CEPAL

REVIEW

UNITED NATIONS

39

CEPAL

Review

UNITED NATIONS
ECONOMIC COMMISSION FOR LATIN AMERICA AND THE CARIBBEAN

SANTIAGO, CHILE, DECEMBER 1989

LC/G.1583-P

December 1989

Notes and explanation of symbols

The following symbols are used in tables in the *Review:*
Three dots (...) indicate that data are not available or are not separately reported.
A dash (—) indicates that the amount is nil or negligible.
A blank space in a table means that the item in question is not applicable.
A minus sign (-) indicates a deficit or decrease, unless otherwise specified.
A point (.) is used to indicate decimals.
A slash (/) indicates a crop year or fiscal year, e.g., 1970/1971.
Use of a hyphen (-) between years, e.g., 1971-1973, indicates reference to the complete number of calendar years involved, including the beginning and end years.
Reference to "tons" mean metric tons, and to "dollars", United States dollars, unless otherwise stated.
Unless otherwise stated, references to annual rates of growth or variation signify compound annual rates.
Individual figures and percentages in tables do not necessarily add up to corresponding totals, because of rounding.

UNITED NATIONS PUBLICATION

ISSN 0251-2920

CEPAL

Review

Santiago, Chile Number 39

CONTENTS

CEPAL REVIEW No. 39

The United States government's Caribbean Basin Initiative

*Wilfred Whittingham**

The objective of the paper is to provide a better understanding of the CBI Programme and examine its achievements in the light of the objectives and expectations. To put the discussion in perspective, a brief economic and socio-political background is given, followed by a statement of the programme's objectives and a brief description of its main plans: legislation, administrative action and technical assistance. Data on foreign trade, direct investment and development assistance point to the conclusion that most of the indicators have declined. Despite a higher level of official financial aid since the programme started in 1984, the overall achievement has been negligible. Some countries have fared better than others and there are some signs of increasing diversification of exports and better performance of newer exports than of traditionals.

This outcome is not surprising in view of the limitations of the package, not to mention several constraints affecting the economies of beneficiary countries. United States legislation cannot remove most of these constraints; moreover, in light of the economic and political uncertainties, an enhanced CBI programme can only offer help, or perhaps buy time. Therefore the burden of grasping what opportunities exist to develop the economies of the area must rest squarely with the beneficiary countries.

*Economic Affairs Officer, Economic Development Division.

Introduction

Geographically, the Caribbean Basin incorporates all the countries bordering on the Caribbean Sea. This definition includes the United States (at least part of the State of Florida), Mexico, Central America, Colombia, Venezuela, Suriname and the Guyanas, as well as the Bahamas and the archipelago stretching from Cuba in the north-west to Barbados and Trinidad and Tobago in the south-east and the scattered islands of the Netherlands Antilles and Aruba. Of the Central American countries only El Salvador, which has no Caribbean coastline, is excluded.

For the purposes of the Caribbean Basin Initiative (CBI) a different definition was used, as will be explained later.

Although the CBI countries are fairly contiguous in geographical terms, historical factors have resulted in diversities in the subregion, so that, for example, there are four international languages in addition to several creole languages. There is also considerable heterogeneity of ethnic origins and social, political and economic systems and a relatively low level of interaction that has impeded integration even among some of the more homogeneous sub-groupings. Thus, intraregional traffic and trade and even social relations are fairly underdeveloped. There are, of course, many reasons for this state of affairs but they lie outside the scope of this paper. All that is intended here is a brief outline of part of the exising situation onto which the Caribbean Basin Initiative has been superimposed.

It may be useful to observe in passing that some countries are members of the Central American Common Market while others are members of the Caribbean Community. A number of countries are unaffiliated to any major economic grouping and a few have still to achieve complete political independence. All, however, are members or associate members of ECLAC.

The data given in table 1 will facilitate a clearer undertanding of the structural situation. It will be seen that 22 countries were included in the CBI as of late 1988. They vary considerably in land area and population size but have in common high, though generally declining, population growth rates relative to those of the developed countries. This factor translates into a young population with high levels of economic dependence. As currently defined, the area included in the Caribbean Basin Initiative programme does not possess an abundance of natural resources. Bauxite is mined in five countries, petroleum commercially extracted in two, and small quantities of coal, copper, iron and zinc have been exploited in some Central American countries.

Despite some progress in diversifying into manufacturing, tourism, and financial and transportation services, all the countries can still be described as producers of commodities, which

Table 1

CBI COUNTRIES - SELECTED DATA, 1987

Country	Area[a]	Population[b] 1987	Population growth rate 1980-1985[c]	Per capita GDP current prices[d]	External debt[e]	Exports of goods and services as percentage of GDP	Imports of goods and services as percentage of GDP
Netherlands Antilles	0.80	186	...	...	...	...	...
Antigua and Barbuda	0.44	83	1.3	2 788	119.3[f g]	77.3[f]	102.7[f]
Aruba	0.19	60[f]	...	...	199.0	...	...
Bahamas	13.90	240	1.8	11 767	211.2	71.2[f]	57.4[f]
Barbados	0.43	256	0.3	5 535	353.0	46.5	45.3
Belize	22.96	170	2.3	1 269	103.3[f]	54.8[f]	62.1[f]
Costa Rica	50.70	2 791	2.9	1 628	3 914.0	31.4[f]	35.0[f]
Dominica	0.75	78	0.7	1 314[h]	53.2[f g]	55.0[f]	75.2[f]
El Salvador	21.04	4 934	1.1	954	1 876.0	18.7	25.1
Grenada	0.34	98	1.0	1 128[h]	43.2[f g]	58.1[f]	101.1[f]
Guatemala	108.89	8 434	2.9	834	2 718.0	15.9	22.4
Haiti	27.75	6 147	1.8	394	741.0[g]	11.5[i]	18.6[i]
Honduras	112.09	4 679	3.6	860	3 101.0	23.7	27.1
British Virgin Islands	0.15	13	...	...	6.6[f]	...	...
Jamaica	10.99	2 409	1.5	1 188	4 013.0	54.8	54.5
Montserrat	0.10	12	...	3 833	...	12.5[f]	66.2[f]
Panama	77.08	2 274	2.2	2 338	3 950.0[g]	32.8	31.0
Dominican Republic	48.73	6 716	2.4	621	3 680.0	34.5[f]	38.1[f]
Saint Kitts and Nevis	0.27	48	0.8	1 794	22.0[f g]	61.3	93.2
Saint Lucia	0.62	131	1.6	1 260[g]	48.2[f g]	48.2[j]	94.1[j]
Saint Vincent and the Grenadines	0.34	106	1.0	1 283	38.0[f g]	66.1	77.2
Trinidad and Tobago	5.13	1 224	1.6	3 856	1 248.0	35.8	40.9

Source: ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1988 (LC/G.1550-P), Santiago, Chile. United Nations publication, Sales No. E.89.II.G.1; and ECLAC Subregional Headquarters for the Caribbean; *Review by the Economic Commission for Latin America and the Caribbean/Caribbean Development and Co-operation Committee of Economic Performance of Caribbean Countries for 1987* (LC/CAR/G.245), Port of Spain, 12 February 1988. Selected data on the Caribbean Islands were also derived from the *Annual Report 1987* of the Caribbean Development Bank and national government sources.

NB: Guyana was declared eligible in 1988.

[a] Thousands of km².
[b] Thousands of inhabitants.
[c] Percentages.
[d] US dollars.
[e] Millions of dollars.
[f] Data for 1986.
[g] At factor cost.
[h] Public debt only.
[i] Fiscal year data.
[j] Exports and imports exclude services.

account for an overwhelming share of their exports. Consequently, they all suffer from the difficulties resulting from the long-term decline in the terms of trade for commodities. In addition, the migration from rural to urban areas continues in most countries, accentuated by the unfavourable terms of trade and by the high levels of unemployment and underemployment.

