SUPPORTING CENTRAL AMERICAN AND CARIBBEAN DEVELOPMENT: A CRITIQUE OF THE CARIBBEAN BASIN INITIATIVE AND AN ALTERNATIVE REGIONAL ASSISTANCE PLAN

THE DEVELOPMENT GROUP FOR ALTERNATIVE POLICIES, INC.
(THE DEVELOPMENT GAP)
1010 Vermont Avenue, N.W., Suite 521
Washington, D.C. 20005

SUPPORTING CENTRAL AMERICAN AND CARIBBEAN DEVELOPMENT: A CRITIQUE OF THE CARIBBEAN BASIN INITIATIVE AND AN ALTERNATIVE REGIONAL ASSISTANCE PLAN

By

Doug Hellinger
Steve Hellinger

August 1983

The Development Group for Alternative Policies (The Development GAP) is a non-profit, development resource organization established in 1977 to explore practical alternatives in development assistance policies, programs and projects.

This report is one of a series of papers on development issues published by The Development GAP.

Copyright (c) 1983 by The Development Group for Alternative Policies, Inc.

Table of Contents

Table of Contents (continued)

Acknowledgements

We wish to thank several people and institutions for the assistance they provided us in carrying out this project. Donald J. Wilson of the Presbyterian Church (U.S.A.) saw the need for a different approach to the problems of the Caribbean Basin and assisted in the application for funds from the Presbyterian Hunger Program for the conference in Jamaica. Church World Service and the United Church Board for World Ministries (UCC) provided the financing that made it possible to translate the insights gained at the conference into the set of ideas presented in this document. The American Friends Service Committee provided staff time and logistical support, while Carlysle McKenzie was invaluable in providing assistance in Jamaica. Atherton Martin, Cheryl Morden, John Olinger, Jim Cotter, Fred O'Regan and Jorge Sol made major contributions as part of the team that designed and executed the project. To all of the above, we are most grateful.

Above all, however, we would like to express our appreciation to the men and women of the Caribbean and Central America who were able to attend the conference at short notice and give us a perspective on the CBI that can only come through an understanding of the daily life of the poor and working class in the region. We hope that this report can be helpful to them and others attempting to bring about constructive change in the region.

INTRODUCTION

In February 1982, the Reagan Administration unveiled its Caribbean Basin Initiative (CBI) and submitted it for consideration by the U.S. Congress. Formally known as the Caribbean Basin Economic Recovery Act, it was presented as an economic support program for the countries of the Caribbean and Central America. In September of that year, Congress appropriated the $350 million in emergency economic assistance requested by the Administration. In December, however, it rejected the Initiative's trade and investment provisions. The latter, which would have provided a ten-percent tax credit to U.S. investors in the region, failed to win subsequent Congressional consideration. On the other hand, the bill's trade provisions, aimed at improving access to U.S. markets on a bilateral basis for the countries of Central America and the Caribbean, gained Congressional approval in July 1983. In the meantime, Congress allocated additional aid funds for the region in quantities considerably above normal levels.

The Reagan Administration has been criticized in the Caribbean and Central America for not extensively consulting representatives from the region, particularly those representing the interests of the working class and poor, in the development of the CBI. While

the private sector was consulted, such popular and representative bodies as trade unions, cooperatives, farmers' groups, and community organizations were essentially excluded from talks on the Initiative. The selective consultations by the Administration resulted in a proposal that has caused considerable resentment, particularly within the nongovernmental sector in that region. The enthusiastic response of their government leaders to an initiative that originated outside the region and into which they made relatively little input has been explained by the fact that most of the region's governments are either unrepresentative of their populations or are under severe economic duress.

Because of the shortcomings in the consultative process, a three-day Working Conference on Caribbean and Central American Development was convened in Kingston, Jamaica between 14-16 December 1982, to enable an articulation of views from segments of the population that ultimately would be most affected by the President's Plan. It was conceived as a means of soliciting input from representatives of nongovernmental organizations (NGOs) in the region in order to develop practical alternatives to the Caribbean Basin Initiative and an appropriate American response to the region's problems. The conference was sponsored by The Development Group for Alternative Policies and supported by a grant from the Presbyterian Hunger Program.

