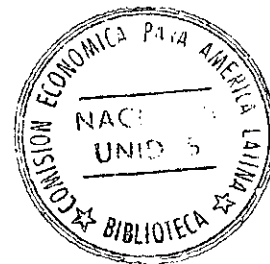


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ECONOMIC COMMISSION FOR LATIN AMERICA
Subregional Office for the Caribbean



SECRETARIAT NOTE ON
CARIBBEAN BASIN INITIATIVE

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CARIBBEAN BASIN INITIATIVE

In accordance with the mandate provided by the Heads of Delegations at the Sixth Session of the CDCC, consultations have been maintained with the various inter-governmental bodies participating in the Caribbean Basin Initiative (CBI). The purpose of this paper is, therefore, to outline the developments which have taken place and report on its progress to CDCC member governments.

It will be recalled that following a meeting of Foreign Ministers of the United States of America, Canada, Mexico and Venezuela on 11 July 1981 in Nassau, Bahamas, "to discuss an initiative to stimulate the economic and social development of the Caribbean Basin Area", the Caribbean Basin Initiative was born.

As a response to the Initiative, Caribbean Ministers, in a series of meetings between 1 September and 8 October, decided to convene a Technical Group to explore the possible components of the CBI and to make proposals to guide their negotiating positions. The persons selected in their technical capacity to form the Technical Group are listed at Annex I. The Principles and Elements enunciated by the Ministers to guide the Group are at Annex II.

Three formal meetings of the Technical Group were convened as follows:

- Barbados: 15-16 October 1981 to define the task and allocate work;
- Barbados: 14-16 December 1981 to present individual country inputs;
- Jamaica : 11-12 March 1982 to finalize the Technicians' Report.

During the period January to March 1982, a small informal working group met in Trinidad to prepare a draft paper for the approval of the final meeting of the Technical Group in Kingston. The final report was submitted to all countries which had participated in the appointment of the Technical Group and was

endorsed by the Seventh Meeting of the Standing Committee of CARICOM Ministers Responsible for Foreign Affairs, held at Belmopan, Belize from 30 March to 1 April 1982. At that meeting the Ministers requested that the Technical Group continue in existence on an ad hoc basis to monitor developments of the CBI; advise on any future negotiations, if any; and assist in any necessary evaluation of those aspects of the CBI which are eventually implemented.

The Report of the Technical Group comprises six elements as follows:

1. Executive Summary
2. Introduction
3. Official Development Assistance
4. Private Investment
5. Trade
6. Institutional Arrangements

It also contains annexes on:

- a) Guidelines for the Technical Committee;
- b) Regional projects requiring Financial Assistance;
- c) Listing of members of the Technical Committee; and
- d) Statistical Appendix.

The report focuses on the five-year period 1982-1986 and tries to identify those resources and mechanisms needed to achieve the development targets which participating countries^{1/} have identified for themselves. While having individual country inputs on which calculations were based, the report does not for the most part, identify individual needs among

^{1/} Of CDCC countries inputs were not received from Cuba and Suriname. In general the growth rates assumed are minimal from 3% - 5%, a figure which it realises will not significantly reduce unemployment.

CARICOM countries^{2/}. In the case of Haiti and the Dominican Republic, needs are made more explicit. The report therefore presents overall orders of magnitude derived from a summation of the national inputs, and policies which it is generally agreed should guide trade and investment.

Divergencies of opinion between the CARICOM and non-CARICOM members of the Technical Group were noticeable by their absence. This fact underlined the similarity of the problems of Caribbean states and also of shared perceptions as to how they should be solved. No reservations therefore were registered in the report by any participating country.

During the discussions, differences in emphasis emerged on certain questions, such as the role of the private and public sectors respectively. But the general consensus emerged that in the Caribbean context there was a need for both sectors, irrespective of what perceptions may exist outside of the region.

A brief summary of the main elements of the report is outlined below.

