

Caribbean Basin Initiative

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Background: The Caribbean Basin includes some two dozen small developing countries in Central America, the Caribbean, and northern South America. They have been seriously affected by the escalating cost of imported oil and declining prices for their major exports such as sugar, coffee, and bauxite. This has exacerbated the region's deeply rooted structural problems and caused serious inflation, high unemployment, declining economic growth, enormous balance-of-payments deficits, and a pressing liquidity problem.

National security interests: The Caribbean Basin forms the third border of the US, contains vital sea lanes through which 75% of our oil imports must flow, is an important market for US exports, and is the second largest source of illegal immigration to the US. We have a basic interest in preventing the political and economic collapse of this region. The economic crisis threatens political and social stability throughout the region and creates conditions which Cuba and others seek to exploit through terrorism and subversion. If the economic problems are not resolved, a vast increase in illegal immigration to the US would be inevitable. It is not in our interest that a major border of the world's richest nation consist largely of hostile states, among which are some of the world's poorest countries.

Development of the initiative: The US has been developing its program for responding to the region's economic crisis in close consultation with other donor countries and potential recipients. In July 1981, 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 of the four nations would develop its own program. Venezuela and Mexico already are making a significant contribution to the basin, particularly through their joint oil facility, and Canada has announced major increases in its foreign assistance to the region. Colombia also intends to increase its financial contribution to the basin. We expect other donors to expand their efforts in the trade and investment area.

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 program is the offer of one-way free trade. Presently, the countries of the region already are 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 of many nontraditional products.

The President will request from Congress the 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. The President also will seek congressional authorization to grant US investors in the Caribbean Basin a significant tax measure to encourage investment.

Other major elements of the program include the following items:

- 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 the Overseas Private Investment Corporation's noncommercial 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. These strategies will seek to remove impediments to growth, including lack of marketing skills, shortages of trained manpower, poor regional transport, and inadequate infrastructure.

Economic aid: The President will request an FY 1982 supplemental economic assistance appropriation of \$350 million to provide emergency assistance for several key countries whose situation is critical. That will bring proposed FY 1982 economic assistance to \$823.9 million or \$403 million above FY 1981. The Administration's request is for \$664.4 million in FY 1983 economic assistance.

Role of Puerto Rico and the US Virgin Islands: The US Government has consulted closely about the Caribbean Basin initiative with Puerto Rico and the Virgin Islands, whose involvement will be critical to the success of private sector development strategies. Legislation under the initiative will reflect Puerto Rican and Virgin Island interests in important ways. Excise taxes on all imported rum will be rebated to Puerto Rico and the Virgin Islands, and their industries will have access to the same safeguards provisions as mainland industries.

Summary: The Caribbean Basin initiative is an innovative program which represents a new approach to North-South relations. For many years, leaders of the developing countries have been urging the US to offer trade--not aid--and to live up to our own belief in free trade. We are offering both trade and aid and will be working with these countries to help them make their systems more competitive and open. The program's integrated nature assures that we are not just treating symptoms but are addressing root causes. The initiative is based on the strongly held view that economic and political competition reduces privilege and expands opportunity and that economic and political freedom is essential for the evolution of prosperous, modern societies.