These interests are profoundly important.

In a region suffering a history of conflict, the 15 recently emergent nations of the Caribbean Basin offer in their nascent states a tempting target for Soviet troublemaking. The announcement last year of a Soviet aid package to Granada, and recent reports of Cuban interference in Surinam, provide timely examples of real concerns for our borders, our sea lanes, and the Panama Canal.

The United States has great economic ties to the region. Despite their colonial past, the CBI countries import more from the United States than any other country. Last year this amounted to about $6.3 billion—nearly double what we imported from them, excluding petroleum. U.S. direct investment reached nearly $10 billion in 1981. We import over 90 percent of our industrial requirements of bauxite and alumina from the Caribbean countries, and rely on them to a significant degree for nickel. It seems clear that the region offers a vast new market for American products, if only greater economic and political stability can be brought about there.

Besides the economic and security interests, the United States is bound by an increasing web of social ties with the Caribbean Basin countries. Some estimate that, excluding Mexicans, over 250,000 illegal immigrants now enter the United States yearly from the countries of the Caribbean Sea and Central America. Their desperate desire to seek political or economic emanicipation in this country is perhaps matched only in magnitude by the strain on the services of our national and State governments provide them once they are here. I note that the entire region in fiscal year 1982 the United States targeted about $475 million in developmental aid; the Federal Government and the State of Florida have spent over twice that on Cuban and Haitian refugees since the Mariel Boatlift.

The ability of the United States to exploit these increasingly strong ties to the Caribbean Basin countries rests on their own stability. As the nations of Central America struggle to end armed conflict among themselves and with Communist guerrillas, as the Caribbean nations attempt to restructure their economies away from centuries of dependency on transfers from their former colonial sovereigns, an historic opportunity presents itself to the United States to aid in placing them on a firm, permanent path to growth and stability. The President's Caribbean Basin Initiative embodies a sound plan to that end.

THE CBI: AN OPPORTUNITY FOR BOLD LEADERSHIP

In a Washington Post column last year, international economist, Gustav Ramis of Yale University stated well the need for a "credible, nonpaternalistic framework" for facilitating economic reform and development in developing countries. He said in part:

> Receipt of an annual aid allocation is clearly not a country's birthright to be extended automatically, just because it is poor and we are rich; at times the effective use of aid, in fact, means the courage to be passive and bankerlike vis-a-vis some developing countries for some years on end. But it also means that we must be able to respond when and if such countries do come forward with a package of policy changes that make sense and ask our help in cushioning the inevitable pain of getting from here to there.

By offering market incentives in the form of trade, tax, and other measures, and by esxtending aid to ease the transition to stable, competitive economies, the CBI demonstrates that this country is able to respond positively to vital needs—and opportunities.

Twenty of the CBI countries could fit within the boundaries of the King Ranch in Texas; the CBI, even if successful beyond all expectations, cannot begin to engender economic growth that will seriously threaten any of our domestic interests, and for those few industries that feel threatened, the legislation provides ample safeguards against injury. But by adopting appropriate free-market programs, and with the CBI's incentives, these small beneficiary nations are capable of significant self-improvement. None of the beneficiaries claim the benefits of the CBI as a matter of right; the success of the program is of great mutual interest.

This legislation is being introduced in both Houses with broad support. I intend to seek an early opportunity for Finance Committee action, and I hope the members will join me in bringing the program to successful fruition this year.

Mr. President, I ask unanimous consent that the bill be printed in the RECORD.

There being no objection, the bill was ordered to be printed in the RECORD, as follows:

S. 544

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "Caribbean Basin Economic Recovery Act".

TITLE I—DUTY-FREE TREATMENT

SECTION 101. AUTHORITY TO GRANT DUTY-FREE TREATMENT.

The President may proclaim duty-free treatment for all eligible articles from any beneficiary country in accordance with the provisions of this title.

SECTION 102. BENEFICIARY COUNTRY.

(a)(1) For purposes of this title—

(A) The term "beneficiary country" means any country listed in subsection (b) with respect to which there is in effect a proclamation by the President designating such country as a beneficiary country for purposes of this title. Before the President designates any country as a beneficiary country for purposes of this title, he shall notify the House of Representatives and the Senate of his intention to make such designation, together with the considerations entering into such decision.

(B) The term "entered" means entered, or withdrawn from warehouse for consumption, in the customs territory of the United States.

(C) The term "TSUS" means Tariff Schedules of the United States (19 U.S.C. 1202).

(2) If the President has designated any country as a beneficiary country for purposes of this title, he shall not terminate such designation (either by issuing a proclamation for that purpose or by issuing a proclamation which has the effect of terminating such designation) unless, at least sixty days before such termination, he has notified the House of Representatives and the Senate and has notified such country of his intention to terminate such designation, together with the considerations entering into such decision.

(b) In designating countries as "beneficiary countries" under this title, the President shall consider only the following countries and territories or successor political entities:

Anguilla	Nicaragua
Antigua and Barbuda	Panama
Bahamas, The	Saint Lucia
Barbados	Saint Vincent and the Grenadines
Belize	Surinam
Costa Rica	Trinidad and Tobago
Cuba	Cayman Islands
Dominica	Montserrat
Dominican Republic	Netherlands Antilles
El Salvador	Saint Christopher-Nevis
Grenada	Turks and Caicos Islands
Guatemala	Virgin Islands, British
Guyana	
Haiti	
Honduras	
Jamaica	

In addition, the President shall not designate any country a beneficiary country under this title—

(1) if such country is a Communist country;

(2) if such country—

(A) has nationalized, expropriated, or otherwise seized ownership or control of property owned by a United States citizen or by a corporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens,

(B) has taken steps to repudiate or nullify an existing contract or agreement with a United States citizen or a coporation, partnership, or association which is 50 per centum or more beneficially owned by United States citizens, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of property so owned, or

(C) has imposed or enforced taxes or other exactions, restrictive maintenance or operational conditions, or other measures with respect to property so owned, the effect of which is to nationalize, expropriate, or otherwise seize ownership or control of such property, unless the President determines that—

(i) prompt, adequate, and effective compensation has been or is being made to such citizen, corporation, partnerhsip, or association,

(ii) good-faith negotiations to provide prompt, adequate, and effective compensation under the applicable provisions of internation law are in progress, or such country is otherwise taking steps to discharge its obligations under international law with respect to such citizen, corporation, partnership, or association, or

(iii) a dispute involving such citizen, corporation, partnership, or association, over compensation for such a seizure has been submitted to arbitration under the provisions of the Convention for the Settlement of Investment Disputes, or in another mutually agreed upon forum, and promptly furnishes a copy of such determination to the Senate and House of Representatives;

(3) if such country fails to act in good faith in recognizing as binding or in enforcing arbitral awards in favor of United States citizens or a corporation, partnership or association which is 50 per centum or more beneficially owned by United States citizens, which have been made by arbitrators appointed for each case or by permanent arbitral bodies to which the parties involved have submitted their dispute;

(4) if such country affords preferential treatment to the products of a developed country, other than the United States, which has, or is likely to have, a significant adverse effect on United States commerce, unless the President has received assurances satisfactory to him that such preferential treatment will be eliminated or that action will be taken to assure that there will be no such significant adverse effect, and he reports those assurances to the Congress;

(5) if a government-owned entity in such country engages in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent; and

(6) unless such country is a signatory to a treaty, convention, protocol, or other agreement regarding the extradition of United States citizens.

Paragraphs (1), (2), and (3) shall not prevent the designation of any country as a beneficiary country under this Act if the President determines that such designation will be in the national economic or security interest of the United States and reports such determination to the Congress with his reasons therefor.

(c) In determining whether to designate any country a beneficiary country under this title, the President shall take into account—

(1) an expression by such country of its desire to be so designated;

(2) the economic conditions in such country, the living standards of its inhabitants, and any other economic factors which he deems appropriate;

(3) the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country;

(4) the degree to which such country follows the accepted rules of international trade provided for under the General Agreement on Tariffs and Trade, as well as applicable trade agreements approved under section 2(a) of the Trade Agreements Act of 1979;

(5) the degree to which such country uses export subsidies or imposes export performance requirements or local content requirements which distort international trade;

(6) the degree to which the trade policies of such country as they relate to other beneficiary countries are contributing to the revitalization of the region;

(7) the degree to which such country is undertaking self-help measures to promote its own economic development;

(8) the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively;

(9) the extent to which such country prohibits its nationals from engaging in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent; and

(10) the extent to which such country is prepared to cooperate with the United States in the administration of the provisions of this title.

(d) General headnote 3(a) of the TSUS (relating to products of the insular possessions) is amended by adding at the end thereof the following paragraph:

"(iv) subject to the provisions in section 103 of the Caribbean Basin Economic Recovery Act, articles which are imported from insular possessions of the United States shall receive duty treatment no less favorable than the treatment afforded such articles when they are imported from a beneficiary country under such Act.".

(e) The President shall, after complying with the requirements of subsection (a)(2), withdraw or suspend the designation of any country as a beneficiary country if, after such designation, he determines that as the result of changed circumstances such country would be barred from designation as a beneficiary country under subsection (b).

SECTION 103. ELIGIBLE PARTICLES.

(a)(1) Unless otherwise excluded from eligibility by this title, the duty-free treatment provided under this title shall apply to any article which is the growth, product, or manufacture of a beneficiary country if—

(A) that article is imported directly from a beneficiary country into the customs territory of the United States; and

(B) the sum of (i) the cost or value of the materials produced in a beneficiary country or two or more beneficiary countries, plus (ii) the direct costs of processing operations performed in a beneficiary country or countries is not less than 35 percent of the appraised value of such article at the time it is entered.

For purposes of determining the percentage referred to in subparagraph (B), the term "beneficiary country" includes the Commonwealth of Puerto Rico and the United States Virgin Islands. If the cost or value of materials produced in the customs territory of the United States (other than the Commonwealth of Puerto Rico) is included with respect to an article to which this paragraph applies, an amount not to exceed 15 percent of the appraised value of the article at the time it is entered that is attributable to such United States cost or value may be applied toward determining the percentage referred to in subparagraph (B).

(2) The Secretary of the Treasury shall prescribe such regulations as may be necessary to carry out this subsection including, but not limited to, regulations providing that, in order to be eligible for duty-free treatment under this title, an article must be wholly the growth, product, or manufacture of a beneficiary country, or must be a new or different article of commerce which has been grown, produced, or manufactured in the beneficiary country; but no article or material of a beneficiary country shall be eligible for such treatment by virtue of having merely undergone—

(A) simple combining or packaging operations, or

(B) mere dilution with water or mere dilution with another substance that does not materially alter the characteristics of the article.

(3) As used in this subsection, the phrase "direct costs of processing operations" includes, but is not limited to—

(A) all actual labor costs involved in the growth, production, manufacture, or assembly of the specific merchandise, including fringe benefits, on-the-job training and the cost of engineering, supervisory, quality control, and similar personnel; and

(B) dies, molds, tooling, and depreciation on machinery and equipment which are allocable to the specific merchandise.

Such phrase does not include costs which are not directly attributable to the merchandise concerned or are not costs of manufacturing the product, such as (i) profit, and (ii) general expenses of doing business which are either not allocable to the specific merchandise or are not related to the growth, production, manufacture, or assembly of the merchandise, such as administrative salaries, casualty and liability insurance, advertising, and salesmen's salaries, commissions or expenses.

(b) The duty-free treatment provided under this title shall not apply to—

(1) textile and apparel articles which are subject to textile agreements;

(2) footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel not designated at the time of the effective date of this title as eligible articles for the purpose of the Generalized System of Preferences under title V of the Trade Act of 1974;

(3) tuna, prepared or preserved in any manner, in airtight containers; or

(4) petroleum, or any product derived from petroleum, provided for in part 10 of schedule 4 of the TSUS.

(c)(1) As used in this subsection—

(A) The term "sugar and beef products" means—

(i) sugars, sirups, and molasses provided for in items 155.20 and 155.30 of the TSUS, and

(ii) articles of beef or veal, however provided for in subpart B of part 2 of schedule 1 of the TSUS.

(B) The term "Plan" means a Stable Food Production Plan that consists of measures and proposals designed to ensure that the present level of food production in, and the nutritional level of the population of, a beneficiary country will not be adversely affected by changes in land use and land ownership that will result if increased production of sugar and beef products is undertaken in response to the duty-free treatment extended under this title to such products. A Plan must specify such facts regarding, and such proposed actions by, a beneficiary country as the President deems necessary for purposes of carrying out this subsection, including but not limited to—

(i) the current levels of food production and nutritional health of the population;

(ii) current levels of production and export of sugar and beef products;

(iii) expected increases in production and export of sugar and beef products as a result of the duty-free access to the United States market provided under this title;

(iv) measures to be taken to ensure that the expanded production of those products because of such duty-free access will not occur at the expense of staple food production; and

(v) proposals for a system to monitor the impact of such duty-free access on staple food production and land use and land ownership patterns.

(2) Duty-free treatment extended under this title to sugar and beef products that are the product of a beneficiary country shall be suspended by the President under this subsection if—

(A) the beneficiary country, within the 90-day period beginning on the date of its designation as such a country under section 102, does not submit a Plan to the President for evaluation;

(B) on the basis of his evaluation, the President determines that the Plan of a beneficiary country does not meet the criteria set forth in paragraph (1)(B); or

(C) as a result of the monitoring of the operation of the Plan under paragraph (5), the President determines that a beneficiary country is not making a good faith effort to implement its Plan, or that the measures and propsals in the Plan, although being implemented, are not achieving their purposes.

(4) Before the President suspends duty-free treatment by reason of paragraph (2)(A), (B), or (C) to the sugar and beef products of a beneficiary country, he must offer to enter into consultation with the beneficiary country for purposes of formulating appropriate remedial action which may be taken by that country to avoid such suspension. If the beneficiary country thereafter enters into consultation within a reasonable time and undertakes to formulate remedial action in good faith, the President shall withhold the suspension of duty-free treatment on the condition that the remedial action agreed upon be appropriately implemented by that country.

(5) The President shall monitor on a biennial basis the operation of the Plans implemented by beneficiary countries. and shall submit a written report to Congress by March 15 following the close of each biennium, that—

(A) specifies the extent to which each Plan, and remedial actions, if any, agreed upon under paragraph (4), have been implemented; and

(B) evaluates the results of such implementation.

(6) The President shall terminate any suspension of duty-free treatment imposed under this subsection if he determines that the beneficiary country has taken appropriate action to remedy the factors on which the suspension was based.

(d) For such period as there is in effect a proclamation issued by the President pursuant to the authority vested in him by section 22 of the Agricultural Adjustment Act (7 U.S.C. 624) to protect a price-support program for sugar beets and sugar cane, the importation and duty-free treatment of sugars, sirups, and molasses classified under items 155.20 and 155.30 of the TSUS shall be governed in the following manner:

(1)(A) For all beneficiary countries, except those subject to subparagraph (B) and paragraph (2), duty-free treatment shall be provided in the same manner as it is provided pursuant to title V of the Trade Act of 1974 (19 U.S.C. 2461 et seq.), at the time of the effective date of this title; except that the President upon the recommendation of the Secretary of Agriculture, may suspend or adjust upward the value limitation provided for in section 504(c)(1) of the Trade Act of 1974 on the duty-free treatment afforded to beneficiary countries under this section if he finds that such adjustment will not interfere with the price support program for sugar beets and sugar cane and is appropriate in light of market conditions.

(B) As an alternative to subparagraph (A), the President may, at the request of a beneficiary country not subject to paragraph (2) and upon the recommendation of the Secretary of Agriculture, elect to permit sugar, sirups, and molasses from that country to enter duty-free during a calendar year subject to quantitative limitations to be established by the President on the quantity of sugar, sirups, and molasses entered from that country.

(2) For the following countries whose exports of sugar, sirups, and molasses in 1981 were not eligible for duty-free treatment because of the operation of section 504(c) of the Trade Act of 1974, the quantity of sugar, sirups, and molasses which may be entered in any calendar year shall be limited to no more than the quantity specified below:

	Metric tons
Dominican Republic	780,000
Guatemala	210,000
Panama	160,000

Such sugar, sirups, and molasses shall be admitted free of duty, except as provided for in paragraph (3).

(3) The President, upon the recommendation of the Secretary of Agriculture, may suspend or adjust upward the quantitative limitations imposed under paragraph (1)(B) or (2) if he determines such action will not interfere with the price support program for sugar beets and sugar cane and is appropriate in light of market conditions. The President, upon the recommendation of the Secretary of Agriculture, may suspend the duty-free treatment for all or part of the quantity of sugar, sirups, and molasses permitted to be entered by paragraphs (1)(B) and (2) if such action is necessary to protect the price-support program for sugar beets and sugar cane.

(4) Any quantitative limitation imposed on a beneficiary country under paragraph (1)(B) or (2) shall apply only to the extent that such limitation permits a lesser quantity of sugar, sirups and molasses to be entered from that country than the quantity that would be permitted to be entered under any other provision of law.

(e)(1) The President may by proclamation suspend the duty-free treatment provided by this title with respect to any eligible article and may proclaim a duty rate for such article if such action is proclaimed pursuant to section 203 of the Trade Act of 1974 or section 232 of the Trade Expansion Act of 1962. Any proclamation issued pursuant to section 203 of the Trade Act of 1974 that is in effect when duty-free treatment pursuant to section 101 of this title is proclaimed shall remain in effect until modified or terminated.

(2) In any report by the International Trade Commission to the President under section 201(d)(1) of the Trade Act of 1974 regarding any article for which duty-free treatment has been proclaimed by the President pursuant to this title, the Commission shall state whether and to what extent its findings and recommendations apply to such article when imported from beneficiary countries. With respect to any article which is subject to import relief in effect at the time duty-free treatment is proclaimed pursuant to section 101 of this title, the President may reduce or terminate the application of such import relief to imports from beneficiary countries prior to its otherwise scheduled date pursuant to the criteria and procedures of subsections (h) and (i) of section 203 of the Trade Act of 1974.

(3) For purposes of subsections (a) and (c) of section 203 of the Trade Act of 1974, the suspension of the duty-free treatment provided by this title shall be treated as an increase in duty.

(4) No proclamation which provides solely for a suspension referred to in paragraph (3) of this subsection with respect to any article shall be made under subsection (a) and (c) of section 203 of the Trade Act of 1974 unless the United States International Trade Commission, in addition to making an affirmative determination with respect to such article under section 201(b) of the Trade Act of 1974, determines in the course of its investigation under section 201(b) that the serious injury (or threat thereof) substantially caused by imports to the domestic industry producing a like or directly competitive article results from the duty-free treatment provided by this title.

(f)(1) If a petition is filed with the International Trade Commission pursuant to the provisions of section 201 of the Trade Act of 1974 regarding a perishable product and alleging injury from imports from beneficiary countries, then the petition may also be filed with the Secretary of Agriculture with a request that emergency relief be granted pursuant to paragraph (3) of this subsection with respect to such article.

(2) Within fourteen days after the filing of a petition under paragraph (1) of this subsection—

(A) if the Secretary of Agriculture has reason to believe that a perishable product from a beneficiary country is being imported into the United States in such increased quantities as to be a substantial cause of serious injury, or the threat thereof, to the domestic industry producing a perishable product like or directly competitive with the imported product and that emergency action is warranted, he shall advise the President and recommend that the President take emergency action; or

(B) the Secretary of Agriculture shall publish a notice of his determination not to recommend the imposition of emergency action and so advise the petitioner.

(3) Within seven days after the President receives a recommendation from the Secretary of Agriculture to take emergency action pursuant to paragraph (2) of this subsection, he shall issue a proclamation withdrawing the duty-free treatment provided by this title or publish a notice of his determination not to take emergency action.

(4) The emergency action provided by paragraph (3) of this subsection shall cease to apply—

(A) upon the proclamation of import relief pursuant to section 202(a)(1) of the Trade Act of 1974,

(B) on the day the President makes a determination pursuant to section 203(b)(2) not to impose import relief,

(C) in the event of a report of the United States International Trade Commission containing a negative finding, on the day the Commission's report is submitted to the President, or

(D) whenever the President determines that because of changed circumstances such relief is no longer warranted.

(5) For purposes of this subsection, the term "perishable product" means—

(A) live plants provided for in subpart A of part 6 of schedule 1 of the TSUS;

(B) fresh or chilled vegetables provided for in items 135.10 through 138.42 of the TSUS;

(C) fresh mushrooms provided for in item 144.10 of the TSUS;

(D) fresh fruit provided for in terms 146.10, 146.20, 146.30, 146.50 through 146.62 146.90, 146.91, 147.03 through 147.33, 147.50 through 149.21 and 149.50 of the TSUS; and

(E) fresh cut flowers provided for in items 192.17, 192.18, and 192.21 of the TSUS.

(g) No proclamation issued pursuant to this title shall affect fees imposed pursuant to section 22 of the Agricultural Adjustment Act (7 U.S.C. 624).

SEC. 104. MEASURES FOR PUERTO RICO AND UNITED STATES INSULAR POSSESSIONS.

(a) Effective with respect to articles entered on or after the effective date of this Act, general headnote 3(a) of the TSUS is amended—

(1) by amending clause (i)—

(A) by striking out "50 percent" and inserting in lieu thereof "70 percent", and

(B) by inserting after "total value", "(or more than 50 percent of their total value with respect to articles described in section 103(b) of the Caribbean Basin Economic Recovery Act)"; and

(2) by amending clause (ii) by striking out "50 percent" and inserting in lieu thereof "70 percent".

(b) Item 813.31 of the TSUS is amended by striking out "4 liters" and inserting in lieu thereof "5 liters", and by inserting after "United States,", "and not more than 4 liters of which shall have been produced elsewhere than in such insular possessions,".

(c) If the sum of the amounts of taxes covered into the treasuries of Puerto Rico or the United States Virgin Islands pursuant to section 7652(c) of the Internal Revenue Code of 1954 is reduced below the amount that would have been covered over if the imported rum had been produced in Puerto Rico or the United States Virgin Islands, then the President shall consider compensation measures and, in this regard, may withdraw the duty-free treatment on rum provided by this title. The President shall submit a report to the Congress on the measures he takes.

(d) Section 1112 of the Trade Agreements Act of 1979 (19 U.S.C. 2582) is repealed.

(e) No action pursuant to this title may affect any tariff duty imposed by the Legislature of Puerto Rico pursuant to section 319 of the Tariff Act of 1930 (19 U.S.C. 1319) on coffee imported into Puerto Rico.

(f) For purposes of chapter 1 of title II of the Trade Act of 1974, the term "industry" shall include producers located in the United States insular possessions.

(g) Any discharge from a point source in the United States Virgin Islands in existence on the date of the enactment of this subsection which discharge is attributable to the manufacture of rum (as defined in paragraph (3) of section 7652(c) of the Internal Revenue Code of 1954) shall not be subject to the requirements of section 301 (other than toxic pollutant discharges), section 306 or section 403 of the Federal Water Pollution Control Act if—

(1) such discharge occurs at least one thousand five hundred feet into the territorial sea from the line of ordinary low water from that portion of the coast which is in direct contact with the sea, and

(2) the Governor of the United States Virgin Islands determines that such discharge will not interfere with the attainment or maintenance of that water quality which shall assure protection of public water supplies, and the protection and propagation of a balanced population of shellfish, fish, and wildlife, and allow recreational activities, in and on the water and will not result in the discharge of pollutants in quantities which may reasonably be anticipated to pose an unacceptable risk to human health or the environment because of bioaccumulation, persistency in the environment, acute toxicity, chronic toxicity (including carcinogenicity, mutagenicity, or teratogenicity), or synergistic propensities.

SECTION 105. ITC REPORTS ON IMPACT OF THIS ACT.

(a) The United States International Trade Commission (hereinafter in this section referred to as the "Commission") shall prepare, and submit to the Congress and to the President, a report regarding the economic impact of this Act on United States industries and consumers during—

(1) the twenty-four month period beginning with the date of enactment of this Act; and

(2) each calendar year occurring thereafter until duty-free treatment under this title is terminated under section 106(b).