By 1983 the economic situation confronting the countries of the Caribbean Basin Initiative immediately prior to the launching of the programme was not very bright. During this pre-CBI period adjustments to the earlier petroleum price increases were still working themselves through the economies, economic recession or stagnation affected several of the developed economies, the international financial crisis had affected many countries, world trade had stagnated and both interest rates and external debt were high and rising. Notwithstanding the large increases in the prices of petroleum and other commodities in the 1970s, most CBI countries had shown positive GDP growth rates for the period 1975-1980. By comparison, the average GDP growth rates in nearly all the major countries for 1980-1983 (including the crisis years) turned negative (see tables 2 and 3). During the same period unemployment rates increased virtually everywhere and very significantly in the case of Guatemala. Inflation, however, was not a very serious problem for most of the countries. Price increases, measured by changes in average levels of consumer price indexes, were moderate, except in the case of Costa Rica, and price rises during the period 1980-1983 were similar to those of the 1970s.

The countries participating in the Caribbean Basin Initiative programme are characterized by a significant degree of openness. This is particularly true of the island economies, as shown in table 1, where in some cases import coefficients exceed 100. This reflects the type and nature of the resources and technology base, the production structure and consumption patterns. It implies that export initiatives such as the CBI programme may lead to rising imports of raw materials and capital goods especially where there is a thrust toward increasing the production of manufactured goods.

By and large, the countries were running current account deficits during the second half of the 1970s, with Trinidad and Tobago a notable exception (see table 2). The size of the deficits increased considerably during 1980-1983 as compared to 1975-1979, except in Panama. In the case of Trinidad and Tobago the sizeable surplus was converted into a deficit. As an integral part of the trade balance situation, the merchandise terms of trade deteriorated for all countries between 1980 and 1983 and most sharply (by more than one-third) in the case of Haiti. Overall balance-of-payments data also reflect this picture. The patterns were more varied, however, and some countries actually showed surpluses resulting from net inflows of foreign capital. Nevertheless, serious deterioration was the norm.

A corollary to these trends in the external sector during the pre-CBI period was the sharp rise in the growth of external indebtedness. Table 3 shows increases of more than 100% between 1980 and 1983 in some instances. Costa Rica, already with a relatively large per capita debt in 1980 of approximately US$1 400, resisted the trend to some degree, managing to keep the growth of its debt to 11% between 1980 and 1983. It must be noted that the external debt of most of these countries has increased substantially since 1983.

This scenario would be incomplete without a brief reference to the socio-political dimension. Taking the Basin as a whole, the political situation had been turbulent for some considerable time. As recently as 1969 two neighbouring countries were at war. More frequently there have been border incidents, and relations have worsened between several countries.

At the beginning of the 1980s there was greater ideological heterogeneity resulting from the emergence of a new political dynamics and the reaction to both internal an external social and economic situations. By this time, too, "ideological pluralism" had gained considerable credibility in the Caribbean. In the Basin area there existed "right-wing" régimes and military and other kinds of dictatorships as well as Marxist and socialist States. Wars, civil wars, guerilla insurgencies and foreign intervention caused heavy loss of human life and destruction of property and infrastructure. According to one estimate made at the beginning of 1984 (*Inter-American Dialogue*, 1984), during the

Table 2

MACROECONOMIC AGGREGATES SELECTED CBI COUNTRIES

Country	Average annual rates of change (in real GDP)		Balance on current account B.O.P. (millions of dollars)		Overall B.O.P. balance (averages) (millions of dollars)	
	1975-1980	1980-1983	1975	Averages 1980-1983	1975-1979	1980-1983
Bahamas	1.9[a]	...	38.5	-66.6	4.7	10.0
Barbados	5.2	-2.4	-41.9	-56.5	6.5	7.4
Haiti	5.6	-1.9	-40.4	-193.6	7.7	3.9
Jamaica	-3.8	1.5	-287.8	-323.5	-92.0	-97.9
Dominican Republic	4.8	3.4	-77.6	-504.9	4.2	-52.6
Trinidad and Tobago	5.0	-4.5	342.0	-206.3	356.7	34.2
Costa Rica	5.1	-2.3	-217.8	-417.5	11.9	53.5
El Salvador	0.8	-4.5	-95.2	-188.9	15.2	-32.3
Guatemala	5.8	-1.7	-65.2	-340.9	105.9	-136.6
Honduras	7.2	-0.3	-124.9	-288.9	37.4	-68.1
Panama	6.2	2.9	-189.4	-60.2	9.2	-22.8

Source: ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1988 (LC/G.1550-P), Santiago, Chile. United Nations publications, Sales No. E.89.II.G.1.

[a] 1977-1980.

Table 3

SELECTED ECONOMIC INDICATORS - PRE-CBI PERIOD

Country	Consumer prices average annual rates		External debt disbursed		Merchandise terms of trade[a]	Urban unemployment Average annual rates	
	1975-1980	1980-1983	End 1983 millions dollars	Percentages growth 1980-1983	1980=100 1983	1980	1983
Bahamas	6.8	7.1	234	138.7	...	...	...
Barbados	10.0	10.1	174	112.3	84.9	12.6	15.0
Haiti	8.0	9.5	551[b]	90.0	64.5	...	...
Jamaica	22.0	10.5	2 920	68.4	...	13.8	13.1
Dominican Republic	9.9	6.6	3 313	60.9	85.1	...	...
Trinidad and Tobago	17.5	14.2	646	48.0	95.2	9.9	11.1
Costa Rica	8.1	53.2	3 532	11.0	84.3	6.0	8.5
El Salvador	13.0	13.3	1 890	60.7	81.5	...	...
Guatemala	10.7	5.4	2 149	121.1	84.0	2.2	9.9
Honduras	9.7	8.9	2 162	43.2	91.6	8.8	9.5
Panama	6.8	4.6	3 392[b]	45.4[bc]	93.9	10.4	11.7

Source: ECLAC, *Statistical Yearbook for Latin America and the Caribbean*, 1985 (LC/G.1420), Santiago, Chile. United Nations publication, Sales No. E.S.86.II.G.1; *ibid*, 1988 (LC/G.1550-P), Santiago, Chile. United Nations publication, Sales No. E.89.II.G.1; and ECLAC Subregional Headquarters for the Caribbean, *Review by the Economic Commission for Latin America and the Caribbean/Caribbean Development and Co-operation Committee of the Economic Performance of Caribbean Countries for 1987* (LC/CAR/G.245), Port of Spain, 12 February 1988.

[a] FOB/CIF.

[b] Public debt.

[c] 1981-1983.

previous five years approximately 150 000 people had lost their lives and some 1.5 million had been displaced. Displacement also took the form of legal and illegal migration and created the refugee situations in neighbouring countries and in the United States. These situations created additional tensions in the temporary host countries, adversely affected their scarce social services and financial resources, and exacerbated border conflicts.

Not to be overlooked in all of this is the brain drain from the region, the effects of which will be felt for many years.

The Inter-American Dialogue, after study and discussion of the situation in Latin America and the Caribbean, concluded with respect to the Caribbean Basin area that the violence arose from persistent economic deprivation, social injustice and political repression (*Inter-American Dialogue*, 1984), and it recommended social and economic reforms, political dialogue and special help for displaced persons and refugees. This report no doubt helped to influence action in favour of a CBI programme.

This then is part of the background to the CBI: modest resources, relatively low level of economic and social interaction (given the geographical location), wars, political incursions and destructive rivalries, external and internal economic and social exploitation, and, in addition, adverse effects of the international financial and economic crises. The CBI is a response to these factors as well as to wider geopolitical concerns. The pertinent question is whether the response is sufficiently timely and adequate.

This paper is the result of several studies designed to improve the understanding of the present situation and the prospects for an improved CBI programme in the context of the current and future situations.

I

What is the Caribbean Basin Initiative?

The much publicized campaign launched in 1981 (at least in its earliest stages) created the hope that perhaps a mini-Marshall Plan operation might result. This was not to be. Indeed, even the oiginal proposals outlined by the President of the United States at a meeting of the Organization of American States (OAS) in early 1982 fell far short of being a Marshall Plan. This original proposal would have created a one-way free trade régime for exports (with the exception of textiles and clothing) from the Caribbean countries to the United States for a period of 12 years. In addition, an allocation of US$350 million was to be provided to countries which were "particularly hard-hit economically". Significant tax incentives were to be offered also to United States firms investing in Caribbean Basin countries, and a programme of technical assistance and training was to be provided for the private sector in these countries.

