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Background on the Caribbean Basin Initiative

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I. SUMMARY

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

The Problem

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

Development of the Initiative

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

Key Elements of Proposed U.S. Program

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

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

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

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

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

[1] For allocation by country, see pp. 6–7.
[2] Includes $20 million earmarked for Nicaragua in the FY 1982 International Security and Development Cooperation Act. The Foreign Assistance and Related Program Appropriations Act, 1982 contains no specific reference to Nicaragua; however, it was the intention of the committees as reflected in the Appropriations Conference Report that no funds should be spent for these purposes. The disposition of these funds will be decided after further consultation with Congress.

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

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

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

Other Economic Initiatives

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

Puerto Rico and the U.S. Virgin Islands

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

II. SPECIFIC U.S. ECONOMIC MEASURES

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

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

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

Data on Potential Beneficiaries of the Caribbean Basin Initiative, 1980

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

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

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

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

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

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

Free Trade Area

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

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

U.S. Economic Relations With the Caribbean Basin

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

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

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

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

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

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

Textiles

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

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

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

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

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

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

Tax Measures

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

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

Bilateral Investment Treaties

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

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

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

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

Investment Insurance and OPIC Programs

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

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

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

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

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

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

Concessional Aid

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

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

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

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

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

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

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

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

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

(Continued on page 7)

The table above shows:

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

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

Agricultural Modernization

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assistance for Private Sector Development

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

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

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

Trade Credit Insurance Program

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

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

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

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

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

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

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

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

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

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

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

III. INTERNATIONAL ASSISTANCE ACTIVITIES IN THE CARIBBEAN BASIN

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

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

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

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

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

Canada

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

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

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

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

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

Mexico

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

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

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

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

Venezuela

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

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

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

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

Europe and Japan

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

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

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

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

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

International Financial Institutions

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

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

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

Consultative Groups

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

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

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

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

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

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

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

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

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

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

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