


OFFICE OF
THE ATTORNEY GENERAL



Feb. 24, 1982

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FROM: David Hiller 

Attached for your information is the President's speech announcing the Caribbean Basin initiative and a fact sheet concerning it.

THE WHITE HOUSE

Office of the Press Secretary

FOR RELEASE AT 12:30 P.M. EST
Wednesday, February, 24, 1982

TEXT OF REMARKS BY THE PRESIDENT
TO THE
ORGANIZATION OF AMERICAN STATES

HALL OF THE AMERICAS

Washington, D.C.

February 24, 1982

The principles which the Organization of American States embodies -- democracy, self-determination, economic development and collective security -- are at the heart of U.S. foreign policy.

The United States of America is a proud member of this Organization. What happens anywhere in the Americas affects us in this country. In that very real sense, we share a common destiny.

We, the peoples of the Americas, have much more in common than geographical proximity. For over 400 years our peoples have shared the dangers and dreams of building a new world. From colonialism to nationhood our common quest has been for freedom.

Most of our forebears came to this hemisphere seeking a better life for themselves. They came in search of opportunity and, yes, in search of God. Virtually all -- descendants of the land and immigrants alike -- have had to fight for independence. Having gained it, they had to fight to retain it. There were times when we even fought each other.

Gradually, however, the nations of this hemisphere developed a set of common principles and institutions that provided the basis for mutual protection. Some 20 years ago, John F. Kennedy caught the essence of our unique mission when he said it was up to the New World, "to demonstrate that man's unsatisfied aspiration for economic progress and social justice can best be achieved by free men working within a framework of democratic institutions."

In the commitment to freedom and independence, the peoples of this hemisphere are one. In this profound sense, we are all Americans. Our principles are rooted in self-government and non-intervention. We believe in the rule of law. We know that a nation cannot be liberated by depriving its people of liberty. We know that a state cannot be free when its independence is subordinated to a foreign power. And we know that a government cannot be democratic if it refuses to submit to the test of a free election.

We have not always lived up to these ideals. All of us at one time or another in our history have been politically weak, economically backward, socially unjust or unable to solve our problems through peaceful means. My own country, too, has suffered internal strife including a tragic civil war. We have known economic misery, and once tolerated racial and social injustice. And, yes, at times we have behaved arrogantly and impatiently toward our

neighbors. These experiences have left their scars but they also help us today to identify with the struggle for political and economic development in the other countries of this hemisphere.

Out of the crucible of our common past, the Americas have emerged as more equal and more understanding partners. Our hemisphere has an unlimited potential for economic development and human fulfillment. We have a combined population of more than 600 million people; our continents and our islands boast vast reservoirs of food and raw materials; and the markets of the Americas have already produced the highest standard of living among the advanced as well as the developing countries of the world. The example we could offer to the world would not only discourage foes; it would project like a beacon of hope to all of the oppressed and impoverished nations of the world. We are the New World, a world of sovereign and independent states that today stand shoulder to shoulder with a common respect for one another and a greater tolerance of one another's shortcomings.

Some 2 years ago when I announced as a candidate for the Presidency, I spoke of an ambition I had to bring about an accord with our two neighbors here on the North American continent.

I was not suggesting a common market or any kind of formal arrangement. "Accord" was the only word that seemed to fit what I had in mind. I was aware that the U.S. has long enjoyed friendly relations with Mexico and Canada, that our borders have no fortifications. Yet it seemed to me there was the potential for a closer relationship than had yet been achieved. Three great nations share the North American continent with all its human and natural resources. Have we done all we can to create a relationship in which each country can realize its potential to the fullest?

I know in the past the United States has proposed policies we declared would be mutually beneficial not only for North America but also for the nations of the Caribbean and Central and South America. But there was often a problem. No matter how good our intentions were, our very size may have made it seem that we were exercising a kind of paternalism.

At the time I suggested a new North American accord, I said I wanted to approach our neighbors not as someone with yet another plan, but as a friend seeking their ideas, their suggestions as to how we could become better neighbors.

I met with President Lopez Portillo in Mexico before my inauguration and with Prime Minister Trudeau in Canada shortly after I had taken office. We have all met several times since, in the U.S., Mexico, and Canada. I believe we have established a relationship better than any our three countries have ever known before.

Today, I would like to talk about our other neighbors -- neighbors by the sea -- some two dozen countries of the Caribbean and Central America. These countries are not unfamiliar names from some isolated corner of the world, far from home. They are very close to home. The country of El Salvador, for example, is nearer to Texas than Texas is to Massachusetts. The Caribbean region is a vital strategic and commercial artery for the United States. Nearly half of U.S. trade, two-thirds of our imported oil, and over half of our imported strategic minerals pass through the Panama Canal or the Gulf of Mexico. Make no mistake: The well-being and security of our neighbors in this region are in our own vital interest.

Economic health is one of the keys to a secure future for our Caribbean Basin neighbors. I am happy to say that Mexico, Canada and Venezuela have joined us in the search for ways to help these countries realize their economic potential.

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Each of our four nations has its own unique position and approach. Mexico and Venezuela are helping to offset energy costs to Caribbean Basin countries by means of an oil facility that is already in operation. Canada is doubling its already significant economic assistance. We all seek to ensure that the peoples of this area have the right to preserve their own national identities; to improve their economic lot and to develop their political institutions to suit their own unique social and historical needs. The Central American and Caribbean countries differ widely in culture, personality and needs. Like America itself, the Caribbean Basin is an extraordinary mosaic of Hispanics, Africans, Asians, and Europeans, as well as native Americans.