The programme as finally launched fell far short even of the reduced expectations, as described in the following section, and has generated much unfavourable comment, dissatisfaction and disappointment.

The CBI is essentially a programme of legislative and administrative measures devised by the Government of the United States of America to stimulate economic development in Central America and the Caribbean mainly through private sector initiatives. The more immediate goals are to expand foreign and domestic investment, particularly in the non-traditional sectors of beneficiary countries, thereby diversifying the economies, and to expand exports (mainly to the United States). While trade is the programme's main plank, based on laws enacted by the United States Congress, a number of supporting legislative and administrative measures are utilized to facilitate the programme.

The Caribbean Basin Economic Recovery Act (CBERA) of 1983 (United States Congress, 1983), which entered into force in 1984, provides for the duty-free entry of certain articles and materials (products) from specific Caribbean and Central American countries into the United States from January 1984 for a period of 12 years ending in December 1995.

1. *Eligible countries*

Despite its name, not all countries of the Caribbean Basin, or indeed all "Caribbean" countries, are included in the programme. The Act defines the Caribbean Basin by designating beneficiary countries on the basis of mandatory and discretionary criteria of the Executive. These criteria are broad, ranging from ineligibility on the grounds of being a communist country to the degree to which a country has assisted in preventing narcotic drugs from entering the United States and to violations of intellectual property rights. Many criteria are thus based on essentially non-economic considerations, but many strictly economic considerations also apply. For example, the granting of preferential treatment to the exports of a developed country, when such treatment is considered to affect United States trade adversely, may be a ground for excluding a country. Other criteria relate more to economic factors in the potential beneficiary country; for example, provision of reasonable access for United States exporters to its home market, existence of export-subsidy schemes, internal industrial relations and its own economic development efforts. Taking all these criteria into consideration, the countries listed in table 4 were eligible as of early 1988.

Table 4

REAL GROWTH RATES IN CBI DESIGNATED COUNTRIES

(Averages 1984-1987)

Country	Total GDP	Agriculture	Manufacturing
Netherlands Antilles	...	...	...
Antigua and Barbuda[a b]	7.2	-3.8	3.6
Aruba	...	...	...
Bahamas	4.6	...	...
Barbados	3.0	0.6	-2.3
Belize[a]	4.4	2.1	5.7
Costa Rica[c]	4.4	1.6	6.3[d]
Dominica	3.7	...	...
El Salvador[c]	1.8	0.4	1.4
Grenada	4.0	...	...
Guatemala[c]	0.6	0.7	0.5
Haiti[c]	0.2	1.8	-3.7
Honduras[c]	2.7	3.3	2.7
British Virgin Islands	1.8	...	...
Jamaica	0.5	1.7	1.3
Montserrat	3.2[a]	...	...
Panama[c]	2.6	3.2	2.2
Dominican Republic[c]	2.0	-0.7	1.6
Saint Kitts and Nevis[a b]	5.8	-	4.1
Saint Lucia[a]	4.7	7.1	1.3
Saint Vincent and the Grenadines	3.1	...	...
Trinidad and Tobago	-4.2	3.3	-6.0[e]

Source: ECLAC, on the basis of official data. See: *Estudio Económico de América Latina y el Caribe,* 1988 (LC/G.1577-P), Santiago, Chile. United Nations publications, Sales No. S.89.II.G.2; *Anuario Estadístico de América Latina y el Caribe,* 1988 (LC/G.1550-P), Santiago, Chile. United Nations publication, Sales No. E.89.II.G.1; and *World Bank Country Reports for Antigua and Barbuda,* Saint Kitts and Nevis and Saint Lucia.

[a] At constant factor cost.

[b] 1984-1986.

[c] Data do not necessarily agree with official constant price estimates.

[d] Includes mining and quarrying.

[e] Excludes oil refining and petrochemicals.

As far as ECLAC members are concerned, it will be seen that Guyana, Nicaragua and Suriname were excluded. Anguilla, the Cayman Islands and the Turks and Caicos Islands were also excluded, but it must be assumed that this was due to their non-independent status.

Puerto Rico and the United States Virgin Islands have a special relationship with the United States and are granted certain protective advantages in terms of articles eligible for duty-free treatment under CBERA.

2. *Eligible products*

While the range of eligible products defined on the basis of the United States Tariff Schedule is very broad, there are many specific exclusions. Moreover, all United States laws and restrictions as well as the requirements of various regulatory agencies are applicable. Similarly, there are "rules-of-origin", "new and different" and "substantial transformation" criteria to be met.

The list of products specifically excluded from duty-free entry includes: textiles and apparel (with some exceptions), canned tuna; petroleum and petroleum products; footwear (with minor exceptions); work gloves made of leather, rubber or plastic; luggage; handbags and "flat-goods"; certain leather apparel; watch and watch parts (if any constituent material originated in a "communist" country). Sugar, syrups and molasses, beef and veal are also excluded unless a "stable food-production plan" is submitted by each country concerned.

Basically, the rules of origin criteria require that:

a) an article must be grown, produced or manufactured in a beneficiary country;
b) at least 35% of the value must be the cost of direct processing in one or more CBI-eligible country;
c) United States materials may comprise up to 15 percentage points of the 35% mentioned in b) above.

Moreover, if the article contains materials from non-CBI countries, there must be substantial processing of the original materials so that the article produced is "new and different" from the original materials.

Articles meeting all the eligibility and rules of origin criteria are still subject to the provisions of United States tax laws and the regulations of various agencies. Thus a number of standards have to be met, such as standards of quality and safety, and environmental and general public safety; and the United States Customs Service co-operates in the enforcement of these regulations and standards. It should be noted also that the Act (section 213) provides that the President of the United States can withdraw duty-free treatment for imports that cause or threaten to cause injury to domestic agriculture, industry or employment. For example, the United States Secretary of Agriculture can request the President to take emergency action when it is considered that imports of perishable farm goods have increased to the point where they are "a substantial cause of serious injury" or even a threat to a domestic industry producing the same perishable goods.

3. *Legislative supervision*

The United States International Trade Commission (ITC) is responsible for reporting periodically to the Congress on the Act's economic impact on domestic industry (including United States possessions and territories). These reports cover not only the actual effects on industries producing similar or directly competitive articles, but also the probable future effects for the duration of the Act. In this process the ITC is required to analyse output, trade and consumption of products affected by the Act, taking into account economic variables such as investment, employment, profit levels, utilization of production facilities, prices, wages, and patterns of demand, among others.

Likewise, the Department of Labor is required to undertake a continuing review and analysis of the Act's impact on the United States workforce and to report thereon to Congress.

4. *Other aspects of the programme*

In addition to the duty-free provisions of CBERA, other measures have been introduced in order to facilitate the broad objectives of the programme:

a) a tax-exemption provision amending section 274 of the Internal Revenue Code of 1954, ostensibly to assist tourism in CBI countries, whereby expenditures incurred in attending business meetings and coventions in CBI-approved countries are allowable as deductions in computing tax liabilities;
b) promotional programmes established by a number of United States federal and state agencies and private-sector organizations to facilitate investment and increase production capacity in beneficiary countries;
c) what has been described as increased United States economic assistance to CBI countries to aid private-sector development.

If a CBI beneficiary country enters into a Tax Information Exhange Agreement (TIEA) with the United States, that country may host conventions of United States business-tax payers who may then legitimately deduct, for tax purposes, business expenses incurred in attending such conventions. Also the country becomes an eligible location for the head office of a foreign sales corporation. In addition, the country will qualify for investment funding under section 936 of the Puerto Rico programme (see below).

Another aspect of the programme is the activities of various agencies of the United States government created specifically for the programme or restructured or otherwise utilized to assist in achieving CBI objectives. Chief among these are the United States Department of Commerce and the United States Agency for International Development (USAID), to which special responsibilities have been assigned. There are also the Overseas Private Investment Corporation (OPIC), the CBI Business Promotion Council and various bodies created before the CBI progamme which provide several important services for the attainment of CBI objectives. The activities of these bodies range from the direct financing of projects to feasibility studies, the provision of training and advisory assistance in many fields, credit and credit insurance, marketing services, the hosting of trade fairs and other events and the preparation of advertising material.