For purposes of this section, industries in the Commonwealth of Puerto Rico and the insular possessions of the United States shall be considered to be United States industries.

(b)(1) Each report required under subsection (a) shall include, but not be limited to, an assessment by the Commission regarding—

(A) the actual effect, during the period covered by the report, of this Act on the United States economy generally as well as on those specific domestic industries which produce articles that are like, or directly competitive with, articles being imported into the United States from beneficiary countries; and

(B) the probable future effect which this Act will have on the United States economy generally, as well as on such domestic industries, before the provisions of this Act terminate.

(2) In preparing the assessments required under paragraph (1), the Commission shall, to the extent practicable—

(A) analyze the production, trade and consumption of United States products affected by this Act, taking into consideration employment, profit levels, and use of productive facilities with respect to the domestic industries concerned, and such other economic factors in such industries as it considers relevant, including prices, wages, sales, inventories, patterns of demand, capital investment, obsolescence of equipment, and diversification of production; and

(B) describe the nature and extent of any significant change in employment, profit levels, and use of productive facilities, and such other conditions as it deems relevant in the domestic industries concerned, which it believes are attributable to this Act.

(c)(1) Each report required under subsection (a) shall be submitted to the Congress and to the President before the close of the nine-month period beginning on the day after the last day of the period beginning on the day after the last day of the period covered by the report.

(2) The Commission shall provide opportunity for the submission by the public, either orally or in writing, or both, of information relating to matters that will be addressed in the reports.

SECTION 106. EFFECTIVE DATE OF TITLE AND TERMINATION OF DUTY-FREE TREATMENT.

(a) EFFECTIVE DATE.—This title shall take effect on the date of the enactment of this Act.

(b) TERMINATION OF DUTY-FREE TREATMENT.—No duty-free treatment extended to beneficiary countries under this title shall remain in effect after September 30, 1995.

TITLE II—TAX PROVISIONS

SECTION 201. PAYMENT OF EXCISE TAXES COLLECTED ON RUM TO PUERTO RICO AND THE UNITED STATES VIRGIN ISLANDS.

(a) IN GENERAL.—Section 7652 of the Internal Revenue Code of 1954 (relating to shipments to the United States) is amended by inserting after subsection (b) the following new subsection:

"(c) SHIPMENTS OF RUM TO THE UNITED STATES.—

"(1) EXCISE TAXES ON RUM COVERED INTO TREASURIES OF PUERTO RICO AND VIRGIN ISLANDS.—All taxes collected under section 5001(a)(1) on rum imported into the United States (less the estimated amount necessary for payment of refunds and drawbacks) shall be covered into the treasuries of Puerto Rico and the Virgin Islands.

"(2) SECRETARY PRESCRIBES FORMULA.—The Secretary shall, from time to time, prescribe by regulation a formula for the division of such tax collections between Puerto Rico and the Virgin Islands and the timing and methods for transferring such tax collections.

"(3) RUM DEFINED.—For purposes of this subsection, the term 'rum' means any article classified under item 169.13 or 169.14 of the Tariff Schedules of the United States (19 U.S.C. 1202).

"(4) COORDINATION WITH SUBSECTIONS (a) AND (b).—Paragraph (1) shall not apply with respect to any rum subject to tax under subsection (a) or (b)."

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to articles imported into the United States after June 30, 1983.

SECTION 202. TREATMENT OF CARIBBEAN CONVENTIONS, ETC.

(a) GENERAL RULE.—Subsection (h) of section 274 of the Internal Revenue Code of 1954 (relating to attendance at conventions, etc.) is amended by adding at the end thereof the following new paragraph:

"(5) TREATMENT OF CONVENTIONS IN CERTAIN CARIBBEAN COUNTRIES.—

"(A) IN GENERAL.—For purposes of this subsection, the term 'North American area' includes, with respect to any convention, seminar, or similar meeting, any beneficiary country if (as of the time such meeting begins)—

"(i) there is in effect a bilateral or multilateral agreement between such country and the United States providing for the exchange of information between the United States and such country, and

"(ii) there is not in effect a finding by the Secretary that the tax laws of such country discriminate against conventions held in the United States.

"(B) BENEFICIARY COUNTRY.—For purposes of this paragraph, the term 'beneficiary country' has the meaning given to such term by section 102(a)(1)(A) of the Caribbean Basin Economic Recovery Act; except that such term shall include Bermuda.

"(C) AUTHORITY TO CONCLUDE EXCHANGE OF INFORMATION AGREEMENTS.—The Secretary is authorized to negotiate and conclude an agreement for the exchange of information with any beneficiary country. An exchange of information agreement shall provide for the exchange of such information (not limited to information concerning nationals or residents of the United States or the beneficiary country) as may be necessary or appropriate to carry out and enforce the tax laws of the United States and the beneficiary country (whether criminal or civil proceedings), including information which may otherwise be subject to nondisclosure provisions of the local law of the beneficiary country such as provisions respecting bank secrecy and bearer shares. The exchange of information agreement shall be terminable by either country on reasonable notice and shall provide that information received by either country will be disclosed only to persons or authorities (including courts and administrative bodies) involved in the administration or oversight of, or in the determination of appeals in respect of, taxes of the United States or the beneficiary country and will be used by such persons or authorities only for such purposes.

"(D) COORDINATION WITH SECTION 6103.—Any exchange of information agreement negotiated under subparagraph (C) shall be treated as an income tax convention for purposes of section 6103(k)(4)."

"(E) FINDINGS PUBLISHED IN THE FEDERAL REGISTER.—Any finding by the Secretary under subparagraph (A)(ii) (and any termination thereof) shall be published in the Federal Register."

"(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to conventions, seminars, or other meetings beginning after June 30, 1983.●

Programs Underway for the Caribbean Basin Initiative

by J. William Middendorf II

Address before the Committee for 806 and 807[1] in Washington, D.C., on November 8, 1982. Ambassador Middendorf is U.S. permanent representative to the Organization of American States (OAS).

I have deeply appreciated the work which this committee has done on behalf of maintaining an open market in the United States for Latin America and for other developing countries. This is a difficult time in which to be a free trader. There is always a great temptation to restrain imports in an effort to protect American jobs and American production. That temptation is particularly strong in times of economic difficulties. But that temptation, as we all know, is a terrible illusion, which ends by costing the U.S. economy far more in terms of jobs, productivity, and international competitiveness than we gain.

I am also grateful for the support which this committee has given to the President's Caribbean Basin initiative. Like open market policies in general, the trade and investment proposals in the Caribbean Basin initiative appear to many critics to involve considerable costs. We have tried to make clear to the Congress and to the public that the long-term benefits of strong and dynamic economies in the Caribbean Basin are far greater to the U.S. economy than any short-term costs. I believe that that message is becoming clearer and better understood, and I am optimistic that the Congress will take the action necessary this month or early in December to pass the two remaining portions of the initiative—namely the one-way free trade area and the investment incentive.

For my main theme tonight, however, I would like to turn to a somewhat more heartening subject than the challenge of fighting protectionism. I would like to talk about a part of the Caribbean Basin initiative which has received very little public attention but which nevertheless is functioning effectively already. Most discussions of the initiative focus only on the legislation which we have presented to the Congress. But there is a range of activities already underway in this Administration that began under authority in existing legislation. I would like to briefly discuss these programs with you. None of these programs is of dramatic or startling scope. None of them will turn the economies of the region around single-handedly. However, taken as a whole there is already a significant impact derived from the initiative in supporting the efforts of the Caribbean Basin countries themselves.

This portion of the initiative under prior legislation involves activities by every interested agency of the U.S. Government. It derives from a strong commitment by the President and his individual Cabinet officials to devote as many resources as possible to strengthening each agency's programs in the Caribbean Basin region. Given the extraordinarily difficult budgetary constraints that all government agencies face these days, the scope of the programs which I am about to describe would not have been possible without the personal commitments of top Cabinet-level officials within this Administration.

Agriculture

The first sector that I would like to discuss is agriculture. Agriculture still forms the basis of most of this region's economies, but output has been growing slowly recently and per capita food production in many countries has been declining. A high proportion of land is idle or badly used. Services to the agricultural sector are deficient. In general agriculture is viewed by many as an unpromising and backward occupation. There is thus a great need not only for expansion of production but also a thoroughgoing modernization. Despite the very significant programs which we have had in the region for years through the U.S. Agency for International Development (AID) program, much remains to be done. A revitalization of the agricultural sector is crucial to meet the food needs of the region's growing population, as well as to increase export earnings.

To an important extent, many of these problems can be traced to inappropriate government policies that provided inadequate incentives to producers. I will address this policy issue later. Technical assistance is also crucial to improved performance, and the U.S. Department of Agriculture (USDA) has put together a substantial program in this area.

First, USDA is promoting an increased regional understanding of U.S. agricultural health and sanitary regulations. This includes providing technical assistance for inspection procedures, for the operation of fumigation facilities, and for training in enforcing health and sanitary regulations.

Second, USDA is offering technical assistance to the Caribbean Basin countries to better gear their agricultural production to the standards of the world market. This involves assistance on how to achieve acceptable quality standards, procedures for proper labeling and testing, and techniques for minimizing losses during distribution and storage.

Third, USDA is strengthening agricultural research and technology transfer through institutions within the Caribbean Basin area and at existing facilities in the United States. Particularly important in this regard is the enhancement of the Mayaguez Institute for Tropical Agriculture in Puerto Rico.

Fourth, USDA has begun to play an important role in facilitating the involvement of U.S. agribusiness in the Caribbean Basin countries. A recently established Agribusiness Promotion Council will advise USDA on particular programs to insure that projects are appropriately designed for the individual conditions of the Caribbean Basin countries.

Fifth, USDA will assist governments on the management and conservation of forest, soil, and water resources.

Sixth, USDA is ready to provide technical assistance to Caribbean Basin governments or private institutions to develop or improve crop credit insurance schemes. This will help to stimulate farmers to use more modern technology and increase productivity.

Seventh, USDA is establishing an agricultural information center for U.S. business. This would provide a single source for U.S. traders and investors, as well as for Caribbean Basin exporters to obtain necessary market information and opportunities for agricultural investment.

Another very interesting effort in the agricultural field is being made by the Peace Corps. Peace Corps volunteers are sometimes uniquely placed to see what people with fancier titles or offices might miss. The Peace Corps is modifying some of its programs and training to help volunteers analyze both the opportunities and the problems regarding the modernization and expansion of small-scale agricultural business. The Peace Corps has already begun to train some volunteers to perform prefeasibility studies and help develop business and marketing plans primarily in, but not limited to, agribusiness.

Interestingly, the Peace Corps training initiatives pick up another of President Reagan's themes—private sector involvement. The training of volunteers to assist in developing better business planning is also underway through private groups and increased cooperation with AID and other governmental organizations.

Industry

Let me turn now to the industrial area. Industrial modernization has been one of the top priorities of countries in this region for years. The share of manufacturing in gross domestic product is still low—under 20% in most countries. All of these countries offer small internal markets, and most firms in the region are small and inexperienced in—perhaps fearful of—operating in larger foreign markets. There is a significant lack of such crucial management skills as marketing, quality control, and financial management. And yet the region also has very significant assets. Most countries, especially in the English-speaking Caribbean, have a high level of social services with a generally well-educated healthy labor force.

The basic infrastructure in most countries is at least adequate, although there are significant maintenance problems and considerable need for improvement. Above all, most of these countries have leadership which realizes the need for providing an appropriate policy environment and incentives to the private sector. It certainly is a clear policy priority to encourage industrial growth as indispensable to absorb the high levels of unemployment in the region and to generate production for exports to turn the balance-of-payments crisis around. New investments both by local business and by foreign investors is clearly recognized as a critical need to regenerate and expand the productive base in these countries.

The Department of Commerce in March opened its Caribbean Basin Business Information Center to provide comprehensive economic information to U.S. business representatives interested in dealing in the Caribbean Basin. The response of the U.S. business community has been dramatic; literally thousands of companies have asked for guidance on trade and investment opportunities. Commerce experts are prepared to brief U.S. business on the policies and practices of Caribbean Basin countries and provide practical advice to resolve specific problems facing U.S. business representatives. The center has developed a wide network of contacts in the Caribbean Basin in both the government and private sectors and is thus well placed to arrange appropriate contacts for individual U.S. investors and business representatives. Commerce also serves as a clearinghouse for referring companies to other specialized U.S. Government programs focusing on business development in the Caribbean Basin. The center also works with local Department of Commerce district offices throughout the United States in arranging seminars on business opportunities in the Caribbean Basin area. The first of these regional seminars will be held November 12 in New Orleans. It will include a comprehensive group of U.S. Government experts and representatives from Caribbean Basin companies. The center thus offers a single location for comprehensive and efficient services to U.S. business representatives to find out how to sell their products in the Caribbean Basin, how to invest in that area, and how to buy from the region.

Investment

Related to the Department of Commerce's work in improving the information flow to U.S. business is the wider governmental effort to help countries in the area improve their investment climate. Several agencies of the U.S. Government, led by the Office of the U.S. Trade Representative, have developed a worldwide program of bilateral investment treaties. I see this as an important and highly visible way to improve the investment climate in developing countries. The countries of the Caribbean Basin have expressed particularly keen interest in the program, and we have recently concluded an agreement with Panama. This treaty is designed to provide a clear set of rights and obligations of the host government, of the foreign investor, and of the U.S. Government. The U.S. Government has developed a prototype or model treaty containing the following key elements:

- Provisions concerning entry and duration of investment;
- Treatment for established U.S. investors which is no less favorable than that given domestic investors and other foreign investors;
- Prompt, adequate, and effective compensation in the event of nationalization;
- Unrestricted repatriation and other transfers of assets; and
- Dispute settlement provisions.

I find it particularly interesting that several European governments have already in place a set of similar arrangements and are interested in expanding this network. We may, therefore, be on the threshold of a major clarification of the way in which foreign investors are expected to operate. The treaty program insures that the concerns of all parties are fully taken into account. I, therefore, believe that the investment regime which results from the treaty program will be a lasting one.

To date we have signed two agreements with Egypt and Panama. So we have a lot of work ahead of us before my hopes for this program are fully realized. However, the advantages that flow from improved and stable investment climates are increasingly recognized by developing countries. There is growing interest in this program, and we are ready to discuss it with any interested country.

OPIC Programs. One of the key agencies in supporting U.S. private activities in developing countries has been the Overseas Private Investment Corporation (OPIC). OPIC is very significantly increasing its activities in the Caribbean Basin. Its programs offer insurance to U.S. investors operating in developing countries to cover political risks—expropriation, war, and inconvertibility. This is the core of OPIC's activities and an important incentive for investment in the region. In fiscal years (FY) 1981 and 1982, 47 new projects in the Caribbean Basin were insured by OPIC for a total of $361 million of new project investment.

A smaller but increasingly important function of OPIC has been finance, including direct loans to small and medium-sized joint ventures. In FY 1981 and 1982, OPIC supported 18 projects in the Caribbean Basin for a total of $149 million of new project financing. In FY

1982, OPIC also supported 16 investment feasibility studies in eight Caribbean Basin countries.

Together these OPIC programs represent more than a doubling of what OPIC was doing in FY 1980. And I expect that these activities will continue to increase in the coming years.

OPIC has also been particularly active in organizing investment missions to this region. The missions which OPIC led to Jamaica and Haiti in late 1981 were highly successful. Another mission is planned for the eastern Caribbean area this month, in addition to followup visits to Jamaica and Haiti. A particularly innovative and exciting program is the investment "telemission." Two weeks ago OPIC and AID cosponsored such a mission for the Caribbean area. The mission brought together, by use of satellite television links, business and government representatives from several cities of the United States with their counterparts in the English-speaking Caribbean, Haiti, and the Dominican Republic. The resulting lively discussion of investment and trade opportunities and problems promises to result in some interesting and significant new investment flows.

Finally, OPIC is making a major effort to reach out into the business community rather than just respond to inquiries coming into its office. OPIC has instituted a number of procedures to improve the information flow to U.S. businesses about its programs and the opportunities in the Caribbean Basin.

Export-Import Bank. The Export-Import Bank is also active in this region. The top management of the Export-Import Bank (Eximbank) has enthusiastically supported the Caribbean Basin initiative and strengthened the focus of the bank onto this region. In FY 1981, $555 million in credits, insurance, and guarantees were committed by Eximbank to Caribbean Basin purchasers of U.S. goods and services. The bank hopes to improve this performance significantly over the next few years, keeping in mind of course its statutory constraint of operating only where there is reasonable prospect of repayment. The bank also is expanding its guaranty facilities for short-term credits to local commercial banks in credit-worthy markets.

Transportation

Let me now turn to an area in which work is underway, but in which we have not yet developed a specific program. This is the area of transportation. Virtually everyone concerned with the problems of the Caribbean Basin agrees that improved accessibility for people and goods is an extremely important element. We have found this to be a particularly difficult area in which to devise solutions to the problems we know exist. To oversimplify the problem somewhat, it appears that this is one of those vicious circles. Costs are high in the Caribbean Basin area partly because traffic volumes are relatively small and routes are fragmented, while the high-cost transport system discourages the development of more efficient operations and greater volume. How to break this vicious circle is still a major unresolved question, and it is a prominent item on our future agenda.

As a first step, we are trying to define more precisely what the problems and constraints are. In a meeting arranged by Caribbean/Central American Action with shippers early this year, we came to the conclusion that—contrary to some of our own expectations—capacity is not a problem, even assuming significant growth in trade over the next few years. The problems in this low-volume/high-tariff situation appear to be in the structure of routes, in the operation of port facilities, and possibly in marketing. We are planning a similar diagnostic meeting with the airlines, and we are in contact with other institutions which have been working on this issue, including, interestingly enough, CARICOM (the Caribbean Common Market) and the European Community. We are also analyzing comments on transportation problems which AID officers and others in the field have reported.

Role of AID

AID has long had important programs in the basin area. But the overall approach of our economic assistance policy toward the region has changed in three very significant ways.

First, the Caribbean Basin has clearly become a higher priority in our global economic assistance program, and the level of our program to the region has just about doubled since FY 1980. In that year (FY 1980), our programs to the Caribbean Basin added up to $324 million. In FY 1982, our regular programs amounted to $475 million, to which we added $350 million in the special supplemental for a total of $825 million. For FY 1983 we are requesting about $665 million for the region, and we are anticipating future programs for FY 1984 and beyond at roughly that order of magnitude, although I must caution that final decisions on those budgets have not yet been taken.

Second, AID is paying much greater attention to economic policy issues in its assistance programs. AID is upgrading its economic analysis capabilities and is working to maintain a close dialogue with basin governments on key policy issues and to assist them in implementing reforms. Because of their impact on private sector activity, government policies in such areas as agricultural pricing and exchange rates are extremely important to overall economic performance.

Third, a very significant change has been an increased emphasis on private sector support. This is a broad-based change, but I would like to cite several specific and innovative programs as illustrative of our overall efforts. Costa Rica's Agro-Industrial and Export Bank—called BANEX for short—is one striking example. AID's $10 million loan commitment last year was a crucial factor in bringing this institution about. It is new and quite small but surprisingly successful already. It provides an integrated program of credit, export management assistance, and export-oriented banking services for producers and traders of nontraditional Costa Rican exports.

Two things about this project are particularly significant in my mind. First, this is a privately owned bank in Costa Rica's state-owned banking system—conceived, implemented, and managed by the Costa Rican private sector. It has shown a degree of innovation, risk taking, and sound management which is an important example to the whole Costa Rican economy—and perhaps to the region as a whole—about what the private sector can accomplish even in very difficult economic circumstances. Secondly, the institution is dedicated not just to supporting existing exporters but to developing new nontraditional export lines—that means searching out potential export products, finding markets, establishing distribution channels, and insuring product quality standards and reliable delivery systems. This comprehensive approach to the problem of export promotion is another way in which this institution is an example to the rest of the Costa Rican and regional economy.

So as not to take up too much of your time, let me tick off a few other innovative AID projects which are underway or in the planning stages and which are specifically directed at the private sector:

- A loan to establish the Caribbean Agricultural Trading Company, an inter-island marketing project which will stimulate increased trade and agricultural production in the eastern Caribbean;
- A loan to establish a new, privately owned development finance company in Haiti;
- A loan to Jamaica to provide investment funds for equity and debt financing for medium-size agroindustrial and manufacturing enterprises;
- Grants to establish a Caribbean Basin information network as well as to support an emerging twin-chamber program whereby U.S. Chambers of Commerce are linked to business associations in the basin countries for the purpose of stimulating trade and investment opportunities;
- A loan to establish a regional development bank in the eastern Caribbean; and
- Joint OPIC-AID support for a marketing campaign and investment missions to increase the awareness of the U.S. business community about investment opportunities in the Caribbean.

Role of Puerto Rico and the U.S. Virgin Islands

Let me say just a few words about the role of Puerto Rico and the U.S. Virgin Islands within the Caribbean Basin initiative. We all recognize that Puerto Rico and the U.S. Virgin Islands are important components of the U.S. presence in the Caribbean area. Clearly we need to insure that the economic development of the U.S. possessions is enhanced by U.S. policy toward the Caribbean region, and we welcome the contribution that these possessions are making to implementation of the Caribbean Basin initiative.

The U.S. Government has been in close consultation with the Governments of Puerto Rico and the U.S. Virgin Islands about the Caribbean Basin initiative and their role in it. Suggestions made by these governments have been taken into account in designing Caribbean Basin initiative proposals and legislation.

Puerto Rico and the U.S. Virgin Islands will play a major role in technical assistance, private sector development, and transportation within the Caribbean region. In fact, we see these areas as a focal point for assistance to the whole region. Several ways in which this can occur are as follows:

- Strengthening the Tropical Agricultural Research Center in Mayaguez, Puerto Rico;
- Funding for an Eastern Caribbean Center for Educational, Cultural, Technical, and Scientific Interchange at the College of the Virgin Islands;
- Use of Puerto Rican and U.S. Virgin Islands facilities, personnel, and firms in technical assistance programs and development projects; and
- Expansion of airports in the U.S. Virgin Islands and other measures to encourage the development of Puerto Rico and the Virgin Islands as a transportation hub for the Caribbean region.

Finally, I am pleased to note that Puerto Rico is already active in promoting closer links with other Caribbean Basin countries. Particularly noteworthy are the broad-ranging programs of technical cooperation with Jamaica and with St. Lucia.

Promoting a Productive Private Sector

Let me conclude by describing to you a general interagency effort, led by AID, to devise an overall strategy in support of the private sector for each of the Caribbean Basin countries. The object of the exercise is to develop concrete plans to promote a more dynamic and productive private sector. Our efforts are primarily within the U.S. Government, but we are consulting closely with the U.S. private sector and with representatives of interested governments and

WORLD TODAY Volume 38 November 1982

The US Caribbean Basin Initiative

RAMESH RAMSARAN

IN a speech to the Organization of American States (OAS) on 24 February 1982, President Ronald Reagan of the United States outlined a programme of special assistance to the countries of the Caribbean and Central America. For some time previous to this, discussions had been held by the United States, Canada, Mexico and Venezuela on the scope and nature of an aid package to the region. The decision by the US to embark on its own programme undoubtedly reflected an inability on the part of the four countries to agree on a common scheme, or on the conditions that should be attached to any programme of assistance. Canada, for its part, has long been renowned for providing aid without controversial 'strings'. Mexico, too, had made it clear that it was opposed to certain conditions which the US was trying to include in the aid package. For instance, President López Portillo of Mexico was adamant in his view that certain countries (e.g. Cuba, Nicaragua, Grenada) should not be excluded from any aid programme on the basis of their political ideology or economic policies. Nor did he feel that military aid should form part of any aid package. Venezuela, for its part, apparently felt it could get more political mileage by providing aid on a bilateral basis.