At the moment, however, these countries are under economic siege. In 1977, one barrel of oil was worth 5 pounds of coffee or 155 pounds of sugar. To buy that same barrel of oil today, these small countries must provide five times as much coffee (nearly 26 pounds) or almost twice as much sugar (283 pounds). This economic disaster is consuming our neighbors' money reserves and credit, forcing thousands of people to leave for the United States, often illegally, and shaking even the most established democracies. And economic disaster has provided a fresh opening to the enemies of freedom, national independence and peaceful development.

We have taken the time to consult closely with other governments in the region, both sponsors and beneficiaries, to ask them what they need and what they think will work. And we have labored long to develop an economic program that integrates trade, aid and investment -- a program that represents a long-term commitment to the countries of the Caribbean and Central America to make use of the magic of the market of the Americas to earn their own way toward self-sustaining growth.

At the Cancun Summit last October, I presented a fresh view of development which stressed more than aid and government intervention. As I pointed out then, nearly all of the countries that have succeeded in their development over the past 30 years have done so on the strength of market-oriented policies and vigorous participation in the international economy. Aid must be complemented by trade and investment.

The program I am proposing today puts these principles into practice. It is an integrated program that helps our neighbors help themselves, a program that will create conditions under which creativity, private entrepreneurship and self-help can flourish. Aid is an important part of this program because many of our neighbors need it to put themselves in a starting position from which they can begin to earn their own way. But this aid will encourage private sector activities, not displace them.

The centerpiece of the program I am sending to the Congress is free trade for Caribbean Basin products exported to the United States. Currently, some 87 percent of Caribbean exports already enter U.S. markets duty free under the Generalized System of Preferences. These exports, however, cover only the limited range of existing products -- not the wide variety of potential products these talented and industrious peoples are capable of producing. Under the free trade arrangement I am proposing, exports from the area will receive duty free treatment for 12 years. Thus new investors will be able to enter the market knowing that their products will receive duty free treatment for at least the pay-off lifetime of their investments. Before granting duty-free treatment, we will discuss with each country its own self-help measures.

The only exception to the free trade concept will be textile and apparel products because these products are governed by other international agreements. However, we will make sure that our immediate neighbors have more liberal quota arrangements.

This economic proposal is as unprecedented as today's crisis in the Caribbean. Never before has the United States offered a preferential trading arrangement to any region. This commitment makes unmistakably clear our determination to help our neighbors grow strong.

The impact of this free trade approach will develop slowly. The economies we seek to help are small. Even as they grow, all the protections now available to U.S. industry, agriculture and labor against disruptive imports will remain. And growth in the Caribbean will benefit everyone, with American exports finding new markets.

Secondly, to further attract investment, I will ask the Congress to provide significant tax incentives for investment in the Caribbean Basin. We also stand ready to negotiate bilateral investment treaties with interested Basin countries.

Third, I am asking for a supplemental Fiscal Year 1982 appropriation of \$350 million to assist those countries which are particularly hard hit economically. Much of this aid will be concentrated on the private sector. These steps will help foster the spirit of enterprise necessary to take advantage of the trade and investment portions of the program.

Fourth, we will offer technical assistance and training to assist the private sector in the Basin countries to benefit from the opportunities of this program. This will include investment promotion, export marketing and technology transfer efforts, as well as programs to facilitate adjustments to greater competition and production in agriculture and industry. I intend to seek the active participation of the business community in this joint undertaking. The Peace Corps already has 861 volunteers in Caribbean Basin countries, and will give special emphasis to recruiting volunteers with skills in developing local enterprise.

Fifth, we will work closely with Mexico, Canada, and Venezuela -- all of whom have already begun substantial and innovative programs of their own -- to encourage stronger international efforts to coordinate our own development measures with their vital contributions and with those of other potential donors like Colombia. We will also encourage our European, Japanese, and other Asian allies, as well as multilateral development institutions, to increase their assistance in the region.

Sixth, given our special, valued, relationship with Puerto Rico and the U.S. Virgin Islands, we will propose special measures to ensure that they also will benefit and prosper from this program. With their strong traditions of democracy and free enterprise, they can play leading roles in the development of the area.

This program has been carefully prepared. It represents a farsighted act by our own people at a time of considerable economic difficulty at home. I would not propose it if I were not convinced that it is vital to the security interests of this Nation and this hemisphere. The energy, the time, and the treasure we dedicate to assisting the development of our neighbors now can help to prevent the much larger expenditures of treasure, as well as human lives, which would flow from their collapse.

One early sign is positive. After a decade of falling income and exceptionally high unemployment, Jamaica's new leadership is reducing bureaucracy, dismantling unworkable controls, and attracting new investment. Continued outside assistance will be needed to tide Jamaica over until market forces generate large increases in output and employment -- but Jamaica is making freedom work.

I have spoken up to now mainly of the economic and social challenges to development. But there are also other dangers. A new

kind of colonialism stalks the world today and threatens our independence. It is brutal and totalitarian. It is not of our hemisphere but it threatens our hemisphere and has established footholds on American soil for the expansion of its colonialist ambitions.