The conference was attended by 14 NGO representatives from Costa Rica, Nicaragua, Honduras, El Salvador, Guatemala, Mexico, Jamaica, Haiti, Dominican Republic, Dominica, Grenada, Trinidad and Puerto

Rico. These included representatives of farmers' organizations, small-business groups, universities, research institutions, church organizations and development institutions. A number of other individuals from the region, including representatives from workers' unions and human rights groups, were invited but were unable to attend. Observers from four American development and church organizations attended in order to gain a perspective on the issue and to explain particular details of the CBI and its legislative status to the conference participants. The names of the participants and their respective organizational affiliations are listed in the Appendix.

During the first half of 1983, The Development GAP sought to inject the views expressed in Jamaica into the Congressional debate on the CBI. One way this was attempted was through the presentation of testimony (in conjunction with the Interreligious Task Force on U.S. Food Policy) to the Senate Finance Committee and the House Ways and Means Committee. This testimony conveyed the perspectives of the poor, who constitute the majority of the region's population and who will be directly and, in many instances, adversely affected by the CBI. The legislation finally passed by Congress reflected almost in its totality, however, a disregard for the concerns of this population and of all others except those of the more privileged members of the region's societies.

With the passage of the CBI and the search for economic answers to the crises faced by the area's war-engulfed countries, we consider it all the more important to advance the ideas of the people of the

region and to propose practical, alternative steps that can be taken to support meaningful development in Central America and the Caribbean. As explained in Part I of this document, the CBI, as presently constituted, will hasten the process of marginalization of much of the region's population -- thereby further fostering the destabilization of the area -- while increasing the countries' economic dependence upon the United States. In addition, the current focus of many U.S. policymakers on long-term economic solutions to the problems of the region, particularly Central America, gives us some hope that far more consideration and serious thought will be given at this time to the views, analyses and proposals that emanated from the Jamaica conference and elsewhere in the region but which have gone unheard by most Americans.

For this reason, we are publishing a report on the conference proceedings, as well as a proposal for the formulation of a Central American and Caribbean Development Support Plan, which, unlike the CBI, would help foster equitable development and the building of democratic institutions in the region. The conference report, along with a set of broad policy positions drawn from the consensus reached in Jamaica, constitute Part I of this report. The Development Support Plan, presented in Part II, consists of more specific recommendations on U.S. economic policy in the Caribbean Basin. These recommendations have been formulated by The Development GAP and other parties to the Jamaica conference on the basis of the findings in Part I.

PART I

CONFERENCE REPORT: CBI CRITIQUE AND ANALYSIS OF REGIONAL NEEDS

The conference participants were asked in Jamaica to assess the Caribbean Basin Initiative in terms of the impact they anticipated it would have upon the economies and societies in the region. Their analysis was based upon their review of Reagan Administration and Congressional materials provided by the conference conveners, other materials available or prepared in Central America and the Caribbean, and their own development experience in the region working with the poor and in the realm of public policymaking. The views expressed below constitute the consensus of the Latin American and Caribbean participants. The perspectives of the U.S. participants were neither expressed at the conference nor included in this report.

Overview

The fundamental criticism of the CBI by the participants at the Jamaica conference was that the Reagan Administration's Plan would benefit primarily U.S. interests and that its long-term impact on the countries in the region is likely to be negative. According to the conferees, the CBI was designed, in large part, for American special interest groups at the expense of the vast majority of the region's populations. Its main impact would be to enhance American

access to and control over local resources and to increase their economies' dependence on the United States while weakening the economic links that presently exist within the region. Regional mechanisms of cooperation, it was pointed out, are being side-stepped and undermined.

The intrinsic problem with the CBI, it was argued, is that it is a continuation -- and an even more cynical manifestation -- of longstanding American policy toward its neighbors in the Western Hemisphere. The Caribbean and Central America were specifically chosen at this time for special treatment due to their perceived strategic importance, but the United States, it was pointed out, always has considered the region as a resource base. Accordingly, it has encouraged and supported an excessively free-market model of development that has been incorporated in the trickle-down, private-sector, survival-of-the-largest policies of the CBI. Hence, the Plan has been perceived as the economic component of a U.S. effort to maintain and enhance its domination of the region.

The proposal seeks a strengthening of economic ties which will assure access to raw materials, provide investment opportunities and preserve traditional markets for U.S. goods. It was felt that, with foreign direct investment generally declining, American taxpayers were being asked in the original CBI legislation to pay for financial incentives to encourage U.S.-based multinationals to seek investment outlets and production bases from which to export to the United States. Trade dependencies are also being strengthened, in response to threats from trade competitors, and newly created, in an attempt

to redirect trade away from ex-colonial powers in the region. In effect, the United States, it was felt, is trying to firmly establish a Third World development model, a model of dependency that led to disastrous results when implemented in the 1950s in Puerto Rico through Operation Bootstrap.