President Reagan's Caribbean Basin Initiative (CBI) proposals went to the US Congress in March 1982, but the financial part was not cleared until mid-August 1982, after some modification. The package as a whole survived several attempts to defeat it in both Houses. The aid component was included in a US$14·1 billion appropriations Bill, which the President vetoed on 28 August because Congress had tacked on some additional expenditures which would have increased his planned deficit for the year. The CBI thus got caught in domestic political wrangling unrelated to any particular foreign political issue. In mid-September, however, Congress overrode the President's veto, which for all practical purposes, means that the aid proposal is now law. The other aspects of the programme would require specific pieces of legislation for implementation after final approval.

The CBI programme

The reaction to President Reagan's Caribbean Initiative has been varied. Before discussing these reactions, however, it might be useful at this point to outline the proposed aid package.

The creation of a one-way free trade area

This is perhaps the most important element of the package. It is proposed that exports (excluding textile and apparel products) should receive duty-free treatment in the US. Under existing arrangements, it is estimated that some 87 per cent

Dr Ramsaran is Senior Lecturer at the Institute of International Relations, University of the West Indies, St Augustine, Trinidad.

of Caribbean Basin[1] exports already enter the US market duty-free. The argument put forward is that some of the duties that remain in place are in sectors of special interest to Basin countries. They also limit export expansion into many non-traditional products. It is also argued that the global reasons used for excluding certain products from the US Generalized System of Preferences (GSP) are not relevant to the Caribbean Basin. The complex structures of the GSP itself militates against the ability of small inexperienced countries to take advantage of the opportunities offered.

Sugar will receive duty-free treatment but only up to a certain limit.

For goods to qualify for duty-free entry they must have a minimum of 25 per cent local value added. Inputs from all Basin countries can be cumulated to meet the 25 per cent minimum.

Beneficiaries of the proposed Free Trade Area will be designated by the President. 'Communist' countries and countries which expropriate without compensation or which discriminate against US exports will not be eligible. The countries' attitude towards foreign investment and policies employed to promote their own development will also be taken into account.

Tax incentives

In order to encourage the flow of private capital to the area, the President proposes to ask Congress to provide 'significant tax incentives for investment in the Caribbean Basin'. He also indicated a readiness to negotiate bilateral investment treaties with interested Basin countries. The purpose of these treaties would be to provide 'an agreed legal framework for investment, by assuring certain minimum standards of treatment and by providing agreed means for resolving investment disputes.' Mention has also been made of the services provided by the Overseas Private Investment Corporation (OPIC) which currently offers political risk insurance for US investors abroad. This institution is in the process of expanding insurance coverage available to eligible US investors by working with private sector insurers to establish informal consortia to deal with projects on an individual basis.

Financial and military assistance

Non-military aid to Basin countries is currently channelled through three main programmes: (i) the Development Assistance Programme (DA) which is project oriented; (ii) the Economic Support Funds (ESF) which are more flexible and can provide direct balance of payments support as well as credit for crucial imports; (iii) food aid, provided through PL 480 programmes. For countries 'which are particularly hard hit economically' the President intends to provide additional funds in the fiscal years 1982 and 1983. It is proposed to increase the 1982 ESF current budget level from US$140 million to US$490 m. or by US$350 m. The proposed ESF figure for 1983 is US$326·0 m., while the DA figure has been given

[1] 'Caribbean Basin' is an arbitrary term used by the Reagan Administration to cover some two dozen countries in the northern tip of South America, Central America and the Caribbean. Taken together these countries have a population of about 39 million people and a GDP of US$45 billion.

as US$217·6 m. as compared to US$211·3 m. budgeted for 1982. Total economic assistance (including food aid under the 'Food for Peace' programme) proposed for 1983 is in the region of US$664 m.

It has been stressed that the ESF funds 'would be used primarily to finance private sector imports, thus strengthening the balance of payments of key countries of the Basin while facilitating increased domestic production and employment'. Institutions like the IMF and the World Bank are to be consulted on the reforms necessary to ensure that ESF assistance has the desired impact.

Military assistance is treated separately. In the 1981 fiscal year, the US provided military assistance of US$50·5 m. to the countries of the Caribbean and Central America. El Salvador received US$35·5 m. or 70·3 per cent of this total. The figure given for the fiscal year 1982 is US$112·1 m., of which El Salvador will receive US$81·0 m. or 72·3 per cent of the total. The supplemental appropriation of a further US$60·0 m. proposed by President Reagan for 1982 would have brought the figure to US$182·1 m.[8] The 1983 estimate is US$106·25 m.[9]

Technical assistance and training

The CBI offers 'technical assistance and training to assist the private sector in the Basin countries to benefit from the opportunities of this programme'. Efforts will be concentrated in investment promotion, export marketing, technology transfer, as well as programmes to facilitate adjustments to greater competition and production in agriculture and industry.

International assistance

Under the CBI, President Reagan pledges 'to work closely' with Mexico, Canada and Venezuela, 'to encourage stronger international efforts to co-ordinate our own development measures with their vital contribution and with those of other potential donors like Colombia'. Such a co-ordinated approach, it is argued, will multiply the impact of each individual effort.

Puerto Rico and the US Virgin Islands

With respect to Puerto Rico and the US Virgin Islands, President Reagan assured that special measures would be adopted to ensure that these countries benefit and prosper from the programme. Among the measures proposed are: (a) excise taxes on imported rum will be rebated to these two countries; (b) inputs into Caribbean Basin production from the possessions will be considered domestic under the rules of origin; (c) their industries will have access to the same safeguard provisions as mainland industries; (d) a Tropical Agricultural Research Centre is to be established in Puerto Rico; (e) an Eastern Caribbean Centre for Educational, Technical and Scientific Interchange is to be set up at the College of the Virgin Islands; (f) Puerto Rican and Virgin Islands facilities, personnel and firms are to

[8] In a compromise move between the US House of Representatives (which baulked at the additional military aid to El Salvador) and the Senate, the additional appropriation was rejected during congressional discussions.

[9] For the figures on financial and military assistance, see State Department, Special Report No. 97, *Background on the Caribbean Basin Initiative*, March 1982.

be used in technical assistance programmes and development projects; (g) special assistance aimed at making Puerto Rico and the US Virgin Islands the transport hub of the Caribbean is to be provided.

In addition to these measures, interest has been expressed in helping Basin countries to modernize their agricultural and animal-producing sectors. There is also an expressed desire to have the private sector play a greater role in the development effort of Basin countries. 'The US Government will be working with Caribbean Basin governments to design private sector development strategies which combine private, public and voluntary organisation resources in imaginative new programmes. We will also explore ways to promote assistance to comply with US health and sanitary regulations; to improve transportation links; and in general to remove public and private national and regional impediments to private sector development, with emphasis on new investment.'

Reaction to and implications of the CBI

As indicated earlier, the programme announced has received a mixed reaction in the region. The reason for this can be found as much in its context and timing as in its content. The Caribbean Basin as defined by the US President consists of some two dozen countries in the Caribbean, Central America and the northern tip of South America. Until now these countries were treated as part of the larger Latin American bloc. The decision to regard the Caribbean and Central America as a sub-region with special problems requiring special attention is a new approach which undoubtedly stems from recent developments in the area. The emergence of the Socialist-posturing government of Michael Manley in Jamaica during the period 1972–80, the forcible removal in Grenada of the Eric Gairy government by the left-leaning Bishop regime in 1979, the violent overthrow of the right-wing dictatorship of Anastasio Somoza in Nicaragua, also in 1979, and the continuing political instability in El Salvador and other Central American states, were undoubtedly major factors in the decision to formulate the CBI. The factors are perceived to be linked to the deteriorating economic conditions in the region. It is reasoned that if these conditions are improved, countries of the area would become more stable and this would make them less vulnerable 'to the enemies of freedom, national independence and peaceful development'. The programme, however, is not only aimed at improving economic conditions. 'The thrust of our aid is to help our neighbours realize freedom, justice and economic progress.' How these other objectives are to be attained is not quite clear. One strategy is to withhold aid in order to enforce the adoption of particular political and economic policies. The carrot and stick approach is quite explicit in the President's statement. Countries which pursue policies acceptable to the United States (e.g. Jamaica under Edward Seaga) would be rewarded, and those (e.g. Cuba, Grenada, Nicaragua) which embrace views and programmes which do not accord with American perceptions would be denied assistance. The question of exclusion is handled in a very subtle way. The position is taken that the US does not explicitly exclude anyone from the CBI. Countries exclude themselves by reason of the stance they adopt *vis-à-vis* United States values. 'We seek to exclude no one. Some, however, have turned from their American neighbours and their heritage. Let them return to the traditions and common values of this hemisphere and we will welcome them. The choice is theirs.'

The content of the programme itself has drawn a mixed response. Many of the politicians in the area welcomed the additional aid, though some of them (particularly in the Eastern Caribbean) expected the financial part to be more substantial. They could not hope to attract foreign investors, they argue, without improving their basic infrastructure. The business groups tend to see the opening up of the US market as an opportunity for the expansion in trade. The academics, on the other hand, have expressed grave reservations about the possible impact on the integration movement in the Caribbean and on development strategies in general. They also feel that the independence of the Caribbean states would be compromised. It would be instructive at this point to go into a little more detail into the thinking behind these various positions.

In recent years, the Caribbean Basin states (particularly the non-oil producing countries) have been experiencing serious economic difficulties. Real economic growth in many instances has been close to zero and in some cases even negative. Foreign-exchange earnings have been declining. Inflation and unemployment have taken on significant proportions. Such problems, of course, tend to generate social discontent and their persistence has led to a questioning of basic development strategies. In such circumstances, even existing political arrangements have come under attack. A major purpose of the financial assistance provided under the CBI, it is indicated, is to assist countries 'which are particularly hard hit economically'. The division of the supplemental financial assistance proposed for the 1982 fiscal year, however, does not seem to accord with this objective. Of the US$350 m. supplemental aid proposed under the ESF programme for the 1982 fiscal year, El Salvador is slated to receive US$128 m. (36·6 per cent), Jamaica US$50 m. (14·3 per cent), the Eastern Caribbean US$10 m. (2·8 per cent), Belize US$10 m. (2·8 per cent), Dominican Republic US$40 m. (11·4 per cent), Costa Rica US$70 m. (20·0 per cent), Honduras US$35 m. (10·0 per cent), Haiti US$5 m. (1·4 per cent), and the American Institute for Labour Development US$2 m. (0·6 per cent). Political considerations seem to weigh heavily in this allocation.[4] The Eastern Caribbean islands which are in serious economic difficulties and which need to develop their infrastructures in order to increase production, get less than 3 per cent of the total as compared to over 14 per cent for Jamaica (where it is hoped that the advantages of a market-oriented private enterprise economy will be demonstrated), and almost 67 per cent for three Central American countries.

As far as military assistance is concerned, the total budgeted for 1982 amounts to about 20 per cent[5] of all aid proposed for this year. (This does not include the additional US$60 m. in military aid that was proposed by President Reagan for El Salvador.) The President has stated that this expenditure is needed to meet 'the

[4] In order to get a more balanced allocation, the US Senate Foreign Relations Committee had suggested a ceiling of US$75 m. for any one country. This was rejected by the full Senate.

[5] Compared to an actual of 10·7 per cent in 1987.

growing threat of Cuban and Soviet subversion in the Caribbean Basin'. There are many, of course, who would argue that the political instability in the region is more rooted in domestic political and economic conditions than in outside interference, and the situation is more likely to improve if these conditions are addressed directly. Failure to do this is likely to lead to annual escalations in military expenditure.

With respect to the trading arrangements, one view holds that the effect is likely to be more psychological than anything else, since 87 per cent of Basin goods already enter the US market duty-free. Another view is that the non-tariff barriers would remain a serious impediment to an expansion of exports to the US market. A third position is that the duty-free market is meaningful only if one has the production capacity. The Eastern Caribbean states, for example, would need to develop their physical infrastructure before they can significantly expand their production. There may be some merit in each of these positions. Spokesmen for the Reagan Administration, however, tend to see the effects of the free-trade arrangements in both a short- and long-term perspective. The immediate effects, they argue, would be felt in the traditional commodities area (e.g. sugar, coffee, cocoa, vegetables, raw materials etc.). This argument, however, has to be seen against the fact that in recent years, earnings from most of these items have been declining, and not for lack of markets. In the medium and longer term, existing and new manufactured goods are likely to be affected. Again, it must be noted that many of the countries have not been able to satisfy the origin rule for manufactured goods to take advantage of the opportunities offered under various GSP Schemes and under the Lomé Convention in which several Basin countries are participants. The point is, the provision of markets may not be the crucial thing. Structural and technical problems exacerbated by irrelevant policies may be the more important factors facing an expansion of production and exports.

In the US itself, the free-trade idea has received strong opposition in certain quarters, despite the safeguard provisions of the plan, and despite the fact that imports that would be affected by the proposals currently account for less than one-half of one per cent of the US total imports. The 25 per cent local content requirement has been criticized as being too low. Some American producers feel that the Caribbean will be used as a conduit by foreign competitors to penetrate the US market. The AFL–CIO group is concerned about the impact on jobs as investors are attracted away by the proposed arrangements.

The CBI is cast in a particular framework which has given rise to a great deal of controversy. A certain basic model is assumed in which government intervention in the economic system is played down, and a free enterprise system involving an expanded role for the private sector[6] is pushed to the centre stage of the development strategies. When we add to this measures to attract foreign capital producing for a foreign market, we have virtually all the elements of the Puerto Rican model, which has so far failed to deliver the promised goods. The ideological bias in the programme is clear. The fact that to qualify for aid, domestic policies will have to

[6] As indicated earlier, most of the US$350 m. supplemental assistance for 1982 is intended to finance imports for private sector development.

pass the scrutiny of the US Administration raises the whole question of political and economic sovereignty—a very sensitive issue on which any advantages in the programme may eventually flounder.

In the context of Commonwealth Caribbean integration, it is feared in some quarters that bilateral assistance of the kind envisaged in the CBI could seriously interfere with the process. It is widely felt that the Caribbean Development Bank should be the appropriate institution for channelling aid aimed at regional development. The CBI shows no particular concern with integration objectives, but rather addresses itself to an ideological drift and the need for the US to reassert its hegemony in the political and economic circumstances of the early 1980s. In the absence of a common policy on foreign investment, member states of the Caribbean Community may find themselves offering a wide variety of arrangements that could make nonsense of the whole integration movement. The industrial programming effort now being made could also be affected if foreign investors (with the collaboration of individual governments) decide to pay no attention to the agreements reached.

Concluding remarks

The benefits offered by the CBI are conditional. In other words, there is a cost involved, and prospective beneficiaries would have to decide whether they are prepared to pay this cost. More fundamentally, they would have to decide whether the benefits offered are significant for their development objectives, and whether the conditions are compatible with the solution to their economic difficulties as they see them. The positive aspects would have to be weighed against the negative.

The basic strategy envisaged in the CBI is not new. It has been tried and found wanting. And this may explain why more and more countries of the region are turning to new approaches that often entail political and economic reorganization of a far-reaching nature. If the CBI is supposed to constitute a response to this situation, the US has failed to understand the mood of the region or to appreciate the link between its own foreign policy and poverty and oppression in the region. No lessons seem to have been learnt from past mistakes or from the experience of the Alliance for Progress whose benefits were largely confined to privileged groups unwilling to undertake the fundamental reforms necessary to deal with the question of widespread poverty. The concern with security continues to override all other considerations in a renewed cold-war atmosphere.

Caribbean Basin Initiative Reviewed by Foreign Ministers

Secretary Haig and Ambassador William E. Brock, U.S. Trade Representative, met in New York March 14–15, 1982, with Minister of State for External Affairs Mark MacGuigan (Canada), Secretary of Foreign Affairs Jorge Castaneda de la Rosa (Mexico), Minister of Foreign Affairs Jose Alberto Zambrano Valasco (Venezuela), and Minister of Foreign Affairs Carlos Lemos Simmonds (Colombia) to review the result of the July 1981 consultations begun at Nassau regarding an initiative to stimulate economic and social developement in the Caribbean Basin area.

Following is the joint news conference held in the U.N. Plaza Hotel and the joint communique.[1]

JOINT NEWS CONFERENCE, MAR. 15, 1982

Secretary Haig. We'd like to use this as an opportunity to review for the press corps the results of our last day and a half of the meetings here on the Caribbean Basin initiative.

This meeting in New York was a further step in the consultation process begun at Nassau in July of 1981. At the time the Foreign Ministers of Canada, Mexico, Venezuela, and the United States committed themselves to address the grave and, in some cases, catastrophic economic and social problems besetting the Caribbean Basin.

Over the past 6 months, there have been additional meetings with the six countries of Central America, as well as the countries of the Caribbean Basin.

On this occasion, at this weekend's meeting, the original Nassau four became the New York five with the addition of our colleague from Colombia to the discussions and to the donor category. We plan as a group to meet again, as the communique indicates, in Caracas, Venezuela, in August of this year to assess again the progress that we have been making in this important collective endeavor.

I would like to just say a brief word about the U.S. approach to this endeavor which is a departure from traditional U.S. efforts in the foreign assistance area.

It is testament to the fact that now five donor countries can concert together to meet the socioeconomic crisis in the region and to do so in a flexible, understanding, and compatible way. We have mutually agreed to be free to choose the ways in which each donor nation can help in the region.

In the case of the United States, President Reagan's Caribbean Basin initiative will involve a doubling of our economic constructions from previous years, but the truly innovative aspect of the program lies in a longer term trade and investment initiative which we hope will be matched by reciprocal self-help measures on the part of recipient nations.

I think in general I, personally—and I will let my colleagues comment from their perspective—consider this meeting to have been highly successful. The communique itself confirms the unprecedented level of sacrifice made by the donor countries and the high degree of cooperation involved in this project. It is a project that is not focused on promises and rhetoric but on real contributory steps by all of the donor states. One might even single out our Colombian colleague whose government has come to this meeting with commitments, even though Colombia itself is in a developmental status, so the sacrifices that it entails are, I think, most laudable.

I think it's important that it is recognized that in this project we've avoided the creation of large bureaucracies or controlling mechanisms which consume resources and energy and have dealt within the framework of our existing governmental structures.

All in all, I think from the U.S. point of view, we can take a great sense of satisfaction. This week, as you know, President Reagan will forward to the Congress the American legislative proposals to implement his approach to the Caribbean Basin initiative. It is clear that, following the President's recent

(UPI photo)

Secretary Haig holds joint meeting with foreign ministers who support President Reagan's Caribbean Basin initiative. Left to right are Jorge Castaneda of Mexico; Carlos Lemos Simmonds of Colombia; Secretary Haig; William E. Brock, U.S. Trade Representative; Minister of State for External Affairs, Mark MacGuigan of Canada. Foreign Minister Jose Alberto Zambrano Velasco of Venezuela, not shown here, also attended the meeting.

speech, it has garnered strong bipartisan support, and we are very hopeful that the American Congress will recognize that the United States is now joining a number of donor states which are well along in their commitment and their delivery on those commitments to the anguishing problems of the hemisphere.

Q. I would like to ask the visiting foreign ministers, since you have retained freedom of action in your own trade and aid programs, to what extent are your countries willing to aid in the economic reconstruction of El Salvador even if the insurrection there succeeds? And to what extent do you share the extreme worry of the United States about that eventuality?

Secretary MacGuigan. I don't think that we are here to answer hypothetical questions, but I can say that my country imposes no ideological tests for its aid programs, but we do impose certain practical tests, and one of those, of course, is the safety of any personnel that we might have in the country.

In our recently announced program for Central America—El Salvador—is certainly included, as are the other countries of the region, but we are not presently planning any aid to that country because we are not sure that we could carry out any program planning which we would begin at this time. So essentially it's a pragmatic question for us.

We don't have a theoretical or ideological answer to a question of that kind, but we certainly have a lot of practical concerns. We wouldn't want to give an answer in advance. We'd have to check the circumstances at the time.

Q. Do you share the Secretary's stated concern about that eventuality?

Secretary MacGuigan. I'm giving a press conference at noon. You're welcome to come. I think the conference here really should be on the Caribbean Basin initiative, but if you want to get into Canadian foreign policy, we'll be very happy to discuss it at that time. Canada has certainly supported the election process in El Salvador.

Q. What role will human rights be playing in this Caribbean policy initiative?

Secretary Haig. Clearly, human rights is an essential ingredient of American foreign policy, as it has been from the outset. Human rights value judgments run across the whole spectrum of America's foreign policy at large, and globally, to use that dirty word, as well as in the region.

Q. Is the U.S. ban on aid to Cuba in this plan—is that viewed as holding up a more structured cooperative effort by the donors?

Secretary Castaneda. As you know, in accordance with this Caribbean Basin initiative, each donor country chooses not only the countries to which it gives aid but the manner in which it gives aid. So that the American prohibition for aid to Cuba affects only the United States. It does not affect other countries.

In the case of Mexico, we will, as much as is possible for us—we are a developing country—we do give aid to Cuba, and we have very rich coordinated [inaudible] between the two countries of mutual assistance in the technical field and in the growing field in general. So it does not affect Mexico's participation in this effort at all.

Q. This is a rather impressive array of statesmen from the Western Hemisphere. In political terms what kind of impact do you think this meeting is going to have on your efforts to sell the Caribbean Basin initiative to the American Congress?

Secretary Haig. I think we have Ambassador Brock here who's been leading our charge on this situation and has just recently returned from some of his intensive discussions on it. Bill, why don't you answer the question?

Ambassador Brock. As I said to the meeting this morning, the demonstration of cooperation and the breadth of support, evidenced by the ministers from the several countries here, is essential, I think, to our success in Congress.

We face very difficult economic problems at home, and the fact that this is an effort which is joined by some of our most important friends and allies, it is imperative to its ultimate success, both in real terms and in terms of gaining the support that we have to have to insure congressional passage. I think that prospect is greatly enhanced by this meeting, and I think we're going to have a successful piece of legislation, hopefully in the not-too-distant future.

Q. In view of recent contacts that have been held with Cuba and Nicaragua, can the United States contemplate the possibility of an approvalistic aid or assistance to all those countries?

Secretary Haig. Again, I want to keep the focus of this press conference on the Caribbean Basin initiative. But I think the basic philosophy that's underlying the initiative and our respective approaches to it have been that there are no automatic exclusions as well as there are i. automatic inclusions. The prospects for the future will depend in large measure, from the U.S. point of view, on a number of uncertainties which are yet to clarify. But as they do clarify, clearly such an outcome would be very possible.

Q. The existence of this gathering is in some ways viewed as redundant to the effort and the mission of the Organization of American States. I wonder if, indeed, you consider this to be in any way supplanting or does your organization here indicate the OAS is not capable of handling either these problems or the peace problems in the area?

Secretary Haig. This in no way should be viewed as running counter to the objectives and the functions of the Organization of American States. Indeed, it should be viewed as complementary to their efforts, as well as the efforts of other organizations which have long been in place and which are designed to contribute to the socioeconomic improvement of the region.

Beyond that, I think it's important to recognize that Canada is not a member of the OAS, but it is participating not only actively but as a leading contributor to the developmental needs of the region. So there are no contradictions at all in our efforts here.

Q. In the past, the conduct of many of the multinationals in Latin America has been the cause for suspicion and distrust. How is the U.S. Government going to guarantee, in a sense, the good behavior of the present initiative?

Secretary Haig. It goes without saying that the whole approach of President Reagan has been one which is designed to provide for reciprocity in the sense of not only shaping the American contribution to elicit progress in the socioeconomic spheres in the recipient country but to shape our contribution in conformance with the wishes of the recipient country. Therefore, the answer to your question is that the basic philosophy insures mutual advantage and mutual coordination in the development of the program itself.

Foreign Minister Zambrano. Venezuela is most active in cooperative efforts in the Caribbean, and this interest of our country explains our presence here at this meeting.