The strong emphasis on private-sector development is reflected in the work of the official agencies and the private-sector organization. Financing, advisory and other services are offered by both types of agency directly to private sector firms or groups in the United States and in CBI beneficiary countries.

5. *Relationship to certain United States laws*

There are other United States laws and regulations which, in effect, complement the Caribbean Basin Economic Recovery Act. Two important ones are the Tariff Schedules of the United States (TSUS) and the Internal Revenue Service (IRS) Code, section 936.

The TSUS programme 806 and 807 provides for reduced valuation for customs purposes of products assembled or processed outside the United States from United States materials or parts. Duty is chargeable only on the value added in the beneficiary country to the United States-produced components and not on the total value. The rate of duty however remains the same as for the imported finished article. This is expected to reduce the cost to the United States consumer, stimulate demand for the product and increase foreign-exchange earnings and employment in CBI countries. Caribbean countries have benefitted with respect to the assembly of metal articles, and garments and other textile products.

The "section 936 programme" is somewhat complicated and is linked to the signing of Tax Information Exchange Agreements. Income derived from the Puerto Rican operations of United States businesses (and recently also businesses in the United States Virgin Islands) are effectively exempt from United States taxation as long as the funds remain in those countries. A significant pool of funds has therefore been accumulating in Puerto Rico. For reasons unrelated to the CBI, the United States government amended section 936 of the Internal Revenue Service Code which now authorizes the State Development Bank of Puerto Rico to make loans on concessionary terms to qualifying projects in CBI beneficiary countries from the accumulated funds. This criterion is also applicable to the existing twin-plant programme of Puerto Rico, and both twin-plants and complementary plants may qualify for use of the concessionary funds held by the Puerto Rico Development Bank.

II

The achievements

Total economic growth in the 22 CBI designated countries during the period 1984-1987 has been limited. While most countries had a positive growth rate, only six showed real GDP growth of 4% or more on average for the four years and, with the exception of Costa Rica, they were all small countries with relatively low aggregate GDP.[1] On the other hand, the larger countries tended to have the lowest growth rates, thus dampening the overall regional growth. However, the 1987 growth rate was better in almost two-thirds of the countries than the rates in the years 1984-1986.

The evidence to hand suggests that credit for the improvement in GDP during these four years cannot be attributed to CBERA. In the first place, there is no consistency between the trends of the GDP data and either the trends of exports of all commodities or exports of CBI-eligible commodities to the United States. Indeed, as pointed out in the next section, total exports to the United States showed a downward trend in the 1984-1987 period. Secondly, though the export coefficients of some countries are high, the larger countries have smaller coefficients, so that the impact of exports on total GDP is lower than would otherwise be the case. This means that, while the United States is the largest export trading partner of most of these countries, the growth rate of exports to the United States would have to be fairly high to make a noticeable impact on GDP. It would seem, therefore, that the stimulus provided by the programme was not sufficient to make a major difference at the level of the total economy.

Given the fact that the Caribbean Basin Economic Recovery Act covered mainly trade in goods, the appropriate sectors on which to focus attention are agriculture and manufacturing. Here, too, the impact has not been visibly significant to date, but the trends in United States imports from Basin countries would affect the performance of these sectors in some countries.

[1]See table 4.

Some growth has been recorded in these two sectors for most countries (see table 4). An average growth rate of 7% was achieved in the agriculture sector by Saint Lucia and 3% increases were recorded in Honduras, Panama and Trinidad and Tobago, but growth was negligible in the other countries. For manufacturing the picture was quite varied. The 6.3% average growth in Costa Rica was more than offset by the 6% average decline in Trinidad and Tobago (at constant prices). Two other countries experienced declines in their manufacturing sectors, but in two smaller countries manufacturing grew by more than 4% on average during the period. It appears that there was a favourable impact in some countries; for example, the increases in exports of Honduras is consistent with the moderate increases in the growth of agricultural and manufacturing GDP in that country.

1. *Foreign trade*

The trend of foreign trade with the United States has been generally unfavourable to the subregion as a whole. On the basis of United States Department of Commerce statistics (see table 5), total imports from the designated countries decreased every year between 1983, the year before that Act entered into force, and 1987. On the other hand, United States exports to these countries have increased steadily and a 1983 *surplus* of some US$3.7 billion in favour of CBI countries was converted into a *deficit* of approximately US$151 million in 1987.

In respect of CBI-eligible goods (see table 6), imports into the United States from designated countries grew by 16% in 1984. However, there were decreases in 1985 and 1987 and imports in the latter year were only 5% higher than in 1983, clearly a situation at odds with general expectations.

Obviously, the situation varies from country to country. On a subregional basis, CARICOM countries have fared worse than Central American countries. With regard both to total United States imports and to CBI-eligible goods, the trade of CARICOM countries increased in the first year of CBERA but moved downwards in each of the subsequent years. By 1987 the decline was approximately 25% compared with 1983. In the CARICOM subregion the smaller islands have increased their trade, having started from very low levels, while those countries with larger volumes of trade have generally experienced declines. Jamaica is the sole exception among the major CARICOM countries —showing higher volumes of total imports into the United States since the programme began— but this is due solely to higher levels of trade in non-CBI-eligible goods. On the other hand, the producers of petroleum products (Trinidad and Tobago and the Bahamas) have seen their exports to the United States decline drastically. The main reasons for these declines are unrelated to the CBI except, however, that petroleum products were specifically exempted from the Caribbean Basin Economic Recovery Act.

Data for the Central American subregion show that both total trade and United States imports of CBI-eligible items increased. In both cases, values have increased virtually without interruption, except in 1987, and in that year total imports into the United States were 28% higher and CBI-eligible imports 11% higher than in 1983. Costa Rica had the largest increases, followed by Honduras and Guatemala. However, most of the countries in this subregion saw their trade decline in 1987, with El Salvador falling off particularly sharply in respect of CBI-eligible goods.

Aside from these two subregions, the performance of the Dominican Republic has been outstanding, mainly in exports of textiles and apparel to the United States, although its trade in CBI-eligible items has also increased. A country's export structure reflects its production structure, and changes in the latter will have an impact on the former, often with a time-lag. One major difficulty with CBERA is that some items excluded from eligibility are among those in which many countries have productive capacity and expertise. They include textiles and garments, petroleum, petroleum products and sugar. While United States imports of textiles and garments from CBI countries have been stimulated, as mentioned earlier, by TSUS 807, its imports of petroleum and petroleum products, sugar and some other goods have also been discouraged directly by legislation and non-tariff barriers. The countries are finding it difficult to accomplish rapidly the major changes in production structures which are necessary to make maximum use of the export incentives.

Many CBI-eligible products already benefit from special entry privileges into the United States under other legislation, including most-

Table 5

U.S. IMPORTS FROM AND EXPORTS TO CBI DESIGNATED COUNTRIES 1983-1987

(Millions of dollars)

	1983	1984	1985	1986	1987
	Imports (CIF)				
CARICOM countries[a]	1 926.4	2 193.6	1 930.2	1 397.7	1 452.3
Central American countries[b]	2 028.8	2 214.6	2 283.1	2 656.2	2 519.9
Other	5 286.7	4 726.0	2 901.6	2 445.7	2 545.5
Total	**9 241.9**	**9 134.2**	**7 114.9**	**6 499.6**	**6 517.7**
	Exports (FAS)				
CARICOM countries[a]	1 538.0	1 560.0	1 307.0	1 385.0	1 363.0
Central American countries[b]	2 038.0	2 202.0	2 152.0	2 291.0	2 483.0
Other	1 956.0	2 191.0	2 284.0	2 389.0	2 822.0
Total	**5 532.0**	**5 953.0**	**5 743.0**	**6 065.0**	**6 668.0**

Source: SELA, *The Caribbean Basin Initiative: Current Situation and Outlook* (SP/CL/XIV.O/Di No. 2), Caracas, June, vol. 2.
Note: Guyana *is* a founding member of CARICOM, but up to 1988 it was ineligible to benefit from CBI.
[a] Caribbean Common Market, excluding Guyana.
[b] Excludes Nicaragua.

