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**UNITED STATES ECONOMIC POLICY IN THE CARIBBEAN: WHAT NEXT FOR CBI?**

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*Preface*

The Caribbean Basin Initiative (CBI) was launched with great fanfare nearly a decade ago. The Reagan administration hoped to foster economic growth for the nations of the region through export promotion and improved access to United States markets. Despite initial attention from the press and the scholarly community, in the past few years CBI has been overshadowed by other United States policy initiatives in the Caribbean and elsewhere. Recent events, most notably the Bush administration's efforts to use CBI to revitalize the Panamanian and Nicaraguan economies and the United States Senate hearings on CBI II, suggested a new period of interest and attention for CBI. In order to promote further study and analysis of CBI in this period, the Latin American Program hosted a seminar entitled "United States Economic Policy in the Caribbean: What Next for CBI?" on March 15, 1990.

Robert Kurz, a Guest Scholar at The Brookings Institution, began the session with a presentation on the history of the initiative. He was followed by Al Cumming, Legislative Assistant to Senator Bob Graham (D-FL), who spoke on CBI II legislation, which was about to be debated in the Senate at the time of the seminar. James Murphy, Assistant United States Trade Representative for Bilateral Affairs, Latin America, the Caribbean, Africa, and Commodity Policy presented the Bush administration's Caribbean objectives and their relation to CBI II. CBI implementation was discussed by Julia Rauner, International Economist, International Trade Administration, United States Department of Commerce. These papers were followed by responses from representatives of CBI recipient countries. Commercial Counselor José Orive of the Guatemalan embassy represented the Spanish-speaking Caribbean and Central America and Counselor Paul Spencer of the embassy of Antigua and Barbuda presented the English-speaking Caribbean perspective. A review of the subsequent discussion, written by Program Associate Andrew I. Rudman, follows Mr. Spencer's remarks.

ROBERT KURZ
Guest Scholar
The Brookings Institution

"A Historical Perspective on CBI"

It has been a good long time since some of us have paid much attention to CBI. My task is to talk a little about its history in a fairly candid fashion. First, return with me to the era of yesteryear. It was 1982, and things in Washington were different from today. The Reagan revolution and the Reagan doctrine were under way. The United States government was tilting against the Soviet Union. We all remember the Soviet Union. Tom Enders was Assistant Secretary of State. Almost nobody knew who the contras were, and we certainly had no idea that there was going to be any role played by Ayatollah Khomeini.

In February 1982, President Reagan formally unveiled the Caribbean Basin Initiative to help the Caribbean and Central American nations. He said that they could make use of the magic of the market of the Americas to earn their way towards self-sustaining growth. In 1982, our government and the Congress were consumed with the war in El Salvador. It was the beginning of something that was to go on for some time. We were fighting over what seemed like a good deal of money then. It's turned out to be a fairly small amount--the United States has provided El Salvador with a little over $4 billion since then. And there was a very real perception of the Soviet threat--something I think that at least the CIA has agreed is not quite the same, even if the Pentagon doesn't quite agree. The CBI was very much, I believe, part of the story of our Salvador strategy and of our Central American strategy. And the truth is, I think, it had less to do with the Caribbean than it had to do with Central America.

The CBI as proposed by President Reagan had three parts. First, there was a twelve-year trade program to eliminate all duties on imports. It was, in fact, enacted in 1983, but did not cover textiles, apparel, footwear, handbags, luggage, flatwear, work gloves, leather wearing apparel, tuna in airtight cans, petroleum, watches, or watch parts. It was passed legislatively.

The second part was the investment incentive. That was a five-year tax credit for United States taxes up to 10 percent of Caribbean investments. The estimated tax revenue lost at that time was $50 million for the Caribbean and $55 million for Puerto Rico and the Virgin Islands. In a word, it died. To quote the *Congressional Quarterly*, the tax incentive program was never taken seriously in either the House or the Senate.

Third was the money, the driving force at the time of the Caribbean Basin Initiative. There was great argument over what we thought was a great deal of money--$350 million, which brought the aid at that time to $490 million. (That money, I should say, is long gone.) A third of the money was to go to El Salvador. The president proposed that El Salvador get $128 million; they actually got only $75 million. Jamaica was to get $50 million; the Congress agreed with that. The Dominican Republic was to get $40 million; the Congress, in a twist of fate that I had forgotten, actually gave them $41 million just to show that they liked the Dominican Republic better than the executive branch did. Honduras was to get $35 million; it got $35 million. The Caribbean was to get $10 million of the Caribbean Basin Initiative; the president proposed $10 million; the Congress in its wisdom thought they should double that and provided $20 million. Haiti was to get $5 million; the Congress thought $10 million. Belize was to get $10 million, and it did. Guatemala, and others, eventually got some money.

Later in 1982, President Reagan imposed sugar quotas. In several cases, the sugar quota program took more from the Caribbean than the CBI ever gave. In addition, one of the criticisms of the CBI was that there was no real assistance for the traditional development programs: agriculture, health, or education. I think those kinds of problems remain today.

The truth is, the Caribbean was never really a priority in United States foreign policy during that period, despite the Caribbean Basin Initiative. Jamaica may have been a priority because of the struggle of the Edward Seaga government after the Michael Manley government. And certainly El Salvador and Nicaragua and Honduras were priorities. But the Caribbean, except perhaps Grenada, was not a United States foreign policy priority.

There was a moment in Haiti when the United States had a rare opportunity to intervene in the positive sense; that is, there was a moment after President for Life Jean Claude Duvalier left the country and there was hope for democracy in Haiti. And the Secretary of State was given three options. The Deputy Assistant Secretary of State, as any good bureaucrat would do, offered three options to the Secretary of State. Option 1 was to invade militarily. Clearly, no one was going to take that option. Option 2 was to lean forward, to get involved, to encourage Haitian democracy. He figured that's the one the Secretary would take. Option 3 was to do nothing and simply follow the Haitian lead. Any good staff person knows that you never do nothing. The problem was that the Secretary did what the staff did not figure he would do: nothing. We have today in Haiti another opportunity to encourage democracy; we'll see whether we're able to follow up where we didn't before.

Paul Taylor, Deputy Assistant Secretary of State in 1985, said about the problems with the CBI: "We have, above all, a problem of unrealistic expectations." I want to leave you with that as an introduction, because there were very great expectations at the time; many people feel that they have been partially fulfilled, and many people feel that they have not been fulfilled adequately at all. That was how our government described the problem with the CBI in 1985; let us move on to see where we are in 1990.