The events of the last several years dramatize two different futures which are possible for the Caribbean area: Either the establishment or restoration of moderate, constitutional governments with economic growth and improved living standards; or, further expansion of political violence from the extreme left and the extreme right resulting in the imposition of dictatorships and -- inevitably -- more economic decline and human suffering.

The positive opportunity is illustrated by the two-thirds of the nations in the area which have democratic governments. The dark future is foreshadowed by the poverty and repression of Castro's Cuba, the tightening grip of the totalitarian left in Grenada and Nicaragua, and the expansion of Soviet-backed, Cuban-managed support for violent revolution in Central America.

The record is clear. Nowhere in its whole sordid history have the promises of Communism been redeemed. Everywhere it has exploited and aggravated temporary economic suffering to seize power and then to institutionalize economic deprivation and suppress human rights. Right now, 6 million people worldwide are refugees from Communist systems. Already, more than a million Cubans alone have fled communist tyranny.

Our economic and social program cannot work if our neighbors cannot pursue their own economic and political future in peace but must divert their resources, instead, to fight imported terrorism and armed attack.

Economic progress cannot be made while guerrillas systematically burn, bomb and destroy bridges, farms and power and transportation systems -- all with the deliberate intention of worsening economic and social problems, in hopes of radicalizing already suffering people.

Our Caribbean neighbors' peaceful attempts to develop are feared by the foes of freedom because their success will make the radical message a hollow one. Cuba and its Soviet backers know this. Since 1978, Havana has trained, armed and directed extremists in guerrilla warfare and economic sabotage as part of a campaign to exploit troubles in Central America and the Caribbean. Their goal is to establish Cuban-style Marxist-Leninist dictatorships. Last year, Cuba received 66,000 tons of war supplies from the Soviet Union -- more than in any year since the 1962 missile crisis. Last month, the arrival of additional high performance MiG-23 Floggers gave Cuba an arsenal of more than 200 Soviet war planes -- far more than the military aircraft inventories of all other Caribbean Basin countries combined. For almost 2 years, Nicaragua has served as a platform for covert military action. Through Nicaragua, arms are being smuggled to guerrillas in El Salvador and Guatemala.

The Nicaraguan government even admits the forced relocation of about 8,500 Miskito Indians, and we have clear evidence that since late 1981 many Indian communities have been burned to the ground and men, women, and children killed.

The Nicaraguan Junta cabled written assurances to the OAS in 1979 that it intended to respect human rights and hold free elections. Two years later, these commitments can be measured -- by the postponement of elections until 1985, by repression against free trade unions and parties, against the media and minorities, and -- in defiance of all international civility -- by the continued export of arms and subversion to neighboring countries.

Two years ago, in contrast, the government of El Salvador began an unprecedented land reform. It has repeatedly urged the guerrillas to renounce violence and to join in the democratic process -- an election in which the people of El Salvador could determine the government they prefer. Our own country and other American nations through the OAS have urged such a course. The guerrillas have refused. More than that, they threaten violence and death to those who participate in such an election.

Can anything make more clear the nature of those who pretend to be supporters of so-called wars of liberation?

A determined propaganda campaign has sought to mislead many in Europe and certainly many in the U.S. as to the true nature of the conflict in El Salvador. Very simply, guerrillas armed and supported by and through Cuba are attempting to impose a Marxist-Leninist dictatorship on the people of El Salvador as part of a larger imperialistic plan.

If we do not act promptly and decisively in defense of freedom, new Cubas will arise from the ruins of today's conflicts. We will face more totalitarian regimes, more regimes tied militarily to the Soviet Union, more regimes exporting subversion, more regimes so incompetent yet so totalitarian that their citizens' only hope becomes that of one day migrating to other American nations as in recent years they have come to the U.S.

I believe free and peaceful development of our hemisphere requires us to help governments confronted with aggression from outside their borders to defend themselves. For this reason I will ask the Congress to provide increased security assistance to help friendly countries hold off those who would destroy their chances for economic and social progress and political democracy. Since 1947, the Rio Treaty has established reciprocal defense responsibilities linked to our common democratic ideals. Meeting these responsibilities is all the more important when an outside power supports terrorism and insurgency to destroy any possibility of freedom and democracy. Let our friends and our adversaries understand that we will do whatever is prudent and necessary to ensure the peace and security of the Caribbean area.

In the face of outside threats, security for the countries of the Caribbean and Central American area is not an end in itself, but a means to an end. It is a means toward building representative and responsive institutions, toward strengthening pluralism and free private institutions -- churches, free trade unions, and an independent press. It is a means to nurturing the basic human rights freedom's foes would stamp out. In the Caribbean we above all seek to protect those values and principles that shape the proud heritage of this hemisphere. I have already expressed our support for the coming election in El Salvador. We also strongly support the Central American Democratic Community formed this January by Costa Rica, Honduras and El Salvador. The U.S. will work closely with other concerned democracies inside and outside the area to preserve and enhance our common democratic values.

We will not, however, follow Cuba's lead in attempting to resolve human problems by brute force. Our economic assistance, including the additions that are part of the program I have just outlined, is more than 5 times the amount of our security assistance. The thrust of our aid is to help our neighbors realize freedom, justice, and economic progress.

We seek to exclude no one. Some, however, have turned from their American neighbors and their heritage. Let them return to the traditions and common values of this hemisphere and we all will welcome them. The choice is theirs.

