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THE CARIBBEAN BASIN PLAN OR INITIATIVE:
SOME COMMENTS
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SUMMARY AND COMMENTS ON THE REMARKS BY
PRESIDENT REAGAN ABOUT THE "CARIBBEAN BASIN PLAN"
(1 March 1982)

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THE CARIBBEAN BASIN PLAN OR INITIATIVE

Some comments

A few weeks ago, the U.S. President, Mr. Ronald Reagan, submitted through an address at the OAS and his bill for supplemental aid sent to Congress, the main features of the well-publicized "Caribbean Basin Initiative" (or alternately Plan or Program).

It is of common knowledge that since the "oil crisis" the Caribbean Basin countries (including Central America and the Caribbean Islands) have been seriously affected not only by the escalating cost of imported oil, but also concurrently by the declining prices of their major exports. This contributed to worsening the deep-rooted structural problems of those countries, causing serious inflation, increasing unemployment, declining GDP growth, and enormous balance of payments deficits.

For most of those countries, this worsening economic trend has been considered as a potential fountain of political and social unrest, and according to one expressed opinion "this situation is being fueled and exploited by Cuba acting as a proxy of the Soviet Union". The Initiative or Plan submitted by Reagan to Congress in order to improve the afore-mentioned situation in the Caribbean Basin envisions in broad lines, among other steps, the elimination of all duties on all imports from the Basin, except textiles and apparel, and other products with less than the minimum amount (25%) of local content.

- The granting to U.S. investors in the Caribbean Basin of significant incentives to encourage private investment.
- A supplemental economic assistance of \$350 million to key Caribbean countries whose situation is particularly critical.

That would bring the total U.S. assistance appropriation for the area to nearly \$825 million during the Fiscal Year 1982. The military assistance included in this program would amount to a 19.1% of the total.

This "Initiative" has been received with mixed feelings by the interested peoples of the Caribbean Basin as well as by other observers and personalities in the U.S. This has been mentioned in a memo sent immediately after the Reagan remarks to the Organization of American States on February 24, 1982. It is the purpose of this memo to submit some additional comments to the prior ones. It will be done in two parts. In the first will be levelled at some criticisms of the "Initiative" itself by some groups whose interest are threatened by the eventual application of the program. The second will consist of some personal reflections on the same topic.

I. Recent criticisms of the "Caribbean Basin Plan"

Very recently, some additional criticisms have been levelled by some labor groups and Congressmen at the Caribbean Basin Plan. The most significant of them, appeared in some U.S. reviews and newspapers. (Three sets of them are remembered here).

As it was legitimately expected, the labor groups, especially through the AFL/CIO, are denouncing the trade and tax incentives saying that the miseries already brought by nearly 9 per cent U.S. unemployment can be aggravated by encouraging U.S. firms to move business out of this country, thereby putting more Americans out of work.

Next, the Congressmen's position regarding the Caribbean Plan is a mixture of faint praise and skepticism, since the package is generally viewed from all quarters as a cover up to funnel more U.S. aid to combat the so-called "Cuban or Marxist threat" against some countries of the area, especially El Salvador, which will receive the lion's share of the assistance. In general, there is agreement among the Congressmen that while the assistance program is positive, it is at the same time insignificant, and will not have major impact in the region.

Finally, in the views of other groups, the economic assistance would form part of a long-range strategy conceived by the Reagan Administration in order to emphasize bilateral loans at the expense of multilateral lending program, such as of the Inter-American Development Bank (IDB) and the World Bank (WB). A Congressman said: "It amounts to 'robbing Peter to pay Paul.'" Indeed some credence has been lent to this opinion by the recent publication of the Treasury Department entitled "United States Participation in the Multilateral Development Banks in the 1980's", where criticisms are levelled at the functioning of those institutions while at the same time are envisioned some ways to diminish the U.S. contributions to them.

II. Some personal views

At first glance, the assistance program offered by the U.S. Administration is timely and generous. Its success will depend on the socio-political environment prevailing in the targeted countries, and the continuity of the assistance until the intended countries attain the threshold of some kind of self-sustainable socio-economic growth.

Regarding the first aspect, it is evident by itself that the socio-political framework, since it can act as a stimulus or a brake, is a necessary ingredient of the development process. This can be scarcely accomplished in a socio-political environment characterized by government or dictatorship protecting against the vast majority of the people the interest of small minorities as is often the case in most countries of the area, with the conspicuous exception of Costa Rica, and in some instances Panama. Recent studies published by CEPAL show that the wealthiest 2% of the population in the area enjoy between 20 and 30% of the personal income, while at the extreme opposite, 40% of the poor receive usually less than 13% of the same total. This unequal distributive structure runs against the economic development and the social stability of those countries. Regarding the first aspect, it can be noted, for instance, that the accumulation of the wealth in a reduced minority favors not the needed internal reinvestment in those same countries, but is transferred outside. According to the *Washington Post* issue of March 26, 1982 "The Caribbean Initiative envisions increasing the formation of investment capital at a rate of \$500 million a year, when about one billion dollars of local capital is flowing out of those countries annually."