At the same time, the CBI was seen as contributing to an American design to discourage alternative models of development such as those pursued by Nicaragua and Grenada. The exclusively bilateral approach of the CBI, together with the exclusion of these two countries as beneficiaries, was cited as evidence of the geopolitical intent of the proposal. With the United States picking up client states and expanding its economic and military presence in the Basin, the Plan, in the view of the conference participants, is consistent with, rather than alternative to, the American military approach to the current regional crisis.

Development and the CBI

The general theme underlying much of the conference discussion was that effective development is both balanced and equitable. Developmental progress, it was argued, must be measured not only against economic indicators but also in terms of its social impact. Broad participation by all sectors of society in development planning, implementation and evaluation is necessary to ensure the evolution of a just and equitable society. Accordingly, representative and popular organizations must be recognized as not only legitimate but essential participants in development efforts. Their activities are of even greater importance in countries such as Guatemala and Haiti

that are controlled by repressive governments that demonstrate little regard for the welfare of the poor majority.

Economic sovereignty, as contrasted with economic dependency, was identified as an essential goal of development. The conference laid out and analyzed four essential strategies for achieving economic self-reliance: import substitution, agricultural development, export production and infrastructural development. While the importance of agricultural development was particularly stressed, it was pointed out that basic, staple-crop production received no attention in the original CBI package. Worse, the projected increase in the production of beef, sugar and related products that would be stimulated by the dropping of U.S. import barriers alarmed conference participants. They argued that such an increase would displace small farmers in the region, raise local prices of staple goods and increase the need for food imports.

They thus enthusiastically endorsed an amendment to the CBI, introduced by Rep. Thomas Downey (D-NY) with the backing of the Washington-based Bread for the World and subsequently incorporated in the CBI legislation, that was designed to protect small-farm agriculture and help countries to eventually feed themselves by safeguarding production for domestic consumption. The conferees' endorsement of the amendment -- which specifically makes duty-free entry of the above products into the United States contingent upon the submission of an acceptable plan that ensures that present levels of domestic food production would not be adversely affected by changes in land use and land ownership -- reflected their concern that the

CBI trade and investment incentives would distort the use of land in the region, in part by encouraging and facilitating increased foreign ownership. It was noted that this amendment was consistent with the high priority already given in the Caribbean to food self-reliance, on a regional basis. It was also pointed out that the policy would be particularly important in Central America, where both further concentration of wealth and environmental destruction have resulted from increased beef production for export. Forestry, for one, was urged as a sounder export base.

Even with the Downey amendment, the Caribbean Basin legislation does not provide the basis for domestic economic integration. The production it supports is not integrated into the general economy, and important socio-economic aspects of development are ignored. The upgrading of managerial and other critical skills, a general improvement in education, the expansion of regional markets, an increase in food self-sufficiency and land-use efficiency, the development of a diversified local manufacturing base, research to develop new products using local resources, the development of exports that better enhance local societies, the establishment of new structures and policies that build distribution into economic growth and give the poor better access to productive resources, and the involvement of popular organizations more directly in national planning and decisionmaking were all identified at the conference as critical needs in the region but received no attention in the CBI.

It was strongly argued that national and regional economies must be restructured so that local needs can be translated into effective demand and domestic production redirected to meet this demand. Given the history and structure of most of the societies in the Basin area, there were no reservations from a diverse group of people at the conference about placing the responsibility of establishing the framework and policies for economic restructuring with the public sector. Yet, the CBI seeks to diminish state intervention aimed at regulating private-sector abuses or providing some balance in the economy for the poor and working classes. Improvement in most of the critical areas cited at the conference would not be stimulated by the purely private-sector, free-market approach and policies of the CBI, but rather through a more effective balance among the official, private and nongovernmental sectors in each country. In short, this means mixed economies with broader participation in important decisionmaking, protection from the misuse of power by the state, but also a role for government in regulating the private sector and ensuring an equitable development process. It was noted that a generation ago the Alliance for Progress, a program similar in many ways to the CBI, had, for all its failings, some conditionality attached relating to social reform in order to help the majority of citizens in Latin America and diversify national economies.