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As I have talked these problems over with friends and fellow citizens here in the U.S., I am often asked "why bother?" Why should the problems of Central America or the Caribbean concern us? Why should we try to help? I tell them we must help because the people of the Caribbean and Central America are in a fundamental sense fellow Americans. Freedom is our common destiny. And freedom cannot survive if our neighbors live in misery and oppression. In short, we must do it because we are doing it for each other.

Our neighbors' call for help is addressed to us all: here in this country to the Administration, to the Congress, and to millions of Americans from Miami to Chicago, from New York to Los Angeles. This is not Washington's problem; it is the problem of all the people of this great land and of all the other Americas -- the great and sovereign republics of North America, the Caribbean Basin, and South America.

The Western Hemisphere does not belong to any one of us -- we belong to the Western Hemisphere. We are brothers historically as well as geographically.

I am aware that the United States has pursued Good Neighbor Policies in the past. These policies did some good. But they are inadequate for today. I believe that my country is now ready to go beyond being a good neighbor to being a true friend and brother in a community that belongs as much to others as to us. That, not guns, is the ultimate key to peace and security for us all.

We have to ask ourselves why has it taken so long for us to realize the God-given opportunity that is ours? These two great land masses are rich in virtually everything we need. Together, our more than 600 million people can develop what is undeveloped, can eliminate want and poverty, can show the world that our many nations can live in peace, each with its own customs, language and culture, but sharing a love for freedom and a determination to resist outside ideologies that would take us back to colonialism.

We return to a common vision. Nearly a century ago, a great citizen of the Caribbean and the Americas, Jose Marti, warned that "Mankind is composed of two sorts of men -- those who love and create, and those who hate and destroy."

Today, more than ever, the compassionate, creative peoples of the Americas have an opportunity to stand together -- to overcome injustice, hatred and oppression and build a better life for all the Americas.

I have always believed that this hemisphere was a special place with a special destiny. I believe we are destined to be the beacon of hope for all mankind.

With God's help we can make it so; we can create a peaceful, free and prospering hemisphere based on our shared ideals and reaching from pole to pole of what we proudly call the New World.

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CARIBBEAN BASIN POLICY
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II. SUMMARY OF CARIBBEAN BASIN INITIATIVE

The Caribbean Basin Region

The Caribbean Basin includes some two dozen small developing nations in Central America, the Caribbean and northern South America. The attachments provide basic information on the location and economies of these countries. The CBI region forms the third border of the US, contains vital sea lanes, through which three quarters of our oil imports must flow, is an important market for US 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 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 Caribbean Basin Initiative

The US 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 US Special Trade Representative 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 US Program

The proposed US program consists of integrated, mutually

reinforcing measures in the fields of trade, investment and financial assistance.

The centerpiece of the US program is the offer of one-way free trade. Presently, the countries of the region are already afforded liberal entry into the US 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 non-traditional 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 to a certain limit in order to protect the US domestic sugar price support program mandated by Congress. A safeguard mechanism will be available to any US 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 US 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 FY 82 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 \$823.9 million or \$403 million above FY 81. The Administration's request is for \$664.4 million in FY 83 economic assistance. As the attached table 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 US 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 US will seek to negotiate double taxation and bilateral investment treaties with interested countries.

-- The US will work with multilateral development banks and the private sector to develop insurance facilities to supplement OPIC's non-commercial investment risk operation.

-- The US 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 US will work with each country to develop private sector strategies to coordinate and focus development efforts of local business, US 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 US 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 US 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 Island 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.

US ECONOMIC RELATIONS WITH
THE CARIBBEAN BASIN
(\$ millions)

US Exports in 1981 (Major products: transportation equipment, electrical and industrial machinery, chemicals, manufactured goods)	\$ 6,841.5
US Imports in 1981 (Major products: cotton, sugar, bauxite, coffee, meat)	10,026.6
US Direct Investment in 1980 Total	22,474
Total Non-financial	11,946
US Tourism in 1980 Expenditures	1,134
Number of travelers, excluding cruise travel, in millions	2,624