Table 6

U.S. IMPORTS OF CBI-ELIGIBLE COMMODITIES FROM DESIGNATED COUNTRIES[a b]

	1983	1984	1985	1986	1987
CARICOM (excl. Guyana)					
Antigua and Barbuda	0.9	2.4	7.0	7.5	3.6
Barbados	179.8	238.5	174.6	90.2	46.5
Belize	22.4	30.4	34.3	38.8	30.5
Dominica	0.1	0.1	14.5	15.9	10.4
Grenada	0.2	0.8	1.1	2.9	3.3
Jamaica	274.4	403.2	222.6	202.8	229.8
Montserrat	0.9	1.0	3.4	3.5	2.3
Saint Kitts and Nevis	14.2	15.7	10.4	14.5	15.4
Saint Lucia	1.9	3.2	5.5	4.9	5.0
Saint Vincent and the Grenadines	2.8	1.7	7.0	6.2	6.3
Trinidad and Tobago	137.6	206.6	153.5	122.8	130.3
Total	635.3	903.7	633.9	510.1	483.5
CACM (excl. Nicaragua)					
Costa Rica	379.8	451.0	450.8	562.9	552.9
El Salvador	358.0	377.5	392.6	357.9	243.7
Guatemala	354.3	436.5	403.1	614.6	453.3
Total	1 092.1	1 265.0	1 246.4	1 535.4	1 249.9
Other designated					
Netherlands Antilles	91.9	65.2	86.4	56.7	70.4
Aruba	-	-	-	1.9	0.5
Bahamas	144.0	159.9	168.3	208.0	167.8
Haiti	244.7	279.2	260.1	240.5	231.7
Honduras	398.1	428.1	400.3	450.9	513.1
British Virgin Islands	0.9	1.4	2.7	0.7	0.8
Panama	347.0	287.2	387.9	358.2	327.4
Dominican Republic	693.9	846.7	773.7	799.6	783.5
Total	1 920.5	2 067.8	2 079.5	2 116.6	2 095.2
Total designated	3 647.9	4 236.4	3 959.8	4 162.1	3 828.5

Source: SELA, *The Caribbean Basin Initiative: Current Situation and Outlook* (SP/CL/XIV.O/Di No. 2), Caracas, June, vol. 2. compiled from official statistics of the U.S. Department of Commerce.
[a]CIF values.
[b]Millions of dollars.
[c]Central American Common Market.

favoured nation (MFN) treatment under the GATT rules and the Generalized System of Preferences (GSP), already mentioned. In other words, the existence of these other arrangements in which all CBI countries are eligible to participate limits the real potential benefits of CBERA.

An analysis of 1987 data made by the Latin American Economic System (SELA, 1988) indicates that only about 10% of all CBI exports to the United States in that year were exclusively CBI-beneficiary products. The growth of these products has amounted to about 38% since 1984. Included in this group are fruits and fruit juices, organic chemicals and related products, and meat, which have shown excellent growth rates. Other items showing excellent/good growth rates, not exclusively due to CBERA, include textiles and textile products, garments, leather and leather products, fish and shellfish, wood products (including furniture) and jewelry. Many of these however started from relatively small bases in 1984. On the other hand, exports of some items, including iron and steel products and tobacco, have declined.

In order to provide some ideaof the contribution by country to items playing a leading role in trade, table 7 has been abstracted from detailed data and included in the statistical appendix. Costa Rica features prominently in nearly all of the items shown, which is consistent with its share of around 12% of total trade in 1987 and with its apparently more diversified production base. The table also reflects the still dominant role of agriculture and fisheries products; however, the growing importance of manufactures can be seen from the high growth rates of some countries in organic chemicals, furniture,

Table 7

GROWTH OF TRADE IN SELECTED ITEMS BY MAJOR EXPORTERS

SITC No.	Description	Countries	Values 1987 (millions of dollars)	Growth rate 1984-1987
011	Meat, fresh, chilled or frozen	Total of which:	134.2	37.4
		Costa Rica	69.5	43
		Honduras	20.1	-15
		Dominican Republic	24.7	909
034	Fish, fresh, chilled or frozen	Total of which:	50.4	83.3
		Costa Rica	19.0	158
		Panama	20.9	36
		Trinidad and Tobago	2.2	285
		Dominican Republic	2.0	-17
036	Shell fish, fresh, frozen or salted	Total of which:	274.4	29.3
		Costa Rica	16.6	24
		El Salvador	26.6	5
		Honduras	64.6	32
		Bahamas	21.6	37
		Haiti	4.6	68
		Jamaica	2.0	694
		Belize	6.2	45
		Panama	97.9	53
054	Fresh and preserved vegetables	Total of which:	67.9	29.3
		Costa Rica	8.4	56
		El Salvador	3.8	113
		Guatemala	24.2	83
		Dominican Republic	21.0	-17
		Jamaica	8.2	46
057.3	Bananas and plantains	Total of which:	617.4	27.4
		Costa Rica	185.7	-6
		Guatemala	70.4	125
		Honduras	260.9	43
		Panama	99.7	42
821	Furniture and parts	Total of which:	24.6	173.3
		Costa Rica	7.3	297
		Honduras	3.9	50
		Dominican Republic	5.7	442
		Jamaica	2.4	467
897	Jewelry and related articles	Total of which:	117.1	394.1
		Costa Rica	8.6	2 619
		Dominican Republic	80.7	350
		Haiti	25.5	448
		Panama	0.6	573

Source: Unite States Department of Commerce, *U.S. General Imports and Imports for Consumption* (FT 135), Washington D.C., and data furnished by the ECLAC Division of Statistics.

jewelry, etc. Exports of some traditional commodities have been declining or stagnating; they include coffee, bauxite, cocoa, tobacco and tobacco products (though only coffee is shown in the table). Not reflected in the table is the growing importance of non-traditional items in the fast-growing trade of the smaller countries of the Caribbean Basin.

On balance, the existence of the Caribbean Basin Economic Reovery Act has conferred limited trade benefits on the region as a whole; and the large trade surplus of the Basin countries with the United States in 1983 had shrunk drastically (by 96%) by 1987. Some individual countries have fared better than average and have even increased their total exports. By contrast, the trade in CBI-eligible goods has increased. Perhaps the most important contribution of the Act is that it has helped the region to offset, if only minimally, the broader decline in trade Moreover, many countries have participated in the increase in the trade in eligible goods. In this way a more diversified structure of United States imports from the CBI-designated countries has emerged and the potential for further increases remains.

2. *Investment*

This important area is included rather obliquely in CBERA by way of an amendment to section 294 of the United States Internal Revenue Code of 1954, as mentioned earlier, perhaps reflecting the assumption that the increased export opportunities provided by CBERA would be sufficient to stimulate both local and foreign investment.

Certain United States agencies operating in the CBI region either execute or facilitate direct investment projects. These include the United States Export/Import Bank, the Agency for International Development (USAID), the Overseas Private Investment Corporation (OPIC) and the Caribbean Project Development Facility (CPDF). It is reported that much co-ordination of activities is effected among these agencies in order to facilitate the attainment of the CBI objectives.

Definitive data are not readily obtainable on investment resulting from the CBI and some reports must indeed be viewed with scepticisms in the light of a United States General Accounting Office report which stated that a United States Department of Commerce study "attributing a large number of investments in the Caribbean and Central American countries to CBI was unsubstantiated and incorrect" (see GAO/USAID-88-77). There is no shortage of comment, however, to the effect that inflows of investment, like other areas of the CBI, have been disappointing. These opinions are supported by the available statistics (see table 8) which show recent downward trends for most countries in a comparison of the pre- and post-CBI periods.

During the post-1983 period gross fixed capital formation at constant prices declined overall, although the trends varied by country. There were increases in three countries (Costa Rica, Dominican Republic and Honduras), but for the other six countries shown in the table the levels of gross capital formation stagnated or declined. Direct foreign long-term investment fell in the period 1984-1987 mainly as a result of the severe drop in inflows to Trinidad and Tobago. However, foreign capital inflows to three countries, Dominican Republic, Costa Rica and Honduras, increased during this same period. Interestingly, these three countries are the leading exporters of CBI-eligible goods to the United States.