AL CUMMING
Legislative Assistant
Sen. Bob Graham

"CBI II Legislation"

Discussion of CBI inevitably comes down to one of expectations. One of the first things Bob Graham did when he came to the Senate in 1987 was to introduce the CBI enhancement legislation. He shared the conviction with Congressman Sam Gibbons, the House sponsor, that the economic health of the basin countries was in the mutual interests of the United States and the region. Indeed, as a two-term governor of Florida, he saw the direct results of economic failures in the region; he also saw the results of the failure of United States-Latin American policy. With that in mind, he viewed CBI from its very inception in the early 1980s as good policy.

CBI continues to receive mixed reviews. Nonpetroleum imports from designated CBI countries grew 46 percent between 1983, when the program went into effect, and last year. And nontraditional exports, after several years of mediocre performance, grew at an annual average rate of 5.2 percent during the same period. Critics continue to point out total United States imports from the region decreased by about $2.3 billion during the same period. They're right. But they often fail to mention that the decrease was due largely to a steep drop in petroleum prices brought on by market changes.

Detractors go on to argue that a trade program like the CBI is only one piece of what must be a more comprehensive approach to the region, an approach that includes improvements in infrastructure, manpower training, and so on. CBI supporters agree totally. In fact, those who worked on the original CBI remember it as being part of a package that also included investment incentives and aid. We saw the investment tax credit drop out fairly early; the one-time aid injection of about $350 million seemed large then. Of course, it doesn't seem large in retrospect, and, of course, it's long gone. And Congress did a fairly good job of effectively gutting the heart of the CBI's one-way free trade duty provision, excluding the very products, such as textiles and footwear, in which CBI countries have the greatest comparative advantage.

The only surprise in all this, it seems to me, is that CBI has worked as well as it has. If there has been a problem, it has really been one of overblown expectations. As a strong supporter of the initiative, Senator Graham might take some blame for being one of those who pushed the program hard, at least publicly. I think in our own minds, we realized that there were limitations to this program, that it was a piece of a much more complex, comprehensive puzzle, but, nevertheless, something well worth doing. That is why he has reintroduced some of the enhancement legislation at this point. He saw the program as a dynamic one--after all, it ran twelve years. We are looking for a permanent extension, because our view is that this is an ever-changing process. The program is open to tinkering and improvement. That is what the last administration did in 1986 when they instituted increased access for textile products. That is what we are trying to do through S. 504, the bill now before the Senate. In the bill, we repeal the termination date, making the program permanent. We try to address the critical problem of exempted articles, textiles, footwear, some of the other articles, through ways that, hopefully, will not upset the interest groups in this country and move them to defeat the amendments that we're proposing. So far, we have not had a great deal of luck. The sensitivity on both those product areas--textiles and footwear--remains extremely high. So, we have our work cut out for us.

The bill would also try to deal with the sugar problem by setting a minimum quota floor and guaranteeing a certain quota to CBI countries. This remains a problem with the administration, which opposes it. The Finance Committee in their markup took a number of actions. One was to knock out the sugar provision. Gone from the bill was any language on cumulation, another effort on our part to separate and desegregate products coming out of the Caribbean from antidumping and countervailing duty cases. At this point, they are being lumped in with some of the larger producers, such as Colombia; as a result, they have to undergo a rather severe injury test. We argue that the larger producers really are causing the injury, whereas, the producers in the Caribbean are not.

The committee did some good things. They approved duty-free treatment to articles assembled of wholly United States components. They approved a CBI scholarship program originally introduced by Graham, provisions on worker rights, a pilot customs preclearance program in Belize, and language promoting tourism and agricultural infrastructure. We welcome all these additions. They still beg the question of how to deal with those excludable items. When you come right down to it, that is at the heart of any effort to make this program work better.

During the markup, Senator Robert Packwood proposed two amendments. One on textiles, the guaranteed access-level program, to make that completely duty free. Currently, duties are assessed on that part of the product that comes out of the Caribbean. He also tried to introduce an amendment on footwear that would reduce by 50 percent duties on rubber footwear. He failed on the latter, took down his amendment on textiles, and did not even bother to introduce it. When this bill comes to the floor, I think it will largely depend on discussions with Senator Lloyd Bentsen, obviously; Senator George Mitchell, who remains extremely sensitive to all footwear provisions; and Senators Packwood and Graham.

We do not have high expectations any more on this bill, but we have tried to convince our colleagues that, with Panama and Nicaragua as primary issues, it is in our interest to take a new look at CBI, to see if there is some way we can improve it, rather than arguing that it is an answer in and of itself. But there is no bigger favor you can do for a country, it seems to us at this point, than to give it market access.

JAMES MURPHY
Assistant United States Trade Representative

"The Bush Administration's Caribbean Objectives and CBI II"

There have been some fairly dramatic and rapid changes around us in the world in the last few months. Some of these have occurred in the Caribbean Basin, which gives us a fairly dramatic shift in the political and economic climate in that region. We have seen some fairly important changes in the situations in Panama, Nicaragua, and Haiti. Our response to that is occupying a fair amount of time in the administration as we look for ways to help these countries rebuild economies that are in pretty bad shape, given what they have been through in the last few years.

At the same time that we have been trying to find ways to enhance the CBI program itself, we are also trying to address specifically the problems in Panama and in Nicaragua. In that vein, the president has restored CBI benefits to Panama. Nicaragua, of course, never had CBI benefits. The bill was passed after the Sandinistas were in power, and Nicaragua never requested CBI benefits, although under the original bill they are eligible. We have met with representatives of the newly elected government to explain to them what steps they would have to take to be designated as a beneficiary country. I anticipate that will happen in due course.

CBI has been successful. More and more of the countries in the region are espousing free market principles and trying to adjust their domestic economic policies accordingly; we think that is absolutely critical to their future success. For example, Costa Rica has just completed the process of joining the General Agreement on Tariffs and Trade (GATT) and only needs to obtain its congressional ratification. Guatemala is also seeking to accelerate that process. United States imports of nonpetroleum imports from the region have increased 30 percent during the 1983-88 period. The composition of those imports has shifted from the traditional products, such as petroleum, coffee, and sugar, to nontraditional products, such as textiles, shellfish, and electrical articles. The nontraditional imports have jumped 75 percent since 1983 and now make up over half of our imports from the region. Some countries are obviously benefiting more than others from the CBI. For example, nontraditional exports from Costa Rica and the Dominican Republic have risen over 200 percent in the 1983-88 period. Of course, not all countries in the region are prospering. However, we are hopeful that with the improved political situation will come needed stability, and that other countries can take advantage of the CBI, as well as other preferential programs.