On the other hand, the ravage of illiteracy, malnutrition, high illness and mortality rate resulting from the low income of the 40% or half of the population of those countries is a propitious manure for violent or revolutionary escapes. It is so and it will be so while the overwhelming majority of the people cannot obviously have any hope for a better future. In order to prevent such violent disruptions of ^{the} socio-economic environment, some audacious reforms

are needed as previous conditions for any significant and stable socio-economic progress.

Otherwise, as taught by the past experience, whatever the amount of the external assistance, it will be either of scant effect on the national improvement of the socio-economic situation of those countries, or diverted once more to the wealthiest 2 or 5% of those people.

Obviously, it goes without saying that the socio-political reforms will doubtless require internal support and external comprehension, especially in those countries ruled by authoritarian regimes protecting minoritarian interests.

The second afore-mentioned aspect is related to the creation of some kind of sane or proper basis for economic development. Since the resources basis of those countries, especially those of the Caribbean Islands is very narrow, even more so when compared with the pressure involved in the high density of the population per some measure of space, it will be very difficult for them to attain by themselves some level of economic growth without the external assistance both in terms of financing and technology. Brushing aside details, it could be said that the granting of this assistance should be broadly subordinated to two aspects, besides the previous socio-political reforms aforementioned, and some kind of control over the use of the assistance.

The first aspect is linked with the conditions and destination of the external assistance. Since most of the intended countries are characterized by lack or deficient socio-economic infrastructures,

the significant part of this assistance to be devoted to this sector that includes road, hospital, harbour, school building, etc. (only productive in the long run), should be granted in most part on a concessionary basis, at least for some agreed period of time. Otherwise, the interest payment and amortization of the assistance given in form of loans will trap some of those countries into a vicious circle, condemning them to choose between payment of debts and investment for improving their socio-economic lot.

The second aspect to be taken into account is the continuity of the assistance. To be effective, it should be extended over some previously agreed period of time (doubtless varied according to the initial level of development of each country), until those countries can walk on their own feet. The minimum of ten consecutive years appears to be suitable for most of those countries. In this regard, it must be noted that in the recent past, the U.S. assistance concept has not been alien to the philosophy of the fire-fighters, i.e. being granted for a short term, only when and where forms of governments approved by Washington were threatened. This has been partly the cause for abrupt discontinuity in the development process. The examples of this behavior abound. The "Alliance for Progress" for instance was conceived in the wake of the Cuban revolution, and from fear of its spreading through the Latin American side of the continent. Today, some sectors of opinion are tempted to link the "Caribbean Basin Plan" with the Castrist threats to the rest of the area, after the Nicaraguan revolution. The impression tends to be pervasive, that Caribbean and Central American people should be grateful to Cuba for the assistance received from the U.S.

For the benefit of both the U.S. and the Caribbean Basin people, it is time for the U.S. to unleash its socio-economic aid concept for the Caribbean area from the traditional "fire-fighter" philosophy.

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Remarks by President Reagan about the United States

Plan of Assistance to the Caribbean Basin Countries

The long awaited speech of the President of the United States of America spelling out his program to deal with the socio-economic problems affecting the Caribbean and Central American countries and threats to their political stability was delivered at the OAS Headquarters in Washington, D.C., on February 24, 1982.

The speech is broken into two parts: an economic package introduced by some general consideration about the situation of the area, and the strategic assessment of the Caribbean-Central American region with emphasis on the "dark shadow of Cuba." The following development will concentrate exclusively on the first part and present some comments about it by some leading personalities and publications.

Importance of the Caribbean Basin to the United States

In his introduction to the economic package, Reagan began by commenting on the large size reservoir of the Hemisphere's population (around 600 million people), the enormous natural resources, and the big markets that should enable all the people of the Americas to attain high standards of living. Also recalled were some characteristics that make the countries of the Caribbean and Central America vital strategic and commercial arteries for the United States. El Salvador for instance, he said, is nearer to Texas, than Texas is to Massachusetts. Nearly half of U.S. trade, two thirds of U.S. imported oil, and over half of its imported strategic minerals pass through the Panama Canal or the Gulf of Mexico. That means that the well-being and security of the people in the Caribbean region are in U.S. own vital interest.

They are, however, at the moment under economic siege. In 1977, one 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 the money reserves and credits of those countries at the same time that it provides a fresh opening to the enemies of freedom.

Main features of the Caribbean Basin program

The main paragraphs of the address spelling out the essential points of the program will be mentioned, in order to avoid possible misunderstandings:

a) In the view of Mr. Reagan, the centerpiece of the program he is about to send to Congress for approval, is free trade for Caribbean Basin products exported to the U.S.; currently some 87% of those exports enter U.S. markets duty free under the Generalized System of Preferences (GSP). They, however, cover only the limited range of existing products not the wide variety of potential ones these people are capable of generating. Under the free trade arrangement being proposed, 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, the U.S. Government will discuss with each country its own self-help measures.