The outstanding features of United States direct investment are the large volume of investment in the Bahamas and Panama, the higher level of investment in Barbados after 1983 (contrary to the main trend and the negative investment situation in the Netherlands Antilles). However, this negative situation has eased since 1984 as a result of positive capital outflows, mainly in the form of inter-company debt payments and reinvested profits. United States equity capital outflows to CBI countries decreased during this latter period. It is worth noting that the declines in United States investment in Costa Rica, Dominican Republic and Honduras after 1983 were relatively small.

It would thus appear very probable that investment flowed into at least some of the countries of the CBI area to take advantage of the export opportunities offered under the programme. It is also known that some of these countries have benefitted from the "807" programme described earlier and that a few investment projects have been financed under the Puerto Rico section 936 programme.

Table 8

INVESTMENT IN SELECTED CBI COUNTRIES

(Annual averages)

Country	U.S. Direct investment position[a]		Direct foreign investment[ab]		Gross fixed capital formation[c]	
	1982-1983	1984-1987	1980-1983	1984-1987	1980-1983	1984-1987
Netherlands Antilles	-21 356.0	-18 547.5	...	...	...	...
Bahamas	3 441.5	3 113.5	8.8	9.1	...	...
Barbados	56.5	139.3	3.4	-0.6[d]	113.8	102.3
Belize	-21.5	-9.0[d]	...	...	...	...
Costa Rica	154.0	131.3	49.1	64.4	1 745.6	1 987.5
El Salvador	98.0	72.6[e]	6.8	6.2	362.8	366.4
Guatemala	223.5	193.3	90.0	79.6	347.5	236.5
Haiti	18.0	27.8	9.2	4.7	919.0	1 022.3[f]
Honduras	231.5	207.3	9.3	23.4	794.0	818.0
Jamaica	348.0	144.0	-4.6	-0.4	252.2	234.1
Panama	4 625.0	4 376.5	8.4	-2.3	388.5	342.5
Dominican Republic	223.0	201.3	54.8	60.9	619.9	703.1
Trinidad and Tobago	896.5	468.8	190.1	-27.0[d]	1 550.0	1 051.1[f]

Source: ECLAC *Statistical Yearbook for Latin America and the Caribbean*, 1988 (LC/G.1550-P), Santiago, Chile. United Nations publication, Sales No. E.89.II.G.1; and United States Department of Commerce, *Survey of Current Business*, Washington, D.C. August 1986, 1987 and 1988.

[a] Millions of dollars.

[b] Long term.

[c] Millions of national currency units (at constant prices).

[d] Data for 1984-1986 only.

[e] Data for 1984-1985 only.

[f] Data for 1986 unavailable.

There are data relating to investments in CBI countries insured by OPIC,[2] but the important question of whether some of these investments would have been made if the insurance facility had not been available remains unanswered. Available data for projects promoted by the Jamaica National Investment Promotion (JNIP) since the inception of the CBI programme in 1984 are very positive, but here again it is impossible to say to what extent the CBI was responsible for investment in these projects.

Where the project was already viable and profitability assured, CBI benefits provide a bonus to the firm. It is also possible that CBI benefits made the difference in some cases of marginal viability where the investment might not otherwise have been made. Also, to the extent that increased co-ordination has reduced duplication and overlapping and has focused on CBI objectives, the available funding may have had greater effectiveness.

Notwithstanding the lack of major investment incentives in the relevant legislation, the programme appears to have stimulated interest in investment in the CBI region. Moreover, the CBI does provide some benefits for the firms involved and an inflow of foreign exchange, investment and jobs for at least some of the participating countries. It is possible also that the foreign investment inflow and gross capital formation of those countries experiencing declines may have been worse but for the programme.

[2] For example, during the three-year period from September 1983 to November 1986, OPIC provided US$168 million in financial support for 59 projects and insured 129 investments totalling US$193 million (United States Department of Commerce: *Guidebook for Caribbean Basin Exporters*, 1988).

Table 9

U.S. ECONOMIC ASSISTANCE TO CARIBBEAN BASIN INITIATIVE COUNTRIES[a]

	1981	1982	1983	1984	1985	1986	1987	1988[b]
Belize	-	-	17	15	10	9	10	9
Costa Rica	13	51	212	175	195	147	173	118
El Salvador	114	182	246	323	314	311	430	317
Guatemala	17	14	28	32	80	106	176	137
Honduras	34	78	106	170	131	123	188	155
Panama	11	13	7	46	35	24	19	30
Regional	11	13	19	53	122	97	53	61
Central America	**200**	**351**	**635**	**814**	**887**	**817**	**1 049**	**827**
East Caribbean	27	87	58	106	54	49	49	46
Haiti	34	34	46	45	53	74	97	88
Jamaica	71	137	102	108	155	119	78	94
Dominican Republic	36	79	60	143	117	81	63	76
Caribbean	**168**	**337**	**265**	**352**	**379**	**323**	**287**	**304**
Total	**368**	**688**	**900**	**1 166**	**1 266**	**1 140**	**1 336**	**1 131**

Source: SELA, *The Caribbean Basin Initiative: Current Situation, and Outlook* (SP/CL/XIV.O/Di No. 2), Caracas, June, vol. 2, quoting United States Department of State.
[a] Millions of dollars - fiscal years.
[b] Provisional.

3. *Development assistance*

Financial and technical assistance is the third major area of the CBI programme, as indicated earlier. SELA (1988) quots figures from the United States Department of State which show that United States economic assistance to the CBI region in 1987 was some 48% higher than in 1983 (see table 9). The largest percentage increase was in 1984, the first year of CBERA, and a decline of some 15% was projected for 1988. Official assistance of various kinds is being given to stimulate, promote and encourage private-sector organizations to invest and otherwise facilitate business contacts, activities, etc., in CBI countries. The possibility of further declines in the level of United States financial assistance to the Basin countries is very great owing to the annual reductions provided for in the United States budget deficit.

Central American countries get the bulk of these funds —as much as 79% in 1987, although generally the share is closer to 72%, with the remainder going to Caribbean countries. Generally, the Caribbean's share is getting smaller. The level and trend of the assistance to individual countries is interesting to note but the reasons for these movements need not detain us here.

In summary, in the light of the available data, the achievements of the CBI programme have been disappointing, although United States economic assistance to the region has increased fairly substantially. On the other hand investment, a necessary prerequisite for production increases to take advantage of the trade opportunities, has declined. Total exports to the United States have declined drastically, although this has been offset to some extent by smaller increases in goods benefitting from CBERA eligibility. It must be stressed, however, that some countries have obviously benefitted directly. The overall lack of dynamism of investment and foreign trade in the Basin as a whole means that the impact on regional GDP has been minuscule. There is evidence, however, that at the country level some impact has been made on the agricultural and manufacturing sectors, and a more diversified pattern of trade has emerged.

III

Achievements and expectations

Expectations ran high, for the most part, following the original announcement, and the accompanying wave of publicity, of a major initiative to assist the Caribbean Basin countries to overcome their current economic problems and to promote self-sustaining economic growth. Talk of a Caribbean "Marshall Plan" or "Alliance for Progress" was commonplace, and the remarkable post-World War II recovery of Europe and Japan fired expectations. Investments were expected to flood into the Caribbean and Central America from the United States and elsewhere, subject only to the limits of absorptive capacity. Exports from CBI countries would move into the United States freely once the tariff barriers had been lowered, and the productivity of dynamic private enterprise would create a demonstration effect which would substantially improve the economic situation in the Basin in the short to medium term. As it turned out, the few sceptical voices were right and in retrospect there are a number of reasons —political, institutional and economic— why the great expectations proved unjustified.

It may be useful to note in passing that the main justifications for the programme were geopolitical, not economic. The United States Secretary of State said in a statement before the Senate Finance Committee on 13 April 1983 that the security and economic well-being of the Caribbean and Central America had a direct impact on the United States own strategic and economic interests, and that the region was a vital strategic and commercial artery for the United States (U.S. Department of State, 1983).