Last November, President Bush sent a letter or memorandum to all of the relevant Cabinet officers focusing on CBI and particularly charging Ambassador Carla Hills to lead an interagency effort to improve the operation of the CBI under existing budget constraints. No small constraint. We began that process last fall and have proposed some ideas that the administration under existing authority will be able to implement to enhance the current CBI program. I am not free to go into details at this point, but generally they are things such as improving promotion efforts in Commerce's district offices and in our embassies in the CBI; providing additional support for tourism in the region; and finding ways to encourage investment in the region. I would stress the latter because one of the messages that we hear consistently--and this is true not only in the CBI region, but in Latin America generally--is a strong concern about the ability of this region to compete for investment dollars with other areas in the world, most specifically with Eastern Europe as that region undergoes its rather revolutionary changes. One of the ways in which we can help the countries in the Caribbean Basin is to address that issue, to see what the United States can do in terms of improving domestic policies to enhance the investment environment. We are seeking input from all sources. We are querying our embassies there as well as contacts with the private sector in those countries. We are coordinating with the CBI embassies here. We are asking private sector groups and other concerned groups in the United States what we could do to improve things.

We have focused our recent efforts on what has been happening on the Hill, and we have been working closely with Al Cumming and key staffers in the Finance Committee and other offices to try to seek improvements in the CBI legislation. The administration had hopes that we could do more than has been accomplished so far, and we share Senator Graham's disappointment in that regard.

José Orive told us early on that we were unlikely to succeed, but we were not deterred. We thought it worth trying. We were working under some pretty difficult constraints; namely, that we had to come up with amendments or enhancements to the bill that would not be controversial, given the chairman's desire to have this bill move fairly quickly. When you look into areas like textiles, apparel, and footwear, there aren't too many noncontroversial enhancements. We did our best. We met with representatives of those industries in an attempt to craft amendments that would be of some benefit, but that would still be acceptable to those industries. We did not succeed. We found some that were acceptable to some but not all parts of the industries. Generally speaking, it is the labor side that is the most difficult to get by. Nonetheless, the administration felt it was important to have a go at it, and we have done that. We are still hopeful something may happen on the floor.

The administration did oppose the sugar provision. This is an area of great frustration because we recognize the importance of sugar to the region and want to find some way to increase the ability of that region to export sugar to the United States. We are caught between our program and our obligations under GATT, which requires that a quota program must allocate those quotas in a nondiscriminatory fashion. If we were to increase the quotas for any particular country or region disproportionately with regard to other suppliers of sugar, we would run afoul of our GATT obligations. Indeed, several countries, such as Australia, who do export sugar to us, quickly got letters to us saying they would file complaints against us if we preferentially granted increased quotas to the Caribbean region.

The way out of that box, we are convinced, is through the Uruguay Round negotiations where the United States has presented a proposal to eliminate all restrictions on sugar and to move to a free market on sugar. If our European friends can join us in that proposal, we will be free of this program. There is certainly no desire of the administration to maintain the sugar program as it currently exists. If we succeed, the Caribbean region would be a major beneficiary of moving to a free market. Not all countries in the CBI, of course, would be winners, because not all are competitive producers. But on the whole, the region would supply much of the sugar we currently produce domestically.

The administration is seeking ways to improve the CBI, and I think additional enhancements will come out of the administration in the coming weeks and months. Our attention has been focused on this region, and there is a desire to do more for it. The real issue now is to come up with some creative ideas to implement.

JULIA M. RAUNER
International Economist
International Trade Administration
United States Department of Commerce

"CBI Policy Implementation"

The Caribbean Basin Initiative (CBI) is, in essence, a two-way commitment--a partnership--between the United States and the designated beneficiary countries of the Caribbean Basin that provides the opportunity for economic development in the region. The United States is committed to encourage economic development by providing opportunities for private-sector initiated, nontraditional export expansion and economic diversification. As criteria for designation as a beneficiary under the Caribbean Basin Economic Recovery Act (CBERA), a country must commit to certain domestic economic and policy conditions. Within and beyond these criteria, domestic economic reforms are essential for a CBI beneficiary to successfully take advantage of the opportunities available within the program. While the CBI has already made a positive impact on the Caribbean Basin, the maintenance and strengthening of this two-way commitment will determine the potential of the CBI program.

Trade Trends

Although total exports from the Caribbean Basin to the United States have declined by 22 percent (from $8.5 billion in 1983 to $6.6 billion in 1989), upon close examination, it is clear that in just six short years, the CBI has resulted in remarkable progress in meeting the feature goals of the program--economic diversification and nontraditional export development.

The total trade picture is distorted by the dominant role of petroleum exports from just three countries (Trinidad and Tobago, Netherlands Antilles, and Bahamas) during the first years of the program. Excluding petroleum, total CBI exports to the United States expanded by 59 percent between 1983 and 1989, and manufactured goods have replaced petroleum as the dominant export from the Caribbean Basin region. In 1983, petroleum constituted 60 percent of CBI exports, with manufactured products only contributing 17 percent. In contrast, by 1989, this picture had been almost completely reversed, with manufactured exports leading all other major export categories at 48 percent of total export value, and petroleum at only 16 percent of total exports.

Although total exports from CBI beneficiary countries to the United States have dropped compared to 1983, for the first time since the CBI program was established, total trade from the Caribbean Basin expanded during 1989, by 14 percent. This growth followed declines in total exports between 1983 and 1985 and flat rates between 1986 and 1988. Moreover, it represents the important reality that benefits from a program such as the CBI are not immediate. New investment and product development that are essential to generating nontraditional exports require time. The trend of total exports from the Caribbean Basin region indicates that CBI efforts have begun to have a significant impact not restricted to nontraditional export growth, but also on the overall Caribbean Basin trade picture.

A further examination of these general trade trends highlights significant shifts in export production and notable divergences between the various subregions of the Caribbean Basin. The 122 percent expansion of nontraditional exports from the Caribbean Basin to the United States since 1983 has altered the state of Caribbean Basin trade. Since 1988, nontraditional exports have dominated total exports from the region. Strong nontraditional export performance has both offset the sharp declines in traditional exports, especially petroleum, and contributed to economic diversification. While textiles have led the Caribbean Basin's nontraditional export growth to the United States, in 1989, for the first time since the CBI became effective, growth of nontraditional exports (excluding textiles) surpassed the expansion of textile exports, by 28 percent and 20 percent, respectively. This demonstrates the growing importance of nontraditional agriculture and other manufactured exports. Nontraditional agriculture exports to the United States have expanded by 85 percent to reach $537 million in 1989, while other manufactured exports to the United States (excluding textiles) have grown by 47 percent to a level of $1.5 billion.