The only exception to the free trade arrangement will be textile and apparel products because they are governed by other international agreements. However, the U.S. Government will make

sure that its immediate neighbors have more liberal quota arrangements. In the U.S. President's view, this economic proposal is unprecedented, since U.S. has never before offered a preferential trading arrangement to any region.

A caveat however: even as those economies grow, all the protections now available to U.S. industry, agriculture and labor against disruptive imports will remain.

- b) To further attract investment, the Congress will be asked to provide significant tax incentives for investment in the Caribbean Basin. The U.S. Government stands ready to negotiate bilateral investment treaties with interested Basin countries.
- c) The President is 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. In his view, these steps will help foster the spirit of enterprise necessary to take advantage of the trade and investment portions of the program.
- d) The U.S. will offer technical assistance and training to assist the private sector in the Caribbean Basin 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. The purpose is to seek the active participation of the business community in this joint undertaking. The Peace Corps already has 861 volunteers in the area and will give special emphasis to recruiting volunteers with skills in developing local enterprises.

e) The U.S. 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 the U.S. own development measures with their vital contributions and with those of other potential donors like Colombia. Also encouraged will be the European, Japanese, and other Asian allies, as well as multilateral development institutions to increase their assistance in the region.

f) Given its special, valued relationship with Puerto Rico and the U.S. Virgin Islands, the U.S. Government will propose special measures to ensure that they also will benefit and prosper from this program. They can play leading roles in the development of the area.

Mr. Reagan concluded -and this is the major part of his address- by drawing attention to the dangers involved in attempts by outside powers (for instance Cuba, Nicaragua and their Soviet backers) to exploiting or fomenting troubles in Central America and the Caribbean. "Let our friends and our adversaries understand, he finally said, that we will do whatever is prudent and necessary to ensure peace and security of the Caribbean Area."

Comments, remarks about the statement of the President

It might be useful to elicit first some paragraphs of the message of the President that will or could need further elaboration, before citing some viewpoints expressed by some private persons or officials about the same.

As it could be noted, there was not enough emphasis on the fact that the only amount of \$350 million mentioned in the speech was a supplemental, additional one. It is only part of a package that

will bring the fiscal 1982 total economic assistance to the region to \$823,9 million or \$403 million more than in fiscal year 1981. The lack of clarification of this aspect has led to some confused comments about the speech.

Also worthy of more elaboration is the one-way free trade provision in favor of the Caribbean Basin, that the U.S. has for the first time offered to an area. This proposal, however, can raise some delicate trade issues: in the case of sugar, for example, most countries in the Caribbean already export sugar duty-free to the U.S. under the Generalized System of Preference (GSP). The exceptions are the Dominican Republic, Guatemala and Panama. It has not been clearly explicated in the speech what is in store for these countries, specially for the Dominican Republic, a significant producer of sugar in the Caribbean Area.

In the same vein, the reservations about textile trade will need some elaboration.

Finally, also to be clarified is the geographic coverage of the Caribbean aid package. Since the President stated clearly that "we seek to exclude no one" of the assistance program, did he mean that Cuba and other allegedly "Cuban proxies" like Grenada, Nicaragua could eventually be considered for assistance?

Now it might be useful to mention some viewpoints expressed by private and official persons about the message of the President.

In general, leaders throughout the Caribbean Basin gave a warm welcome to the speech, especially Jamaica's Prime Minister, P. Seaga who called it "bold, historic and far-reaching in concept."

Some of them, however, expressed more mixed feelings, since the largest share of the direct aid would go to El Salvador, and in decreasing amount to Costa Rica and Honduras. This originated the complaint, said the Washington Post, that the United States "will always do anything for a country fighting off Cuban supported guerillas, but nothing for a hard-pressed democracy as long as it conducts its affairs peacefully and legally."

The Mexican Foreign Minister, J. Castañeda, who indicated previously that his government would join the U.S. in a coordinated economic aid plan for the area, thought the part of the speech dealing with economic assistance was constructive and useful. As for the political aspect he said, reflecting his President's opposition to foreign military intervention in the area, "I thought it was rather strong."

Also mixed were the feelings of some congressional leaders. The liberals, while praising those aspects of the plan aimed at combating poverty in the Caribbean area, expressed "concern at Reagan's insistence on relating the program to his controversial El Salvador policy and his ideological preachments against communist Cuban influence in the Hemisphere."

On the conservative side of the Congress there was favorable support, although somewhat a little cautious, some predicting that at a time of internal economic hardship reinforced by heavy domestic budget cuts, the plan will run into trouble due to resistance to foreign aid.

Finally, as expected, the Cuban Government which was mentioned in the speech as a culprit for the situation in the area, lashed back calling the speech a "mixture of lies, cynicism and threats", and the total amount of the aid "ridiculous." It is an attempt, it said, to involve the countries of the area in the politics of cold war."

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The New York Times editorial of the day following the speech (24 February 1982), concluded: "Indeed the President left the impression that if it were not for those reds in Cuba and Central America, no urgent aid might really be needed. That gives Fidel Castro the credit for opening Washington's purse -an odd message indeed."