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The Caribbean Basin Initiative:  
What Does it Mean for Forestry?

By

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## THE FORESTRY PRIVATE ENTERPRISE INITIATIVE

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## ABSTRACT

The Caribbean Basin Initiative (CBI) comprises a number of U.S. government programs to stimulate economic development in the Caribbean Basin through private investment and trade. The CBI provides duty-free access to the U.S. market for a wide range of Caribbean products, including forest products. Both the U.S. Department of Commerce and the U.S. Department of Agriculture fund programs to supply marketing information to buyers and sellers of these products. Additionally, the U.S. Agency for International Development channels substantial sums of economic assistance to the CBI countries, including assistance for market development and assistance for forestry projects.

A telephone survey of U.S. forest products trade associations showed that they are aware of the CBI, but have no activities directly related to it. Furthermore, none of the associations is aware of its members initiating or expanding activities in the Caribbean Basin in response to the CBI. A survey of a small number of advertisers in the CBI Business Bulletin revealed mixed results on the perceived effectiveness of the CBI, and not much business actually consummated. A case study of Jamaican furniture illustrates that regional producers will need enterprise-level technical assistance to produce and export for the U.S. market.

Based on this limited evidence, it appears that the CBI has had little impact on forestry and forest products to date. The corollary is that forestland management in and around the Caribbean Basin has been largely unaffected. The financial, technical, and marketing needs of an enterprise may be too specific to benefit from the generalized information brokering that characterizes many of the CBI programs.

## INTRODUCTION

The Caribbean Basin Initiative (CBI) is intended to promote economic and social development in the countries of the Caribbean Region through the mechanisms of private trade and investment. The Caribbean Basin Economic Recovery Act was signed into law on August 5, 1983. It provides "new trade and tax measures to promote economic revitalization and expanded private sector opportunities in the Caribbean Basin region" (U.S. Dept. of Commerce 1984, p. 6).

At the heart of this legislation is Title 2, section 211, allowing the President of the United States to eliminate U.S. import duties on a wide range of Caribbean products for 12 years.<sup>1</sup> To be eligible for duty-free access to the U.S. market, Caribbean countries must be designated "beneficiary countries" by the President. In January 1984, 20 countries were designated as CBI beneficiaries.<sup>2</sup>

To the extent that they meet the relatively liberal rules-of-origin requirements, forest products are among the hundreds of

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<sup>1</sup>The other elements of the CBI are: (1) tax deductions for U.S. citizens who incur expenses at business conventions held in beneficiary countries; (2) special import measures to support the economic development of Puerto Rico, the Virgin Islands, and other U.S. insular possessions; and (3) supplemental economic assistance to CBI countries, principally through programs of the U.S. Agency for International Development.

<sup>2</sup>These countries are: Antigua and Barbuda, Barbados, Belize, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, Saint Christopher-Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and Virgin Islands (British).

products eligible for duty-free access to the U.S. market. The CBI does not provide duty-free treatment for textiles and apparel, canned tuna, petroleum and petroleum products, footwear, and certain leather products. Imports of sugar and beef qualify for duty exemption, but only subject to special requirements.

Because the productive capacities and trade volumes of the CBI countries are small, the Reagan Administration contends that the U.S. economy is not likely to be injured by duty-free imports of eligible Caribbean products. Moreover, proponents of the CBI anticipate that U.S. businesses will find opportunities in the CBI countries for joint ventures, subcontracted assembly and manufacturing, licensing, and other offshore operations. Promising areas for U.S. investment are said to include "horticulture, aquaculture, forestry (underlined for emphasis), certain types of food production and processing, livestock, tourism, and export-oriented light manufacturing" (U.S. Dept. of Commerce 1984, p. 3).

The purpose of the present paper is to evaluate the CBI's impact on the forestry and forest products sector, broadly defined to include both primary and secondary uses of wood and allied products (but excluding paper and paper products). We begin by describing the role accorded forestry and forest products in the Caribbean Agricultural Marketing Workshops and in the development projects of the Agency for International Development. We extract data from the CBI Business Bulletin to show the number and composition of wood-related investments attributable to CBI programs.

We follow this by results of two telephone surveys directed to decision-makers affected or potentially affected by the CBI. The first survey reports CBI importance as perceived by spokespersons of key U.S. wood products trade associations. The second survey contains perspectives on the CBI by a small number of U.S. and Caribbean firms listing wood products business opportunities in the CBI Business Bulletin. We include a case study of Jamaican furniture exports---as reported by U.S. consultants---to further amplify these perspectives. We use the preceding facts and impressions to evaluate the significance of the CBI for forestry, now that the CBI nears the end of its second year of existence.