However, we have a very clear idea of what constitutes cooperation and what constitutes negotiation. As far as we are concerned, the content of cooperation is one that allows many and variegated forms of cooperation. It might be very important cooperation, in cooperation of lesser importance, but all of this cooperation must be consistent with the fundamental concept that this is a contribution that one community makes to another community, conscious of its responsibility and of its solidarity. And that these contributions are used for the economic development of those societies and also must contribute to the common good.

In Venezuela, in our particular case, we are making great sacrifices within our own community, and instead of devoting these resources to our own self-interests and our own needs, we are making these contributions to other areas and to other countries in the region. It seems to us that in this sense our cooperation and the cooperation that any country or any private company or corporation might want to make should be done under these principles with submission to these ideals of what we consider is a true cooperation, and then the recipient state is fully free and completely sovereign to use the aid or support in any manner it wishes.

Ambassador Brock. A couple of very important or specific points. If what we do does not result in an opportunity for the individual country to choose its own path, we will have chosen the wrong way to go. If what we do does not result in the development of domestic economic growth, domestically controlled, the program will not succeed.

If you look at the legislation, the kinds of things that we mention as constituting a self-help effort are a pluralistic, democratic process, a free labor movement, the opportunity for individuals and groups of individuals to better themselves within the societal value system of each country as they desire their own program.

I think my own belief is that we have very consciously tried to structure an effort that will deal with precisely the problem you mentioned by letting each country control its own destiny and have the economic growth and the jobs to do so and to maintain a pluralistic, democratic society in the process.

Q. I would like to ask why Colombia might think that this would be different from previous aid programs in the past, and why Colombia, as a developing nation in need of economic assistance itself, chose to become a sponsor?

Foreign Minister Lemos. I shall reply, addressing myself to the last part of your question first. Colombia, though it is a developing country and, as such, it needs assistance, feels, however, that it has reached a level of growth which, though it might not be as great as other larger countries such as the United States, Canada, or some other industrialized country, is greater than that of other nations in the same Caribbean Basin area.

Therefore, we considered that we should share what we do have with some of the less developed nations in the area.

Yesterday I stated that one would not have to be opulent to feel that one should express a feeling of solidarity for other nations in the area. Colombia feels a need to show this solidarity and make its contribution toward the economic development of other countries because we feel that economic balance is a precondition to political balance and well being.

Colombia has made great efforts in terms of its own capabilities, and we would hope that our initiative would constitute an example for other countries which might be richer and yet are less generous. This is what has led Colombia to join a common effort of the Nassau four and has led us to offer our help. And, as we have heard here yesterday, the result of the initial efforts has already been splendid, and we hope that this effort will imbue some dynamism and some hope to the countries of the area.

JOINT COMMUNIQUE, MAR. 15, 1982

Secretary of State for External Affairs Mark MacGuigan of Canada, Secretary of Foreign Relations Jorge Castaneda of Mexico, Secretary of State Alexander M. Haig of the United States of America, Ambassador William E. Brock, United States Trade Representative, Foreign Minister Jose Alberto Zambrano Velasco of Venezuela, and Foreign Minister Carlos Lemos Simmonds of Colombia met in New York on March 14–15, 1982 to review the results of the consultations begun at Nassau on July 11, 1981 regarding an initiative to stimulate the economic and social development of the Caribbean Basin area.

The Ministers noted that since that time extensive discussions had been held with the governments of countries in the Caribbean

Basin area, with other interested governments and with international financial institutions, both on a bilateral basis and at international meetings. They emphasized that their governments' efforts would continue to take full account of the national plans and priorities of the countries of the Caribbean Basin and their own capacities to assist these countries.

On the basis of these consultations, the Ministers stressed that dynamic and balanced social and economic development in the countries of the Caribbean Basin area is essential, not only for the welfare of the people in the area but also for the peace and prosperity of the entire hemisphere. They agreed that the socio-economic problems which face the countries of the Caribbean and Central America are critical and in many cases are becoming more serious. The Ministers underlined that this economic and social development could best be achieved by programs of cooperation, without military considerations or political pre-conditions. They stated that each country in the Caribbean Basin could benefit from such economic cooperation and that, at the same time, donor countries must be free to choose the countries with which they cooperate, and the ways they can best be of help. The Ministers agreed that general economic development could be stimulated through, inter alia, public financial development cooperation, trade and investment, both public and private.

The Ministers took note of the individual programs of each of the participants as described below:

Canada's Secretary of State for External Affairs explained that Canada has already embarked on a five-year expanded program of economic development cooperation with the English-speaking Caribbean and also with Haiti, the Dominican Republic and the countries of Central America, at a value of over one half billion dollars. Canadian tariff treatment currently provides duty free or preferential access to the Canadian market for some 98 percent by value of all exports from the Caribbean Basin area to Canada. In the context of the Canada/CARICOM [Caribbean Community] Joint Trade and Economic Agreement of January 1979, Canada is already engaged with the Commonwealth Caribbean in a wide range of programs to promote regional integration, industrial development and cooperation between Canadian and Caribbean private sector organizations. Canada has recently established Petro-Canada International to assist oil-importing developing countries, including those in the Caribbean Basin area, to reduce or eliminate their dependence on imported oil.

The Foreign Ministers of Mexico and Venezuela advised the meeting that their countries are continuing their cooperation with the countries of the Caribbean Basin area, under the San Jose Declaration of Presidents Lopez Portillo and Herrera Campins, which assures supply of oil for internal consumption and provides long-term concessional credits for government development projects. This program, valued at over $700 million per year, is of great benefit for the countries of the area, enabling them to fulfill better their national development priorities.

Mexico's Foreign Minister described Mexico's ongoing development cooperation projects with the countries of the area. In addition to the San Jose agreement, he mentioned specifically the system of trade facilities with the Central American countries, which will be broadened to Caribbean countries, preferential credit lines, currently at $68 million to the central banks of the area, Mexico's membership in the Caribbean Development Bank and its participation in the special program for soft-loans to Caribbean less developed countries, its active role in various regional multinational government enterprises and its broad programs of bilateral technical cooperation with countries of the region, which now include 308 specific projects.

The Foreign Minister of Venezuela advised that the Government of Venezuela has traditionally cooperated in solidarity with the countries of the area, based on principles of international social justice, and has provided even more significant cooperation since 1974 through programs of financial support (more than US $2.5 billion in the last five years). He mentioned particularly the creation of a special fund for the Eastern Caribbean that provides highly concessional financing for balance of payments and development projects. He mentioned also the establishment of technical and technological assistance in the commercial, agricultural, educational and cultural areas which are aimed at contributing to the total development of the human and physical resources of the countries in question, and thereby to their democratic, political, economic and social development.

The United States described its program of integrated and mutually reinforcing measures in the fields of trade, investment and financial assistance, which President Reagan announced on February 24.

The following measures are being submitted to the United States Congress. In trade, a key feature will be the elimination of duties on imports from the Caribbean Basin, with the exception of textiles and apparel which are subject to textile agreements. Investment will be spurred by granting United States investors in Basin countries the same ten percent tax credit as is available for investment in the United States. A requested $350 million supplemental appropriation for the region in fiscal year 1982 will address critical short-term economic problems of the region, and bring total concessional economic assistance there in fiscal year 1982 to $825 million.

In addition to these legislative requests, measures within the discretion of the President will include: a) favorable treatment for Caribbean Basin textiles and apparel exports, within the context of the overall United States textile policy; b) expanded short-term credit guarantees by the United States Export-Import Bank; c) willingness to negotiate bilateral investment treaties; and d) a program to enhance the role of Puerto Rico and the United States Virgin Islands in the development of overall prosperity in the region.

The Colombian Minister of Foreign Affairs stated that for some time his country has been actively cooperating with the countries of the Basin and, in that respect welcomed the opportunity to join the nations which met in Nassau in their effort to resolve the economic and social problems of the region.

He described the Colombian contributions to the Caribbean Development Bank amounting to $16 million and the existing credit lines and deposits of $42 million. He explained that the Colombian Government has now decided to initiate the following measures: (1) creation of a special fund for technical assistance to be provided by official agencies with resources up to $50 million; (2) granting of new credit lines up to $10 million per country; (3) establishment of additional time deposits for the financing of balance of payments deficits; (4) reciprocal credit agreements with the countries not yet covered; (5) establishment of a trust fund for projects in the less developed countries of the Eastern Caribbean; (6) preferential trade agreements within the context of the Latin American Association of Integration (ALADI); (7) improvement, in cooperation with other countries, of sea and air transportation systems.

The Ministers expressed their deep satisfaction with the ongoing economic cooperation in the area. They agreed that the announced economic program of the Government of the United States of America could make a significant contribution to the region's development, and expressed their hope that these measures would be implemented as quickly as possible.

The Ministers welcomed the decision taken by Governments of the area to be involved actively in the formulation of regional development plans. In this regard, the Ministers stressed the importance of existing institutions for consultation and coordination regarding economic and developmental needs and priorities in the Caribbean region. They noted the efforts being made to develop a coordinating group for Central America and hoped there would be an early and positive result from this exercise.

The Ministers expressed satisfaction that, within the region, other countries were participating in the development process. In this connection, they welcomed the substantial financial assistance provided by Trinidad and Tobago in the area. They also noted that other countries outside the area were also responding to the region's pressing needs.

The Ministers concluded that the effort begun at Nassau had been successful in focusing greater attention on the critical need for increased economic development assistance, cooperation and coordination in the Caribbean Basin area and they affirmed their political will to continue their efforts to implement their respective national cooperation programs in the area as quickly and effectively as possible. The Ministers also reaffirmed their view that promotion of peace, stability and economic development in the Caribbean Basin area is equally important to the broader world community and they appealed to other nations of the hemisphere and the world to contribute toward that objective.

The Ministers agreed to continue consultations with other governments with a view to inviting senior officials of interested countries and multilateral economic organizations to an ad hoc meeting to encourage greater cooperative efforts for economic and social development of the region.

They also agreed to meet again in August in Caracas, Venezuela to examine jointly the progress which has been achieved.

[1]Press release 101 of Mar. 18, 1982. ■

Special
Report No. 97

Background on the Caribbean Basin Initiative

March 1982

United States Department of State
Bureau of Public Affairs
Washington, D.C.

CONTENTS

I. SUMMARY

The Caribbean Basin includes some two dozen small developing nations in Central America, the Caribbean, and northern South America. The region forms the third border of the United States, contains vital sea lanes through which three-quarters of our oil imports must flow, is an important market for U.S. exports, and is our second largest source of illegal immigration.

The Problem

The basin countries have been seriously affected by the escalating cost of imported oil and declining prices for their major exports (sugar, coffee, bauxite, etc.). This has exacerbated their deep-rooted structural problems and caused serious inflation, high unemployment, declining gross domestic product (GDP) growth, enormous balance-of-payments deficits, and a pressing liquidity crisis. This economic crisis threatens political and social stability throughout the region and creates conditions which Cuba and others seek to exploit through terrorism and subversion.

Development of the Initiative

The United States has been developing its program for responding to the economic crisis in close consultation with potential recipients and other donor countries. Last July Secretary Haig and U.S. Special Trade Representative William Brock met in Nassau with the Foreign Ministers of Canada, Mexico, and Venezuela. They agreed to sponsor a multilateral action program for the region within which each country would develop its own program. Venezuela and Mexico are making a significant contribution to the basin, particularly through their joint oil facility. Canada recently announced major increases in its foreign assistance to the area. The Colombians also intend to increase their financial contribution to the basin. We expect other donors will also expand their efforts in the areas of trade and investment.

Key Elements of Proposed U.S. Program

The proposed U.S. program consists of integrated, mutually reinforcing measures in the fields of trade, investment, and financial assistance.

The centerpiece of the U.S. program is the offer of one-way free trade. Currently the countries of the region are already afforded liberal entry into the U.S. market. Nevertheless, some of the duties which remain in place are in sectors of special interest to the basin countries. They also limit export expansion into many nontraditional products.

The President will request from the Congress authority to eliminate duties on all imports from the basin except textiles and apparel. Sugar imports will receive duty-free treatment but only up

Reprinted by the Congressional Research Service,
Library of Congress.

Summary of U.S. Economic and Military Assistance to the Caribbean Basin
($ millions)

	1981 (Actual)	1982 (Budget)	1982 (Supplemental—to be proposed to Congress)	1983 (Proposed—overall figures submitted in FY 1983 budget)
Economic[1]	**419.6**	**474.6**	**350.0**	**664.5**
Development Assistance	167.4	211.3	—	217.6
Economic Support Fund (ESF)	143.4	140.0[2]	350.0	326.0
Food Aid (PL 480)	108.8	123.2	—	120.9
Military	**50.51**	**112.14**	**60.0**	**106.23**
International Military Education and Training	2.22	3.24	—	4.93
Foreign Military Sales Credits	23.29	41.4	—	101.3
Grants (Military Assistance Program and under Section 506A of the Foreign Assistance Act)	25.0	67.5	60.0	—
Total Assistance	**471.11**	**586.74**[2]	**410.0**	**770.73**
Percent Military	10.7%	19.1%	14.6%	13.8%

[1] For allocation by country, see pp. 6-7.

[2] Includes $20 million earmarked for Nicaragua in the FY 1982 International Security and Development Cooperation Act. The Foreign Assistance and Related Program Appropriations Act, 1982 contains no specific reference to Nicaragua; however, it was the intention of the committees as reflected in the Appropriations Conference Report that no funds should be spent for these purposes. The disposition of these funds will be decided after further consultation with Congress.

to a certain limit in order to protect the U.S. domestic sugar price support program mandated by Congress. A safeguard mechanism will be available to any U.S. industry seriously injured by increased basin imports. Rules of origin will be liberal to encourage investment but will require a minimum amount of local content (25%). The President will have discretion to designate beneficiaries, taking into account countries' own efforts to carry out necessary reform of their internal economic policies.

The President will also seek congressional authorization to grant U.S. investors in the Caribbean Basin a significant tax measure to encourage investment. We are still consulting with the Congress on the exact measures to be employed.

The President will request a fiscal year (FY) 1982 supplemental economic assistance appropriation of $350 million to provide emergency assistance for several key countries whose situation is particularly critical. That will bring proposed FY 1982 economic assistance to $824.6 million or $403 million above FY 1981. The Administration's request is for $664.5 million in FY 1983 economic assistance. As the table above shows, the security assistance is only a small portion of the total assistance provided by the United States to the Caribbean Basin region.

Other Economic Initiatives

- The United States will extend more favorable treatment to Caribbean Basin textile and apparel exports under bilateral and multilateral agreements while continuing our overall policy of seeking tighter limits on import growth from our major suppliers.
- The United States will seek to negotiate bilateral investment treaties with interested countries.
- The United States will work with multilateral development banks and the private sector to develop insurance facilities to supplement the noncommercial investment risk insurance operation of the Overseas Private Investment Corporation (OPIC).
- The U.S. Export-Import Bank will expand protection, where its lending criteria allow, for short-term credit from commercial banks to basin private sectors for critical imports.
- The United States will work with each country to develop private sector strategies to coordinate and focus development efforts of local business, U.S. firms, and private voluntary organizations. The strategies will seek to remove impediments to growth including lack of marketing skills, shortages of trained manpower, poor regional transport, and inadequate infrastructure.

Puerto Rico and the U.S. Virgin Islands

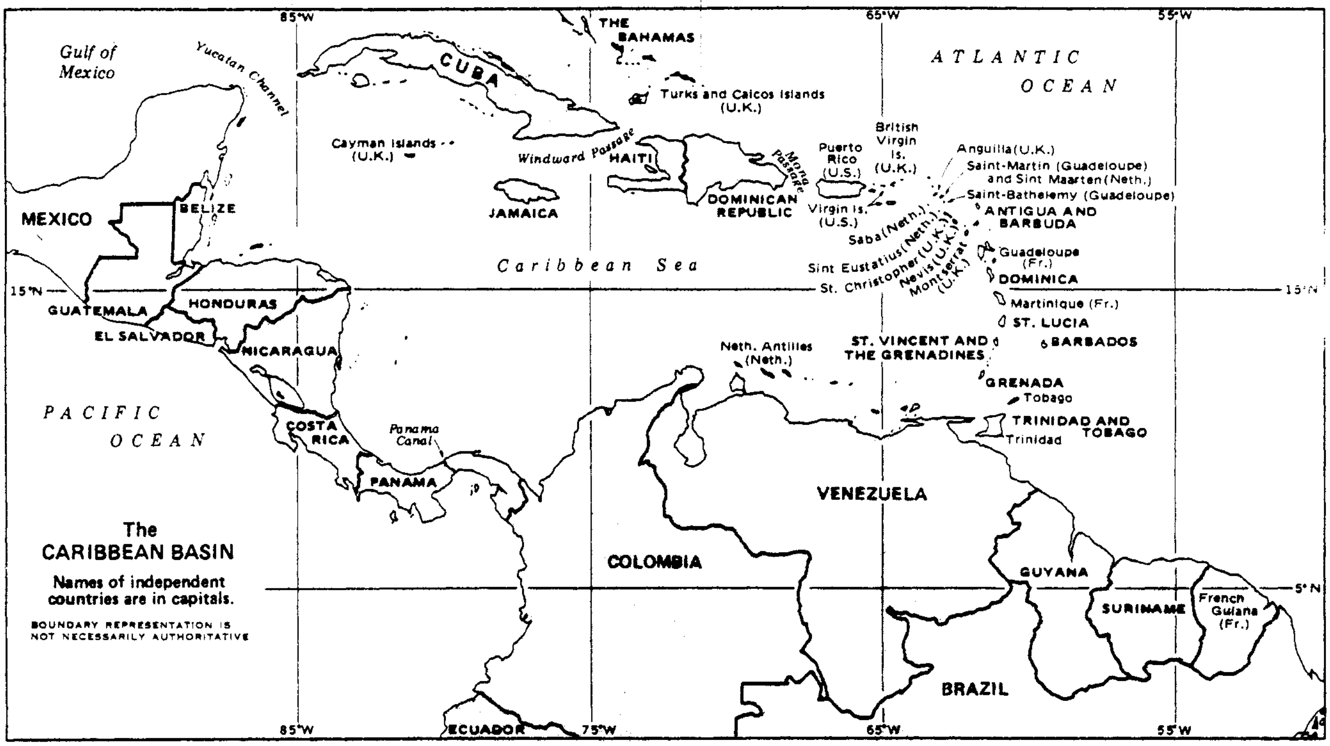
A series of measures will support the efforts of Puerto Rico and the Virgin Islands to play a dynamic role in the Caribbean region. For example, involvement of the possessions will be critical to the success of private sector development strategies. In addition, the U.S. Government has consulted closely with Puerto Rico and the Virgin Islands about the Caribbean Basin initiative. Legislation under the initiative will reflect Puerto Rican and Virgin Islands interests in many important ways. Excise taxes on all imported rum will be rebated to Puerto Rico and the Virgin Islands. Inputs into Caribbean Basin production from the possessions will be considered domestic under the rules of origin. Their industries will have access to the same safeguards provisions as mainland industries.

II. SPECIFIC U.S. ECONOMIC MEASURES

The U.S. program for the Caribbean Basin initiative has been developed over the last 8 months in an intensive interagency process and wide-ranging consultations with the governments and the private sectors of donor and potential recipient countries. The resulting integrated program of trade, investment, and aid attacks both emergency problems and structural impediments to long-range economic development.

The backbone of the program is the offer of one-way free trade. While the economic benefits are long term, the offer of an unimpeded U.S. market to those small nations is a major political commitment with immediate impact. It will also strongly encourage sound internal economic policies.

Investment incentives (particularly extension of a significant tax incentive for U.S. direct investment in the basin)



Data on Potential Beneficiaries of the Caribbean Basin Initiative, 1980

TOTAL AREA: 494,684 square miles
TOTAL POPULATION: 39 million
TOTAL GDP: $45 billion

Country	Area (square miles)	Population (millions of persons)	Gross Domestic Product ($ millions)	Exports[1] to U.S. ($ millions)	Imports[1] from U.S. (% of total)
Bahamas	5,380	.24	1,267	1,302[2]	11
Barbados	166	.25	815	85	34
Belize	8,866	.16	165	57	44
Cayman Islands	118	.15	—	3	—
Costa Rica	19,700	2.24	4,847	348	34
Dominican Republic	18,712	5.43	6,733	634	44
Eastern Caribbean *(Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Christopher-Nevis, Saint Lucia, Saint Vincent and the Grenadines)*	812	.65	500	37	45
El Salvador	8,260	4.50	3,484	404	31
Guatemala	42,000	7.26	7,852	423	35
Guyana	83,000	.79	524	123	28
Haiti	10,714	5.01	1,453	240	57
Honduras	43,277	3.69	2,538	432	41
Jamaica	4,411	2.19	2,402	380	29
Netherlands Antilles	394	.27	—	2,436[2]	6
Nicaragua	147,888	2.70	1,566	206	34
Panama	28,753	1.94	3,511	262	22
Suriname	70,060	.39	109	114	29
Trinidad and Tobago	1,980	1.14	6,708	2,326[2]	26
Turks and Caicos Islands	192	.01	—	3	—

[1] Source: International Monetary Fund, *Directories of Trade Statistics Yearbook, 1974–80.*
[2] Primarily processed products of imported crude oil.

promise an immediate return to U.S. investors who undertake the increased risk perceived in the basin. They thus encourage the location of new production there.

The emergency economic aid program confronts the acute liquidity crisis faced by many countries in the region. At stake is the survival of the private sector and with it the pluralism, diversity, and political moderation on which viable long-run policies depend. The development assistance and economic support funds in the FY 1983 budget, which incorporate significant increases from earlier years, will be directed into new programs aimed at removing basic impediments to growth.

In order to insure that Puerto Rico and the Virgin Islands not only can contribute to, but benefit from, these new policies, a package of new measures concerning them is being prepared.

Free Trade Area

Given the serious economic deterioration in the Caribbean Basin region, the trade component of the Caribbean Basin initiative was designed to provide the most favorable access possible for exports from the basin. Currently the countries of the region are already afforded liberal entry into the U.S. market. (In 1980, $6.4 billion—out of total Caribbean Basin exports to the United States of $10.4 billion—were free of duty; a large part of dutiable trade was accounted for by petroleum—$2.7 billion—for which tariffs are not economically meaningful.) Nevertheless, some of the duties which remain in place are in sectors of special interest to the basin countries. They also limit export expansion into many nontraditional products.

The generalized system of preferences (GSP) already extends duty-free treatment on many products to a large number of developing countries. However, the GSP has a complex structure which limits the ability of small and relatively inexperienced traders—which is the case in a great many of the Caribbean Basin's enterprises—to take advantage of the opportunities which GSP offers. Many of the more promising prospects for basin exports are in product categories which have been legislatively excluded from the GSP program for global reasons which are not relevant to the Caribbean Basin. Also, GSP has both dollar and percentage limitations which are arbitrary in their application to many Caribbean Basin products.

U.S. Economic Relations With the Caribbean Basin

U.S. Exports in 1981 (Major products: transportation equipment, electrical and industrial machinery, chemicals, manufactured goods)	**$ 6,842 million**
U.S. Imports in 1981 (Major products: cotton, sugar, bauxite, coffee, meat)	**$10,027 million**
U.S. Direct Investment in 1980 (cumulative)	**$ 5,652 million**
U.S. Tourism in 1980	
Expenditures	**$ 1,134 million**
Number of travelers, excluding cruise travel	2.6 million travelers

Therefore, the Administration will seek legislative authority to grant beneficiaries in the Caribbean Basin duty-free treatment for 12 years for all products with the sole exception of textiles and apparel items which are subject to textile agreements. Sugar imports will receive duty-free treatment but only up to a certain limit in order to protect the U.S. domestic sugar price support program mandated by Congress. The Secretary of Agriculture will retain standby authority to further limit the entry of duty-free imports should this be necessary to protect the sugar program.