Problems with the CBI Export Model

The CBI is intended to promote rapid industrialization through expanded export production. It was pointed out, however, that it

overemphasizes export expansion as the basis for an industrial boom and national economic growth. While acknowledging the importance of exports for overall development, the conferees also argued the need for continued import substitution strategies and infrastructural development in order to develop indigenous industries and achieve long-term, self-reliant development. Local agricultural produce and other available resources, particularly the surplus from principal export crops, can be processed and consumed locally or sold in foreign markets, in part through regional mechanisms. Programs of import substitution which encourage the growth of these and other industries can therefore also form the basis for an export drive; i.e., the CBI poses a false dichotomy by encouraging exports to the exclusion of domestic industrial and agricultural diversification and development.

By encouraging the type of exportation that it does, the CBI will also exacerbate the long-term economic problems of the region's countries. Specifically, it will encourage more inefficient use of land and greater food dependency, on the one hand, and primarily foreign-controlled industrialization (including agroindustry), on the other. Exclusive emphasis on export production also leaves a country exceedingly vulnerable to price fluctuations. It was felt that there was a need to move away from this type of export production and dependency; the Downey amendment was seen as a step in the right direction.

Repeated reference was made to similar American policy efforts in the past: the Alliance for Progress and Operation Bootstrap. Both contributed to rapid economic growth, the benefits of which

reached a small middle class and helped to fuel rising political and economic expectations. In the case of Central America, these increased expectations, along with growing domestic income disparities and intransigent, repressive governments, provided the formula for much of the current political instability and armed conflict. In the case of Puerto Rico, the program, though also designed with mechanisms for income distribution, has yielded high levels of unemployment, migration, food stamp dependency, and dependency on foreign investors and foreign markets. Yet the conferees found that the Reagan Administration chose to ignore these lessons and has followed the essentially "trickle-down" development models previously utilized and found wanting. In the end, the CBI was designed with many of the elements of the Taiwan model, as well: an export model used in Haiti in the late 1960s that created only 60,000 urban-based jobs that have been shown to be highly vulnerable to American economic downturns. In short, the conference concluded that the CBI was certain to go the way of past failures.

Other weaknesses in the Plan's trade provisions were discussed at the conference. Some of the special needs of developing countries in the establishment of trade agreements, for example, were not recognized in the CBI. Access to markets is one particularly problematical area, as the CBI exempts from duty-free treatment the very products, such as textiles, which would most benefit Caribbean and Central American economies. There is also an urgent need, unrecognized in the Plan, for price stabilization mechanisms that will help to redress trade imbalances over both the short and long term.

The major problem with the trade provisions, however, is that it will generally be American and other foreign companies -- given increased access to the "basic commodity resources" of the countries signing agreements under the CBI -- rather than local interests that will be in a position to exploit these opportunities and take the lion's share of the benefits. Those countries already substantially involved in exporting to the United States the products affected by the CBI should have the capacity to increase their sales in the short term. Many, if not most, however, will not be prepared to take immediate advantage of the opportunity presented by the marginal lowering of U.S. trade barriers. They will require five or six years to develop the infrastructure, contacts, know-how and new products to significantly access U.S. markets. In fact, the conferees considered it surprising, or perhaps a reflection of how bad the economic and financial situation is in the region, that many countries are buying into the CBI without being nearly prepared to exploit trade possibilities.

The situation is doubly troublesome because trade dominated by multinational corporations could well mean favorable trade balances for the United States rather than local economies, which will be increasingly dependent upon the importation of American technology, as well as on external prices for their exports. The terms of profit repatriation under CBI agreements will also be a factor, as will the rate of capital flight from the region. The trade proposal curiously focuses only on the movement of commodities, ignoring the serious problems related to current capital movement.

Foreign Investment

As reflected at the conference, there are individuals and groups at all points along the political spectrum in the region who accept the need for some direct foreign investment to help with the development of resources in the respective countries. The conferees, while critical of the role that foreign investment has often played in the region, encouraged investment that meets certain conditions. These include the creation of long-term, stable employment, the development of local skills and managerial and technological capacities, the generation of markets, and the rational, ecologically sound use of indigenous resources. National governments should therefore regulate the activities of foreign investors and utilize tax incentives to achieve these objectives.

It was also felt that the effectiveness of national policies regarding foreign investment would be increased by the establishment of a code of corporate conduct which would be recognized throughout the region. Debilitating intra-regional competition for investment may prevail without the observance of such regional standards. Such a code of conduct could also establish standards regarding compensation for damage inflicted by foreign investors, including, for example, environmental destruction.