#### FORESTRY AND FOREST PRODUCTS IN THE CBI

##### CBI Programs Related to Forestry

Directly or indirectly, the CBI cuts across a large number of U.S. government programs. There is much confusion---even within the federal government---as to what these programs are, and within what agencies they are administered. The Caribbean Basin Business Information Center is operated by the Department of Commerce's U.S. and Foreign Commercial Service, one of four program areas within Commerce's International Trade Administration. Requests directed to the U.S. Department of Agriculture's Foreign Agricultural Service sometimes are referred to Commerce or elsewhere within Agriculture (e.g., to any of several programs in Agriculture's Office of International Cooperation and Development).

Other agencies most affected by the CBI are the Overseas Private Investment Corporation, the Customs Service, and the Agency for International Development. The latter provides information on business opportunities in the Caribbean Basin through four separate offices, and funds a number of private and public support services to facilitate CBI-related businesses. Still other federal participants in the CBI are the Export-Import Bank, the Federal Trade Commission, the Food and Drug Administration, the International Trade Commission, and the Peace Corps (U.S. Dept. of Commerce 1984, pp. 11-16).

While it would be difficult to report how different programs in these various parts of the federal government are linked with the CBI and then with the forestry sector, we single out two programs for special focus. The first is a series of Agricultural Marketing Workshops for the Caribbean Basin, administered by the Department of Agriculture's Office of International Cooperation and Development. The second is the program of U.S. economic assistance for the Caribbean Region, administered by the Department of State's Agency for International Development.

Marketing Workshops.--The Department of Agriculture, in cooperation with the Agency for International Development, has been sponsoring workshops to promote agricultural trade in the Caribbean Basin. These workshops are intended to bring together potential U.S. and Caribbean agribusiness exporters and importers through seminars, buy-and-sell networking sessions, field trips, lectures, and written materials and displays.

At the 1983 workshop in Costa Rica, one session was devoted to forest products. The 1984 workshop in Miami included three sessions on forest products, plus a forest products tour. The 1985 workshop, to be held in New Orleans in September, will again include panels and a tour for forestry and forest products among the various commodity lines to be represented. The sessions on forestry and forest products are organized by the Department of Agriculture's Forest Service, which invites panel speakers and tour leaders from both the public and private sectors.

The forestry and forest products segments of the 1984 workshop were attended by approximately 25 persons (in relation to a total workshop attendance of 700). According to Forest Service spokespersons, participants showed considerable interest in small portable sawmills and wood products grades and standards. They most wanted "hands on" experiences. For this reason Forest Service organizers are discussing the possibilities of a highly applied forestry field tour of the southern U.S. for the 1986 Workshop.

For the workshop as a whole, evaluators concluded that the workshop participants came primarily to make business contacts and acquire specific technical information. Caribbean participants emphasized information gathering and technical interests, while U.S. participants were more interested in making business contacts. Few participants were active in investment; most were concerned with import and export. With respect to the content and structure of future workshops, participants

frequently emphasized their needs for "more specific information." A consistent complaint was failure of the speakers or topics to address the particular context of production and marketing in the Caribbean Region. Participants wanted a greater level of detail on U.S. market demand, possibilities for finance and credit, technical data on production technologies, etc., by product line (U.S. Dept. of Agriculture 1984, pp. 1-11).

Caribbean Forestry in AID--In 1984 the Agency for International Development (AID) committed \$923 million in economic assistance to the Caribbean Basin. This compares with \$335 million in 1980. More than half of the 1984 total went to El Salvador, Costa Rica, and Honduras--three countries at the periphery of U.S. foreign policy for Nicaragua (Lowenstein 1984).

As of August 1984, AID funding in direct support of CBI objectives included feasibility studies and assistance projects for fresh and frozen vegetables, animal husbandry, coffee pulp processing, papaya latex processing, shrimp ponds, and bananas. None of the commodity-specific projects was specifically related to forestry or forest industries. However, most of AID's assistance under the CBI is not channeled along product lines, but rather is aimed to improve business climate and develop business support services in a generic way. This refers to AID projects which concentrate on business data bases (and "information clearinghouses"), training for business entrepreneurs and managers, analysis of investment climate, establishment of capital markets and credit funds, promotion of

non-traditional exports, etc. (Rivera 1984). Forestry and forest industries are potential beneficiaries of such efforts, but only within the cross-section of all Caribbean businesses.