The Reagan Administration surged to power in 1980-1981 on a rising tide of "conservative" and nationalist political and economic ideologies: a super-Power status must not only exist but must be seen to exist; the Monroe doctrine must be invoked to protect against alien encroachments in the region. In economic affairs the primacy of the market-place must be reasserted as the only means of lasting economic progress; hence the rhetoric of balanced budgets, reduced State sectors and monetarist approaches to solving economic problems.

However, this new Administration, despite its large majority in the general election of 1980, had to work with a Congress not fully in accord with its views, so that the usual post-election "honeymoon" period was rather brief. In the circumstances, even with the best will in the world the President would have had great difficulty in securing all the support he needed on most issues, including geopolitical ones. Moreover, the Executive Branch of the Government represents national interests while Congressmen represent sectoral interests. Furthermore, the existing laws, the rules and regulations of executive departments, and state and municipal government authorities with their own legal status under the United States Constitution often have an impact on the outcome of national laws, of the economic and other kinds. In short, the political-legal system and the prevailing ideological tide constituted major constraints on the fortunes of the CBI proposals.

The initial proposals of the United States government were sufficient cause for doubts to be cast on the notion of a strong stimulus to self-propelled growth in Central America and the Caribbean in the medium term. (It is of course easier to be wise after the event; certainly in the period after the Grenada expedition[3] some euphoria and optimism seemed justifiable.) The proposal for one-way duty-free access is clearly of limited usefulness *unless* a number of other laws, rules and regulations are also revised. The provision of US$350 million to meet balance-of-payments shortfalls was a drop in the bucket given the existing situation.[4] The proposed investment tax credit (10%) would have been an added inducement to investors, but the Congress rejected the proposal.

As pointed out before, the final law passed by the Congress included restrictive clauses and

[3] *In 1983 United States troops landed on the Caribbean island of Grenada following a violent coup d'état.*

[4] Moreover, the protectionist and nationalistic philosophy then prevailing, coupled with strident calls for a balanced budget (including reductions in non-military aid) were enough to suggest that the volume of aid funds would not be increased indefinitely.

related almost exclusively to trade. It has been observed that a very large part of the trade was already available to CBI countries duty-free and the rest was subject to very low duties in the range of 5% to 7%. What it was important to remove was at least some of the more restrictive non-tariff barriers.

Nor did much of the economic scene make for any great optimism. In 1981 and 1982 the world economic situation was not very buoyant. For example, industrial production in the OECD countries had declined between the third quarter of 1981 and the end of 1982; the prices of products had fallen and so had the level of consumer prices. The United States itself was in a recessionary phase during 1982; industrial production had been declining since the middle of 1981, real interest rates were high, and business failures in 1982 were more than three times higher than in 1979. Of course, there was a spirited recovery of that economy during 1983 which perhaps helped ease the passage of the CBI legislation through the Congress.

In addition to all these factors, there were other factors within the Caribbean Basin economies that ought to have at least tempered expectations. They included the factors of size, resource base, production capacity and productivity and the existing economic situation, as outlined above in the introduction. Of all the CBI countries only Guatemala had a population of more than five million in 1982, and none can *truly* be said to have abundant resources: this is particularly true of the economies of the Caribbean islands. Also, speaking specifically of the Caribbean countries, while some capacity may have existed for immediate expansion of production and sales of items such as sugar, rum, bauxite, some agricultural products, garments, and petroleum products, the same could not be said for most other goods.

One consideration of overwhelming importance is the dynamics of producing for and successfully selling in the United States market. Quite apart from the legal and institutional obstacles, such as health requirements, environmental considerations, strictures against subsidies and suspected underpricing of goods in order to gain a market share, the difficulties would still have been formidable. They included the production of articles in the right sizes and quantities at competitive prices, appropriately packaged for the various markets or markets segments and delivered at the right time. Meeting these challenges requires modern production facilities, high productivity, adequate physical and institutional domestic infrastructure, strict quality controls, comprehensive knowledge of the market and large advertising budgets, among other things. Added to all of this is the burden of relatively high transportation costs. However, it would be reasonable to expect transportation costs to decline as volume of trade increased.

This brief analysis brings into sharp focus the realities of the foreign market-place and shows that the task was never going to be easy; radical changes in domestic attitudes, practices, strategies, etc., would therefore have been required. This prospect ought to have been enough to temper over-optimistic expectations of short-term success.

IV

Some recent initiatives

The limitations of CBERA and even of the complementary administrative actions as means of achieving the programme's stated objectives were soon realized by many people, including members of the United States Congress and the Administration. Following representations by Caribbean governments and concerned oranizations various measures to improve the programme have been proposed.

These measures have culminated in a bill which, after various bodies had considered it and commented on it, was approved on 20 June 1989 by the Ways and Means Committee of the House of Representatives as "H.R. 1233 Caribbean

Basin Economic Recovery Expansion Act of 1989". This bill is expected to be presented shortly for consideration by the full House of Representatives. It appears to have the support, in general if not in all its details, of the Administration and several private-sector interests.

Some major features of the new bill are:

— The 1989 CBERA will have no termination date, so that it will become a permanent feature of United States trade policy.

— In respect of textiles and apparel (not eligible for duty-free treatment under the 1983 CBERA, the existing Guaranteed Access Level (GAL) programme negotiated by the government, under which products assembled from United States materials in CBI countries enter the United States subject to duty only on the value added to these materials, will become a statutory programme. In addition, GAL will apply to products assembled from foreign materials which are in "critical short supply". *Duty-free treatment will be accorded to the total value of GAL imports* manufactured from United States materials or from imported materials named in a statutory list.

— In the case of products previously not exempted from payment of duty (see page 11), the duty will be reduced by 50%, *except* for leather footwear, petroleum, petroleum products and canned tuna. The value added in the Caribbean on these articles assembled or processed entirely from United States materials or ingredients will be entitled to duty-free treatment.

— A minimum floor for the sugar imports quota will be established at the 1989 quota level of 371 449 net tons.

— Ethanol produced in full-fermentation plants will continue to receive duty-free treatment, but imports of ethanol distilled but not fermented in CBI-eligible countries will be subject to certain quantity limitations.

— New rules of origin will be announced for imports from CBI countries as of January 1991 based on changes in the Harmonized System of Tariff Classification.

— The duty-free allowance for United States residents returning from CBI countries will be increased from US$400 to US$600.

The obvious question is: Will the new bill, once it becomes law, enable countries to achieve the aims of the CBI? Considered in isolation this result seems doubtful, although the new bill is an improvement on the existing Act. Firstly, passage of the new bill in its present form is not an absolute certainty since special-interest groups may raise objections. Secondly, the new bill like the old one does not affect investments, except indirectly by improving market access. But is the access sufficient to attract foreign or United States investment? Time alone will tell, but other factors in the domestic economies may be more important. Thirdly, the "permanency" feature of the bill is a clear advantage, although it could act as a brake on the sense of urgency that a fixed termination date can evoke. Fourthly, the bill is virtually silent on non-tariff barriers, with the important exception of the sugar imports quota and the modification of the accumulation procedure in measures against "unfair trade practices". In the case of sugar several countries are in the process of rationalizing the industry, but the reductions in their United States quotas have been too drastic. The 1989 quota level will furnish a reasonable base for an industry which provides jobs for so many. The accumulation clause will apparently be of immediate benefit to at least one small heavy industry. Finally, the 50% duty reductions will probably not be much of an incentive since many rates of duty are already quite low.

V

Comments

The CBI programme involves the United States, a super-Power donor, a number of sovereign States and a few non-independent territories in the Caribbean. It will be clear from the earlier discussion that the programme is essentially a unilateral one operated from the donor's side, even though some recipients were able to explain their situation in order to secure increased assistance for the region.

The programme has not been the success expected and CBERA, which bears the legislative stamp of the United States Congress, has many shortcomings (exceptions and restrictive clauses) which limit its ability to facilitate the attainement of the stated objectives. Also, when the final provisions were signed, the opportunity was not taken to remove or ameliorate some of the hindrances of other legislative or executive decisions (including quota requirements and special protective measures of various kinds). Therefore, it is quite understandable that beneficiary countries should want to pursue eagerly the efforts to have the programme modified so as to be able to achieve its stated objectives, which coincide with the objectives of the Caribbean Basin countries. Recently there has been increased publicity and mounting pressure for concerted action to gain more concessions. Such efforts have a good chance of succeeding, as indicated in the preceding section.