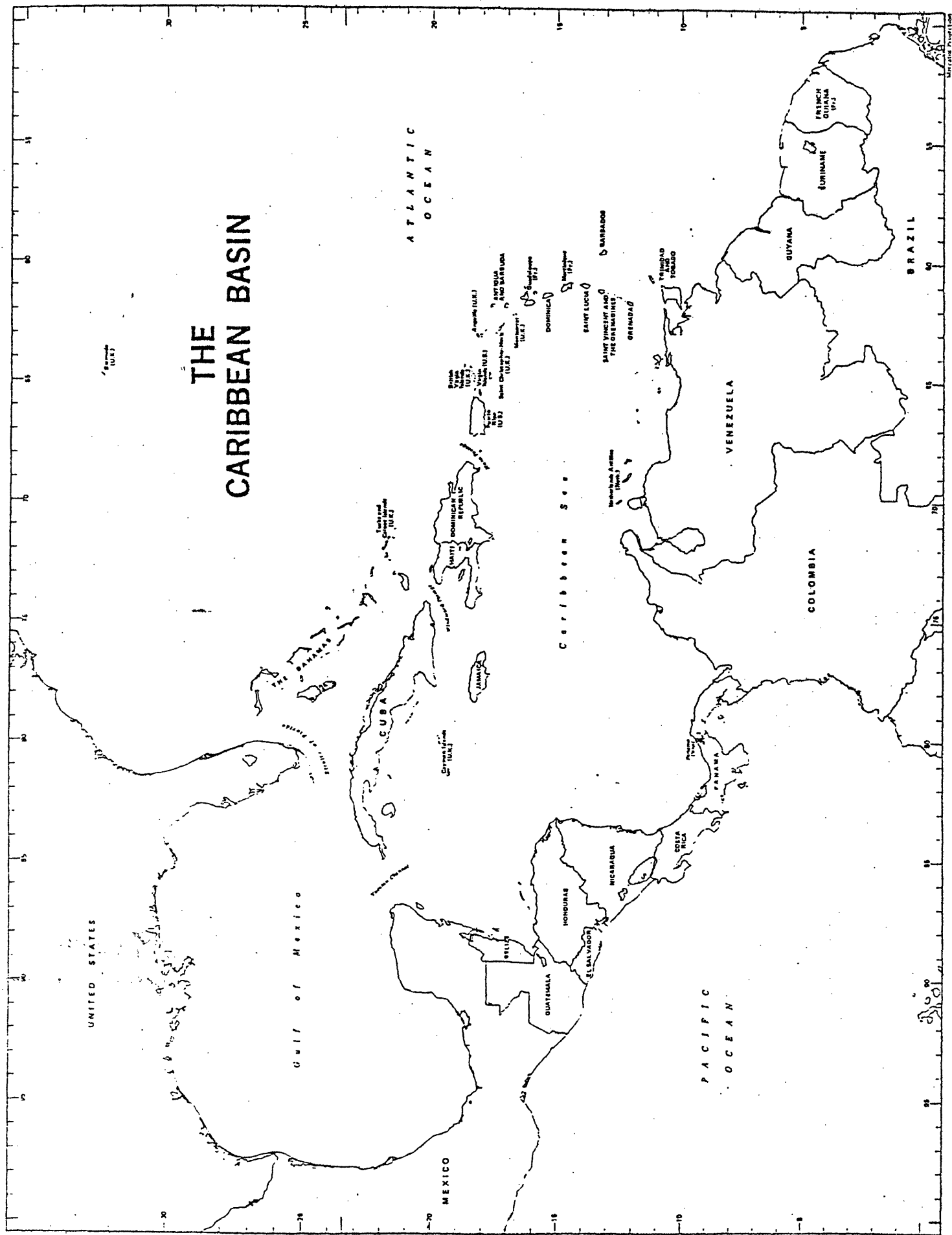
CARIBBEAN BASIN DATA SHEET

	Population	GDP (US\$)	Exports to US (US\$)	Imports from US (percent)
Costa Rica	2.24	4,847	356	36
El Salvador	4.50	3,484	427	30
Guatemala	7.26	7,852	435	38
Honduras	3.69	2,538	419	40
Nicaragua	2.70	1,566	211	28
Panama	1.94	3,511	330	48
Belize	.15	165	60	40
Dominican Republic	5.43	6,733	786	55
Guyana	.79	524	120	25
Haiti	5.01	1,453	252	89
Jamaica	2.19	2,402	383	29
Bahamas	.22	1,267	1,382	51
Eastern Caribbean	.65	500	37	45
Suriname	.39	109	109	30
Barbados	.25	815	96	28
Trinidad & Tobago	1.14	6,708	2,378	39
Turks and Caicos	.07	--	3	--
Cayman Islands	.15	--	3	--
Netherlands Antilles	.27	--	2,564	--
Total CB population	39.04 million			
Central America	(22.33) million			
Caribbean	(16.71) million			

Total GDP \$45 billion

Note: Population, GDP and Exports to US are in millions;
imports from US are as a percent of all imports

Caribbean Basin Map - see attached



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III. SUMMARY TABLE

US ECONOMIC & MILITARY ASSISTANCE
TO THE CARIBBEAN BASIN

	<u>Already Acted</u> <u>Upon by Congress</u>		<u>Announced Today</u> (Overall figures (To be Proposed Submitted in the to Congress) FY 83 Budget)	
	<u>1981</u> (Actual)	<u>1982</u> (Budget)	<u>1983</u> (Proposed)	<u>1982</u> (Supplemental)
<u>Economic</u>	<u>420.5</u> ¹	<u>473.9</u> ¹	<u>664.4</u> ¹	<u>350</u> ³
Development (DA)	168.4	211.1	217.6	—
Economic Support (ESF)	143.4	140.0	326.0	350
Food Aid (PL 480)	108.7	122.8	120.8	—
 <u>Military</u>	 <u>50.51</u> ²	 <u>112.14</u> ²	 <u>106.23</u> ²	 <u>60</u> ⁴
Training (IMET)	2.22	3.24	4.93	—
Sales Credits (FMS)	23.29	41.4	101.3	—
Grants (MAP & 506)	25.0	67.5	—	60
 <u>TOTAL ASSISTANCE</u>	 <u>471.01</u>	 <u>586.04</u>	 <u>770.63</u>	 <u>410</u>
Percent Military	10.7%	19.1%	13.8%	14.6%

1. For allocation by country, see Section IV. G.
2. For allocation by country, see Section VI.
3. Specific amounts by country will be presented in the legislative request.
4. Dollar amounts by country will be detailed in the Congressional submission.

IV. U.S. ECONOMIC MEASURES
A. Introduction

The US program for the Caribbean Basin Initiative (CBI) has been developed over the last eight months in an intensive inter-agency 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 US 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 US direct investment in the Basin) promise an immediate return to US 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 83 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 can not only contribute to, but benefit from, these new policies, a package of new measures concerning them is being prepared.