Accordingly, the conference called upon the United States to support movement in this direction, and, in the meanwhile, help the countries of the Basin to: work out fair arrangements with investing companies on a selective basis; identify and control investment that creates local capacity and meets other national investment

criteria; establish national policies and programs that give people a stake in their own societies (for example, equalizing credit access for small businesses, cooperatives and small farmers competing with large investors in the purchase and formation of capital); and exercise the legitimate public role -- exercised by even the most conservative governments in the region -- of regulating private-sector investment for the purpose of ensuring balanced and equitable growth.

Unfortunately, the CBI, it was charged, would have quite the opposite effect. The CBI trade provisions (and its original tax provisions) encourage investments regardless of their contribution to the long-term development of the countries within the region. Assembly-type operations which take advantage of the large supply of cheap labor are likely to find the incentives most attractive. Promotion of this sort of investment may increase intra-regional competition and encourage government efforts to maintain a docile workforce. The Plan will clearly perpetuate multinational corporate investment, the predominance of large industry and export to the United States rather than help move local economies into the type of production that would directly enhance local societies. In the process, conference participants warned, it would undermine policies of import substitution, as well as intra-regional trade.

Furthermore, direct investment will probably be concentrated in only the few countries that are relatively peaceful, have stable economic environments, are not in a poor debt situation (unless dollars are set aside specifically for repatriation purposes) and can

supply cheap labor. The movement of capital from Puerto Rico to take advantage of low wage levels in Haiti was, in the view of the conferees, a demonstration of both the pattern of investment to be expected under the CBI and of the instability of employment created by foreign investment in the region. Not that the CBI would be a panacea for the region's unemployed in any event, as it was calculated that its net impact in this area would be insignificant given the size of the problem.

Above all, however, the conferees, and particularly those familiar with the experience and impact of Operation Bootstrap, pointed warily at the economic strategy, encouraged by the Plan, which makes the expected flow of foreign investment in response to export incentives the key to economic revitalization. It was argued that countries following such a path will be either pressured or seduced into granting multinational companies -- best placed to take advantage of the CBI trade incentives -- the resource access and local investment policies they want on very accommodating terms. The result would be a further denationalization of decision-making regarding resource allocation, raising serious doubts about the ability of governments to protect their natural resources and environments and to direct new production into priority areas integrated into their respective national economies.

The pursuit of such a strategy spelled disaster in Puerto Rico, where foreign firms were offered a complete package of incentives, including cheap labor, up to 75 percent tax exemption, easy access to the U.S. market and use of the island's best sources of water,

as well as other key infrastructure. When the MNCs eventually pulled out for greener pastures -- often declaring bankruptcy before tax liabilities became due -- they left behind their legacy: sick workers suffering the effects of unregulated chemical industries; polluted water and other ruined natural resources; greatly increased consumer dependencies on Western products; and massive numbers of unemployed and welfare dependents. They did not, on the other hand, leave behind much in terms of basic skills, local management capabilities, technology or technological know-how or market linkages.

Economic Assistance

The economic assistance component of the CBI -- already approved by Congress and implemented by the Reagan Administration -- was also soundly criticized by the conference participants. Of overriding concern was the fact that aid funds were provided essentially for private-sector purchase of commodity imports and other forms of balance-of-payments assistance. The conferees called instead for aid routed as directly as possible to appropriate development programs and the activities of the poor themselves. This would require establishing a major flow of aid resources to indigenous private voluntary organizations and the participation of aid beneficiaries in development planning. Probable priority areas were identified as credit for small- and medium-sized farms; the development of rural industry; the development of local entrepreneurship, particularly in the smaller Caribbean islands; the development of alternative marketing structures; education and training; and disaster

relief. To attend to these needs, it was suggested that a higher level of resources be channelled through existing regional development institutions -- largely ignored in the CBI -- and directed to the small islands of the eastern Caribbean.

Recent events on one of these islands, Dominica, also focussed the conference's attention on the potential for destructive intervention by the United States in the domestic affairs of the nations of the region. Participants pointed to American use of bilateral aid agreements to require the elimination of subsidies of all types, including those assisting very poor producers. Under the agreement signed with the Dominican Government, for example, control over the country's dominant banana industry was taken away from the small producers and the public sector and turned over to weak private-sector management. Part of the arrangement was for an American multinational to supply non-subsidized production inputs, while output prices continued to be fixed by a British company -- thus squeezing the Dominican small farmer even further. The local producers' union has been fighting the agreement. The conferees urged U.S. policymakers to put a stop to agreements of this type before irreversible damage is done to efforts aimed at equitable development in the region.