A safeguard mechanism will be available. This will require a finding by the International Trade Commission that increased imports are a substantial cause of serious injury or threat thereof to U.S. domestic industry and a recommendation to the President to grant relief (e.g., a restoration of the tariff). Where safeguard relief is sought for perishable commodities, the legislation provides authority for the Secretary of Agriculture to recommend to the President the restoration of most-favored-nation (MFN) treatment on an immediate basis if warranted pending the completion of the formal escape clause process.

The rules of origin under the free-trade arrangement are an important factor in determining the accessibility of duty-free access for resource-poor basin countries. The free trade area has been designed to avoid fostering the type of investment in the region which would result in mere "pass-through" operations involving little value added in the country. The Administration does not want to reduce the level of required local input to the point where the free trade area will encourage "runaway plants." Because of the relatively low level of development of many of the countries in the region and their limited access to local inputs, the free trade area will require that basin countries supply a minimum of 25% of local value added. Inputs from all basin countries can be cumulated to meet the 25% minimum. Inputs from Puerto Rico and the Virgin Islands will be treated as Caribbean products for purposes of the rules of origin.

The President will have discretion to designate countries in the Caribbean Basin as beneficiaries of the free trade area subject to many of the same caveats contained in the GSP system (nondesignation of Communist countries and of countries which expropriate without compensation or which discriminate against U.S. exports). The President will also take into account economic criteria such as the attitude of the beneficiaries toward private enterprise and the policies recipient countries are pursuing to promote their own development. The U.S. Government will enter into discussions with the Caribbean Basin countries to develop self-help objectives.

The free trade area will require the United States to seek a waiver of the General Agreement on Tariffs and Trade (GATT).

Textiles

The textile and apparel industry in most Caribbean Basin countries is of modest scale. U.S. imports from the region in 1981 amounted to $472 million and 192 million square yards equivalent, accounting for 6% of total U.S. imports of apparel on a volume basis.

Most textile exports from Caribbean Basin countries to the United States are made by U.S. companies which assemble garments in those countries from fabric produced and cut in the United States. Under section 807 of the U.S. tariff code, these companies pay duty only on the value added abroad.

In 1981 the United States exported $8 million worth of textile machinery and $519 million worth of textile and apparel products to the Caribbean Basin countries, much of the latter as cut fabric for assembly into garments.

International textile trade is governed by the provisions of the GATT arrangement commonly known as the

Multi-Fiber Arrangement (MFA). The MFA provides a framework for insuring orderly development of textile and apparel trade while avoiding disruption of importing country markets. In recognition of the special nature of textile trade as reflected by the MFA, textile and apparel products are not proposed for duty-free treatment under the Caribbean Basin initiative. The U.S. Government intends, however, to allow more favorable access for Caribbean Basin products, on a case-by-case basis within the context of overall Administration textile policy implementing the MFA. The U.S. Government will continue to seek tighter limits on import growth from our major suppliers.

The United States has textile trade agreements with Haiti, the Dominican Republic, Costa Rica, and Jamaica, which set agreed levels of trade for certain products. (No quotas are currently in effect under the Jamaica agreement.)

Tax Measures

The Administration recognizes that some U.S. entrepreneurs may be hesitant to invest in some Caribbean Basin countries. The risk may be perceived as high for venture capital, especially when coupled with the start-up costs of developing new markets and marketing channels, training new local employees and managers, and overcoming transportation bottlenecks to insure a steady flow of raw materials and export products.

For this reason, the Administration is developing a tax proposal to encourage U.S. investment in the Caribbean Basin. We are still consulting on the exact nature of this proposal. An example of a possible tax measure under discussion is a 5-year legislative extension of the domestic investment tax credit for up to 10% of the amount of fixed asset investment in the countries of the region. Such a system would operate in much the same fashion as does the tax credit for investment currently in effect in the United States. The tax credit would be granted for a 5-year period to individual countries which enter into executive agreements for tax administration purposes. After the 5-year period, the program would be evaluated and a decision made on whether to continue the extension. The credit would permit U.S. businesses to reduce their net tax liability in the United States.

Bilateral Investment Treaties

Bilateral investment treaties are intended to help stabilize the bilateral investment relationship with a developing country by establishing an agreed legal framework for investment, by assuring certain minimum standards of treatment, and by providing agreed means for resolving investment disputes.

Other developed countries are further along in their bilateral investment treaty programs than the United States. (The Federal Republic of Germany, for example, has approximately 50 outstanding.) During 1981 the United States developed a prototype and late in the year began discussions with several countries. It is generally agreed that the U.S. prototype treats the investment issue more comprehensively than the treaties signed by other developed countries and has the potential to have a greater impact on investment climates in less developed countries (LDCs). The key elements of the U.S. prototype bilateral investment treaty are:

- Provisions concerning entry and duration of investment;
- Treatment for established U.S. investors which is no less favorable than that given domestic investors and other foreign investors;
- Prompt, adequate, and effective compensation in the event of nationalization;
- Unrestricted repatriation and other transfers of assets; and
- Dispute settlement provisions.

The United States is prepared to negotiate bilateral investment treaties with interested countries in the Caribbean Basin. Negotiations have already begun with Panama, at that country's initiative.

Investment Insurance and OPIC Programs

The Overseas Private Investment Corporation currently offers political risk insurance for U.S. investors in approximately 100 developing countries. Coverages offered are for expropriation, war risk, and inconvertibility. Similar programs are offered by other developed countries, although their participation in Latin America varies according to perceived commercial and strategic interests.

OPIC also has other programs to facilitate U.S. investment flows to the Caribbean Basin region. OPIC can make direct loans for certain kinds of investments. This authority is used almost exclusively in the region. OPIC also organizes missions of U.S. business representatives to explore investment opportunities. In late 1981 OPIC took investment missions to two basin states, Jamaica and Haiti.

OPIC is increasing its activities in the Caribbean Basin in both the insurance and other programs. However, for legislative and other reasons, there are gaps in insurance coverage available to Caribbean Basin investment. These include:

- Limited coverages in countries where OPIC is at or near its country limit;
- Lack of general coverage for non-developed country investment, i.e., regional investment, domestic investment, Organization of Petroleum Exporting Countries (OPEC) investment;
- Lack of sufficient coverage for major investments in mining and energy production.

To expand insurance coverage available to eligible U.S. investors, OPIC is working with private sector insurers to establish informal consortia where appropriate on a project-by-project basis. Mixed coverage of this kind is currently being discussed for a major project in the basin.

For other investments not eligible for OPIC coverage, some form of multilateral insurance may be possible. World Bank (IBRD) President Clausen stated his interest in examining such a scheme in his September 1981 speech to the World Bank Board of Governors.

Concessional Aid

Concessional U.S. assistance is expected to increase rapidly under the Caribbean Basin initiative. The three primary tools for providing direct economic aid are:

- Development assistance, which is project oriented, with emphasis on agriculture, health, and population problems;
- Economic support funds (ESF), which are more flexible and can provide direct balance-of-payments support as well as credit for crucial imports; and
- Food aid, provided through PL 480 programs, which provides needed foreign exchange and generates counterpart development funds.

Some increase of total concessional assistance to the Caribbean Basin is planned in FY 1982 under the current budget level. A major increase will be achieved, however, through a $350 million supplemental request to Congress to increase FY 1982 funding. In FY 1983 the proposed level is more than 50% higher than the actual level of obligations in FY 1981 and double the FY 1980 level.

The bulk of the planned increase in U.S. assistance is in the economic support fund program for the region. ESF assistance for the basin would increase from $15 million in FY 1980 to $490 million in FY 1982 if the supplemental request is approved and to $326 million in FY 1983. The ESF would be used primarily to finance private-sector imports, thus strengthening the balance of payments of key countries of the basin while facilitating increased domestic production and employment. At the same time, we will be discussing with other donors such as the International Monetary Fund and the World Bank, and with the policymakers of these countries, possible reform measures to insure that the ESF assistance is utilized effectively and will have the greatest possible impact on local production and employment.

In FY 1982, development assistance for the basin will increase by $44 million, or 25%, over the FY 1981 level. In FY 1983, $218 million of development assistance is proposed, a further increase of 3% over the FY 1982 level. These amounts are approximately the same as the $215 million of development assistance provided in FY 1980, but the level in FY 1980 was extraordinarily high since it included funding provided in response to several natural disasters in the Caribbean as well as to the worsening situation in Central America.

Food for Peace assistance under PL 480 is projected to increase by $40 million, or nearly 50%, over FY 1980 levels. This will increase the foodstuffs available in the basin countries while also providing balance-of-payments support. Local currency generated through this assistance supports local development activities and helps reduce government budget deficits. Conditions associated with this assistance relate to macroeconomic policy reforms as well as policies and programs to increase agricultural production.

Assistance under the Caribbean Basin initiative will be focused increasingly on private sector support. Both capital and technical assistance will be provided to ameliorate infrastructure, credit, institutional, and training constraints to trade and investment expansion throughout the area.

U.S. Economic Assistance to the Caribbean Basin [1]
($ millions)

	FY 1980 (Actual)	FY 1981 (Actual)	FY 1982 (Budget)	FY 1982 (Supplemental)	FY 1983 (Request)
Costa Rica	**13.6**	**13.3**	**51.3**	**70.0**	**85.0**
Development Assistance	13.6	11.5	13.0	—	15.0
Economic Support Fund	—	—	20.0	70.0	60.0
PL 480	.1	1.8	18.3	—	10.0
Dominican Republic	**54.8**	**36.8**	**45.2**	**40.0**	**46.8**
Development Assistance	34.6	17.4	24.7	—	26.0
Economic Support Fund	—	—	—	40.0	—
PL 480	20.2	19.4	20.5	—	20.8
El Salvador	**58.5**	**104.5**	**104.5**	**128.0**	**164.9**
Development Assistance	43.2	33.3	35.0	—	25.0
Economic Support Fund	9.1	44.9	40.0	128.0	105.0
PL 480	6.3	26.3	29.5	—	34.9
Guatemala	**11.4**	**16.7**	**11.8**	**—**	**13.0**
Development Assistance	7.8	9.1	5.8	—	8.0
Economic Support Fund	—	—	—	—	—
PL 480	3.7	7.6	6.0	—	5.0
Guyana	**5.0**	**1.2**	**2.3**	**—**	**2.7**
Development Assistance	2.5	1.2	2.2	—	2.6
Economic Support Fund	—	—	—	—	—
PL 480	2.4	—	.1	—	.1
Haiti	**27.9**	**34.1**	**31.5**	**5.0**	**34.7**
Development Assistance	10.1	9.2	12.0	—	15.0
Economic Support Fund	1.0	—	—	5.0	—
PL 480	16.7	24.9	19.5	—	19.7
Honduras	**50.7**	**36.1**	**38.0**	**35.0**	**63.1**
Development Assistance	45.8	25.7	28.8	—	29.0
Economic Support Fund	—	—	—	35.0	25.0
PL 480	4.8	10.4	9.2	—	9.1
Jamaica	**12.7**	**69.1**	**87.1**	**50.0**	**112.0**
Development Assistance	2.7	12.9	29.6	—	37.0
Economic Support Fund	—	41.0	40.0	50.0	55.0
PL 480	10.0	15.2	17.5	—	20.0
Nicaragua	**37.0**	**59.6**	**23.1**[2]	**—**	**—**
Development Assistance	18.3	1.8	2.4	—	—
Economic Support Fund	1.1	56.6	20.0[2]	—	—
PL 480	17.6	1.2	.6	—	—

(Continued on page 7)

The table above shows:

- Actual amounts of concessional assistance to the basin in FY 1980 and 1981;
- Current planning figures for FY 1982; and
- Congressional presentation proposals for FY 1983.

Country planning figures for the $350 million supplemental for FY 1982 will include increases to El Salvador, Costa Rica, and Jamaica. Other recipients will be countries such as Honduras, Dominican Republic, Belize, and the eastern Caribbean.

Agricultural Modernization

The Caribbean Basin initiative accords a high priority to the problems of the region's food and agriculture sector. The U.S. Department of Agriculture (USDA) has special expertise which can help modernize the basin's agriculture.

Agricultural output in the Caribbean Basin countries increased only 1.5% in 1981, down sharply from the 4%–6% growth trend of the 1970s. World prices are currently soft for the region's major

U.S. Economic Assistance (Continued)
($ millions)

	FY 1980 (Actual)	FY 1981 (Actual)	FY 1982 (Budget)	FY 1982 (Supplemental)	FY 1983 (Request)
Panama	**2.1**	**10.5**	**11.2**	**—**	**12.3**
Development Assistance	1.0	8.6	9.2	—	11.0
Economic Support Fund	—	—	—	—	—
PL 480	1.1	1.9	2.0	—	1.3
Belize	**—**	**—**	**—**	**10.0**	**—**
Development Assistance	—	—	—	—	—
Economic Support Fund	—	—	—	10.0	—
PL 480	—	—	—	—	—
Suriname	**—**	**—**	**—**	**—**	**1.0**
Development Assistance	—	—	—	—	—
Economic Support Fund	—	—	—	—	1.0
PL 480	—	—	—	—	—
Caribbean Regional	**46.1**	**27.1**	**50.6**	**10.0**	**60.0**
Development Assistance	41.2	27.0	30.6	—	30.0
Economic Support Fund	4.0	—	20.0	10.0	30.0
PL 480	.9	.1	—	—	—
Regional Office for Central America and Panama	**4.2**	**10.6**	**18.0**	**—**	**19.0**
Development Assistance	4.2	9.7	18.0	—	19.0
Economic Support Fund	—	.9	—	—	—
PL 480	—	—	—	—	—
Latin America and Caribbean Regional Program	**—**	**—**	**—**	**2.0**	**50.0**
Development Assistance	—	—	—	—	—
Economic Support Fund	—	—	—	2.0[3]	50.0[4]
PL 480	—	—	—	—	—
CARIBBEAN BASIN TOTAL:	**324.0**	**419.6**	**474.6[1]**	**350.0**	**664.5**
Development Assistance	225.0	167.4	211.3	—	217.6
Economic Support Fund	15.2	143.4	140.0[2]	350.0	326.0
PL 480	83.8	108.8	123.2	—	120.9

[1] Due to rounding, some figures may not total.
[2] Includes $20 million earmarked for Nicaragua in the FY 1982 International Security and Development Cooperation Act. The Foreign Assistance and Related Program Appropriations Act, 1982, contains no specific reference to Nicaragua; however, it was the intention of the committees as reflected in the Appropriations Conference Report that no funds should be spent for these purposes. The disposition of these funds will be decided after further consultation with Congress.
[3] Specifically for the American Institute for Free Labor Development.
[4] Unallocated for special requirements.

agricultural exports (bananas, coffee, beef, sugar, cotton, and cocoa). Agricultural commodities account for about half of the basin's export earnings.

Although the agricultural sector's contribution to the economies of the region has been steadily declining (and nowhere exceeds 40%), about 57% of the region's population is still rural. Modernization of the agricultural sector is vital to meeting the food needs of the region's growing populace and to enhance export earnings.

Improving Animal and Plant Health and Quality. Plant and animal products exported to the United States must meet U.S. agricultural health and sanitary regulations which USDA enforces. USDA is prepared to make a concerted, coordinated effort to promote increased regional understanding of U.S. agricultural health and sanitary regulations, to provide technical assistance on plant inspection procedures and on operating fumigation facilities, and to offer training in enforcing health and sanitary regulations. An interagency group is working to develop means for providing assistance to comply with U.S. health and sanitary regulations.

An animal disease-free Caribbean Basin would be mutually beneficial to the region and the United States. The U.S. Agency for International Development (AID) and USDA have programs to contain and eradicate swine fever and encephalomyelitis. Additional cooperation in this field is envisioned.

Caribbean Basin countries need to better gear their agricultural production to the standards of the world market, to better serve their domestic and export needs both in terms of quality and seasonal availability. To aid these countries to achieve acceptable standards and grades, technical assistance could be offered from USDA, drawing on the experience of the Food Quality and Safety Service which assures that all imported food products meet U.S. standards for proper labeling and wholesomeness. Technical advice could assist Caribbean exporters to serve the world market by supplying quality products which may not be available otherwise at reasonable prices. Minimizing losses during distribution and storage of perishables is essential to the successful marketing of these products.

Promotion of Agroindustries. USDA has begun to play an important role in facilitating the involvement of U.S. agribusiness in developing countries. Technical expertise found in U.S. agribusiness can help solve agricultural problems in developing countries and to provide additional opportunities for U.S. firms. Given the relatively small economies of the Caribbean Basin countries, agroindustries must be carefully designed with regard to location and scale. USDA is already actively involved in providing agribusiness development assistance to Jamaica, including the formulation of joint ventures, provision of management expertise, and the sale of U.S. capital goods.

Expanding Agricultural Research and Training Opportunities. Both Puerto Rico and the Virgin Islands have proposed establishment of a tropical agriculture research center for the entire Caribbean region. Establishing such a center on U.S. territory can take advantage of linkages with the entire U.S. agricultural research and educational system. USDA, through its own research organizations and in concert with the land grant universities, can play a useful role in advising both the hosts and financers of such a center. Careful coordination will be necessary with existing educational and research institutions in the region, such as the Center for Agricultural Research and Training located in Costa Rica.

Expanded agricultural training activities are anticipated as a result of the Caribbean Basin initiative. Examples of USDA's involvement include a recent agricultural credit course in Haiti, a comprehensive agricultural training plan in Guyana, and a tropical forestry curriculum developed in cooperation with the Forest Service's Tropical Forestry Station in Puerto Rico. Training of plant health inspectors from the Caribbean can also be envisioned.

Coordinating Bilateral Agricultural Programs With Multilateral Organizations. USDA experts, as well as short-term consultants, work with international organizations involved in the Caribbean Basin. USDA is represented on the governing bodies of the Inter-American Institute for Cooperation on Agriculture, as well as other such organizations, and thereby helps direct the organizations' programs and policies of assistance. Discussions are now underway with the staffs of the World Bank and the Inter-American Development Bank to establish subcommittees on food and agriculture to function within the framework of the consortia led by the respective banks.

Assistance for Private Sector Development

The U.S. Government will be working with Caribbean Basin governments to design private sector development strategies which combine private, public, and voluntary organizations' resources in imaginative new programs. We will also explore ways to promote regional trading companies, to provide assistance to comply with U.S. health and sanitary regulations, to improve transportation links, and in general to remove public and private national and regional impediments to private sector development with emphasis on new investment.

AID will be coordinating this process in Washington, and the AID missions will have a parallel role in the basin countries. Other U.S. Government institutions, particularly the Department of Commerce, and the private sector in the United States and in the basin will have important responsibilities. Puerto Rico and the Virgin Islands will also have an important role in sharing their own expertise and experience. But the creation of an environment which encourages business activity will require the leadership of basin governments.

Among the factors that will be considered are: the current condition of the private sector; the business climate; government policies affecting the private sector; public and private institutions serving the private sector; and bottlenecks to significant expansion of investment, production, exports, and particularly jobs. Some of the specific bottlenecks which will be addressed are financing shortfalls, market information and export/investment know-how, deficits in trained people, and infrastructure problems.

Trade Credit Insurance Program

At the present time, U.S. banks are reluctant to provide short-term credits for certain Caribbean Basin countries. This reluctance stems from the banks' perceptions of the serious economic and/or political developments in these countries and their assessment that providing credits in the face of these developments would entail extraordinary risks of loss which they are not prepared to take. Within the Caribbean Basin countries the demand for U.S. credits—which is not being fulfilled because of these risks—is estimated to exceed $1 billion. To induce the reopening of short-term credits, there is a need for reasonably priced and effective insurance which would protect the U.S. banks against these extraordinary risks.

The Export-Import Bank has already been providing medium-term credit or credit guarantees through U.S. exporters and banks to borrowers in the Caribbean Basin which meet Eximbank's statutory standard of "reasonable assurance of repayment." This amounted to $365.5 million in FY 1981. All of Eximbank's programs are available to U.S. suppliers exporting to those countries, and Eximbank will intensify its efforts to increase the use of its programs by the private sector.

In addition, Eximbank will expand its present protection by considering cover for short-term credits to indigenous commercial banks in creditworthy markets.

Measures for Puerto Rico and the U.S. Virgin Islands

Puerto Rico and the U.S. Virgin Islands are important components of the U.S. presence in the Caribbean area. The United States recognizes the need to insure that the economic development of the U.S. possessions is enhanced by U.S. policy toward the Caribbean region and welcomes their contribution to implementation of the Caribbean Basin initiative.

The U.S. Government has been in close consultation with the Governments of Puerto Rico and the U.S. Virgin Islands about the Caribbean Basin initiative and their role in it. Suggestions made by these governments have been taken into account in designing Caribbean Basin initiative proposals and legislation. In particular, legislation under the Caribbean Basin initiative will reflect Puerto Rican and Virgin Islands interests in the following ways:

- Inclusion of rum in the proposed free trade area is coupled with a proviso that excise taxes on imported rum will be rebated to Puerto Rico and the U.S. Virgin Islands.
- The Administration will support additional tax and investment benefits for the possessions.
- Puerto Rican and Virgin Islands industries will have recourse to the same safeguard procedures as mainland industries in the event they are seriously injured by increased imports from the Caribbean.
- Puerto Rican and Virgin Islands inputs will be considered as Caribbean inputs under the rules-of-origin requirements for duty-free treatment, so as to encourage the use of Puerto Rican and Virgin Islands products.

Puerto Rico and the U.S. Virgin Islands will play a major role in technical assistance, private sector development, and transportation within the Caribbean region. As part of the Caribbean Basin initiative, the Administration will seek congressional authorization for the following measures to foster the development of Puerto Rico and the Virgin Islands:

- Establishment of a tropical agricultural research center in Mayaguez, Puerto Rico;
- Funding for an eastern Caribbean center for educational, cultural, technical, and scientific interchange at the College of the Virgin Islands;
- Use of Puerto Rican and Virgin Islands facilities, personnel, and firms in technical assistance programs and development projects; and
- Expansion of airports in the Virgin Islands and other measures to encourage the development of Puerto Rico

and the Virgin Islands as a transportation hub for the Caribbean region.

Other measures not directly related to the Caribbean Basin initiative are being discussed with Puerto Rican and Virgin Islands officials.

III. INTERNATIONAL ASSISTANCE ACTIVITIES IN THE CARIBBEAN BASIN

From the beginning, the Caribbean Basin initiative has been a multilateral and not just a U.S. effort. The first foreign heads of state to visit President Reagan were President Lopez Portillo of Mexico and Prime Minister Seaga of Jamaica. Out of their conversations came the concept of a multilateral, region-wide effort to counteract the economic decline of the countries of the Caribbean Basin.

The United States then began conversations with the countries in the region; with Canada, Venezuela, and Mexico; and with our European and Japanese allies. In July 1981 Secretary Haig and U.S. Trade Representative Brock met in Nassau with their colleagues from Mexico, Canada, and Venezuela. This meeting agreed on a coordinated approach to the region's development, combining multilateral efforts, consultations with the countries of the region, and bilateral assistance. It also went beyond traditional foreign aid approaches to include changes in trade and investment policy. More recently Colombia has also expressed an interest in contributing to the initiative.

The United States and the other three countries of the so-called Nassau group have held a series of multilateral and bilateral meetings with the countries of the Caribbean Basin. In San Jose in September 1981, it was agreed to form a multilateral consultative group for the Central American countries, analogous to the Caribbean Group for Cooperation in Economic Development. These two groups will provide fora where donor countries can coordinate their development assistance effort and where country policies can be discussed, studied, and coordinated.

After an October 1981 multilateral meeting in Santo Domingo with the Caribbean island countries, the United States held bilateral consultations with almost every country in the Caribbean Basin region. During these meetings we sought their comments and suggestions, got a better idea of their needs and priorities, and informed them which U.S. actions appeared the most feasible.