IV. U.S. ECONOMIC MEASURES

B. Free Trade Area (FTA)

Given the serious economic deterioration in the Caribbean Basin region, the trade component of the Caribbean Basin Initiative (CBI) was designed to provide the most favorable access possible for exports from the Basin. Presently, 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 U.S. 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 non-traditional 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 of 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.

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 United States 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 United States 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 CBI legislation provides authority for the Secretary of Agriculture to recommend to the President the restoration of 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 FTA 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 host country. The Administration does not want to reduce the level of required local input to the point where the FTA 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 FTA will require that Basin countries supply a minimum of 25 percent of local value added. Inputs from all Basin countries can be cumulated to meet the 25 percent 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 (non-designation of communist countries and of countries which expropriate without compensation or which discriminate against US exports). The President will also take into account economic criteria such as the attitude of the beneficiaries towards private enterprise and the policies recipient countries are pursuing to promote their own development. The United States 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 GATT waiver.

IV. U.S. ECONOMIC MEASURES

C. 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 percent of total U.S. imports of apparel on a volume basis.

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

In 1981 the U.S. 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 CBI. 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 U.S. 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.)

IV. U.S. ECONOMIC MEASURES
D. Tax Measures

The Administration recognizes that some US 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 ensure a steady flow of raw materials and export products.

For this reason, the Administration is developing a tax proposal to encourage US 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 five year legislative extension of the domestic investment tax credit for up to 10 percent 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 five year period to individual countries which enter into executive agreements for tax administration purposes. After the five year period, the program would be evaluated and a decision made on whether to continue the extension. The credit would permit US businesses to reduce their net tax liability in the United States.

IV. U.S. ECONOMIC MEASURES

E. Bilateral Investment Treaties

Bilateral investment treaties (BITs) 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 BIT programs than the US. (The Federal Republic of Germany, for example, has approximately 50 outstanding.) During 1981 the US developed a prototype BIT and late in the year began discussions with several countries. It is generally agreed that the US 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 LDC investment climates. The key elements of the US prototype BIT are:

- provisions concerning entry and duration of investment;
- treatment for established US 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;
- dispute settlement provisions.

The US 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.

IV. U.S. ECONOMIC MEASURES

F. Investment Insurance and OPIC Programs

The Overseas Private Investment Corporation (OPIC) 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. businessmen 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, 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.

IV. US ECONOMIC MEASURES

G. CONCESSIONAL AID

Concessional US assistance is expected to increase rapidly under The Caribbean Basin Initiative. The three primary tools for providing direct economic aid are: (1) development assistance (DA), which is project oriented; with emphasis on agriculture, health and population problems; (2) economic support funds (ESF), which are more flexible and can provide direct balance of payments support as well as credit for crucial imports; and (3) 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 percent higher than the actual level of obligations in FY 1981, and double the FY 1980 level.

The bulk of the planned increase in US 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 policy makers of these countries, possible reform measures to ensure 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 \$43 million, or 25 percent, over the FY 1981 level. In FY 1983, \$218 million of DA is proposed, a further increase of 3 percent over the FY 1982 level. These amounts are approximately the same as the \$215 million of DA provided in FY 1980,

but the DA 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 percent, 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.

The attached table shows: (1) actual amounts of concessional assistance to the Basin in fiscal years 1980 and 1981; (2) current planning figures for FY 82; and (3) Congressional presentation proposals for FY 83. Country planning figures for the \$350 million supplemental for FY 82 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.

US Concessional Assistance to Caribbean Basin
(\\$ 000)

	<u>1980 Actual</u>	<u>1981 Actual</u>	<u>1982 Current Budget</u>	<u>1983 Congressional Presentation</u>
<u>Costa Rica</u>	<u>13,635</u>	<u>13,289</u>	<u>50,955</u>	<u>85,000</u>
DA	13,561	11,475	12,955	13,000
ESF	-	-	20,000	60,000
PL 480	74	1,814	18,000	10,000
<u>El Salvador</u>	<u>58,524</u>	<u>104,522</u>	<u>104,478</u>	<u>164,921</u>
DA	43,155	33,345	34,970	25,000
ESF	9,100	44,900	40,000	105,000
PL 480	6,269	26,277	29,508	34,921
<u>Guatemala</u>	<u>11,440</u>	<u>16,689</u>	<u>11,768</u>	<u>13,009</u>
DA	7,764	9,135	5,764	8,000
ESF	-	-	-	-
PL 480	3,676	7,554	6,004	5,009
<u>Honduras</u>	<u>50,653</u>	<u>36,106</u>	<u>38,012</u>	<u>63,064</u>
DA	45,824	25,660	28,770	29,000
ESF	-	-	-	25,000
PL 480	4,829	10,446	9,242	9,064
<u>Nicaragua</u>	<u>37,002</u>	<u>59,639</u>	<u>23,069</u>	<u>-</u>
DA	18,306	1,825	2,426	-
ESF	1,125	56,574	-*	-*
PL 480	17,571	1,240	643	-
<u>Panama</u>	<u>2,104</u>	<u>10,489</u>	<u>11,239</u>	<u>13,344</u>
DA	1,043	8,639	9,191	11,000
ESF	-	-	-	-
PL 480	1,061	1,850	2,048	1,344
<u>ROCAP**</u>	<u>4,156</u>	<u>11,498</u>	<u>17,950</u>	<u>19,000</u>
DA	4,156	10,598	17,950	19,000
ESF	-	900	-	-
PL 480	-	-	-	-
<u>Sub-Total Central America</u>	<u>177,514</u>	<u>252,232</u>	<u>257,471</u>	<u>357,338</u>
DA	133,809	100,677	112,026*	107,000
ESF	10,225	102,374	80,000	190,000
PL 480	33,480	49,181	65,445	60,338
<u>Dominican Republic</u>	<u>54,803</u>	<u>36,749</u>	<u>45,222</u>	<u>47,783</u>
DA	34,640	17,393	24,700	26,000
ESF	-	-	-	-
PL 480	20,163	19,356	20,522	20,783