Beyond these regional trade trends, a significant variance exists among the subregions of the Caribbean Basin. Total exports from the Caribbean Common Market (CARICOM) countries to the United States dropped by 21 percent between 1983 and 1989, comparable to region-wide trends. In 1989, petroleum and bauxite still dominated exports at almost 50 percent of the total; however, this was down from 69 percent in 1983. Part of the decline in dependence on these products was due to the 43 percent surge in nontraditional exports since 1983, which constituted 49 percent of total exports to the United States in 1989 compared to only 27 percent in 1983. Apparel contributed to 40 percent of 1989 nontraditional exports, followed by chemicals, other manufactures, and nontraditional agriculture products.

In contrast to the region-wide and CARICOM trends, total exports from Central America to the United States expanded by 53 percent between 1983 and 1989. This significant increase was led by a 97 percent growth in nontraditional exports during this period. By 1989, nontraditional exports to the United States contributed 55 percent of total exports, up from 28 percent in 1983. The leading nontraditional exports from Central America include apparel, which made up 50 percent of these nontraditional exports, followed by nontraditional agriculture products and other manufactures, at 26 percent and 13 percent of these exports, respectively. Despite fluctuations and market trends affecting traditional products, these exports have remained relatively flat when comparing 1983 and 1989 exports. Most importantly, Central America has become less dependent on its traditional exports, which dropped to 44 percent of total exports in 1989.

## Investment Trends

Foreign and local investment are critical to nontraditional export development. New and expanded investments also reflect the foreign and domestic investor's perception of the investment climate. The United States Department of Commerce's Caribbean Basin Investment Survey, published in November 1988, examined foreign exchange earning investment in the CBI beneficiary countries from January 1984 through December 1987, in an attempt to assess the impact of the CBI. The survey identified investments in 646 companies in the Caribbean Basin valued at more than $1.5 billion and creating over 116,000 new jobs. Two-thirds of these investments are concentrated in just five CBI beneficiary countries, the Dominican Republic, Jamaica, Costa Rica, Guatemala, and Honduras. United States investors dominate this portfolio with 44 percent of the investment value, followed by third-country investors (30 percent) and local investment (23 percent).

The sectors of these investments are fairly evenly distributed, with approximately a quarter of the investments each in textiles, nontextile manufactures, and agriculture, with the remaining quarter in tourism and other services. However, the impact of investment on these various sectors differs notably. For example, highly labor-intensive apparel investment generated 48 percent of total new jobs identified by this survey, but only 9 percent of the assets invested. Meanwhile, tourism accounted for 41 percent of total assets identified, but only 8 percent of new employment generated. The assets and employment corresponding to investments in other sectors, such as agriculture and other manufactures, are more evenly balanced.

This investment survey is currently undergoing an update to include investments committed during 1988 and 1989. Presurvey assessments, including an ITC survey conducted in 1989, indicate that new investment during these years has flourished even beyond that revealed in the first survey. These investments, whether foreign multinational or local, all contribute to expanding the base of production. Investment today will be reflected in foreign exchange earnings, employment generation, and economic diversification in the future. In light of this trend, it is critical to emphasize that the ability of a country to attract and maintain investment dictates its potential for achieving these goals and optimizing the opportunities offered by the CBI program.

United States Policy Commitment

The root of the CBI program is the CBERA, adopted in 1984. The administration is strongly encouraging Congress to adopt an extended and expanded version of the CBERA. While legislation is the vital backbone of the CBI program, the United States policy of CBI extends even beyond this legislation to include a concentration on private sector development through bilateral assistance programs, as well as administrative support programs and private sector outreach aimed at attracting business to the region.

The CBERA provides duty-free access to the United States for most exports from CBI beneficiary countries. This access far outweighs benefits derived from the General System of Preferences (GSP) by including a much larger product category and establishing a duty-free status for a twelve year period (this is expected to become permanent with the passage of CBI II). In contrast, GSP is subject to annual review by product. In the case of the Dominican Republic, this resulted in the "graduation" of cigars from GSP status due to the competitiveness of this product. Without the CBI program, Dominican exports of cigars, valued at $22.5 million in 1988, would have been deprived of duty-free import status.

While the original CBERA excluded textiles and apparel from preferential duty-free status, the CBI program was expanded by Executive Order in 1986 to provide essentially quota-free status through Guaranteed Access Levels (GALs) for apparel products assembled from United States formed and cut textiles. Since 1987, the year after the GAL program was put into place, GAL exports have expanded at an annual average of over 100 percent, while non-GAL apparel exports have grown at less than an annual average rate of 15 percent. While GAL exports constitute only 19 percent of total apparel exports to the United States, it appears that businesses are taking advantage of this market access opportunity and that continued apparel export growth will be led by the GAL program.

Competitive financing for private sector investment is being encouraged by United States foreign assistance programs at the local CBI beneficiary country level and through a more formal component of the CBI--Section 936 funds (936 program). Under the 936 program, adopted within the 1986 United States tax reform, projects located in CBI beneficiary countries that have signed a Tax Information Exchange Agreement (TIEA) with the United States are eligible for financing at below market interest rate. In the six CBI countries that have signed a TIEA, eleven projects valued at $275 million have been approved for financing through this mechanism.

In addition to specific legal initiatives, the United States government has supplemented its CBI program with a variety of outreach and support programs. For example, the Department of Commerce and the Agency for International Development work directly with the private sectors in both the United States and in CBI beneficiary countries to stimulate interest in the CBI. In addition, the Overseas Private Investment Corporation and the departments of Agriculture and Commerce support trade and investment missions of United States businesspeople to the region. The Department of Agriculture also conducts preclearance programs in four CBI countries to expedite agriculture exports to the United States and is attempting to expand this program to other countries.

The United States commitment to the CBI policy is not stagnant. While the program has already created a tremendous level of nontraditional export development in the region, there is more that can be done, both through legislation and administrative support, to assist in the economic development of the Caribbean Basin. Efforts to advance on both of these fronts are underway. However, regardless of the degree of liberal market access to the United States that is provided, the ability of a CBI signatory country to take advantage of the opportunities available through the CBI program lie in the investment and trade climate of each country.

## Caribbean Basin Policy Commitment

In order to be designated a CBI beneficiary country and receive the advantages of CBI status, the CBERA requires that several mandatory criteria must be met. Among these are the respect of private ownership both in the form of protecting intellectual property rights and by guaranteeing against expropriation or nationalization. The country must also cooperate with the United States to circumvent narcotic production and transport and be a signatory to an agreement regarding the extradition of United States citizens.

In addition, certain discretionary criteria are considered upon country designation, with some given more weight than others. Among these are: (1) appropriate economic conditions in the country; (2) equitable access by the United States to the markets and resources of the country; (3) the application of the accepted rules of international trade under the General Agreement on Trade and Tariff (GATT) and United States Trade Act of 1979; (4) the implementing of trade policies vis-à-vis other beneficiary countries that contribute to the revitalization of the region; (5) the undertaking of self-help measures to promote the country's own economic development; and (6) the protection of workers' rights.