Several of the AID missions in the Caribbean Region fund development projects featuring forestry or forestry-related components. Among them are Costa Rica, Dominican Republic, Guatemala, Haiti, Honduras, Jamaica, Panama, and St. Vincent. Additionally, some projects extend across several countries (e.g., a regional fuelwood project and a regional watershed project, both funded by AID's Regional Office for Central America and Panama). Of these several forestry projects, only those in the Dominican Republic and Panama have significant implications from the standpoint of private enterprise. One component of the forestry project in Honduras attempted (unsuccessfully) to convince the Honduran government to privatize wood products exporting. The proposed second phase of the natural resources project in Panama will provide a commercial credit line for industrial reforestation by private landowners. Effects on Caribbean Basin trade, investment, and employment will not be known for several years.

#### Business Activity List

In June 1985 the Caribbean Basin Business Information Center published a list of new businesses established in the Caribbean Basin since January 1984. The Department of Commerce implies or assumes that these businesses have been assisted in whole or in part by U.S. programs under the CBI.

Some 20 investments in the listing are linked with forestry and forest products (Table 1). These 20 investments are 7.4 percent of the total number (270 investments in all). For those enterprises reporting investment amount, forestry and forest products account for \$2.5 million of a total portfolio of \$165.8 million (1.5 percent of the total). For those enterprises reporting employment created, forestry and forest products account for 656 out of 31,277 jobs (2.1 percent of the total).

While these figures may not be reliable, and while concepts of job creation and capital investment may not be defined carefully, the conclusion is inescapable that the forestry sector is poorly represented in this listing. The forestry sector's averages of \$180 thousand per investment, and 41 jobs per investment, are well below averages for the portfolio as a whole (\$786 thousand per investment; 140 jobs per investment). Moreover, that less than eight percent of all listed investments are forestry-related is low when considering the usual sectoral distributions of income, employment, and invested capital.

With the exception of the listings for Belize and Costa Rica, the investments are in secondary and tertiary wood processing. Most focus on furniture and furniture components. Some investments have been short-lived (e.g., Ingle Toys closed in Grenada after only three months of operation). Others--like

TABLE 1. Export-Oriented Wood Products Businesses Established in the Caribbean Basin Since January 1984.

<u>Company Name</u> <u>and CBI Country</u>	<u>Product</u>	<u>Investment</u>	<u>Jobs</u>
1. <u>Barbados</u>			
Caribbean Cabinets Ltd.	Kitchen furniture and vanities	NA	12
Krafts Ltd.	Kitchen and bedroom furniture	NA	6
Kissoon Manufg. Ltd.	Laminated wooden products	NA	8
2. <u>Belize</u>			
Big Creek Ent.	Processing tree stumps	\$350K	8
3. <u>Costa Rica</u>			
Edward Broch	Grow teak and mahogany	\$50K	NA
4. <u>Dominican Republic</u>			
Moda Vida Corp.	Contemporary furniture	\$240K	NA
Muebleria La Fe	Rocking chairs	NA	NA
5. <u>Grenada</u>			
Ingle Toys Inc. (closed 12/84)	Wooden toys	\$400K	50
6. <u>Haiti</u>			
Bright Ideas, S.A.	Hand-painted wooden toys	\$75K	60

(continued)

(TABLE 1, CONTINUED)

7. Honduras

Ebika Enterprises, Ltd.	Doors, flooring, antique reproductions	NA	NA
Tia, S.A.	Wooden children's furniture	NA	20
Electrodomesticos de Honduras	Furniture parts, fences, pallets, wooden boxes	\$200K	130
Ali Yacub, S.A.	Furniture	\$115K	30
Mimbres de Honduras	Wicker furniture	\$225K	36
Proimi	Furniture	\$200K	40
Madeca	Wood products	\$200K	150

8. Jamaica

Heirloom Furnishers	Upholstered furniture	\$46K	21
Jamaica Fresh Produce	Forestry products and fresh vegetables	\$100K	6
Jamaica National Furniture Co.	Furniture	\$20K	9
Parquet Specialties Ltd.	Parquet tiles	\$300K	70

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Source: U.S. Department of Commerce, CBI Business Bulletin  
II(6), June 1985.

Ebika Enterprises of New Orleans--are touted by the Department of Commerce as important successes.<sup>3</sup>

#### Telephone Surveys of Trade Associations

Spokespersons for seven U.S. forest products trade associations were telephoned and asked for their assessments of the CBI. Table 2 shows the results, which are easily summarized because of their uniformity.

Each of the seven spokespersons reported being aware of the existence of the CBI, but none reported participation by its members in CBI programs or activities. Although these associations are not likely to know of members' activities in competitive dealings where information is proprietary, their aggregate negative response has to be interpreted as indicating a low level of overall importance.