External Resource Flows

It is estimated by the Technical Group that for the five-year period 1982-1986, Caribbean countries will need a minimum of US\$9.6 billion in official and private capital inflows to achieve their minimum desirable growth targets. It is estimated that given current trends 74% of this or US\$7.1 billion will need to be provided by official development assistance with the remaining 26% (US\$2.5 billion) being provided by private external capital. Of the amount to be met by official flows, US\$4.7 billion still needs to be found.

2/ At the outset it was proposed that each country designate a local working group to liaise with the regional Technical Group. The national groups were expected to provide information regarding country projections for the five-year period, identify financing gaps, developmental potential in the various sectors, and those policies and provisions needed to meet their developmental goals.

In cases where countries were unable to provide national groups, members of the Technical Group were designated to prepare country positions.

It will be allocated to finance the public investment programme (79%), support balance of payments (14%), technical assistance (6%), and regional projects (1%).

With regard to private capital flows, aside from identifying the overall figure of US\$2.5 billion, proposals were also made as to the terms under which such flows should be provided, including:

- a) support to indigenous private sector organizations;
- b) support for indigenous private sector investment programmes, such as those in the CARICOM regional industrial programme;
- c) modification by donor countries of their tax regimes in order to encourage investment flows to the region.

Trade

The basic pillar of this sector is for unrestricted and non-reciprocal access to the U.S. market. It is proposed that this regime should remain in force for fifteen years with provision for review after twelve years. This duration was felt necessary in order to provide investors with a reasonable period of secure markets, given the fact that lead times in getting investment to the stage of efficient production would be long.

It was recognized that some products were not likely to receive unencumbered access to the U.S. market because of their particular market sensitivity, such as rum, sugar and textiles. In such cases, details were given regarding the derogations away from free access that could be tolerated.

Proposals were also made regarding the rules which would define products as originating in the region, and assistance that should be given to CBI countries to help them to circumvent non-tariff barriers. A process of regular consultation on trade matters was also recommended.

Proposals were made too for the tourism sector, seeking assistance in market research, product development and liberalized duty-free purchase allowances for the region.

Whereas the trade provisions outlined above relate mainly to the U.S., proposals were also made to Canada and Mexico/Venezuela. Non-reciprocal duty-free access was also requested from Canada, which goes beyond the current Canada/CARICOM trade agreement. The need for special treatment for sensitive products was also recognized.

Mexico/Venezuela presently account for about 1% of total trade. The lack of adequate market intelligence and transportation were some barriers to improved trade. They were also invited to extend trade concessions to Caribbean countries similar to those extended to the relatively less developed members of the Latin American Integration Association.

Institutional Arrangements

It was recognized that the CBI agreement would have multilateral and bilateral elements. The Technical Group proposed that the essential principles of the agreement be negotiated multilaterally and at a high ministerial level, although individual agreements between each donor and recipient would be necessary. It was also recognized that some of the details would need to be tailored to the needs and policies of each country; for example, the mix between public and private sector investment.

It was also recognized that there was a need to monitor the performance of the agreement both at the technical and political levels. It was therefore proposed that the technical group remain in force to advise the Committee of Ministers from time to time.

Detailed monitoring of the trade aspects should be entrusted to the CARICOM Secretariat, with appropriate arrangements to facilitate non-CARICOM participants. With regard to financial flows detailed monitoring would be entrusted to the CGCED/CDB with appropriate arrangements to be made for non-CDB members, where necessary.

Donor Country Proposals

On 18 March, the President of the United States made detailed legislative proposals to the U.S. Congress. An extract from his message setting out the details of the proposal is attached at Annex III.