There are some other considerations that ought to be taken into account in the context of the objectives of the CBI programme. They include: a) the essentially temporary nature of financial and technical assistane; and b) contemporary world and national economic realities.

Almost by definition, financial and technical assistance is temporary in nature, for it is motivated by the need to solve some temporary problem or difficulty. Thus, aside from the limitations on the donor's ability or willingness to furnish this assistance indefinitely, there is the implied expectation of a solution to the problem for which the assistance was sought in the short to medium term. The extension of this term cannot be expected to continue indefinitely and we may be approaching the limit.

World and national economic realities obviously can affect the present situation by altering political priorities or the ability to pay, even where there is the will to do so. The trend of phenomena such as production cycles, technology changes, and international competitiveness can make a significant impact on fragile economies and may even affect previously secure economic arrangements. The burden is clearly, therefore, on the national governments (of the Caribbean Basin countries) to create the necessary conditions to cope with the effects of any changes on the national economies.

While striving to gain maximum benefit from existing concessionary arrangements, the burden of effort ought to be concentrated on social and economic activities in order to adapt and adjust to the realities in a manner consistent with increasing the capacity to produce efficiently and increase total output.

The predictions for the next decade on the basis of current trends are ominous. In this connection, a recent publication (Commonwealth Secretariat, 1988) is particularly appropriate when it says that long-run development will depend more upon the sustained hard work, ingenuity, productivity and thrift of individuals and enterprises within the framework of sensibly supportive and facilitatory government policies than upon any grandiose schemes and projects.

The CBI programme must therefore be viewed as simply buying time, creating a breathing-space while major adjustments are undertaken and new structures put in place in beneficiary countries. Therefore, the pertinent question is whether the countries are doing enough to ensure that by 1997 (or 2007) they can produce efficiently for domestic consumption and exports in a dynamic world economy. Efforts need to be made to create a new outlook with respect to production, marketing and international realities. But complementary activities must also be undetaken in order to promote domestic savings, investment, research and development, and training. But much more important is the need to formulate suitable supportive macroeconomic policies to facilitate the process and to provide for the economic welfare of all the citizens of the Basin countries.

Bibliography

Bennett, Karl (1987), "The Caribbean Basin Initiative and its implications for CARICOM exports", *Social and Economic Studies*, vol. 36, No. 2, Mona, Kingston, Institute of Social and Economic Research, University of the West Indies, June.

Commonwealth Secretariat/Caribbean Community Secretariat (1988), *Caribbean Development to the Year 2000: Challenges, Prospects and Policies*, London, June.

Connell-Smith, Gordon (1984), "The Grenada invasion in historical perspective: from Monroe to Reagan", *Third World Quarterly*, vol. 6, No. 2, London, Third World Foundation, April.

———(1983), *Las Américas en una encrucijada. Informe del Diálogo Interamericano*, Washington, D.C., The Wilson Center, April.

Inter-American Dialogue (1984), *The Americas in 1984: A Year of Decisions. Report of the Inter-American Dialogue*, Washington, D.C., Aspen Institute for Humanistic Studies, May.

Domínguez, Jorge I. (1980), "The United States and its regional security interests: the Caribbean, Central and South America", *Daedalus*, Journal of the American Academy of Arts and Sciences, vol. 109, No. 4, Boston, Fall.

ECLAC (Economic Commission for Latin America and the Caribbean) (1982), Subregional Headquarters for the Caribbean, *Secretariat Note on the Caribbean Basin Initiative* (CEPAL/CARIB 82/17), Port of Spain, December.

———(1984), Subregional Headquarters for the Caribbean, "The Caribbean Basin Initiative: Pros and Cons", *mimeo.*

———(1985), *Statistical Yearbook for Latin America and the Caribbean* (LC/G.1420), Santiago, Chile. United Nations publication, Sales No. E/S.86.II.G.1.

———(1986), Subregional Headquarters in Mexico, "La ley de los Estados Unidos sobre la recuperación económica de la Cuenca del Caribe" (Part I), Mexico City, July, *mimeo.*

———(1988), *Economic Survey of Latin America and the Caribbean* (LC/G.1577-P), Santiago, Chile, United Nations publication, Sales No. E.89.II.G.2.

———(1988), *Statistical Yearbook for Latin America and the Caribbean* (LC/G.1550-P), Santigo, Chile. United Nations publication, Sales No. E.89.II.G.1.

———(1989), Office in Washington, D.C., *Economic Survey of the United States*, 1988 (LC/WAS/L.5), 26 June.

Eguizábal, Cristina (ed.) (1988), *América Latina y la crisis centroamericana: en busca de una solución regional*, Colección Estudios Internacionales, Buenos Aires, Grupo Editor Latinoamericano.

Gill, Henry (1985), "Aspectos comerciales de la Iniciativa estadounidense para la Cuenca del Caribe", *Capítulos del SELA*, No. 9, Caracas, p. 40.

Overseas Development Council (1985), "The Caribbean Basin Initiative: Update", *Policy Focus*, No. 3, Washington, D.C.

Pastor, Robert (1982), "Sinking in the Caribbean Basin", *Foreign Affairs*, vol. 60, No. 5, New York, Council on Foreign Relations Inc., Summer, p. 1038.

Pelzman, Joseph and Gregory K. Schoepfle (1988), "The impact of the Caribbean Basin Economic Recovery Act on Caribbean nation's exports and development", *Economic Development and Cultural Change*, vol. 36, No. 4, Chicago, University of Chicago Press, July, p. 753.

Phillips, Glenn O. and Talbert O. Shaw (eds.) (1987), *The Caribbean Basin Initiative: Genuine or Deceptive? An Early Assessment*, Baltimore, Morgan State University Press.

SELA (Latin American Economic System) (1988), *The Caribbean Basin Initiative: Current Situation and Outlook* (SP/CL/XIV.O/Di No. 2), Caracas, June, vol. 2.

Trinidad and Tobago Export Development Corporation (1987), "The Performance of the CBI to date", Port of Spain, 22 June, *mimeo.*

United States, Office of the Press Secretary to the President (1982), Press release of Statement of the President of the United States submitting the Draft Bill on the CBI to the United States Congress, 17 March.

———Congress (1983), *The Caribbean Basin Economic Recovery Act*, Public Law No. 98-67, Title II, Washington, D.C.

———(1983), Department of State, Bureau of Public Affairs Statement by Secretary of State George Schultz before the Senate Finance Committee on the Caribbean Basin Economic Recovery Act, *Current Policy*, No. 477, Washington, D.C., 13 April.

———(1984 and 1987), Bureau of the Census, *United States General Imports and Imports for Consumption* (FT 135), Washington, D.C., December.

———(1986), *The Caribbean Basin Initiative. 1986 Guidebook for Caribbean Basin Exporters*, Washington, D.C.

———(1988), Department of Commerce, International Trade Administration, United States and Foreign Commercial Service, *The Caribbean Basin Initiative (CBI). 1988 Guidebook for Caribbean Basin Exporters*, Washington, D.C.

———(1988), General Accounting Office, *Caribbean Basin Initiative: Impact on Selected Countries*, Report to the Chairman, Subcommittee on Western Hemisphere and Peace Corps Affairs, Committee on Foreign Relations, United States Senate, Washington, D.C., July.

———International Trade Commission (1988), *The Use and Economic Impact of TSUS Items 806.30 and 807.00*, Report to the Subcommittee on Trade, Committee on Ways and Means, United States House of Representatives, USITC Publication No. 2053, Washington, D.C., January.

———(1989), House of Representatives, Committee on Ways and Means (1989) "H.R.273. The Carbbean Basin Economic Recovery Expansion Act 1989", *Press Release*, No. 8-A, Washington, D.C., 20 June.

World Bank (1988), *The Caribbean: Export Preferences and Performance*, a World Bank Country Study, Washington, D.C.