U.S. Concessional Assistance to Caribbean Basin

	<u>1980</u> <u>Actual</u>	<u>1981</u> <u>Actual</u>	<u>1982</u> <u>Current</u> <u>Budget</u>	<u>1983</u> <u>Congressional</u> <u>Presentation</u>
<u>Guyana</u>	<u>4,965</u>	<u>1,234</u>	<u>2,286</u>	<u>2,672</u>
DA	2,537	1,207	2,210	2,600
ESF	—	—	—	—
PL-480	2,428	27	76	72
<u>Haiti</u>	<u>27,851</u>	<u>34,036</u>	<u>31,531</u>	<u>34,725</u>
DA	10,127	9,160	13,015	15,000
ESF	1,000	—	—	—
PL 480	16,724	24,876	19,516	19,725
<u>Jamaica</u>	<u>12,694</u>	<u>69,132</u>	<u>87,098</u>	<u>112,014</u>
DA	2,684	12,924	29,571	37,000
ESF	—	41,000	40,000	55,000
PL 480	10,010	15,208	17,527	20,014
<u>Caribbean Regional</u>	<u>46,110</u>	<u>27,099</u>	<u>50,645</u>	<u>61,000</u>
DA	41,183	27,044	30,605	30,000
ESF	4,000	—	20,000	31,000
PL-480	927	55	40	—
<u>Sub-Total Caribbean</u>	<u>146,423</u>	<u>168,250</u>	<u>216,782</u>	<u>258,194</u>
DA	91,171	67,728	99,101	110,600
ESF	5,000	41,000	60,000	86,000
PL-480	50,252	59,522	57,681	60,594
<u>IAC Regional</u> ***	—	—	—	<u>50,000</u> ***
DA	—	—	—	—
ESF	—	—	—	50,000 ***
PL 480	—	—	—	—
<u>Total Caribbean Basin</u> ****	<u>323,937</u>	<u>420,482</u>	<u>474,253</u>	<u>664,532</u>
DA	224,980	168,405	211,127 *	217,600
ESF	15,225	143,374	140,000	326,000
PL-480	83,732	108,703	123,126	120,932
<u>Supplemental</u>			<u>350,000</u> ****	
<u>TOTAL</u>	<u>323,937</u>	<u>420,482</u>	<u>824,253</u>	<u>664,532</u>

*"\$20 million in Economic Support Funds were earmarked for both FYs 1982 and 1983 by the International Security and Development Cooperation Act of 1981. 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."

** Regional Office for Central America and Panama

*** Latin America and the Caribbean Regional Program

**** Assistance to El Salvador, Costa Rica and Jamaica will be increased as well as to other countries such as Honduras, Dominican Republic, Belize and the Eastern Caribbean

IV. U.S. ECONOMIC MEASURES

H. Agricultural Modernization

The Caribbean Basin Initiative (CBI) 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 percent in 1981, down sharply from the 4 to 6 percent growth trend of the 1970's. World prices are currently soft for the region's major 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 percent), about 57 percent 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 inter-agency group is working to develop means for providing assistance to comply with US health and sanitary regulations.

An animal disease-free Caribbean Basin would be mutually beneficial to the region and the United States. 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 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 Agro-Industries

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, agro-industries 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 financiers 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 (CATIE) located in Costa Rica.

Expanded agricultural training activities are anticipated as a result of the CBI. 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 (IICA) 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 sub-committees on Food and Agriculture to function within the framework of the consortia led by the respective Banks.

IV. U.S. ECONOMIC MEASURES

I. 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 USG institutions, particularly the Department of Commerce, and the private sector in the U.S. 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.

IV. U.S. ECONOMIC MEASURES

J. 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.

IV. U.S. ECONOMIC MEASURES

K. 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 U.S. 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.

-- 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.

V. INTERNATIONAL ASSISTANCE ACTIVITIES
IN THE CARIBBEAN BASIN

A. Introduction

From the beginning, the Caribbean Basin Initiative has been a multilateral and not just a US 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 US 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 US 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 US 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 US 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 US 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

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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 US--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.

V. INTERNATIONAL ASSISTANCE ACTIVITIES
IN THE CARIBBEAN BASIN

B. 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 like Jamaica but also in Haiti. 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 CBI 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 CBI area into Canada have increased from roughly C\$600 million to C\$1.8 billion over the same period. While Canada/CBI trade only accounts for about two percent of Canada's total foreign trade, the increases are significant. Canada participates in the Commonwealth preference scheme.

In its aid program, Canada has just announced a three-fold increase in development assistance to Central American countries. C\$105 million has been allocated for the region over the next five 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.