Emphasis on the multilateral approach derives from three factors. First is the recognition that many other countries and institutions have interests in the basin and are already active there. Second is the recognition that the isolated efforts of a single country—even such a relatively rich and powerful country as the United States—are not enough to reverse the economic decline of the region. A coordinated approach can multiply the impact of each individual effort. In the final analysis, of course, most of the responsibility for development of the Caribbean Basin rests with the countries of the region themselves. We will intensify our efforts through the International Monetary Fund, the World Bank, the Inter-American Development Bank, and, bilaterally, to help these governments devise coherent development strategies.

Canada

Canadian interest and assistance to countries in the Caribbean Basin have been growing rapidly in the past year. Traditionally, Canadian political and economic ties in the area had been concentrated in commonwealth countries. These contacts reflected both the English- and French-speaking heritages of Canadians. Canada has recently, however, broadened its emphasis to a wider group of Caribbean countries.

Foreign Minister MacGuigan in a speech on Canadian policy toward Latin America and the Caribbean said the government recognized two main concepts in its development policy: the mutuality of interest of both North and South in solving global economic problems and the humanitarian need to focus attention and resources on the world's poorest peoples and countries.

Canada sees economic progress over the longer term as a key factor in achieving regional stability. The Caribbean Basin initiative area has had a growing role for Canada in economic terms. Canadian exports to the area have grown from slightly under C$800 million in 1977 to an estimated C$1.8 billion in 1981. Imports from the area into Canada have increased from roughly C$600 million to C$1.8 billion over the same period. While Canadian trade with the area only accounts for about 2% of Canada's total foreign trade, the increases are significant. Countries of the region have benefitted from the Canadian Generalized Preferential Tariff System since the early 1970s. In addition Commonwealth countries in the region enjoy the benefits of Canada's Commonwealth Preferences.

In its aid program, Canada has just announced a threefold increase in development assistance to Central American countries—C$105 million has been allocated for the region over the next 5 years. This compares to about C$60 million allocated from 1972 until now. Minister MacGuigan said the move reflected "Canada's deep concern for the conditions of poverty and economic dislocation in Central America which lie beneath the current instability and traumatic social change there." Major recipients of assistance will be Honduras, Costa Rica, Nicaragua, and Panama.

Earlier, Canada announced plans to increase its official development assistance to the Commonwealth Caribbean from about C$43 million in 1981–82 to C$90 million in 1986–87.

Mexico

Since June 1981 when Mexican President Lopez Portillo met with President Reagan at Camp David, Mexico has been a partner in the Caribbean Basin initiative. Despite differences with the United States on regional political developments, Mexico views the initiative as positive in terms of North/South cooperation. Mexico shares the U.S. perception that additional cooperative measures should be taken to stimulate economic and social development in the region in order to eliminate the underlying causes of political instability in the area. At the same time it has stressed its interest in seeing the benefits of the Caribbean Basin initiative open to all countries of the region on a nonexclusionary, nonpolitical basis.

Mexico's principal contribution to the region, worth at least $300 million annually, is through the joint Mexican-Venezuelan oil facility. This program finances 30% of Mexico's and Venezuela's oil shipments to El Salvador, Guatemala, Honduras, Costa Rica, Nicaragua, Panama, Barbados, Jamaica, and the Dominican Republic.

Mexico grants trade preferences to El Salvador, Guatemala, Costa Rica, Panama, and the countries of the Caribbean Common Market (CARICOM). The preferences, which take the form of 50%–75% import rebates on about 25 products from each country, are generally for the principal exports of those countries.

Mexico also finances over 200 individual technical assistance grants in the Caribbean and Central America.

Venezuela

Venezuela is one of the four sponsoring countries of the Caribbean Basin initiative. It has long been a donor of aid to less developed nations. Venezuela has reported that it gave \$6.5 billion in financial assistance abroad from 1974 to 1980. Annual amounts equaled between 1.2% and 2.2% of GNP. The bulk of this assistance was to countries of the Caribbean, Central America, and the Andean Pact.

Venezuela remains committed to continuing financial assistance in the Caribbean Basin region. In 1980, Venezuela joined Mexico in formulating an oil facility for the energy poor nations of the Caribbean Basin. Nine nations are currently benefiting from this agreement, and several more may be added shortly. Under the facility's terms, the two donors agreed to extend semisoft loans (5 years at 4% interest) to the recipients to cover 30% of their oil bill. If the loan proceeds are used for economic development projects, the terms change to 20 years at 2% interest. The two donors also agreed to guarantee half of each recipient country's oil supply requirement, up to a total of 160,000 barrels per day. At current oil prices, the oil facility is worth approximately \$700 million in concessional financing per year to the recipients. During the facility's first year, Venezuela disbursed \$289.2 million, and for the second year, running from August 1981 to July 1982, Venezuela has committed a total of \$302 million.

Venezuela has further assisted Caribbean Basin nations financially through the following Central Bank deposits: 1980—Nicaragua, \$37 million, and the Dominican Republic, \$11.1 million; 1981—Costa Rica, \$20 million, and Jamaica, \$25 million. The Government of Venezuela has also announced that \$69 million in project-related loans will be granted in Central America in 1982. The beneficiaries will be El Salvador, Nicaragua, and Costa Rica. Venezuela is also a generous donor to multilateral institutions such as the Inter-American Development Bank (IDB) and the OPEC Special Fund, which extend financial help to Caribbean Basin countries.

Total Venezuelan multilateral disbursements in 1980 (last year available) were \$456 million.

Europe and Japan

In several consultations on the Caribbean Basin initiative, European aid donors and the Commission of the European Community (EC) have expressed interest in cooperating with the initiative. Eleven Caribbean states (Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Lucia, Suriname, and Trinidad and Tobago) are beneficiaries of the EC's trade and aid program under the Lome II convention. Also the EC has provided aid to "nonassociated" countries in the region and is considering an expanded assistance program for Central American states. In addition to the EC programs, several European states maintain bilateral assistance programs for both Lome members and "nonassociated" states in the region.

Lome members, including the Caribbean states, receive trade benefits in the form of duty-free access for their exports to the EC, subject to provisions on rules of origin and safeguards. A special arrangement on sugar provides for specified amounts of sugar to be imported by the EC at prices well above the world market price. Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago benefit from this arrangement. A quota arrangement for duty-free importation of rum also benefits Caribbean members.

The EC's generalized system of preferences is open to Lome members as well as non-Lome LDCs, including all states in the Caribbean and Central America.

In recent years Japan has adopted an increasingly more global foreign policy in recognition of its responsibilities as the free world's second largest economic power. Japanese relations with the Caribbean Basin have developed slowly, commensurate with Japan's relatively limited interests in the region. However, Japan's engagement in the area is expanding.

Japanese policies in the region have generally complemented our own, although they diverge on some issues (e.g. Japan's active trade with Cuba). Japan's \$10 million loan to Jamaica in 1981 reflects both Japan's willingness to contribute to the economic development of the region and the will to cooperate with the United States.

International Financial Institutions

The international financial institutions most active in the Caribbean Basin have been the World Bank, the Inter-American Development Bank, and the International Monetary Fund. Over the past 2 years, the two banks have undertaken new commitments to basin countries totaling more than \$1.6 billion, with about \$700 million committed by the World Bank and \$900 million by the Inter-American Development Bank. The World Bank, through its lending and technical assistance activities, has promoted sound economic policies in Caribbean and Central American countries. In addition to project loans, the World Bank has recently begun some structural adjustment lending in selected basin countries, conditioning drawings from these loans to progress on specific economic reforms agreed to by the borrowing governments. The Inter-American Development Bank has focused its activities on agriculture, related rural development projects, and energy. It is also becoming more involved in an economic policy dialogue with its borrowers.

The World Bank chairs the Caribbean Group for Cooperation in Economic Development, which has served to coordinate aid policy by the donors and self-help efforts by recipient Caribbean countries. Recently, the Inter-American Development Bank agreed to serve as the secretariat institution for a Central American group which will seek to coordinate donor activities and individual country programs for countries in that region.

The International Monetary Fund has been active in the Caribbean and Central America in formulating individual country economic stabilization programs, when necessary. Under these programs, the IMF and basin governments have agreed on measures to correct balance-of-payments disequilibria. While these measures are being implemented, the IMF allows its member countries to purchase foreign exchange to be repaid gradually once stabilization has been achieved. The IMF currently has active programs in Jamaica, Dominica, and El Salvador and is expected to begin new programs soon in Costa Rica and Honduras.

Consultative Groups

Since 1978, the nations of the Caribbean and principal donors have coordinated assistance and development programs under the framework of the Caribbean Group for Cooperation in Economic Development, with the World Bank as the lead institution. Recently, the Inter-American Development Bank accepted a secretariat role for a Central American group, which will develop individual country programs and coordinate donor assistance for Central American countries.

The United States supports these two groups as important mechanisms to insure that sound development programs are formulated which can draw broad donor support.

Caribbean Group for Cooperation in Economic Development. The United States has been a strong supporter of the Caribbean group and was instrumental in its formation. Beginning in 1978, annual meetings have been held at the IBRD each June under the Bank's auspices. These have been supplemented by ad hoc sessions throughout the year which prepare for the annual meetings and focus on particular issues, such as the May 1981 meeting in Antigua concerning the special problems of the eastern Caribbean countries. At the annual meetings, subgroups are held on individual countries, as well as regional sessions touching on issues affecting all countries.

The stated objective of the group as presently constituted is to nurture an ongoing process through which external donors increase, in a coordinated way, their financial and technical assistance to the Caribbean area in support of appropriate short- and long-term economic programs undertaken by countries of the region. Particular attention is given to the need to increase regional cooperation among Caribbean countries.

The United States has found the group particularly useful as a forum for recipient countries to focus on their self-help efforts and progress on compliance with sound development programs worked out in coordination with the IMF and major donors. It also has been effective in providing a framework to attract nontraditional donor assistance.

Our basic assumption has been that full development potential of the individual policies of the Caribbean can only be achieved through regional cooperation and economic complementarity. We have promoted the Caribbean group as a continuing consultative mechanism to analyze development problems; to achieve common understanding of Caribbean development priorities and assistance requirements; and to coordinate external assistance in an efficient manner.

We have sought to assure that the group devotes its attention not only to short-term balance-of-payments difficulties but to the longer term task of correcting the underlying structural problems. Within this context, we have encouraged recipient government policies which are conducive to mobilizing domestic and external resources, which promote private enterprise development and employment opportunities, which recognize the importance of revitalization of agriculture and the strengthening of government institutions, and which encourage common services among the small islands and other forms of regional cooperation for providing essential services at affordable costs.

Assistance flows have increased significantly during the operation of the Caribbean group—from an estimated total of $467.3 million in FY 1978–79 to $683 million in FY 1980 and to $1.064 billion in FY 1980–81.

Central American Group. The Inter-American Development Bank recently accepted a request from Central American countries to serve as the secretariat institution for a Central American group. The new group would formulate individual country development and stabilization strategies, drawing heavily on technical expertise from the IDB and other international institutions. The United States supports the formation of this new group, and anticipates that it will provide a useful mechanism for recipients and donors alike.

As the Caribbean and Central American groups evolve, we believe it would be productive for both to address trade and investment matters as well as assistance, drawing in private sector participation as well. In this way, the key bottlenecks to increased production could be brought to the forefront. ■

Published by the United States Department of State • Bureau of Public Affairs Office of Public Communication • Editorial Division • Washington, D.C. • March 1982 Editor: Colleen Sussman •

Current
Policy No. 370

President Reagan

Caribbean Basin Initiative

February 24, 1982

United States Department of State
Bureau of Public Affairs
Washington, D.C.

Following is an address by President Reagan before the Organization of American States (OAS), Washington, D.C., February 24, 1982.

The principles which the Organization of American States embodies—democracy, self-determination, economic development, and collective security—are at the heart of U.S. foreign policy. The United States of America is a proud member of this organization. What happens anywhere in the Americas affects us in this country. In that very real sense, we share a common destiny. We, the peoples of the Americas, have much more in common than geographical proximity. For over 400 years our peoples have shared the dangers and dreams of building a new world. From colonialism to nationhood, our common quest has been for freedom.

Most of our forebears came to this hemisphere seeking a better life for themselves. They came in search of opportunity and, yes, in search of God. Virtually all descendants of the land and immigrants alike have had to fight for independence. Having gained it, they've had to fight to retain it. There were times when we even fought each other.

Gradually, however, the nations of this hemisphere developed a set of common principles and institutions that provided the basis for mutual protection. Some 20 years ago, John F. Kennedy caught the essence of our unique mission when he said it was up to the New World "... to demonstrate... that man's unsatisfied aspiration for economic progress and social justice can best be achieved by free men working within a framework of democratic institutions."

In the commitment to freedom and independence, the peoples of this hemisphere are one. In this profound sense, we are all Americans. Our principles are rooted in self-government and nonintervention. We believe in the rule of law. We know that a nation cannot be liberated by depriving its people of liberty. We know that a state cannot be free when its independence is subordinated to a foreign power. And we know that a government cannot be democratic if it refuses to take the test of a free election.

We have not always lived up to these ideals. All of us at one time or another in our history have been politically weak, economically backward, socially unjust, or unable to solve our problems through peaceful means. My own country, too, has suffered internal strife including a tragic civil war. We have known economic misery and once tolerated racial and social injustice. And, yes, at times we have behaved arrogantly and impatiently toward our neighbors. These experiences have left their scars, but they also help us today to identify with the struggle for political and economic development in the other countries of this hemisphere.

Out of the crucible of our common past, the Americas have emerged as more equal and more understanding partners. Our hemisphere has an unlimited potential for economic development and human fulfillment. We have a combined population of more than 600 million people; our continents and our islands boast vast reservoirs of food and raw materials; and the markets of the Americas have already produced the highest standard of living among the advanced as well as the developing countries of the world. The example that we could offer to the world would not only discourage foes, it would project like a beacon of hope to all of the oppressed and impoverished nations of the world. We are the New World, a world of sovereign and independent states that today stands shoulder to shoulder with a common respect for one another and a greater tolerance of one another's shortcomings.

Some 2 years ago when I announced as a candidate for the Presidency, I spoke of an ambition I had to bring about an accord with our two neighbors here on the North American Continent. Now, I was not suggesting a common market or any kind of formal arrangement. "Accord" was the only word that seemed to fit what I had in mind. I was aware that the United States has long enjoyed friendly relations with Mexico and Canada, that our borders have no fortifications. Yet it seemed to me that there was a potential for a closer relationship than had yet been achieved. Three great nations share the North American Continent with all its human and natural resources. Have we done all we can to create a relationship in which each country can realize its potential to the fullest?

Now, I know in the past the United States has proposed policies that we declared would be mutually beneficial not only for North America but also for the nations of the Caribbean and Central and South America. But there was often a problem. No matter how good our intentions were, our very size may have made it seem that we were exercising a kind of paternalism.

At the time I suggested a new North American accord, I said I wanted to approach our neighbors not as someone with yet another plan but as a friend seeking their ideas, their suggestions as to how we would become better neighbors. I met with President Lopez-Portillo in Mexico before my inauguration and with Prime Minister Trudeau in Canada shortly after I had taken office. We have all met several times since—in the United States, in Mexico, and Canada. And I believe that we have established a relationship better than any our three countries have ever known before.

Economic Health of the Caribbean Basin

Today I would like to talk about our other neighbors—neighbors by the sea—some two dozen countries of the Caribbean and Central America. These countries are not unfamiliar names from some isolated corner of the world far from home. They're very close to home. The country of El Salvador, for example, is nearer to Texas than Texas is to Massachusetts. The Caribbean region is a vital strategic and commercial artery for the United States. Nearly half of our trade, two-thirds of our imported oil, and over half of our imported strategic minerals pass through the Panama Canal or the Gulf of Mexico. Make no mistake: The well-being and security of our neighbors in this region are in our own vital interest.

Economic health is one of the keys to a secure future for our Caribbean Basin and to the neighbors there. I'm happy to say that Mexico, Canada, and Venezuela have joined in this search for ways to help these countries realize their economic potential. Each of our four nations has its own unique position and approach. Mexico and Venezuela are helping to offset energy costs to Caribbean Basin countries by means of an oil facility that is already in operation. Canada is doubling its already significant economic assistance.

We all seek to insure that the peoples of this area have the right to preserve their own national identities, to improve their economic lot, and to develop their political institutions to suit their own unique social and historical needs. The Central American and Caribbean countries differ widely in culture, personality, and needs. Like America itself, the Caribbean Basin is an extraordinary mosaic of Hispanics, Africans, Asians, and Europeans, as well as native Americans.

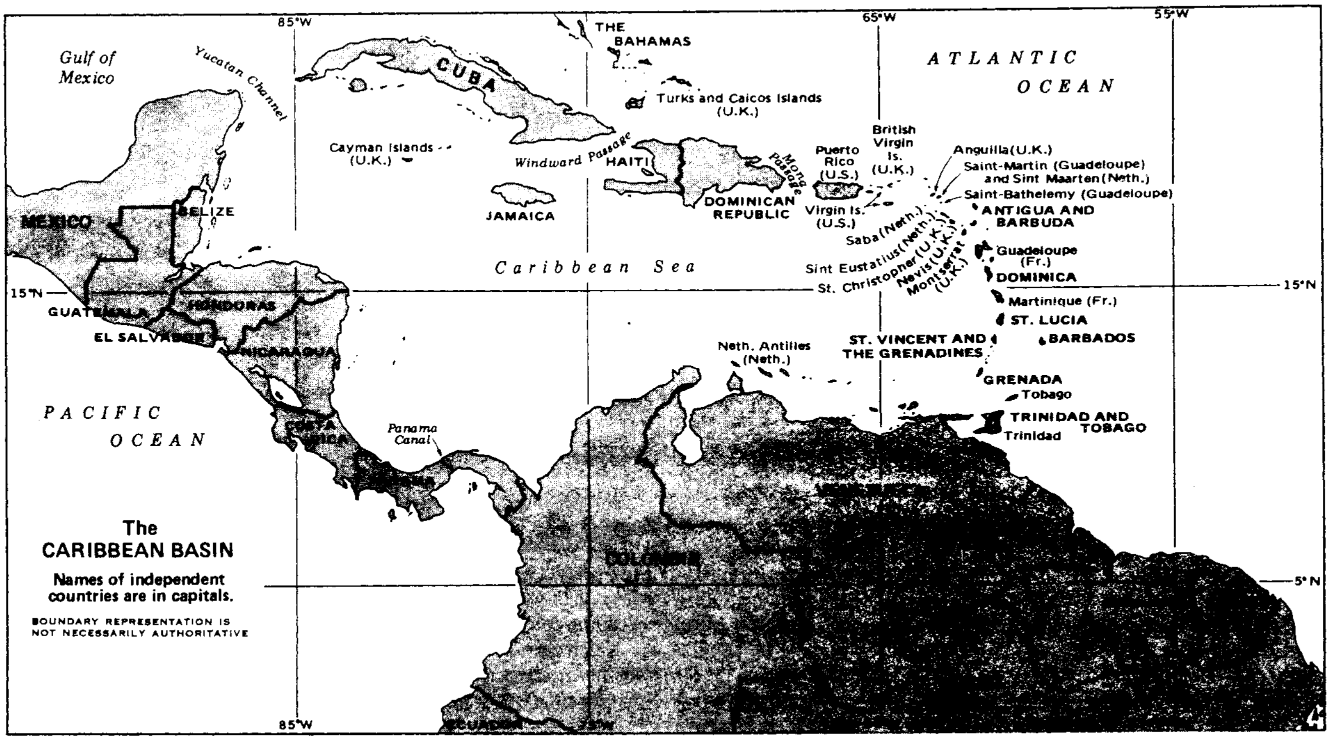
At the moment, however, these countries are under economic siege. In 1977, 1 barrel of oil was worth 5 pounds of coffee or 155 pounds of sugar. To buy that same barrel of oil today, these small countries must provide five times as much coffee (nearly 26 pounds) or almost twice as much sugar (283 pounds). This economic disaster is consuming our neighbors' money, reserves, and credit, forcing thousands of people to leave for other countries—for the United States, often illegally—and shaking even the most established democracies. And economic disaster has provided a fresh opening to the enemies of freedom, national independence, and peaceful development.

Proposed Economic Program

We've taken the time to consult closely with other governments in the region, both sponsors and beneficiaries, to ask them what they need and what they think will work. And we've labored long to develop an economic program that integrates trade, aid, and investment—a program that represents a long-term commitment to the countries of the Caribbean and Central America to make use of the magic of the marketplace, the market of the Americas, and to earn their own way toward self-sustaining growth.

At the Cancun summit last October, I presented a fresh view of a development which stressed more than aid and government intervention. As I pointed out then, nearly all of the countries that have succeeded in their development over the past 30 years have done so on the strength of market-oriented policies and vigorous participation in the international economy. Aid must be complemented by trade and investment.

The program I'm proposing today puts these principles into practice. It is an integrated program that helps our neighbors help themselves, a program that will create conditions under which creativity and private entrepreneurship and self-help can flourish. Aid is an important part of this program because many of our neighbors need it to put themselves in a starting position from which they can begin to earn their own way. But this aid will encourage private sector activities but not displace them.



Data on Potential Beneficiaries of the Caribbean Basin Initiative

TOTAL POPULATION: 39 million
TOTAL GDP: $45 billion

Country	Population (millions of persons)	Gross Domestic Product ($ millions)	Exports to U.S. ($ millions)	Imports from U.S. (% of total)
Bahamas	.22	1,267	1,382	51
Barbados	.25	815	96	28
Belize	.15	165	60	40
Cayman Islands	.15	—	3	—
Costa Rica	2.24	4,847	356	36
Dominican Republic	5.43	6,733	786	55
Eastern Caribbean *(Anguilla, Antigua and Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, Saint Christopher-Nevis, Saint Lucia, Saint Vincent and the Grenadines)*	.65	500	37	45
El Salvador	4.50	3,484	427	30
Jamaica	2.19	2,402	383	29
Guatemala	7.26	7,852	435	38
Guyana	.79	524	120	25
Haiti	5.01	1,453	252	89
Honduras	3.69	2,538	419	40
Netherlands Antilles	.27	—	2,564	—
Nicaragua	2.70	1,566	211	28
Panama	1.94	3,511	330	48
Suriname	.39	109	1,030	30
Trinidad and Tobago	1.14	6,708	2,378	39
Turks and Caicos Islands	.07	—	3	—

First. The centerpiece of the program that I am sending to the Congress is free trade for Caribbean Basin products exported to the United States. Currently, some 87% of Caribbean exports already enter U.S. markets duty free under the generalized system of preferences. These exports, however, cover only the limited range of existing products, not the wide variety of potential products these talented and industrious peoples are capable of producing under the free trade arrangement that I am proposing. Exports from the area will receive duty-free treatment for 12 years. Thus, new investors will be able to enter the market knowing that their products will receive duty-free treatment for at least the pay-off lifetime of their investments. Before granting duty-free treatment, we will discuss with each country its own self-help measures.

The only exception to the free trade concept will be textile and apparel products because these products are covered now by other international agreements. However, we will make sure that our immediate neighbors have more liberal quota arrangements.

This economic proposal is as unprecedented as today's crisis in the Caribbean. Never before has the United States offered a preferential trading arrangement to any region. This commitment makes unmistakably clear our determination to help our neighbors grow strong. The impact of this free trade approach will develop slowly. The economies that we seek to help are small. Even as they grow, all the protections now available to U.S. industry, agriculture, and labor against disruptive imports will remain. And growth in the Caribbean will benefit everyone with American exports finding new markets.

Second. To further attract investment, I will ask the Congress to provide significant tax incentives for investment in the Caribbean Basin. We also stand ready to negotiate bilateral investment treaties with interested basin countries.

Third. I'm asking for a supplemental fiscal year 1982 appropriation of $350 million to assist those countries which are particularly hard hit economically. Much of this aid will be concentrated on the private sector. These steps will help foster the spirit of enterprise necessary to take advantage of the trade and investment portions of the program.