In accordance with U.S. constitutional procedure the proposal has been studied in detail by various committees and sub-committees which have made numerous changes to the original submission. Some of the more significant changes proposed are listed below:

- i) Rum, leather, work gloves, shoes, luggage may be added to the list of commodities excluded from full duty-free treatment if the Trade Sub-committee's Report of the House Ways and Means Committee is accepted. (The President's proposal only excluded sugar, textiles and garments).
- ii) The House of Representatives' Inter-American Affairs Committee recommended that no country should receive more than US\$75 million in economic assistance in any one year. The effect of this proposal benefits Haiti, Belize and the Eastern Caribbean through increased allocations.
- iii) The International Economic Policy and Trade Sub-committee recommended:
 - a) one quarter of assistance, i.e. US\$87.5 million must be spent on traditional development projects;
 - b) assistance should be provided through private and voluntary non-governmental agencies;
 - c) US\$5 million must go to scholarships;
 - d) US\$3 million must be administered by the Inter-American Foundation;
 - e) a number of political criteria were also listed which the President should bear in mind when designating a country as beneficiary, including observation of human rights; control of narcotics traffic; support for terrorism; and failure to submit disputes to UN settlement procedures.
- iv) The Senate Foreign Relations Committee recommended that:

- a) US\$10 million be used by private volunteer organizations in the Caribbean;
- b) US\$7.5 million for scholarships;
- c) 20 per cent of remaining total be made available to generate local currencies for development purposes;
- d) the Aid Package be put in a trust fund administered by the World Bank.

Subsequently, a revised Aid Package of US\$350 million was approved by the House of Representatives. The fate of the trade and investment components is not yet clear, however, at the time of writing this paper and it now appears that the proposals will have to be resubmitted for the future.

For the remaining original donor countries - Venezuela, Mexico and Canada - no additional provisions have been made to their existing financial assistance programmes as a result of the CBI. Rather, existing initiatives have been brought under the umbrella of the CBI.

Canada

Canada has substantially increased its development assistance to the Caribbean and Central American region. In the case of Central America this has moved from C\$60 million for the period 1972 to 1981 to a proposed C\$105 million for the period 1982 to 1986. For the Commonwealth Caribbean ODA is expected to move from C\$43 million for the period 1981 to 1982 to C\$90 million in 1986 to 1987.

Insofar as trade is concerned, Canada has recently concluded a trade agreement with some Caribbean states. For the most part, however, the bulk of Canada-Caribbean trade is conducted under the General Preferential Tariff (GPT) and ninety-eight per cent by value of all exports to Canada from the Caribbean are either accorded duty-free status or preferential terms of access.

Ultimately, the goal should be free access for all Caribbean products, and the negotiation of technical assistance that will facilitate exporters in such areas as labelling, packaging and product promotion.

Mexico/Venezuela

The major contribution of these countries to Caribbean Basin Countries is the joint oil facility, first enunciated under the San José Declaration, which has been brought within the ambit of the CBI. This assistance currently goes to nine countries: El Salvador, Nicaragua, Panama, Barbados, Guatemala, Costa Rica, Honduras, the Dominican Republic and Jamaica. It is estimated that this facility is worth US\$300 million annually to the participating countries. The facility undertakes to provide concessionary financing for 30% of the petroleum bill. The terms are for five years at 4% interest. Moreover, the proceeds from this facility may be used to finance special development projects, particularly in the energy sector, and upon agreement by the donor countries, the terms of the credit will be reduced to 2% interest with a repayment period of twenty years. Similar terms are provided by Mexico to the Republic of Haiti.

Trade in non-petroleum products between these countries and the Caribbean is small and as far as Caribbean exports are concerned, limited by output and lack of familiarity with the markets. Some Caribbean countries have general trade agreements with Mexico, either bilaterally or under the umbrella of CARICOM. Efforts are being made under these arrangements to remove the constraints outlined above, and Mexico has indicated a willingness to extend the trade facilities currently granted to Central American countries to the Caribbean.

Currently Venezuela provides a special fund on highly concessionary terms, through the CDB, to Eastern Caribbean states to finance their balance of payments and development projects.

Colombia

In March 1982 Colombia indicated an intention to initiate the following new measures for the benefit of CBI countries:

- 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 up to ten million dollars 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 co-operation with other countries, of sea and air transportation systems.