V. INTERNATIONAL ASSISTANCE ACTIVITIES
IN THE CARIBBEAN BASIN

C. 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 (CBI).

Despite differences with the U.S. on regional political developments, Mexico views the CBI 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 CBI open to all countries of the region on a non-exclusionary, non-political 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 percent 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 percent to 75 percent import rebates on about twenty-five 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.

V. INTERNATIONAL ASSISTANCE ACTIVITIES
IN THE CARIBBEAN BASIN

D. Venezuela

Venezuela is one of the four sponsoring countries of the Caribbean Basin Initiative (CBI). 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 equalled between 1.2 and 2.2 percent 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 benefitting from this agreement, and several more may be added shortly. Under the facility's terms, the two donors agreed to extend semi-soft loans (five years, four percent) to the recipients to cover 30 percent of their oil bill. If the loan proceeds are used for economic development projects, the terms change to twenty years, two percent. 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 GOV 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 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.

V. INTERNATIONAL ASSISTANCE ACTIVITIES
IN THE CARIBBEAN BASIN

E. Europe and Japan

In several consultations on the CBI, European aid donors and the EC Commission have expressed interest in cooperating with the CBI.

Eleven Caribbean states (Antigua, 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 "non-associated" 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 "non-associated" 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 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 LDC's, 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 US where we have strategic concerns.

V. INTERNATIONAL ASSISTANCE ACTIVITIES
IN THE CARIBBEAN BASIN

F. 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 two years, the two banks have undertaken new commitments to Basin countries totalling 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.

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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 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 78-79, to \$683 million in FY 1980, and to \$1.064 billion in FY 80-81.

The Central American Group

The Inter-American Development Bank (IDB) 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.

V. INTERNATIONAL ASSISTANCE ACTIVITIES
IN THE CARIBBEAN BASIN

G. 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 (IBRD) as the lead institution. Recently, the Inter-American Development Bank (IDB) accepted a secretariat role for a Central American group, which will develop individual country programs and coordinate donor assistance for Central American countries.

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

The 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 in preparation for the annual meetings, and focusing on particular issues, such as the May 1981 meeting in Antigua concerning the special problems of the Eastern Caribbean countries. At the annual meetings, sub-groups 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 US 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 non-traditional donor assistance.

Our basic assumption has been that full development potential of the individual polities of the Caribbean can

US MILITARY ASSISTANCE TO THE
CARIBBEAN BASIN

	1981 FMS CRED.	GRANT	TOT.	IMET	1982 FMS CRED.	GRANT	TOT.	IMET	1983 FMS** CRED.	TOTAL
<u>CARIBBEAN BASIN</u>										
Bahamas					1.0		1.0	.06		.06
Belize				.026			.026	.10		.10
Costa Rica	.0352		.0352	.05			.05	.15		.15
E. Carib.	.0991		.0991	.235	4.6	1.0	5.835	.28	5.5	5.78
Dom. Rep.	.4296	3.0	3.4296	.45	4.0	1.0	5.45	.75	9.5	10.25
El Salvador	.4919	10.0	35.4919	1.0	16.5	63.5	81.0	1.30	60.0	61.3
Guatemala								.25		.25
Guyana	.0242		.0242	.04			.04	.05		.05
Haiti	.1232	.3	.4232	.25	.3		.55	.415	.3	.715
Honduras	.5352	8.4	8.9352	.65	9.0	1.0	10.65	.80	14.5	15.3
Jamaica	.0738	1.587	1.6608	.075	1.0	1.0	2.075	.20	6.5	6.7
Nicaragua										
Panama	.3783		.3783	.40	5.0		5.40	.50	5.0	5.5
Suriname	.0334		.0334	.06			.06	.075		.075
Sub Total	2.2239	23.287	50.5109	3.236	41.4	67.5	112.136	4.93	101.3**	106.25
Supplemental							60.0*			
CARIBBEAN BASIN TOTAL			50.5109				182.137			106.25

* Dollar amounts by country will be detailed in the Congressional submission.

** FMS grant/credit mix will be detailed in the Congressional submission.

VI. MILITARY ASSISTANCE TO THE
CARIBBEAN AND CENTRAL AMERICA

To respond to the growing threat of Cuban and Soviet subversion in the Caribbean Basin, the United States has significantly increased its military assistance to this critical region. In FY 1981 guaranteed loans for military equipment (FMS) and IMET grants for training, plus emergency grant assistance for El Salvador, totalled \$50.5 million.

The Caribbean and Central America were allocated \$57.1 million for the FY 1982 following the passage of the appropriations bill in December. The President's determination on February 2 that an additional \$55 million should be made available to meet the emergency situation in El Salvador brought the total for the region to \$112.1 million.

The President will submit to the Congress a request for an FY 1982 supplemental appropriation for military assistance, including up to \$60 million for the Caribbean and Central America. Dollar amounts by country will be detailed in the Congressional submission.

The Congress is also beginning consideration of the FY 1983 budget request, which will include \$101.3 million in FMS credits for military equipment and \$4.9 million in IMET training for the Caribbean. As the Summary Table in Section III indicates, military assistance in 1983 will represent less than one dollar in every seven of total US assistance to the Caribbean Basin.

The FMS credits typically cover small arms and ammunition, vehicles, patrol boats, helicopters, communications equipment, and spare parts.

The attached table indicates the country allocations of US military assistance to Central America and the Caribbean for the regular fiscal year submissions 1981-1983.