Lack of Consultation

One of the principal reasons, identified at the conference, for the problems with the CBI aid, trade and original investment provisions was the lack of consultation with the people of the region. Very few people were in fact consulted, certainly not

representatives of the poor, popular organizations and supportive development and research organizations. In fact, policymakers in the United States and in other Western nations were criticized at the conference for seldom, if ever, visiting and consulting with the less privileged members of society who, all too frequently, become the principal victims of aid, trade and investment programs and policies. It was pointed out that very little of most development aid ever gets down to these people, as it is wasted, misused and manipulated by institutions representing vested interests. Furthermore, all these capital flows, though to varying degrees justified on the basis of helping the poor, can have very counterproductive effects upon this population. Economic displacement, land speculation, high staple food prices, land scarcity, the reinforcement of repressive and elite structures and the destruction of the national environment are but a few of the possible consequences. Yet, the poor, or their representatives, are seldom consulted and even less often involved in the decisionmaking involved in framing such programs and policies.

To understand the reasons why conventional aid usually does not reach where it is supposedly intended and why trade and investment policies often have counterproductive effects upon the poor, American policymakers and program officers must speak to those who have least control over the system. It was agreed that until the former increased their understanding of the nature of poverty in the region the likelihood of the United States, even under a new

Administration, providing the appropriate incentives and encouraging the adoption of the proper policies to support rather than hinder movement toward a fairer distribution of income and productive resources within each society in the region would remain slim. The conferees were not so much surprised by the policies designed by the Reagan Administration as they were by the support for the policies by apparently well meaning individuals and interest groups in the United States. They felt that this reflected insufficient knowledge about the region, its history, its social and economic structures and the situation of its poor. They therefore argued strongly for the inclusion of representatives of the social development sector and of the poor and working class in any future discussions on the development of the region.

Conditionality

The questions of conditionality, and the possible infringement on national sovereignty, were the subjects of much discussion at the conference. Both the CBI legislation and the bilateral aid agreements emanating from it set forth provisions requiring changes in domestic policies in return for economic benefits -- specifically, for trade advantages and financial assistance. It was noted that these favor private investment, leaving minimal roles for public-sector regulation and popular organizations. They range from the elimination of subsidies to poor producers and the modification of export subsidies to required consultation with USAID on "aspects of macroeconomic policy that relate ... to the objectives of the Caribbean Basin Initiative" (Honduras-USAID Loan Agreement).

The conditions, stated in Title I of the CBI, to be considered by the President in designating beneficiary countries further heightened the suspicion at the conference that the Administration was giving itself broad latitude to dictate changes in the region's economies for its own interests. Assurance of "equitable and reasonable" access to the markets and basic commodity resources of a country is one such criterion. Another recommended consideration is whether a country grants preferential treatment to other developed countries "which has, or is likely to have, a significant adverse effect on United States commerce...." Conference participants believed that such a consideration could undermine the agreements emanating from the Lomé Conventions.

The conferees concluded that all these conditions should be eliminated from any Caribbean Basin legislation, pointing out that, instead of developing partnership relationships, the United States was unilaterally directing policy changes in the region. It was able to do so by being much the stronger negotiating party in each of the series of bilateral negotiations designed by this Administration to win the terms and conditions it sought.

The dangerous level of discretion afforded the U.S. President is further exemplified by the legislative provision that gives him the arbitrary power to judge and disqualify countries if their domestic policies "distort international trade." Not only is it highly improbably that any Central American or Caribbean country could have such an effect on trade, but the United States, which

certainly could, is not held to the same standards by the CBI. Many if not most of the countries linked to the CBI would be particularly vulnerable to this type of arbitrary power. An economy might well be planned and geared up on the basis of a long-term export strategy only to have years of preparation and investment wiped out by an elimination of trade preferences or by across-the-board changes in certain tariff and quota provisions. The conference asked for long-term commitments from the United States regarding the entry of products from the region, as well as the right to consult with the U.S. Department of Agriculture before it recommends changes in import policies, in order to limit the vulnerability of the local economies and the potential for manipulation by the United States.