Within and beyond these criteria, domestic economic reform aimed at strengthening the investment and trade climate in a CBI beneficiary country is essential to its ability to take advantage of the opportunities available within the CBI program.

## Domestic Economic Reform

As trade performance among CBI countries varies, so do the countries' efforts to undertake domestic economic reforms aimed at improving the trade and investment climate. While no direct correlation can be drawn between economic reform and trade performance, it is clear that these are closely related in that economic policies aimed at creating an attractive investment climate can encourage new investment and stimulate export expansion.

The Department of Commerce has conducted investor attitude surveys in a number of CBI beneficiary countries. These surveys are based on interviews with United States businesses investing in the specific country as well as those that chose not to invest in that country. This is an attempt to identify the major incentives and disincentives considered by United States investors and potential investors in the Caribbean Basin. While the investment climates in each country vary to a degree, the major factors cited as affecting investment decisions can be generalized at a region-wide level.

The most commonly considered factors (not necessarily in order of importance), as indicated by these investor attitude surveys, are the following:

- Political stability of the country.

- Predictability of the "rules of the game" affecting investment.

- Stability of the economic environment.

- Reliability of customs procedures.

- Infrastructure, including energy, domestic and international transportation, and free-zone or other industrial facilities.

- An adequate and cost-efficient labor supply, including low-skilled workers and middle-level management.

- Ease of transfer and communications with corporate headquarters.

- Fiscal incentives offered by the host government.

- Host country living environment for expatriates.

- Financing available, particularly in the case of domestic investment.

The importance of these factors to the investor is based both on perception and practical experience. These factors provide major incentives or pose significant obstacles to investment. An investor looks for a reliable investment environment, specifically one in which medium- to long-term plans are uninterrupted by radical changes in foreign investment law or by political instability (i.e., revolution, civil strife). A stable economic environment is critical to an investor's ability to budget adequately and predict access to foreign exchange for imported inputs and repatriation of profits. Reliable customs procedures are also critically important to guarantee the timely receipt of imported inputs. Delays due to either foreign exchange unavailability or cumbersome customs import and export procedures hold up production and make it difficult for an exporter to be a reliable supplier to a foreign buyer. Infrastructure is obviously one of the most visible and most critical factors considered by an investor. A reliable and abundant source of energy determines productivity and profitability. Competitive international transportation costs and domestic transportation access to key locations also determine production potential. While most CBI beneficiary countries maintain competitive wage rates for low-skilled laborers, the productivity, trainability, and abundance of this labor must be considered. Also, the availability of mid-level management is a major concern of foreign investors.

In general, most CBI beneficiary countries are working to overcome shortcomings in their domestic investment climate by establishing devices to protect foreign investors from some of these impediments. For example, foreign investors are often guaranteed access to certain levels of foreign exchange and are essentially permitted to operate outside of the domestic economy. Customs procedures for exporters have been simplified through the establishment of one-stop customs offices. Free zone and industrial park facilities established by both the public and private sector provide, in essence, a micro-infrastructure for the investor involved in export activities. Some facilities include reliable utilities, customs services, and employment training programs. Most CBI beneficiary countries also provide attractive fiscal packages to foreign investors in the form of tax holidays and duty-free imports required for the production of exports.

While these efforts have proved effective in attracting investment to many CBI countries, it is important to expand beyond these exceptions and establish a solid investment climate attractive to foreign and domestic investors. In addition to further spurring export expansion, this can encourage the integration of domestic and export production sectors. A number of CBI countries have adopted important policy reforms and have established clear government strategies aimed at attracting investment in specific sectors. Six CBI beneficiary countries have signed TIEAs with the United States that enable investors to access financing through the Section 936 program and expand the potential for tourism development through United States tax incentives for convention tourism.

Recently, a free-zone law was approved in the Dominican Republic that streamlines free-zone related policies and clarifies regulations that allow vertical integration between the free-zone and domestic economies. In addition, Guatemala established a comprehensive free-zone law that should attract new investment in light manufacturing. The critical point is that once a country identifies key sectors for development, the establishment of policies conducive to investment in those sectors facilitates private sector involvement in reaching the country's development goals. On a broader scale, certain CBI beneficiary countries, including Costa Rica, Guyana, Jamaica, and Trinidad and Tobago, have undertaken major economic reforms in conjunction with international financial institutions aimed at removing significant impediments to economic growth. In addition, Costa Rica joined the GATT during 1989, an action that will enhance its participation in the international trading community and secure important rights for Costa Rican exports.

## Conclusion

There is no question that some of the economic reforms essential to creating a strong investment climate are politically difficult to adopt in the short term. However, in the medium and long term, an investment climate that attracts foreign and domestic investors stimulates export expansion, thus employment and foreign exchange generation. In conjunction with the opportunities available through the CBI, beneficiary countries are guaranteed an enormous market for most exports. As long as the United States and CBI beneficiary countries continue to work together, strengthening their respective commitments to the program, the Caribbean Basin economies will continue to diversify, and nontraditional as well as total exports from the region will continue to expand.

CBI Signatory Country Exports to the United States

(US$ Millions)

| | 1983 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|
| TOTAL | 8,495 | 5,775 | 5,755 | 5,805 | 6,637 |
| (Total CBI Eligible) | 3,089<br>36% | 3,561 | 3,285 | 3,388 | 4,121<br>62% |
| Total Non Traditional | 1,804<br>21% | 2,367 | 2,715 | 3,225 | 4,012<br>60% |
| CBI Eligible/ Non-Traditional[1] | 1,372<br>16% | 1,520 | 1,614 | 1,784 | 2,280<br>34% |
| Manufactures (Excl. Textile) | 995<br>12% | 931 | 889 | 1,076 | 1,465<br>22% |
| Textiles | 395<br>5% | 796 | 1,101 | 1,441 | 1,732<br>26% |
| Agriculture | 290<br>3% | 454 | 468 | 488 | 536<br>8% |
| Metal/Mineral | 124<br>1% | 186 | 257 | 220 | 279<br>4% |
| Total Traditional | 6,691<br>79% | 3,408 | 3,040 | 2,580 | 2,625<br>40% |

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1 CBI-eligible, nontraditional exports exclude all traditional products (see footnotes 2 and 3), and CBI duty-exempt products (canned tuna; articles of leather, saddlery and harness; travel goods, handbags and flatgoods; most footwear; and textiles and apparel). Apparel exports provided liberal quota access, rather than duty-free access, under the Guaranteed Access Level program are not included in this data.

| | | | | | |
|---|---|---|---|---|---|
| CBI Eligible Traditional[2] | 1,717<br>20% | 2,041 | 1,677 | 1,527 | 1,581<br>24% |
| Agriculture[3] | 1,456<br>17% | 1,805 | 1,396 | 1,256 | 1,319<br>20% |
| Petroleum | 4,974<br>59% | 1,367 | 1,363 | 1,053 | 1,044<br>16% |
| Minerals/Metals[4] | 261<br>3% | 236 | 281 | 271 | 262<br>4% |

Source: US Department of Commerce.