Some members of the Imported Hardwood Products Association (IHPA) presumably import from the Caribbean Basin and realize the benefits of tariff elimination, perhaps without formally acknowledging the role of the CBI. IHPA receives occasional calls from members asking about the CBI, and it refers these calls to the Department of Commerce.

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<sup>3</sup> Ebika and a Honduran partner formed a joint venture to import doors, flooring, and antique reproductions into the U.S. Starting with a first order of \$5 thousand, the operation booked over \$300 thousand of sales in its first six months. In 1985 Honduran exports to New Orleans are expected to exceed \$1 million (CBI Business Bulletin II(4), April 1985, p. 2).

TABLE 2. Importance of CBI to U.S. Forest Products Industry as Perceived by U.S. Trade Associations.

<u>Association</u>	<u>Importance of CBI for Association and its Members</u>
National Forest Products Association	No involvement by association, and no reported participation by members.
Southern Forest Products Association	No involvement by association, and no reported participation by members.
National Dimension Manufacturers Assoc.	No purchase of furniture parts or contract for production of furniture parts from any CBI country.
Hardwood Plywood Manufacturers Assoc.	No involvement by association, and no reported participation by members.
Hardwood Manufacturers Association	No involvement by association, and no reported participation by members.
Imported Hardwood Products Assoc.	No involvement by association, but on mailing list for CBI Business Bulletin. Occasional calls from members asking about CBI. But no known use of CBI programs by members.
American Plywood Association	No involvement by association, and no reported participation by members.

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Source: Telephone survey conducted in July 1985.

Two of the spokespersons volunteered that they perceive no short-term advantages from the CBI for the U.S. forest products industry. Both represent associations which are promoting exports of U.S. wood products to the Caribbean Basin and elsewhere.

#### Telephone Survey of Firms in the CBI Business Bulletin

A second telephone survey polled a handful of firms advertising wood-related business opportunities in the CBI Business Bulletin. The results are shown in Table 3. The poll inquired about effectiveness of the CBI at the level of individual participants.

Six inquiries are not many on which to base an evaluation. The responses in Table 3 should be viewed as no more than a preliminary sample of the kinds of replies various individuals will give when asked about the CBI. Enterprise #2 illustrates a firm which rates the CBI highly, while enterprises #3 and #4 are not as sanguine. As with any cross-section of businesses, mixed results are to be expected. The crucial policy question concerns the proportions of respondents in the different categories if a larger sample were to be drawn.

#### Case Study of Jamaican Furniture

The telephone surveys uncovered a case study of exporting Jamaican furniture to the U.S. market. The case is told by two U.S. consultants with extensive experience in the Caribbean furniture industry. This case is related here because it reveals much about the context of the CBI.

TABLE 3. Responses to Advertisements Run in the CBI Business Bulletin (April and May 1985) by Small Sample of Wood-Related Enterprises.

<u>Business Opportunity</u>	<u>Reported Response</u>
1. Small firm in South Carolina seeks Haitian subcontractors for wood and other products. Has been involved in Haiti 23 years.	Five inquiries, but no business yet. "Not unusual--takes time for things to develop. People are <u>not</u> just putting the Business Bulletin on the shelf to forget about it."
2. Small business in Alabama uses mahogany slats in outdoor furniture. Needs one million slats every 3-4 weeks.	Item got 75-100 responses from all over CBI region. But no deal closed yet. "Very high on CBI program"; has placed two more items in Business Bulletin.
3. U.S. national, living in Pittsburg, seeks U.S. contracts for his Haitian furniture components operation.	Received one inquiry; no business. Will have item run again in Business Bull.
4. Individual in Belize wants to export wicker and rattan furniture, bamboo fences, and woven chair seats to U.S.	Received two inquiries; no business yet. "Was hoping for more interest--is a little disappointed."
5. Government-owned furniture plant in Netherlands Antilles seeks U.S. joint venture partner..	Received two inquiries; no business yet. "We have been slow in delivering some required information." Is pleased with the free CBI advertising.
6. Trucking line in Florida uses 2,000 hardwood pallets per day. To get lowest possible cost, wants to eliminate brokers.	Received 12-15 inquiries from Central America and some from U.S.--but mainly from brokers. No contract yet because of lack of firm price quotations.

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Source: Telephone survey conducted in July 1985.

According to the consultants, the Jamaicans are among the world's most skilled woodcarvers and furniture technicians. Furniture is made from species like mahogany, blue mahoe, Spanish elm, and Spanish cedar. Much of this raw material is imported--but not ordinarily from the U.S. Product lines include eighteenth century, wicker, and contemporary furniture. The largest operations use good European equipment.