Fourth. We will offer technical assistance and training to assist the private sector in the basin countries to benefit from the opportunities of this program. This will include investment promotion, export marketing, and technology transfer efforts, as well as programs to facilitate adjustments to greater competition and production in agriculture and industry. I intend to seek the active participation of the business community in this joint undertaking. The Peace Corps already has 861 volunteers in Caribbean Basin countries and will give special emphasis to recruiting volunteers with skills in developing local enterprise.

Fifth. We will work closely with Mexico, Canada, and Venezuela, all of whom have already begun substantial and innovative programs of their own to encourage stronger international efforts to coordinate our own development measures with their vital contributions, and with those of other potential donors like Colombia. We will also encourage our European, Japanese, and other Asian allies as well as multilateral development institutions to increase their assistance in the region.

Sixth. Given our special valued relationship with Puerto Rico and the U.S. Virgin Islands, we will propose special measures to insure that they also will benefit and prosper from this program. With their strong traditions of democracy and free enterprise, they can play leading roles in the development of the area.

This program has been carefully prepared. It represents a farsighted act by our own people at a time of considerable economic difficulty at home. I wouldn't propose it if I were not convinced that it is vital to the security interests of this nation and of this hemisphere. The energy, the time, and the treasure we dedicate to assisting the development of our neighbors now can help to prevent the much larger expenditures of treasure as well as human lives which would flow from their collapse.

One early sign is positive. After a decade of falling income and exceptionally high unemployment, Jamaica's new leadership is reducing bureaucracy, dismantling unworkable controls, and attracting new investment. Continued outside assistance will be needed to tide Jamaica over until market forces generate large increases in output and employment, but Jamaica is making freedom work.

Threats to Security

I've spoken up to now mainly of the economic and social challenges to development. But there are also other dangers. A new kind of colonialism stalks the world today and threatens our independence. It is brutal and totalitarian. It is not of our hemisphere but it threatens our hemisphere and has established footholds on American soil for the expansion of its colonialist ambitions.

The events of the last several years dramatize two different futures which are possible for the Caribbean area: either the establishment or restoration of moderate, constitutional governments with economic growth and improved living standards; or further expansion of political violence from the extreme left and the extreme right resulting in the imposition of dictatorships and inevitably more economic decline and human suffering.

The positive opportunity is illustrated by the two-thirds of the nations in the area which have democratic governments. The dark future is foreshadowed by the poverty and repression of Castro's Cuba, the tightening grip of the totalitarian left in Grenada and Nicaragua, and the expansion of Soviet-backed, Cuban-managed support for violent revolution in Central America.

The record is clear. Nowhere in its whole sordid history have the promises of communism been redeemed. Everywhere it has exploited and aggravated temporary economic suffering to seize power and then to institutionalize economic deprivation and suppress human rights. Right now, 6 million people worldwide are refugees from Communist systems. Already, more than a million Cubans alone have fled Communist tyranny.

Our economic and social program cannot work if our neighbors cannot pursue their own economic and political future in peace but must divert their resources, instead, to fight imported terrorism and armed attack. Economic progress cannot be made while guerrillas systematically burn, bomb, and destroy bridges, farms, and power and transportation systems—all with the deliberate intention of worsening economic and social problems in hopes of radicalizing already suffering people.

Our Caribbean neighbors' peaceful attempts to develop are feared by the foes of freedom because their success will make the radical message a hollow one. Cuba and its Soviet backers know this. Since 1978, Havana has trained, armed, and directed extremists in guerrilla warfare and economic sabotage as part of a campaign to exploit troubles in Central America and the Caribbean. Their goal is to establish Cuban-style Marxist-Leninist dictatorships. Last year, Cuba received 66,000 tons of war supplies from the Soviet Union—more than in any year since the 1962 missile crisis. Last month, the arrival of additional high-performance MiG-23/Floggers gave Cuba an arsenal of more than 200 Soviet warplanes—far more than the military aircraft inventories of all other Caribbean Basin countries combined.

For almost 2 years, Nicaragua has served as a platform for covert military action. Through Nicaragua, arms are being smuggled to guerrillas in El Salvador and Guatemala. The Nicaraguan Government even admits the forced relocation of about 8,500 Miskito Indians. And we have clear evidence that since late 1981, many Indian communities have been burned to the ground and men, women, and children killed.

The Nicaraguan junta cabled written assurances to the OAS in 1979 that it intended to respect human rights and hold free elections. Two years later, these commitments can be measured by the postponement of elections until 1985; by repression against free trade unions, against the media and minorities; and—in defiance of all international civility—by the continued export of arms and subversion to neighboring countries.

Two years ago, in contrast, the Government of El Salvador began an unprecedented land reform. It has repeatedly urged the guerrillas to renounce violence, to join in the democratic process—an election in which the people of El Salvador could determine the government they prefer. Our own country and other American nations through the OAS have urged such a course. The guerrillas have refused. More than that, they now threaten violence and death to those who participate in such an election.

Can anything make more clear the nature of those who pretend to be supporters of so-called "wars of liberation"? A determined propaganda campaign has sought to mislead many in Europe and certainly many in the United States as to the true nature of the conflict in El Salvador. Very simply, guerrillas, armed and supported by and through Cuba, are attempting to impose a Marxist-Leninist dictatorship on the people of El Salvador as part of a larger imperialistic plan. If we do not act promptly and decisively in defense of freedom, new Cubas will arise from the ruins of today's conflicts. We will face more totalitarian regimes tied militarily to the Soviet Union; more regimes exporting subversion; more regimes so incompetent yet so totalitarian that their citizens' only hope becomes that of one day migrating to other American nations, as in recent years they have come to the United States.

I believe free and peaceful development of our hemisphere requires us to help governments confronted with aggression from outside their borders to defend themselves. For this reason, I will ask the Congress to provide increased security assistance to help friendly countries hold off those who would destroy their chances for economic and social progress and political democracy. Since 1947, the Rio Treaty has established reciprocal defense responsibilities linked to our common democratic ideals. Meeting these responsibilities is all the more important when an outside power supports terrorism and insurgency to destroy any possibility of freedom and democracy. Let our friends and our adversaries understand that we will do whatever is prudent and necessary to insure the peace and security of the Caribbean area.

In the face of outside threats, security for the countries of the Caribbean and Central American area is not an end in itself but a means to an end. It is a means toward building representative and responsive institutions, toward strengthening pluralism and free private institutions—churches, free trade unions, and an independent press. It is a means for nurturing the basic human rights that freedom's foes would stamp out. In the Caribbean we above all seek to protect those values and principles that shape the proud heritage of this hemisphere. I have already expressed our support for the coming election in El Salvador. We also strongly support the Central American Democratic Community formed this January by Costa Rica, Honduras, and El Salvador. The United States will work closely with other concerned democracies inside and outside the area to preserve and enhance our common democratic values.

We will not, however, follow Cuba's lead in attempting to resolve human problems by brute force. Our economic assistance, including the additions that are part of the program I've just outlined, is more than five times the amount of our security assistance. The thrust of our aid is to help our neighbors realize freedom, justice, and economic progress.

We seek to exclude no one. Some, however, have turned from their American neighbors and their heritage. Let them return to the traditions and common values of this hemisphere, and we all will welcome them. The choice is theirs.

The Need for Assistance

As I have talked these problems over with friends and fellow citizens here in the United States, I'm often asked, "Why bother? Why should the problems of Central America or the Caribbean concern us? Why should we try to help?" I tell them we must help because the people of the Caribbean and Central America are in a fundamental sense fellow Americans. Freedom is our common destiny. And freedom cannot survive if our neighbors live in misery and oppression. In short, we must do it because we're doing it for each other.

Our neighbors' call for help is addressed to us all here in this country—to the Administration, to the Congress, to millions of Americans from Miami to Chicago, from New York to Los Angeles. This is not Washington's problem; it is the problem of all the people of this great land and of all the other Americas—the great and sovereign republics of North America, the Caribbean Basin, and South America. The Western Hemisphere does not belong to any one of us—we belong to the Western Hemisphere. We are brothers historically as well as geographically.

Now, I'm aware that the United States has pursued good neighbor policies in the past. These policies did some good, but they're inadequate for today. I believe that my country is now ready to go beyond being a good neighbor to being a true friend and brother in the community that belongs as much to others as to us. That, not guns, is the ultimate key to peace and security for us all.

We have to ask ourselves why has it taken so long for us to realize the God-given opportunity that is ours. These two great land masses north and south, so rich in virtually everything we need—together our more than 600 million people can develop what is undeveloped, can eliminate want and poverty, can show the world that our many nations can live in peace, each with its own customs and language and culture but sharing a love for freedom and a determination to resist outside ideologies that would take us back to colonialism.

We return to a common vision. Nearly a century ago a great citizen of the Caribbean and the Americas, Jose Marti, warned that "Mankind is composed of two sorts of men—those who love and create and those who hate and destroy." Today more than ever the compassionate, creative peoples of the Americas have an opportunity to stand together; to overcome injustice, hatred, and oppression; and to build a better life for all the Americas.

I have always believed that this hemisphere was a special place with a special destiny. I believe we are destined to be the beacon of hope for all mankind. With God's help, we can make it so. We can create a peaceful, free, and prospering hemisphere based on our shared ideals and reaching from pole to pole of what we proudly call the New World.■

Published by the United States Department of State • Bureau of Public Affairs • Office of Public Communication • Editorial Division • Washington, D.C. • March 1982
Editor: Colleen Sussman •

The Caribbean Basin Initiative

On February 24, 1982, President Reagan announced a new U.S. policy to revitalize the economies of the Caribbean and Central American countries, and thereby help bring political stability to the area. The Caribbean Basin Initiative, with its special trade preferences for participating countries, was widely viewed as a sharp departure in postwar U.S. foreign economic policy. But its precise implications were unclear. To explore these implications, FOREIGN POLICY *asked several authors, representing various points of view and different areas of expertise, to evaluate the president's new policy. —The Editor*

MISPLACED EMPHASIS

by Abraham F. Lowenthal

In the Caribbean Basin Initiative (CBI), the Reagan administration has recognized that the United States has a significant interest in Caribbean viability. It has understood that the Caribbean today is in trouble: overwhelmed (especially in the larger islands) by the crunching effects of high energy costs and international inflation as well as the other effects of the international economic downturn, declining agricultural production and productivity, high rates of population growth and unemployment, a steep decline in tourism, and repeated natural disasters. Washington knows that the Caribbean has entered a period of political uncertainty as West European colonial influence recedes, as a generation of leaders that brought independence to much of the area passes from the scene, and as the Cold War enters the region through the attempts of Cuba to expand its influence.

ABRAHAM F. LOWENTHAL *is secretary of the Latin American program, Woodrow Wilson International Center for Scholars.*

In the face of all these problems, the Reagan administration has designed a series of positive measures: one-way free trade to provide market access for the inherently dependent Caribbean territories; technical assistance to help Caribbean countries expand production and exports; and specific measures to encourage private investment. The CBI also includes country quotas for the duty-free entry of sugar into the U.S. market at levels based on recent exports, a concept that should benefit major Caribbean sugar producers without encouraging excess production. But this benefit, unfortunately, may be undercut by the administration's subsequent imposition of protectionist quotas to satisfy domestic growers.

It is good that Washington is finally paying serious attention to the Caribbean and that it is doing so in close consultation with Venezuela, Mexico, Canada, and Colombia. In a period of declining U.S. concern for international development, the administration's proposal to increase concessional aid to the Caribbean is encouraging. And at a time when bluster comes all too easily, the administration's apparent decision to subordinate belligerent rhetoric to concrete measures should be praised.

Despite all its positive features, however, the CBI leaves much to be desired. An East-West focus distorts every aspect of the CBI. The allocations for assistance suggest that obtaining aid from the United States will depend more on a country's attitudes toward Cuba, U.S. foreign policies, and U.S. private investment than on the country's economic need or development prospects. The insignificant aid proposed for Haiti and Honduras, the two poorest countries in their respective regions, illustrates this point, as does the administration's obvious intent to exclude from the CBI not only Cuba but also Nicaragua and Grenada. The CBI reflects the administration's interest in military security, political loyalty, and advantages for U.S. firms, rather than U.S. concern for the region's long-term development. Because most Caribbean countries are dependent on the United States, they will speak the language the administration wants to hear, but they are disenchanted by Washington's emphasis and rhetoric.

SOURCE: Foreign Policy, Summer 1982.

The administration, moreover, has heightened the U.S. bilateral presence and visibility in the Caribbean and has contributed to further intra-Caribbean polarization—by seeking to isolate Grenada, for example—rather than to greater regional integration. The Reagan administration has mistakenly emphasized the private sector as the single key to development. Its role can be crucial, but private investors are unlikely to deal with critical infrastructure problems that severely hamper Caribbean development.

The Reagan administration's preoccupation with the Cold War underlies the very concept of the so-called Caribbean Basin, which embraces both the insular Caribbean and Central America. The notion of a Caribbean Basin has little reality or meaning outside the United States, where it has a long history as a strategic concept.

From Washington's perspective, Central America and the Caribbean are sensitive border regions. Yet there exist important differences between these two regions. Despite divergent colonial traditions, the insular territories of the Caribbean share social, ethnic, economic, and cultural patterns. They also share historical relationships with the United States and other Western powers that differ sharply from those in Central America. Most Caribbean countries are handling social and economic pressures within a framework of established, functioning political institutions, while Central America is wracked by civil war. Most are very closely tied to the United States through extensive economic, cultural, and demographic interaction. Satellites in search of an orbit, they require a regularized pattern of interaction with a metropolitan power. The Central American countries, in contrast, are much more autonomous, both economically and politically. Tangible U.S. interests in Central America are scant, and U.S. influence and leverage are correspondingly lower than in the Caribbean.

U.S. policies toward the two regions should reflect those differences. The Caribbean Basin Initiative—support for further economic development and increased integration with the U.S. economy—makes most sense now in the

insular Caribbean. Lumping Central America and the Caribbean together carries the risk that aid will be channeled mainly to those countries where it can do the least good, precisely because of insurgent activities.

Unfortunately, the very nature of the U.S. political system may make it impossible to obtain the necessary resources for Caribbean development without emphasizing threats, real or imagined, to U.S. security. Even those within the administration who recognize that the Caribbean's problems are primarily internal and who understand that long-term economic and social changes are more important than immediate political loyalty tend to believe that anticommunist rhetoric is required to harness resources. The cost of this approach, however, is precisely the CBI's misplaced emphasis. If Congress and the American people are told that economic assistance is needed for the Caribbean to prevent communist inroads, they will not support future aid programs to countries that pursue independent foreign policies and maintain friendly ties with Cuba, even though long-term U.S. interests might best be served by incorporating such states into a comprehensive Caribbean plan.

The administration should recognize and explain to the American public that the key U.S. interest in the Caribbean is unrelated to military security or political loyalty in the narrow Cold War context. U.S. interest derives primarily from the steady flow of people back and forth between the Caribbean and the United States. One out of every eight persons born in the insular Caribbean and alive today now lives on the mainland of the United States. The equivalent of 80 per cent of the annual increase in the work force of several Caribbean islands migrates to the United States each year. The immigrants come from all over the Caribbean, not solely or even primarily from Cuba; indeed, the share of Cubans immigrating is not higher than the Caribbean-wide percentage. The economic, political, social, and even cultural effects of this migration on the United States are profound.

And there is an important reverse flow to the Caribbean, not only of returning migrants but of Americans as well. Thousands of elderly

Americans retire in the Caribbean. Thousands of younger Americans attend medical schools in Grenada, Dominica, and the Dominican Republic. More than 1 million Americans visit the Caribbean each year as tourists. And American culture and technology, from pop music and college T-shirts to used cars and illegal arms shipments, permeate the islands at all levels and in all classes.

This intense movement of people, based on individual human initiatives that go well beyond the programs of any single administration in Washington, creates binding ties between the United States and the Caribbean. The welfare of the Caribbean islands directly affects U.S. welfare; the Caribbean's problems inevitably become those of the United States.

Understanding this national interest in Caribbean viability would enable the United States to see beyond military bases to basic human needs. It would allow the United States to be less preoccupied with airport runways and more with ways of life and to design policies grounded neither in narrow self-interest nor in national insecurity, but rather in generosity and national self-confidence.

A POSITIVE DEPARTURE

by Peter Johnson

The success or failure of the Caribbean Basin Initiative will have a far-reaching impact on the region's economic and political future; it will color U.S. relations and security in the Caribbean Basin for years to come. Unfortunately, the debate now tends to highlight side issues. As a result, the central thrust and importance of the proposal are being lost. The debate in Congress concentrates on how to keep the CBI from working so well that it results in disadvantages to some American constituency. The

PETER JOHNSON *is executive director of Caribbean/Central American Action, a non-profit organization promoting economic development in the Caribbean Basin.*

debate in the foreign policy community focuses on the motives behind the CBI, wondering if it reflects an arrogant or sinister hidden agenda in U.S. policy rather than something the people of the region really want or need.

The questions posed by the critics are not unimportant—but they are also answerable. In parrying the protectionist opposition, CBI advocates can point out that adverse impacts on the U.S. economy are unlikely. Furthermore, the economic collapse of the Caribbean Basin would have extremely adverse, long-run effects on U.S. immigration, export earnings, and security, far outweighing any short-term disadvantages of the CBI.

To allay ideological concerns, CBI advocates can point out that the leaders of the region have themselves identified the creation of jobs and income through expanded trade, investment, and credit as their most pressing economic priorities; that the CBI's provisions have been designed to respond directly to those expressed priorities; and that Third World countries have long insisted that trade access is of more fundamental importance than new aid programs. And finally, simply because regional security concerns are one motive for the United States to recognize its stake in the economic health of the Caribbean Basin does not make that stake less real or less worthwhile.

The more important question, however, is one that both camps in the CBI debate manage to avoid: Will the CBI actually be helpful? One might also ask whether the CBI will come quickly enough and with sufficient resources to meet the problems it was designed to address.

To understand the purpose of the CBI and its chances for success, one must appreciate the extent to which the CBI's private sector strategy represents a departure from traditional development aid, as well as the regional circumstances that make this new approach possible and necessary. In the past, U.S. development assistance to the Third World, whether bilateral or multilateral, concentrated on government-to-government financial aid. Official U.S. policy toward foreign investment was designed more to defend the rights of U.S. investors abroad than to influence decisions on overseas investment. Under the Generalized

System of Preferences, trade policy included the concept of preferential treatment for developing countries but religiously avoided any trace of bias toward a particular region's development. The Agency for International Development's (AID) dollars bought what they paid for—irrigation projects, roads, rural health clinics, and vocational training programs. They were spent, however, with little consideration for their capacity to attract additional resources from elsewhere.

The CBI is the first concerted effort to use public policies—trade and tax incentives, AID credit and projects, and bilateral investment treaty negotiations—as a means to mobilize a far more substantial array of private resources behind underlying U.S. objectives. For the CBI these objectives include expanding and diversifying production, increasing exports, and substantially reducing unemployment in the Caribbean Basin. To achieve these objectives, the resources needed—investment capital, marketing contacts and commitments, and managerial expertise and technology—must by their very nature come from the private sector. Whatever the difficulties of reaching and mobilizing individual business decision makers, there is no other way to tap into the mainstream of the U.S. economic system where the necessary resources lie.

An All-Out Effort

The United States is coming forward with its Caribbean Basin Initiative at a crucial juncture. After a decade of widespread socialist experimentation, Caribbean electorates and development professionals alike have concluded that centralizing economic power in expensive, slow-moving public sector bureaucracies brings only increased unemployment and economic stagnation. Yet the moderate, progressive governments recently elected in many CBI countries on a platform of economic regeneration through private enterprise and closer ties with the U.S. economy have only a short time to demonstrate their effectiveness. The same desperation that led to experimentation with socialist solutions has now led to a widespread desire to try the private enterprise approach. If that approach also fails to live up to

its expectations, the pendulum can be expected to swing back in the opposite direction with added force.

The CBI provides the necessary framework in which the countries of the Caribbean Basin can undertake the effort of revitalizing their economies. Its trade, aid, and investment provisions are carefully crafted and balanced for maximum potential synergism and mobilization of resources. The Caribbean Basin will benefit from this framework, however, only if individual entrepreneurs decide to use it to create the new markets and undertake the new ventures necessary to make a visible impact on the region's economies. Large numbers of small and middle-sized U.S. firms must be stimulated to invest in the region. Major U.S. processing and distribution firms need to work out dependable arrangements to purchase Caribbean Basin products. Yet precisely because the U.S. economy is not centrally planned and these resources are in the hands of individuals, the private sector approach of the CBI contains a certain amount of unavoidable risk.

For that reason a private sector resource-leveraging approach requires on the part of the U.S. government at least as much active planning and creative leadership—together with substantial public sector funding—as do the more traditional public sector approaches. As the aid component of the CBI package recognizes, public sector investment to meet basic infrastructure needs is essential to attract private investment. Carefully targeted aid programs can overcome specific bottlenecks—insufficient electric power generation, refrigeration equipment for agricultural products, port facilities, or export trading companies—that hold up valuable investments for lack of a few links in a complex chain. Over the past year AID has been increasingly exploring these novel approaches, which directly enhance the process of economic development; it should be further encouraged in this effort.

The administration must also accept the responsibility for mobilizing the U.S. business community. It is one thing to recognize that the needed resources reside in the private sector; it is quite another to assume these resources will be automatically forthcoming. To reach U.S.

firms that are not aware of the opportunities in the basin, a promotional campaign is urgently needed. This effort can and should be mounted with the active involvement of private sector leaders and organizations in the United States and the Caribbean Basin. But the momentum and tone to create an urgent national priority can be set only in Washington and, ultimately, by President Reagan himself.

Finally, the leadership roles of both the public and the private sectors in the Caribbean Basin must receive recognition and support. The recent emphasis on the private sector has brought new vitality to the region's business community and has given rise to a new breed of business leader, with a positive commitment to national interests and developmental progress—the Caribbean Association of Industry and Commerce in the eastern Caribbean and the new Guatemala Chamber of Businessmen in Central America are two such examples.

At the same time, CBI planners must recognize that in the region a broad consensus still exists for active involvement of the state in the economic development process. The chances for the CBI to succeed in generating new business growth—both inside and outside the region's economies—will depend on whether competent, dynamic leaders in the region's governments and private sector organizations will be able to work together to create the kind of climate in which new business can flourish.

With so many potentially unruly elements to orchestrate and with incentives and persuasion as the only real tools at hand, the CBI's private sector development approach might seem to be a high risk venture. It may be that a private enterprise approach to development—like democracy in the political arena—is the worst possible system except for all the others. Yet the need, the resources, and the potential for substantial responsiveness to the region's own priorities are all there. The U.S. government and business community owe it to their Caribbean Basin allies and to America's own national interests to make an honest, all-out effort to make the CBI work. For the CBI to fall short of its objectives is possible, but for the American people to decide not even to try would be disastrous.

PUERTO RICO: PARTNER OR VICTIM?

by Rafael Hernández-Colón

In Puerto Rico, the pro-statehood administration and its delegate to Congress, ignoring the Caribbean Basin Initiative's devastating effects on the island's economy, have endorsed the plan in an effort to gain support for their statehood views in Washington. Puerto Rico's legislature, controlled by the pro-commonwealth party over which I preside, has expressed its concern to the Reagan administration and to Congress about the negative impact the CBI could have on Puerto Rico and has suggested measures that would allow the island to cope and cooperate with the initiative.