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[2] CBI eligible, traditional exports include all traditional exports, excluding petroleum.

[3] Beef/veal, bananas, coffee, sugar, cocoa, rum, tobacco.

[4] Bauxite, gold and silver bullion, ferronickel.

JOSE ORIVE
Commercial Counselor
Embassy of Guatemala

"The Spanish-speaking Caribbean and CBI"

The visibility that President Reagan gave CBI made it possible for the program to be what it is. Unfortunately, given that visibility, expectations were raised tremendously, and people thought that the overnight panacea for development in the region had arrived. Those who bother to look a little closer and to dive instead of just swimming on the surface will note that the program is only a small piece of the puzzle of socioeconomic development in the region. Keeping that in mind, CBI has had some tremendous benefits for the region.

In addition to tapping existing resources that our economies have always had and that have never been taken advantage of, the CBI has made it possible for us to minimize the impact of the drop in our traditional commodities. World prices have hit rock bottom in the past couple of years in coffee, sugar, cotton; beef consumption worldwide is shrinking. The growth of nontraditional agricultural products and other manufactured items have made it possible for us to keep afloat.

In the case of Guatemala, the agricultural sector has been the one to benefit the most. We have, thanks to our climate and our land, the possibility of growing almost anything year round. As such, we have geared agricultural production in nontraditional items to supply the United States market during the off-season months so as to not cause any waves.

We have utilized the brokerage and the other traditional distribution systems throughout the United States that many industries in California and Florida use to tackle that same segment of the market.

Right now, Guatemala is the largest supplier to the United States of snow peas, we also export broccoli, cauliflower, melons and okra. We also provide a brand new product, so-called baby vegetables--baby zucchinis, baby squashes of all kinds are gaining acceptance not only on the shelves of markets but with companies such as Marriott and others that prepare foods. Now they no longer have to spend time and effort and money cutting up the carrot for your airplane meal. They can give you a better tasting carrot that fits inside the little plate.

Benefits in manufacturing have also been substantial. The Central American countries--Guatemala, El Salvador, Honduras, Costa Rica--have great potential in the wood industry, not only in terms of board wood and sawn lumber of all kinds, but also grandfather clock frames, many of them fitted with Swiss machinery and distributed all over the Southern States; children's toys, seen in the small mini-markets in New Orleans and other major cities throughout the South; and, of course, textiles and apparel, which unfortunately were not included in CBI.

In addition to the economic benefits, increased foreign exchange earnings that the Spanish-speaking Caribbean Basin has obtained from CBI, is the social benefit that many people overlook. Our countries have been based on traditional crops that rely on large landholdings owned by very few on which many people work earning small salaries. The trend toward diversification, predominantly in Central America but also in the Caribbean, has encouraged the involvement of co-ops of peasants who had previously depended on subsistence agriculture, like corn and beans, and are now planting snow peas. What has this produced? Both the man and the woman of the family have work. The children no longer have to pick coffee at the plantation; they are in school. The towns now have electricity, phone systems, running water. In essence, an increased standard of living has been provided. This is often overlooked because people tend to play with numbers, which do not always present the real picture. True, the CBI benefits have been offset by the drop in petroleum prices and the cutbacks in sugar quotas. But we think that in the medium and the long term, the improvements that diversification will bring about--socially, politically, and economically--are of tremendous benefit to our nations. People have to eat before they think and before they vote.

To underscore the importance of CBI, we have been exploring ways to improve the program. CBI II is now presently before the Senate. We have been disappointed, despite the efforts of all those who believe in the program--for what it is. It is not the panacea, but it will be instrumental in allowing the region to achieve a measure of self-sustained growth.

Unfortunately, we have seen our interests being curtailed left and right. It is argued that if we are granted textile and apparel benefits we will invade the United States market and become akin to the five dragons of the East. There are many experts here today. Is land going to pop up out of the Caribbean Sea with textile and apparel and footwear factories already on it? Is there going to be an increase in population to staff those factories? The segment of the market that our exports represent is minimal, and as such, should be kept in a proper perspective; arguments that do not address the logic, the reason, and the truth of the matter should be left aside.

I would like to conclude on a note that is also often overlooked. Many think that the CBI is an act of charity. There were some, especially in the Congress, who thought that this was a subterfuge for the Reagan administration to channel funds to friendly countries without Congress having a hand in it. The only region in the world with which the United States has and will continue to enjoy a favorable trade balance is the Caribbean Basin.

Last year Guatemala received close to $126 million in aid from the United States, a great deal more than half in the form of a donation. We bought from the United States $648 million worth of products and exported $469 million. That is a difference of $200 million, and I would venture to say that there are similar percentages throughout the region. To the measure that we enjoy increased trade benefits, the stronger our partnership and our two-way relationship will grow. That must be kept in mind.

PAUL SPENCER
Counselor
Embassy of Antigua and Barbuda

"The English-speaking Caribbean and CBI"

José Orive, our CBI group coordinator, has given you what I consider to be the basic situation with respect to how we view the CBI, not only in Central America or in the Spanish-speaking Caribbean Basin, but also in the English-speaking Caribbean Basin. However, if all of us were optimistic, we would not be gathered here. So I am just going to let the numbers speak without commenting.

When it was enacted in July 1983 and subsequently became operational on January 1, 1984, the Caribbean Basin Initiative was heralded as a major U.S. foreign policy instrument that would go a long way in complementing the development efforts of the countries in the Caribbean Basin. The initiative was greeted with much fanfare in the United States and the region but, as has been noted by all the speakers thus far, with some degree of unrealistic expectations and enthusiasm. Both United States policymakers and officials in the Caribbean saw the CBI as the mechanism that would have taken these countries out of their "misery" and placed them on a path to self-sustainable development. While this has been attempted to a large degree, it has not been the experience of many countries, including my own.