Given the history and current situation in Haiti and much of Central America and the history of American intervention in the region, the conference was also forced to explore the deeper nature and meaning of national sovereignty. It was agreed that national sovereignty had limited meaning to the extent a country's government did not represent the will of its people and less so to the degree that that government was placed in power and sustained by external forces. Accordingly, the conferees called upon the United States to respect the wishes of the majorities in their countries as reflected in the opinions of those representing various social, economic and political sectors. Conditions set down would therefore have to be worked out with the poor and working class and not only government leaders and the privileged classes.

Regionalism

Although regional integration and unity are developmental cornerstones, both politically and economically, particularly in the Caribbean, no attempt is made in the CBI to strengthen regional mechanisms. There is no recognition, for example, of Caribbean regional food production plans being developed in the late 1970s, nor of the need to build a basic regional capacity in all areas. Furthermore, in dealing with each country bilaterally the Reagan Administration did not concern itself with how American policy could encourage greater regional trade and a more complete and permanent integration of regional production. This neglect by the Administration could be interpreted, it was agreed at the conference, as a deliberate effort to undermine already struggling attempts to build regional unity. In analyzing the CBI trade provisions, the conferees expressed their fear that these would, in fact, weaken efforts at regional cooperation significantly.

Hence, it was strongly urged that a multilateral mechanism be established in the region with broad representation. This would have various purposes. First, such a mechanism that included the United States could in time undo the damage that it is anticipated the CBI will do to regional institutions already in place, regional trade and the broadening of regional markets, multi-nation negotiating power, and the search for regional rather than bilateral solutions to national problems. Second, it could monitor and eventually evaluate social and economic progress under an appropriate CBI, preparing periodic reports on implementation and impact and drawing on

the views and experiences of cooperatives, unions and other institutions representing the poor and working classes; this would allow for periodic revisions of plans, programs and policies. And third, it would be designed to guarantee greater balance among the negotiating parties, providing, for example, a means by which unfair provisions of bilateral treaties could be challenged and a common code of conduct regarding foreign investment could be established, so that the countries of the region could cooperate rather than compete in their search for American markets and investment. Other functions might include advising on the allocation of aid funds and improving the flow of information and overall communications throughout the region. It was also suggested that the commission might advise on the best means by which non-indigenous private voluntary organizations could support the work of local non-governmental organizations.

Although no specific institutional mechanisms were recommended for such a role by the conferees, it was strongly suggested that existing institutions, like the Central American and Caribbean Common Markets or the Inter-American Economic and Social Council of the OAS, be directly involved. The conference called for a stipulation in any new legislation that would require that the U.S. President start to move away from strictly bilateral relations under the CBI and toward the establishment of a structured multilateral relationship within a short, specified period of time. The General Secretaries of both Common Markets could be asked to

recommend a regional structure, calling upon key Ministers and other representatives from the region's countries for their input. In the opinion of the conferees, an international commission may, in fact, be best placed under the joint operation of the two Common Markets themselves, as they are known to have good information on the two sub-regions respectively, strong technical and social staffs, a history of dealing with international economic issues, and most of the countries in the Basin as members; non-members, like the Dominican Republic and Haiti, would have to be brought in.

As one of the key reasons identified for the failure of past policies to have a positive impact upon the poor was the lack of decisionmaking involvement on the part of their representatives, the conferees agreed that such a commission should have broad representation from within the Basin states, as well as among donors. The creation of a multilateral commission would facilitate a more mutual, as opposed to unilateral, process for genuine economic cooperation for development, and this would provide the framework for a long-term commitment. Hence, the conference emphasized the need to move the United States toward a convention form of negotiations, such as that which the European Economic Community (EEC) established with African, Caribbean and Pacific (ACP) nations in Lomé in 1975. From this would emerge a multilateral partnership that strengthens rather than undermines existing regional institutions. It was also hoped that, in the spirit of partnership, the United States would recognize the need to help the Basin's

countries to diversify their economic ties both within and outside the region so as not to become overly dependent upon and vulnerable to the American economy and policies.