Conclusion

In conclusion it is still too early to be clear about the final provisions of the CBI. It is still possible for all the provisions proposed for the CBI, except the aid measures to be changed as they pass through the legislative process. Any attempt at this stage at an evaluation of its provisions would therefore be premature.

Annex I

MEMBERS OF THE TECHNICAL COMMITTEE

The following persons comprised the Technical Group^{1/} on the Caribbean Basin Initiative appointed by the Extraordinary Session of the Standing Committee of Ministers Responsible for Foreign Affairs, held in Jamaica on 4-5 September 1981:

Frank Rampersad - Chairman
President-Designate
National Institute of Higher Education
TRINIDAD AND TOBAGO

Yves Blanchard
Director, External Co-operation
Ministry of Planning
HAITI

Anthony Boatswain
Economist
Ministry of Planning
GRENADA

Headley Brown
Chief Technical Director
National Planning Agency
JAMAICA

Fitzgerald Francis
UN Economic Adviser
OECS Secretariat

Maritza Guerrero
Sub-Director
Research Department
Central Board of the
DOMINICAN REPUBLIC

Trevor Harker
Regional Economic Adviser
Economic Commission for Latin America
Port of Spain
TRINIDAD

^{1/} No nominations to the Technical Group were made by Suriname and the Netherlands Antilles.

Hugh Heyliger
Director
Planning and Development
ST. KITTIS/NEVIS

Swinburne Lestrade
Director-Designate
Economic Affairs Division
OECS Secretariat

Eric Pierre
Inter-American Development Bank
HATTI

Isidoro Santana
National Planning Office
DOMINICAN REPUBLIC

Eladio Sanchez
Economic Adviser
Centre for Export Promotion
DOMINICAN REPUBLIC

Delisle Worrell
Research Director
Central Bank of Barbados

Byron Blake
Director, Sectoral Policy and Planning
CARICOM Secretariat

Jasper Scotland
Director, Trade Economics and Statistics
CARICOM Secretariat

Rupert Mullings
Director, Economics and Programming
Caribbean Development Bank

Annex II

GUIDELINES FOR TECHNICAL COMMITTEE

At their Extraordinary Session in Kingston, 4-5 September 1981, the Caribbean Community (CARICOM) Foreign Ministers agreed that the following Guidelines were to inform the Report of the Technical Committee on the Caribbean Basin Initiative (CBI):

- (i) participation in the programme should be open to all countries in the region;
- (ii) the programme should respect the sovereignty and integrity of States, the integrity of regional institutions and their autonomous character;
- (iii) wherever possible, the programme should utilize regional institutions and indigenous resources and expertise;
- (iv) the programme should be reflective of national goals and priorities, and the criteria for granting aid should not be based on political or military considerations;
- (v) the programme should respect the right of the people of each State to determine for themselves their own path of social and economic development free from all external interference of pressure;
- (vi) there should be no diminution in resource flows to the region as a whole or to individual States. Rather, there should be additional flows within an agreed time-bound programme and with a major portion being in the form of grants;
- (vii) ideological pluralism is an irreversible fact of international relations and should not constitute a barrier to programmes of economic co-operation;
- (viii) substantial flows of Official Development Assistance (ODA) and other forms of government-to-government assistance are vitally necessary for essential infrastructural development and to create the conditions for investment, both foreign and regional;

- (ix) substantial private investment, both foreign and local, is an essential element if development is to proceed at an acceptable rate;
- (x) the flow of resources under the programme, whether public or private, should contribute to the maintenance and strengthening of the independence of the countries of the region;
- (xi) the programme should be directed towards strengthening ongoing regional integration and co-operation, and encouraging wider and more intensive co-operation and exchange particularly in the industrial, financial, technical and trade areas in order to get maximum economic and developmental benefits at minimal cost through joint efforts;
- (xii) the programme should respect the commitment of individual States to regional objectives and to the goals of the developing countries as a whole;
- (xiii) in order to maintain peace, security and stability which are essential to the achievement of the social and economic development of the region, the principle of non-interference must be respected.