In 1983, the year before the CBI was implemented, Antigua and Barbuda exported $8.8 million worth of goods and services to the United

States. However, imports from the United States were $101 million. By 1989, the total value of all of our exports to the United States had grown to only $12.2 million, with most of this being non-CBI-eligible goods. CBI-eligible goods amounted to only $4.7 million. On the other hand, imports were $72.2 million.[5] In 1983, all CARICOM imports from the United States amounted to $1.9 billion. By 1989, it had dropped to $1.5 billion. In terms of CBI-eligible, there was some adjustment favorable to the CARICOM region. In 1983, we exported $517 million worth of goods to the United States, and by 1989 that had grown to $736 million. This shows clearly that there are variations from one country to another. In 1983, the Organization of Eastern Caribbean States (OECS), which includes most of the small, both in population and in land size, countries of the English-speaking Caribbean (St. Kitts-Nevis, Antigua and Barbuda, Dominica, St. Lucia, St. Vincent and the Grenadines, Montserrat, the British Virgin Islands), exported $38.7 million worth of goods to the United States. By 1989, that had grown to $85.8 million. The point I am trying to make is that some countries, like Antigua, have not really had much success, whereas some, like St. Kitts and St. Lucia, have been able to capitalize on CBI because they had certain industries in place before the CBI was enacted.

It is ironic that the CBI has not succeeded in Antigua in spite of resources allocated for promotional efforts by the governments of Antigua and Barbuda and the United States. During the last four years, the government of Antigua and Barbuda itself expended thousands of dollars on its efforts in publicizing the CBI and the benefits of locating an offshore

[5] International Trade Commission, U.S. Imports from the Caribbean Basin, Performance in 1989. Washington, DC: U.S. Department of Commerce.

I would like to offer some suggestions for ways to improve CBI. Provide special incentives to U.S. firms that make a determined effort to invest in countries such as Antigua and Barbuda, which are affected by high transportation costs or other infrastructure difficulties. I refer to the reintroduction of the tax credits that were previously introduced, or previously suggested in the original CBI. Consider the introduction of special rules of origin for goods emanating from the OECS and Belize. Provide training opportunities, promotional assistance, and possible financial assistance for entrepreneurs who are promising business. Also, funds should be made available to assist in developing the infrastructure of these countries, thus making them more competitive.

De-couple a tax exchange information agreement from convention tax benefits and other tourism benefits. The administration has come up with some tourism proposals; we are pressed to do something to reverse a serious decline in tourism earnings to the Caribbean for 1989. The figures for the Caribbean as a whole have fallen by about 12 to 15 percent for this year. If the trend continues, we are going to be in serious trouble. Finally, protect the integrity of the CBI. Avoid legislation that would undermine investor confidence in the initiative. It is time for the United States to have a relationship with the Caribbean that is based on mutual respect and trust and bound by a treaty, where everyone knows how much money will be provided over a period of time, with no worry about a Congress later retracting those provisions. Development is dynamic, but in order to plan for development, you have to be assured of certain benefits over a period of time.

manufacturing facility there. A trade office was set up in Miami in 1986, and the staffs at all of our missions overseas were strengthened to be able to do trade and investment promotion. Although the economy of Antigua and Barbuda has grown over the last four to five years, at an average of about 5.4 percent, this has not necessarily been the result of the CBI. According to the Caribbean Basin investment survey, the total value of investments in Antigua and Barbuda since the passage of the CBI amounted to $134.6 million. However, only one firm was engaged in an activity directly related to the CBI; the others were tourism-related.

Admittedly, some of us have relatively high wage rates, which have not helped, but this is the price one pays for years of economic and political stability. The companies that came to the region were looking for inexpensive labor and proximity to the American markets. While it may be possible to introduce policies that would have the effect of lowering the wage rates, there is nothing we can do about our proximity, which does make it more expensive to ship goods to the United States from the northern part of the Caribbean and, to some extent, Florida to Central America. Initially, there was some trepidation whether the companies that did relocate to some of these countries would provide any transfer of technology, which would have been helpful in development efforts. In the case of Antigua and Barbuda, many of the companies did try to undertake as much of the manufacturing process as was feasible, but in most instances the work was labor-intensive, requiring very little technical expertise.

## DISCUSSION

Ransford Palmer, professor of Economics at Howard University, asked James Murphy to elaborate on his comments regarding sugar quotas. He suggested that sugar production in the Caribbean is less efficient than in the United States and, therefore, a free market would wipe out Caribbean sugar production. Stuart Tucker of the Overseas Development Council took a different tack in regard to the sugar pricing issue. He reported that many of the twelve thousand sugar producers in the United States are very competitive and are still protected by high domestic prices as a result of their lobbying ability. The situation has even precipitated the creation of a new lobby, the high fructose corn syrup producers, who also benefit from high sugar prices. Tucker referred to this as a self-fulfilling problem but one that would dissipate quickly if the sugar program were changed. The Caribbean countries would see a positive benefit to such a shift and the budgetary impact would be zero since by law the sugar program has no budgetary impact now.

Murphy responded that Hawaii is one of the most expensive producers of sugar in the world because of Hawaiian wage rates. Some of the cane areas of Florida and Louisiana are, however, relatively competitive on world markets. Murphy acknowledged that there would be winners and losers if sugar were traded in a free market. There would be a significant increase in sugar imports, but not all of this increase would accrue to the Caribbean. Much of it would come from the Dominican Republic, one of the world's most efficient sugar producers. Although some producers would be wiped out in a free market, the region as a whole would produce and export substantially more sugar into the United States. José Orive also addressed the sugar production issue. He had recently seen the Louisiana sugar growers report that stated that after the Dominican Republic, the world's most efficient sugar producers are Guatemala, El Salvador, Panama, and the Philippines. Guatemala favors a free market for sugar in the long run but the government feels that the short-term impact of the quota reductions are unfair and not economically positive.

Tucker also addressed the collapse of the Coffee Agreement. Central America is suffering from a 40 percent shortfall in coffee revenues as a result of the collapse. Since there would be no budgetary commitment to the Coffee Agreement, Tucker advocates a return to the old system, which will help Central America, particularly Nicaragua. Since there are no United States coffee producers, this should be a politically easy policy decision. Murphy replied that President Bush, in response to a request from Colombian President Barco, stated that the United States would attempt to renegotiate a new international coffee agreement. Since September of 1989, no country, according to Murphy, has done more than the United States to promote the renegotiation of the agreement. The greatest frustration, on the part of the United States, is that coffee prices have risen and the countries of the region are losing interest as the market strengthens. If the prices fall, the same countries would regain their interest. The administration wants to hold the producing countries attention long enough to complete an agreement. The Brazilian response, continued Murphy, is the big question since the Collar administration has not yet made it's opinions known regarding coffee. The United States is willing to transfer roughly a billion dollars per year to the region in higher coffee prices, but the region does not seem interested. Orive indicated that the failure of the Coffee Agreement is the fault of Brazil. There is an increasing demand for other mild coffees, which are produced by Guatemala and Colombia, among others. The Brazilians feel that an increase in mild coffee exports within the framework of an agreement would result in a reduction of their quota. The voting mechanism within the International Coffee Organization is such that Brazil has enough votes to block any proposal but not enough votes to push through their own. Orive also expressed frustration at the delay. Numerous young democracies that depend on coffee exports for up to 75 percent of foreign export earnings are hurt by this impasse.