Puerto Rico is the most populated area in the Caribbean. Per capita income is 50 per cent below that of Mississippi—the poorest state in the union. After three decades of meaningful economic growth, a period of stagnation set in. Presently, regression is replacing stagnation. Factories are closing continuously; the most recent and dramatic example is the shutdown of the multimillion dollar commonwealth refining and petrochemical complex. The departure of old industries outpaces the opening of new ones, thereby creating a net loss of jobs and a 5 per cent decline in real investment per year. Unemployment has reached 22 per cent. Puerto Rico's construction sector is virtually paralyzed. And because the government faces serious fiscal difficulties, the Reagan budget cuts are particularly painful. In light of this adversity, Puerto Rico must restructure its economy; yet the CBI would make this task virtually impossible.

As the CBI stimulates industrial development in Caribbean countries, they will export manufactured products to the United States, encroaching on those markets that now provide Puerto Rico with income and employment. Puerto Rico's internal market will be the immediate target for the exports of Caribbean

RAFAEL HERNÁNDEZ-COLÓN, *governor of Puerto Rico, 1973–1977, is president of the Popular Democratic party.*

agricultural products (sugar excepted), both because of the island's size and location and because Caribbean food products match Puerto Rican food consumption patterns. Thus, in the short run, the United States is not offering its own market to its Caribbean neighbors but instead that of Puerto Rico.

As sovereign states, the Caribbean Basin countries are free to set their own minimum wages and environmental regulations, eliminate duties on imported materials for manufactured goods, use the cheapest means of ocean transport, buy oil from Venezuela and Mexico at reduced prices, lure tourists through duty-free shops, and protect their agriculture from food imports. Puerto Rico, however, must apply U.S. economic regulations and consequently does not enjoy any of the above freedoms. The resulting inequities will discourage investment in Puerto Rico and ultimately plunge its economy into a regressive tailspin.

President Reagan included several measures in the initiative to insure that Puerto Rico "will benefit and prosper." But these measures are totally inadequate either to prevent injury to Puerto Rico or to compensate for the injury it would surely suffer. It is indeed paradoxical that the United States should put forward a plan to stabilize the Caribbean Basin that will actually destabilize Puerto Rico—the foremost example of a country committed to democratic values and solidarity with the United States in the Caribbean.

The historical relationship between Puerto Rico and the U.S. mainland has been strained as well as challenged on numerous occasions by the forces of reaction and violence. In the 1930s, 1940s, and very early 1950s, these forces were non-communist and less sophisticated, but more widespread and fanatical than they are now. Years of laborious economic, social, and political development under the enlightened democratic leadership of Luis Muñoz muted these upheavals and ushered in a period of stability under the commonwealth structure established in 1952. Local programs based on a fiscal and common market relationship with the United States gradually achieved one of the most spectacular rates of growth in the Caribbean. In the 1970s, however, changes in

the world economy undermined this growth. And current misguided policies, which foster increased Puerto Rican dependence on the United States, have exacerbated the island's economic problems.

Given Puerto Rico's previous economic stability and growth, Marxist-Leninist operations have had only minimal success on the island. But if the CBI's effects are added to current problems, Puerto Rico will suffer social upheaval that will create opportunities for those who advocate violent change.

The legislature of Puerto Rico has presented a set of proposals to the administration and Congress designed to counter the adverse effects the CBI would otherwise impose on Puerto Rico. The most important proposals are:

- eliminating restrictions on Puerto Rican maritime transportation imposed by the Jones Act, thereby placing Puerto Rico in the same competitive position as other Caribbean Basin countries with regard to transportation costs;
- authorizing Puerto Rican tariffs and import controls, especially on agricultural products and on materials imported from foreign countries for use in manufacturing;
- recognizing the commonwealth's capacity to enter into bilateral and multilateral commercial and educational relations with its neighbors. Puerto Rico could then seek participation in the petroleum purchasing facility created by Mexico and Venezuela that is already available to other Caribbean Basin countries with which Puerto Rico must compete; and
- restructuring the present level of federal transfer payments under various grants and categorical programs into a single economic development block grant for Puerto Rico and its municipalities.

The legislature's proposals would create the conditions under which Puerto Rico could live with and complement the economic objectives of the CBI. These conditions would benefit both Puerto Rico and its neighbors. The progress of the Caribbean states need not be built on Puerto Rico's decline. The commonwealth relationship possesses sufficient constitutional flexibility to allow adjustments to be made, thereby permitting Puerto Rico to become a source of stability in the region.

PUERTO RICO WILL BENEFIT

By Baltasar Corrada

The Caribbean Basin Initiative represents the first comprehensive effort in 20 years on the part of the United States to stimulate economic development in that region. With certain modifications, the proposal merits the support of the American people, including the people of Puerto Rico.

From the beginning, Puerto Rico has followed the initiative with interest and concern. The interest springs from an appreciation that Puerto Rico itself is more likely to prosper over the long run if it finds itself in a basin of hopeful prosperity rather than destabilizing poverty. Yet more than economic calculations are at work. Given the common history, heritage, and geographic location of the countries of the basin, Puerto Rico's attraction also springs from the emotions of consanguinity.

Puerto Rico has, however, expressed some concerns about the policy. To be successful, the CBI must adequately protect, preserve, and develop further the Puerto Rican economy. In the letter transmitting the CBI bill to Congress, President Reagan reaffirmed his administration's commitment to a number of steps designed to take into account the special position of Puerto Rico and the Virgin Islands.

The accelerated cost recovery system and the investment tax credit, for example, will be extended to property used by companies operating in Puerto Rico and the U.S. Virgin Islands. Excise taxes on all imported rum will be transferred to Puerto Rico and the Virgin Islands, and other measures may be taken by the president, including the withdrawal of duty-free treatment of rum provided by the initiative, if rum revenues to Puerto Rico and the Virgin Islands are reduced.

To promote the concept of "twin plants" and joint resource development in the basin, inputs

BALTASAR CORRADA *(D.-Puerto Rico) has been the resident commissioner to the U.S. Congress from Puerto Rico since 1976.*

to Caribbean Basin production from plants in Puerto Rico and the Virgin Islands will be considered domestic inputs from Caribbean Basin countries for purposes of the rules of origin when goods are exported to the United States. Industries in Puerto Rico and the Virgin Islands will have access to the same safeguard provisions as mainland industries under the Trade Act of 1974. Thus affected industries will be able to petition for relief from serious injury. Finally, to further the agricultural development of the area, a tropical agricultural research facility will be centered in Mayaguez, Puerto Rico.

Despite these specific measures to aid Puerto Rico, its population remains concerned about certain issues such as the bulk shipment of rum and imported processed tuna. Puerto Rico is urging Congress to amend the legislation to further strengthen Puerto Rican safeguards for rum and tuna. Although Puerto Rico realizes that obsolete protectionist policies are not the solution to the structural problems of the island's economy, it is crucial to prevent the loss of jobs and protect these important industries, which may be adversely affected by the CBI. Initial steps in Congress were somewhat encouraging. Puerto Rico hopes final congressional action will be more helpful.

Whether the CBI can be successful will depend on the kind of partnership the governments of the area decide to forge with private business. A wise partnership will enable the countries in the area to promote fairer business, trade, and labor practices. In contrast, the initiative can only fail if governments encourage activities that exacerbate the unfair exploitation of local resources, including labor, and result in the rich becoming richer. The experience of Puerto Rico can offer an example: Its successful experiments others can suitably adapt; its mistakes they can carefully avoid.

No doubt, political courage will be required. On the mainland and in Puerto Rico, for example, the CBI may create temporary adjustment problems. A difficult political choice will then be posed: very real short-term pain versus much more significant long-run gain. The former can be surmounted and the latter realized if the U.S. government remains fair but not protectionist. For only in that way can the benefits of increased economic activity be spread more widely throughout the region.

A FLAWED MODEL

By Sidney Weintraub

The Caribbean Basin Initiative is the most recent addition to a historic list of U.S. economic initiatives stimulated by anticommunism. The CBI grew out of the recognition that the Western Hemisphere could not be "the beacon of hope for all mankind," to use President Reagan's words, unless economic hope accompanied the militaristic emphasis of U.S. policy in the Caribbean region. Yet the initiative lacks the political excitement of the Marshall Plan, the vision of social reformation of the Alliance for Progress, and the resources of either.

In developing the CBI package, the Reagan administration was confronted with the reality that few significant economic measures were available. For the very short run, there is no substitute for increased aid, particularly for countries approaching or actually submerged in civil war. But aid appropriations have an unwelcome budgetary impact in the United States at a moment of budgetary stringency. So do tax incentives. This reality left the centerpiece to trade. The administration wanted a dramatic centerpiece, and its planners came quickly to special trade preferences.

Caribbean Basin countries already enjoy many privileges: Exports can enter the United States until 1985 under the Generalized System of Preferences (GSP); assembly industries that use U.S. components can now export their products to the United States under section 807 of the U.S. tariff code and be subject to the tariff only for the value added; and most Caribbean Basin countries now provide long tax holidays for foreign investment.

SIDNEY WEINTRAUB, *Dean Rusk Professor of the Lyndon B. Johnson School of Public Affairs at the University of Texas at Austin, is a former deputy assistant secretary of state for economic affairs.*

For the trade and tax incentives of the CBI to have meaning, the countries of the region must expand exports of goods for which tariffs now are imposed, or the incentives must stimulate new investment. Even in the absence of new production, $800 million of currently dutiable imports from the Caribbean Basin countries would enter duty-free under the proposed preferences, and some part of the foregone tariff presumably would return to exporters.

A substantial portion of the foregone tariff would go to a few sugar-producing countries. With the exception of the Dominican Republic (which alone accounts for one-third of U.S. sugar imports), Guatemala, and Panama, all sugar exporting countries of the region now enjoy duty-free treatment in the United States under the GSP because their annual exports do not exceed the competitive-need limitation of $50.9 million. The three countries currently excluded from the GSP would receive preferential treatment under the CBI up to a combined ceiling of 1.15 million metric tons (780,000 tons for the Dominican Republic, 210,000 for Guatemala, and 160,000 for Panama). They would be exempt from paying the U.S. duty but would still be subject to the fee imposed on sugar imports designed to stabilize the U.S. sugar price, which is substantially higher than the world price. The recent imposition of U.S. quotas has further complicated already complex sugar import policies.

In addition to sugar, the main dutiable imports that would enter the United States duty-free under the CBI are electrical and electronic equipment, baseball equipment (from Haiti), leather goods, rum, tobacco and cigars, pharmaceuticals, and some fresh fruits and vegetables. The duties on these items tend to be high because producers in the United States, Puerto Rico, and the Virgin Islands have enough influence to keep them high. It would be naive not to expect efforts to have them excluded from duty-free entry under the CBI.

The promise of significant trade benefits from special preferences must then reside in the new investment that will be stimulated. But the turmoil in Central American countries will certainly make investors cautious. In the Caribbean, the most promising types of industries are assembly plants, mainly for electronic equipment and consumer goods, and there already exist abundant incentives for such investment. The special preferences would add a new ingredient, as would U.S. tax incentives, but rarely a decisive one.

Marketplace Magic

Despite the exclusion of textiles and apparel from the special preferential arrangement, the proposal to expand imports of these products from Caribbean Basin countries at the expense of other suppliers, particularly those in Asia, could be significant, more so than special preferences on many other products. The promise of special treatment coupled with the benefits of section 807 could stimulate investment and increased production of textiles and apparel throughout the Caribbean Basin.

Preferences in international trade can be explicit, or they can be handled on a practical level, item by item. Products that are of principal interest to Caribbean Basin countries could be added to the U.S. GSP list, thereby providing a practical preference without an alteration of current trade policy. In addition, competitive suppliers outside the Caribbean Basin could be graduated from the GSP for that product; this graduation process is already U.S. practice. This approach is quiet, consistent with international obligations, and mostly behind the scenes.

There are positive aspects to the CBI, especially the attention devoted to economic development by using all the instruments available to the United States. The combination, however, is not always harmonious. It focuses on trade policy, which at best takes time to have a substantial impact, to meet what is being addressed as an immediate crisis. It stresses the magic of the marketplace for countries that have small markets and inadequate infrastructures. Modest aid increases are sought with one hand and aid decreases in the multilateral development banks are promoted with the other. Tax incentives to influence the direction of investment are advocated by an administration that has argued that tax policy should be neutral in this respect. A diversity of donor countries is sought under which each partner

can do whatever it wishes in whatever countries it prefers. The main concern about the CBI, however, like U.S. policy generally in the Caribbean Basin, is that it is unlikely to achieve its objective of contributing to the political stabilization of the region and, in turn, may compromise other U.S. interests.

The entire arrangement for special preferences must come before the General Agreement on Tariffs and Trade for a waiver from the most-favored-nation clause. Non-CBI sugar producers can be expected to complain at that time, as may other countries excluded from both the U.S. and West European preference systems. The basis for the most-favored-nation principle in trade policy is less ideological than practical. The goal of a preference is to favor the products of one or a group of countries and, hence, to discriminate against products of other countries. Discrimination arouses deep resentments, as noted in the complaints already received from non-preferred countries under the proposed sugar preferences.

The United States may be able to justify to itself that something special is desirable for Caribbean Basin countries because they are near, but other countries, such as the Philippines—an ex-possession harboring major U.S. military installations and an ex-recipient of U.S. trade preferences—feel they also have some claim to equal treatment. And when resentment builds, the pressure is most easily assuaged by the expansion of preferences, not their containment. Similarly, preferential arrangements are easily entered into but escape is often impossible. Thus the tendency is for special preferences not to diminish over time, but to expand. Preferences may help to contrive a division of the world in which different industrial countries are responsible for meeting the trading needs of specific groups of developing countries.

If the special preferences help significantly expand the exports of Caribbean Basin countries, then the price may be justified. If the special preferences have an insignificant impact, the United States will have compromised commercial policy in vain.

Puerto Rico (as well as the U.S. Virgin Islands, for which many of the following comments apply) has enjoyed tariff preferences in the U.S. market over the years. The CBI now threatens to eliminate much of this preference margin with respect to other Caribbean Basin countries. At issue, however, is something deeper—whether the Puerto Rican development model, which involved special tariff-free treatment in the U.S. market and tax incentives to spur capital investment, should be replicated throughout the Caribbean Basin. These measures distort the relative prices of labor and capital. Even during Puerto Rico's high growth of the 1950s and 1960s employment lagged, and the safety valve of emigration to the mainland was necessary. The administration has implied that the CBI should help stanch emigration from the region to the United States. Past experience provides no basis for such a contention.

The Puerto Rican model has resulted in a gap between gross domestic product and gross national product—that is, a growing proportion of production in Puerto Rico is not available to commonwealth residents because of profits and interest remitted to the mainland. As a result, Puerto Rico has not become self-sustaining, but rather increasingly dependent on the United States. This dependence is evident, among other things, from the large proportion of Puerto Rican families relying on food stamps (between one-half and two-thirds).

The Puerto Rican development model should not be denigrated, since it accomplished much. But neither is it ideal, since it has left many intractable problems in its wake. It merits deeper study than it has been accorded in the elaboration of the CBI. The Puerto Rican experience lends support to those who fear that special trade preferences and exclusive tax incentives inevitably lead to increased dependence and to deep political involvement of the country granting special preferences.

What is missing from the CBI is some technique to force regular consultation and negotiation indefinitely into the future. This consultative process must deal not only with aid issues, but also with the interaction of all types of economic interchange. Periodic scheduled meetings of policy officials would serve to bring issues to the attention of decision makers.

The CBI has no such framework. Any future consultations that occur will necessarily be haphazard; adjustments will be implemented only when there is a crisis. The value of the Marshall Plan was not just in the U.S. aid flows, but also in its consultative and negotiating machinery. Mechanisms were put in place under the Alliance for Progress to force analysis of and stimulate dialogue on the changing scene. The CBI would benefit from a comparable mechanism.

It is not a fair criticism of the CBI that it comes too late. The tardiness of the initiative is not the fault of the present administration. It is not a fair criticism, either, that the resources being devoted to it are inadequate to the task at hand. This is a consequence of the times. The criticisms that are fair are that the presentation thus far has been inadequate in setting forth the benefits that can be expected from the initiative, how they would be shared among the disparate countries of what is being called the Caribbean Basin, how prospective benefits measure up against potential costs, and whether the underlying economic development model is valid.

A BILATERALIST GAMBLE

by Richard E. Feinberg and Richard S. Newfarmer

The Caribbean Basin Initiative, although it contains laudable provisions, marks a radical departure in the international economic policy of the United States. It sweeps aside the postwar tradition of globalism—the policy of non-discrimination that has applied the same rules for trade and investment to all countries—and substitutes preferential regionalism in the name of national security. In its worst light, the program could be interpreted as a

RICHARD E. FEINBERG *is author of* Subsidizing Success: The Export-Import Bank in the U.S. Economy. RICHARD S. NEWFARMER *is editor of the forthcoming* From Gunboats to Diplomacy: New U.S. Policies for Latin America. *Both are fellows at the Overseas Development Council.*

politicization of trade and investment that ultimately undermines U.S. interests in an expanding, non-discriminatory trade and investment regime.

The concept of a Caribbean Basin is more geopolitical than economic. In the Dominican Republic, much of the English-speaking Caribbean, and Panama, relatively stable political structures already exist, and the chances of success are best. In Central America, however, powerful insurgencies have challenged the political status quo. On balance, the administration's interest in the Caribbean Basin shows a greater concern for the political turmoil and economic decline in Central America than for the economic future of the Caribbean. This priority is reflected in the distribution of the $350 million proposed emergency supplemental assistance package of which $243 million is destined for Central America in general and $128 million for El Salvador specifically.

Yet in Central America the administration's economic and political strategies are working at cross-purposes. Washington's economic plan aims to stimulate business, but a confrontationist diplomacy threatens to delay the restoration of investor confidence. Rather than seriously pursuing negotiations among all the major parties to the conflict in El Salvador, the administration has hoped to exclude the guerrillas from the political process and to defeat them militarily. Rather than working to iron out major disagreements with Nicaragua, Washington has resorted to a policy of verbal threats and perhaps even covert paramilitary action. Rather than seeking to isolate Honduras from conflict, the United States proposes to increase military aid, lengthen airstrips to handle large military cargo planes, and take actions that may plunge this fragile, imperfect democracy into war. By heightening political conflict, the United States threatens to inflict deeper wounds on already badly mangled economies.

In response to the recent peace initiative of Mexican President José López Portillo, the administration has shown some interest in negotiations. The path of negotiated settlement offers the best hope of reinstating a political climate in which economic growth can occur.

Unless the administration fully commits itself to this new path with a willingness to compromise, however, negotiations are unlikely to bear fruit and the economics of Central America will continue to decline.

In the absence of peaceful resolutions to political conflicts within and among the countries of the region, private capital will continue to flee Central America. Fearing that political strife will continue and even worsen, frightened Central American businessmen are stashing their savings in Florida's banks and condominium market. Even U.S. government agencies have hesitated to commit their own resources to Central America's private sector. The Overseas Private Investment Corporation (OPIC) is virtually closed for business in El Salvador and Nicaragua and has been approaching Guatemala and Costa Rica with caution. The proposed changes contained in the CBI will allow for a greater involvement of OPIC in the region, but its activities will still be constrained by its own risk criteria. The Export-Import Bank has also been unwilling to undertake major new ventures in Central America.

Without investor confidence, two of the three prongs of the CBI—investment incentives and trade opportunities—will be largely irrelevant to Central America. The remaining prong—official aid—will in considerable measure be devoted to maintain consumption levels and indirectly to purchase weapons. Investment planning and implementation, public or private, cannot proceed efficiently in an environment of political turmoil.

The administration's diplomacy of confrontation has also prevented the realization of a truly multilateral Caribbean Basin Initiative. The administration has consulted Canada, Mexico, Venezuela, and Colombia. It has not, however, made the political compromises necessary to permit the elaboration of a cooperative and integrated approach to the region's economic problems. Each donor country is pursuing its own development programs, which often conflict with the administration's intentions. Mexico, for example, has concentrated substantial resources in Nicaragua while the United States has suspended some bilateral assistance programs and sought to reduce

Nicaragua's access to the multilateral development banks.

A genuinely multinational framework would allow for a more efficient coordination of scarce resources as well as encourage donor countries to share the aid burden more widely. Moreover, multilateralism provides mechanisms for the transfer of aid resources without the political tensions and resentments that accompany bilateral programs. The Caribbean Group for Economic Cooperation in Development has, since 1977, provided such a multilateral vehicle for aid to the insular Caribbean. Washington's uncompromising bilateral and hard-line diplomacy has impeded the formation of a similar group for Central America.

—*Thomas Reed*

Administration officials have indicated that Cuba, Nicaragua, and Grenada may be excluded, not only from bilateral aid, but also from trade and investment incentives. Such an exclusionary policy would be counterproductive for three reasons. First, rather than adopting more moderate policies, the excluded governments are very likely to react with a defiant nationalism; conversely, countries that participate actively in the U.S. economy are less likely to seek or maintain relations with countries hostile to the United States.

Second, the heightened tensions between the

United States and the excluded states will have negative repercussions on economies in other countries. Conflict between the United States and Nicaragua, for example, will adversely affect Costa Rica and Honduras, whose economies are partially interdependent with Nicaragua's. Third, by excluding Nicaragua and Grenada, the United States seems to attack existing regional institutions. Yet the reverse policy—seeking to strengthen ties between Nicaragua and the Central American Common Market and between Grenada and the Caribbean Common Market—would be more likely to moderate these two governments.

The economic gains to the region will have to be sufficient to offset the political costs of potential damage to multilateralism. Of a legislative package that includes aid, investment, and trade measures, the president has heralded the Free Trade Area as the CBI's centerpiece. As the president noted, however, 87 per cent of the region's exports already enter the United States duty-free, either through the Generalized System of Preferences or because the exports do not compete with U.S. products. Of the remaining 13 per cent, nearly one-half are textiles and sugar, products excluded from the Free Trade Area, leaving only about 7 per cent of the region's current trade affected by the removal of the tariffs.

A systematic estimation of the effects of lowering U.S. tariffs on leading products shows that under the most favorable conditions the amount of new exports created by the Free Trade Area, in the first year, is unlikely to exceed $40 million (in 1980 dollars). The Free Trade Area, together with the changes in sugar, textiles, and value-added requirements, will probably not increase regional exports by more than 1 per cent or $108 million in the first year, expanding to only 2.5 per cent or $250 million in the next few years.

The effects of the investment tax credit are uncertain. First, there is no guarantee that the estimated annual $40 million cost to the treasury in lost tax collections will produce any new investment over and above that which would have occurred anyway. In the foreseeable future, U.S. investors in many countries will probably invest only the amount absolutely necessary to maintain their ongoing plant and equipment. Thus they will receive a windfall gain at the taxpayers' expense. Second, there is no guarantee that the new investment will produce a satisfactory impact, measured by new jobs or development relevant to the poor. To avoid these uncertainties and still achieve the administration's goals of enhancing private sector growth, stimulating new private investment by the inducement of public capital, and insuring maximum development impact, Washington should channel the $40 million directly into the economies, through the International Finance Corporation of the World Bank or through the Agency for International Development.

The value of the trade and investment incentive together will probably have much less effect than would renewed U.S. domestic growth. A soundly managed U.S. economy—in which growth increased by 3 per cent and interest rates fell by five points—would produce $550 million in foreign exchange for the CBI countries. Nevertheless, even if the whole CBI package, including the concessional aid, were to amount to as much as $500 million in the first year, it would still be far less than the $4 billion in foreign exchange the region urgently needs. Thus the international financial institutions, whose allocation the administration has threatened to cut back in future budgets, will have to bear the burden of bridging the resource gap.

The ultimate impact of the CBI will depend upon the spirit with which it is implemented. If tied to a diplomacy of compromise and inclusiveness, the CBI could be an initial step toward helping the region attain political stability and economic development. Nevertheless, the program should not be oversold. Alone this package of bilateral initiatives offered by the Reagan administration cannot hope to cure the region's economic ills. Only in conjunction with a rejuvenated U.S. economy and substantial increases in multilateral external financing can the offer promise real improvement in the Caribbean Basin.

138.