The investment flows should be to both the public and private sectors, both of which have important roles to play in the development process and are mutually supportive. In this regard, it should be noted that neither domestic nor foreign private investment will flow where infrastructure is woefully inadequate.

Flows at both ODA and private investment should be sufficient to create acceptable per capita real growth of income and reduce, to acceptable levels, the current rates of unemployment in the national economies.

The ODA should be primarily on grant terms and considering its inducing effect on private investment, it should flow from very early in the programme on a regular and predictable basis. The ODA should be directed mainly to infrastructure e.g. transportation (including roads), alternative energy sources, health education, training, promotion and marketing, institutional development and related technical assistance, and for post-disaster rehabilitation.

In addition to funds for equity investment induced from the foreign and local private sectors, provision should be made for:

- (a) improved credits and other arrangements which could significantly affect the quantum of financial investment flows; and
- (b) special bilateral tax arrangements to encourage investors into the Caribbean.

Funds for use as equity investment should be channelled both on a bilateral basis and through regional funding institutions.

Given the need for rapid expansion of production and the limited size of the regional market, a significant proportion of the production under the programme will have to be directed towards external markets, particularly those of the United States Sponsored Group (USSG). To this end, efforts should be made to reduce both tariff and non-tariff barriers including licensing constraints which now serve to restrict such exports and to develop specific support arrangements, including trade information flows, promotion and marketing.

No co-operation programme concerning international trade will be effective or feasible if it is not based on the principle that the countries comprising the USSG remove those existing mechanisms of special protection adversely affecting the basic commodity exports of the Caribbean countries.

Sugar constitutes a major source of export earnings for a number of Caribbean countries. For this reason, sugar from the Caribbean countries should not only continue to receive the most favourable treatment under the United States Generalized System of Preferences (US GSP), but positive steps should be taken to enhance the position of sugar in this market.

Further, consideration should be given to adjusting the basis for determining dollar value quotas on Caribbean exports under TSUS Nos. 806 and 807 by using the value-added in the Caribbean rather than the total value of the final product re-exported to the USA.

Given the susceptibility of the earnings from export crops to fluctuations due to circumstances beyond their control, consideration ought to be given to an institutional arrangement to stabilize the export earnings of Caribbean countries.

While the Caribbean countries are in tremendous need of assistance the flow and quantum of resources and especially ODA to be made available under the programme should take particular account of the existence in the subregion of LDC's, MSA's, island-developing states, states subject to climatic hazards and other disadvantages, newly independent states and territories not yet independent, additional ODA and its grant component is a particularly urgent requirement.

The Opening Address of the Rt. Hon. Edward Seaga, Prime Minister of Jamaica at the Extraordinary Session of the CARICOM Foreign Ministers held in Kingston in September 1981 and the Report on Item 7 of the Agenda of the Sixth Meeting of the Standing Committee of Ministers Responsible for Finance provide further elaboration of these elements.

Annex III

EXTRACT FROM PRESIDENTIAL PROPOSALS
TO CONGRESS ON C.B.I.

"The programme is based on integrated and mutually-reinforcing measures in the fields of trade, investment and financial assistance:

- Its centerpiece is the offer of one-way free trade. I am requesting authority to eliminate duties on all imports from the Basin except textiles and apparel items subject to textile agreements. The only other limitation will be for sugar; as long as a sugar price support programme is in effect, duty-free imports of sugar will be permitted only up to specified ceilings. Safeguards will be available to U.S. industries 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 percent). I will designate beneficiary countries taking into account such factors as the countries' self-help policies.
- I am proposing an extension of the ten percent tax credit that now applies only to domestic investment to new equity investments in qualifying Caribbean Basin countries. A country would qualify for the benefit for a period of five years by entering into a bilateral executive agreement with the U.S. to exchange information for tax administration purposes. I am requesting a supplemental appropriation for the FY 1982 foreign assistance programme in the amount of 350 million dollars in emergency economic assistance. This assistance will help make possible financing of critical imports for the private sector in basin countries experiencing a severe credit crunch. I expect to allocate the emergency supplemental in the region as follows:

El Salvador: 128 million dollars. El Salvador's economy is in desperate straits. The insurgents have used every tactic of terrorism to try to destroy it. El Salvador desperately needs as much assistance to stimulate production and employment as we can prudently provide while also helping other countries of the region.

Costa Rica: 70 million dollars. Costa Rica has a long tradition of democracy which is now being tested by the turmoil of its economy. Once Costa Rica has embarked on a recovery plan, it will need significant assistance to succeed in restoring investor confidence and credit to its hard-hit private sector.

Honduras: 35 million dollars. The poorest country in the Central American region, Honduras faces severe balance-of-payments constraints, spawned primarily from falling prices of major exports and rising import costs.

Jamaica: 50 million dollars. Jamaica's recovery is underway, but continued success is still heavily dependent on further quick-disbursing assistance to overcome a shortage of foreign exchange for raw materials and spare parts.

Dominican Republic: 40 million dollars. The Dominican Republic, is attempting to adjust to drastically-reduced economic activity brought on primarily by falling prices of its major export crop (sugar) and heavy dependence on imported oil. Critical economic reforms must take place in a difficult political climate as elections grow near. Once the free trade provisions go into effect, the Dominican Republic will also receive as a result of the duty-free quota for its sugar exports immediate benefits going beyond the 40 million dollars indicated here.

Eastern Caribbean: Ten million dollars. Economic stagnation has dried up investment and strangled development in these island mini-states where unemployment is a particular problem especially among youths.

Belize: Ten million dollars. Newly independent Belize faces a perilous economic situation brought on by falling sugar prices and stagnant growth. Belize needs short-term assistance as a bridge to the development of its own considerable natural resources.

Haiti: Five million dollars. Illegal immigration from Haiti is spurred by stagnant economic activity and a credit-starved private sector in a country already desperately poor.

Latin American Regional/American Institute for Labour Development (AIFLD): Two million dollars. Free labour movements, assisted by our small AIFLD programmes, can be the underpinning of a healthy private sector and its ability to expand and grow, leading the region to stable social and economic progress.

In a separate action I am also requesting action on the economic assistance programme for FY 1983. This includes 664 million dollars in economic assistance for the Caribbean Basin. This programme will be directed largely into longer-term programmes aimed at removing basic impediments to growth. Although not a part of the legislation which I am transmitting today, the FY 1983 request is an integral part of our overall programme for the Caribbean Basin. We cannot think of this programme as a one-time injection of U.S. interest and effort. If it is to succeed it must be a sustained commitment over a number of years. I strongly urge the Congress to approve this request in full.

In addition to these legislative requests, I am directing the following actions, which are within the discretion of the executive branch:

- We will extend more favourable treatment to Caribbean Basin textile and apparel exports within the context of our overall textile policy.
- We will seek to negotiate bilateral investment treaties with interested countries.
- We will work with multilateral development banks and the private sector to develop insurance facilities to supplement OPIC's political risk insurance coverage for U.S. investors.
- The U.S. Export-Import Bank will expand protection, where its lending criteria allow, for short-term credit from U.S. banks, as well as local commercial banks, to Caribbean Basin private sectors for critical imports.

- With the governments and private sectors of interested countries, we will develop private sector strategies for each country. These strategies will co-ordinate and focus development efforts of local business, U.S. firms, private voluntary organizations, the U.S. government, and Puerto Rico and the Virgin Islands. The strategies will seek new investment and employment opportunities and will also seek to remove impediments to growth including lack of marketing skills, trained manpower, poor regional transport, and inadequate infrastructure".