Another issue of interest, raised by William Moore of International Community Development Associates, was telecommunications and transportation. He asked if any efforts had been made to improve telecommunications in the region. Paul Spencer said that communications within the Caribbean are quite good. He added, however, that transportation is the greatest problem for the region. There are only two regional carriers of passengers or fresh produce. Neither of these carriers has sufficient space to accommodate the region, he said. The key to success for CBI in the smaller states of the Caribbean is to help facilitate the movement of goods at competitive rates. Bold initiatives are needed to bring benefits to those countries that have thus far been unable to take full advantage of CBI.

Julia Rauner noted that there is a wide variance in quality of telecommunications throughout the region. The Eastern Caribbean is quite sophisticated but there are other countries that require a great deal of infrastructure development. Investors look carefully at communications when making investment decisions, she said. Murphy took issue with Spencer's comments regarding telecommunications. He reported that businessmen, even nationals of the countries in question, complain about the quality of telecommunications in the region. They complain about the cost of the service provided, which is protected by government monopoly. Currently a United States telecommunications firm is unable to enter the Caribbean market due to protection by the quasi-state telecommunications entity. Orive pointed out that telecommunications services in Guatemala are terrible. In addition, transportation costs are high and routes few as a result of the virtual monopoly on transportation from Central America.

One of the major aspects of CBI has been the tax incentives offered to the participating countries. Mark Cannon, of Cannon Industries, asked Rauner about the low interest loans available under the Internal Revenue Code, section 936, especially in the case of Puerto Rico.[6] She replied that six CBI countries have signed the necessary TIEAs to be eligible for 936 financing. The interest rate offered is approximately one percent below market and there is an abundance of funds available for this type of financing. There have been problems in program administration because both Puerto Rico's economic development institutions and the Puerto Rican government must approve a project before it receives 936 funding. The

[6] Section 936 of the Internal Revenue Code provides for tax benefits for investment in Puerto Rico. Under the 1986 Tax Reform Act, the benefits were extended to CBI countries that sign a TIEA with the U.S.

project must be supplemental or independent of any proposal that could damage the Puerto Rican economy.

Rauner stated that one of the major problems is that the banks making 936 loans are lending at a concessional rate but require the same guarantees that they require for any loan of this size (most of the loans are infrastructure-related and are generally at least $1 million in size). In her opinion, the guarantee issue is the greatest obstacle. The investor must hold an offshore guarantee to obtain the loan and this is often difficult for domestic investors [regional, not United States--ed.].

Orive, in agreement with Spencer, said that he did not see the link between development funds and the tax issue, which is directed toward the interdiction of narcodollars. The problems with the TIEAs are of a legal nature. A TIEA requires the elimination of bearer shares, a centerpiece of mercantile law in all civil law countries.[7] Orive said that the bottom line is that no one is going to launder money in El Salvador. In fact, 87 percent of all narcodollars detected as being laundered is found in Panama or the Cayman Islands.

Orive noted that the IRS was to hold a hearing to examine several regulations under Section 936. Current regulations state that 936 funds cannot be used to acquire real property, often the most expensive aspect of a development project. New equipment also cannot be purchased under

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[7] Note: Under civil law, bearer shares are the legal document of ownership. These certificates do not require the owner's name and therefore can be used as an instrument of money laundering. In the United States and common law countries, nominal shares which require the owner's name are used.

the regulations. This means that a developer of a Barbadian hotel can acquire used Jamaican equipment but not new Barbadian equipment. Orive reported that 936 funds cannot be used in privatization ventures. Many people in the region see privatization as a method of improving certain aspects of infrastructure, such as telecommunications. He expressed hope that this will be resolved.

Spencer observed that there were present representatives of CBI countries that had signed TIEAs, and asked that one of them identify the benefits they have received as a result. Rozanne Osborn of the Embassy of Barbados said that the main benefits of the TIEA were access to the Foreign Sales Corporation Program (FSCP) and the convention benefits.[8] A number of companies have relocated in Barbados as a result of the FSCP. The convention benefits have been mixed because Barbados lacks the facilities to host a major conference.

Palmer pointed out that Rauner explained that one of the most important nontraditional exports of the Caribbean is textiles, which are not covered under CBI. Who needs CBI, he asked? Rauner replied if duty-free access was the only reason for investment in the Caribbean Basin, textiles would not have been such a strong growth area. The increased attention focused on the Caribbean as a result of CBI is a nontangible but significant aspect of the initiative. The numerous investment and trade missions to the region by various United States government departments, along with

[8] Under the provisions of TIEAs, a US entity holding a conference in a signatory country may deduct 10% of conference expenditures from their federal taxes. (This is sometimes more important to signatory nations than the access to 936 funds, according to José Orive.--Ed.)

exhausted quotas and increasing wage rates in the Far East, have made the Caribbean more attractive to investors.

Spencer gave some figures regarding imports and exports in conjunction with CBI that he had neglected to offer earlier. In 1989, total OECS exports to the United States totalled 185.8 million, while imports totalled $354 million, a healthy trade surplus. The total aid to the Eastern Caribbean from the United States, in terms of both economic support and development assistance funds, did not exceed $35 million. The point Spencer wanted to make is that even if the United States increased its aid allocation five percent, the returns would be substantial. The trade surplus held by the United States with the region is further underlined by total CARICOM exports, which equalled $1.5 billion, while imports equalled $2.2 billion.

Finally, Robert Kurz asked to make some concluding comments. One of the failures in discussing CBI, he said, is that Central America and the Caribbean are considered as one region. In reality, economies of scale within the Eastern Caribbean are very different from those of Central America. Eastern Caribbean businessmen are unable to deliver to the United States because the market is too large. When the two areas are considered together, some of the social, political, and economic realities are overlooked. There has been a drop in per-capita income throughout Central America as well as much of the Caribbean, especially the larger states such as Jamaica and the Dominican Republic. Population growth exceeds economic growth and social indicators remain depressingly constant despite a decade of interest in the region. In conclusion, Kurz cautioned that for all the successes of CBI, there are real differences between stability in Central America and in the Caribbean. Basic human needs required to build stable democracies and an economic platform for the future must be met for CBI to be truly successful.