Obstacles to greater penetration of the U.S. market are technical, financial, and marketing. Technical problems include moisture difficulties (i.e., not drying to equilibrium moisture content), poor finishing, and raw material wastage. An example of wastage is a firm which makes cuttings for a single order, and later retrieves scrap from that first order if cuttings can be made for a second order. The firm does not combine cuttings for several orders as a strategy to reduce handling and waste. Questionable production planning is also exhibited in hand-sanding assembled pieces rather than machine-sanding unassembled pieces.

The Jamaican furniture producers often experience cash flow difficulties. Despite the existence of credit programs, the challenge is getting the finance to the right firms at the right time. Failures mean that raw materials cannot be purchased.

Marketing is perhaps the most serious constraint. Some Jamaican furniture enterprises export to other parts of the Caribbean (e.g., Barbados and Trinidad). But to produce for major U.S. furniture lines, costs would have to be considerably

lower to compete with Far East producers. Moreover, the Jamaican furniture firms have not yet learned how to package their products for shipment to the U.S. (sometimes furniture pieces are wrapped in blankets). Market timing leaves much to be desired, as when Jamaican furniture manufacturers missed the opening of a major North Carolina furniture show by two days. One large Jamaican furniture producer had signed a contract for \$400 thousand with a Virginia furniture company, and failed to meet delivery schedules. The contract was cancelled.

Jamaica currently has no marketing program outside of the country. Moreover, many Jamaican producers apparently underestimate the complexities of furniture marketing--which starts in the showroom, not in the factory. One consultant suggests that the Caribbean countries should collectively set up a permanent exposition in some location like Montego Bay, where buyers from the U.S. (and elsewhere) would come for a week. The furniture show would be scheduled in January, apparel in February, etc. This would help Caribbean producers learn what products and lines are in demand, and increase their contacts with buyers.

#### INTERPRETATIONS AND IMPLICATIONS

What does the CBI mean for forestry? To date, it means very little. A handful of wood-related businesses (e.g., exemplified by Ebika Enterprises) conceivably owe all or part of their success to the CBI. Yet we do not find a groundswell of enthusiasm for the CBI among U.S. forest products interests or among wood-using Caribbean enterprises. Nor do we detect

evidence of measurable increases in forest products manufacturing in the Caribbean Region.

First, the prevailing concern across most of the U.S. primary forest products industries is how to export more--and import less! On the other hand, this export-oriented majority does not actively oppose the CBI, probably because it perceives little threat from the Caribbean Region in view of its small wood-producing capacity. Secondly, some U.S. producers publicly endorse augmenting all Caribbean exports so that the Caribbean countries will be able to buy U.S. wood later.

But if U.S. forest products exporters are for the most part neutral on the CBI, so, too, is the mainstream of forest products importers. The U.S. tariffs on wood products are already low (about 10-15% on processed products, and only 1-6% on semi-processed products). Elimination of these tariffs may not have much impact on import economics.

Even more importantly, many of the CBI programs are not providing the specific production and marketing assistance that would be most helpful to both U.S. importers and Caribbean exporters. Much of the CBI is "arm's length" treatment to build regional data bases, develop country profiles, sponsor workshops to introduce exporters to importers, etc. For Caribbean businesses not familiar with the U.S. market or U.S. businesses not familiar with the production sector in the Caribbean, these brokering activities are necessary but probably not sufficient to generate actual business transactions.

But for enterprises already possessing basic orientation, the CBI's brokering activities are insufficient to overcome the production and marketing problems typical of the Caribbean forest products manufacturer. This refers to Caribbean enterprises which have decided what to produce and which may already know where to sell their products, but which need highly specific technical and marketing counsel at the firm level. The case of Jamaican furniture argues forcefully for this position. If the CBI is unable to deliver firm-specific assistance, it may be doing a disservice by building unrealistic expectations.

To the extent that forest products markets shift because of the CBI, the CBI has implications for forestland management. For example, the island countries could be expected to import increasing quantities of logs, lumber, and plywood for secondary manufacturing into furniture, toys, and the like. The logs, lumber, and plywood could be supplied by timber produced in some of the Central American countries and the U.S. To date, however, the CBI programs apparently do not have sufficient impact to produce demonstrable changes in timber production either in or out of the Caribbean Basin.

One of the classical themes in the development literature is that development takes place in individual enterprises and persons--not in industries, sectors, and economies. To be effective, the CBI needs to target assistance to remove the constraints of particular enterprises. This requires less emphasis on process, and more emphasis on product, than has been observed thus far.

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