Militarism and the CBI

A major issue at the conference was the implications of the CBI for the increased militarization of the region. While there was no money authorized in the original CBI legislation specifically for military purposes, four concerns were voiced by the conferees. First, El Salvador, given its precarious economic and financial situation caused by the war, would still receive a disproportionate percentage of the CBI economic assistance funds. Second, new American investment in Caribbean nations which heretofore had not hosted such interests could provide a pretense for American military intervention in the area in certain circumstances. Third, rather than reducing tensions in the region and fostering the eventual end of hostilities, the CBI would probably increase tensions and the degree of militarization by further polarizing the haves and have-nots within countries and by trying to divide states along ideological lines through its policy of exclusion and isolation of certain nations. Fourth, and most important, the CBI is seen as the economic underpinning of an American political-military answer to the perceived threat in Central America and to the general regional crisis. It was felt that, as long as the United States utilizes such endeavors as a CBI for strategic purposes and to perpetuate its regional economic domination, peace in the region will be extremely

difficult to obtain. And without peace and political stability, effective development will be equally difficult to achieve.

On the subject of exclusion of specified "communist" countries under the CBI, the conference firmly held that this violated a basic principle of regional cooperation. It was argued that there existed no good reason why Nicaragua, Grenada or even Cuba, for that matter, should be excluded from participation in a regional scheme when the United States trades with communist and socialist countries in other parts of the world. It was apparent to the conferees that the U.S. was trying to isolate countries economically because they pose a different model for development in the region. Unless the United States were at war with a particular country, the conferees found such a policy of isolation from the other states in the region to be unacceptable. They objected to the arbitrary use of political criteria for eligibility and recommended that eligibility be based solely on a government's demonstrated commitment to the economic and social welfare of all its citizens.

Summary and Recommendations

While the conferees did not attempt to develop concrete proposals as an alternative to the Reagan Administration's CBI policies, their recommendations can be drawn from the conference proceedings. These are refined and expanded in Part II. The conferees' recommendations to U.S. policymakers are summarized as follows:

1. Make economic assistance more developmental in nature and channel it as directly as possible to the poor, primarily through institutions that represent and work with them. Cut off all aid to governments that repress their citizens and whose economic policies do not directly benefit the poor. Condition limited balance-of-payments assistance on the use of the local currency counterpart provided by government for the purpose of fostering equitable development. Untie aid and encourage the diversification of economic links by giving countries the option to purchase goods and services from non-American sources when more appropriate.

2. Support a role for the public sector in regulating and controlling the abuses of the private sector and in providing balance in the society to help the poor and working class. Eliminate all conditions in bilateral agreements limiting the role of government in helping the poor. This implies support for the maintenance of subsidies where critical for the poor, particularly in the areas of food and agriculture, as well as public sector responsibility in providing incentives to help diversify local economies, in creating necessary infrastructure and in working with the private sector to upgrade local technical and managerial skills and to develop new products and exports which enhance local societies.

3. Support policies and programs of import substitution that help integrate domestic economic activity. Encourage indigenous processing of local resources and the development of new products for local consumption and as a basis for an export drive.

4. Assist in the stabilization of export prices of key commodities of countries that have programs in place to increase food self-reliance and ensure an equitable distribution of land domestically. Operationalize the Downey amendment requiring national Staple Food Protection Plans as a condition for receiving duty-free treatment of exports of sugar, beef and related products.

5. Equalize the rights of all parties under CBI provisions. Eliminate the arbitrary power of the United States to unilaterally, and on short notice, strike goods off the duty-free list without consultation with interested parties in the region; provide to participating countries the right to prior consultation with the Department of Agriculture. Recognize the right of each of the region's countries to appropriately terminate its adherence to particular provisions of a bilateral agreement if it determines that they are having an adverse affect on its economy or on a particularly vulnerable population group.

6. Increase oversight and control by the U.S. Congress over the President in the implementation of any Caribbean Basin plan.

7. Provide support for regional institutions and economic integration. Strengthen rather than undermine regional common markets and other such mechanisms. Encourage regional trade, the integration of regional production and the development of regional food plans. Assist in the building of regional capacity in all areas.

8. Shift the CBI to a multilateral basis. Establish a multilateral commission, perhaps under the joint operation of the region's two common markets or under the OAS, and adopt a convention and partnership form of negotiations and follow-up in the mode of the EEC-ACP relationship under the Lomé Conventions. Require that the U.S. President negotiate a multilateral treaty within two years and that it be negotiated in convention form within a regional mechanism with broad representation from within each country and from both inside and outside the region. In addition, use such a mechanism to: strengthen other regional institutions and integration; explore regional rather than bilateral solutions to problems; monitor and evaluate social and economic progress and impact under a CBI; draw on the views and experiences of the poor, their representatives and their institutions; provide greater balance among negotiating parties; provide means to challenge provisions of bilateral treaties and to establish a common code of conduct vis-a-vis multinational investors; advise on the allocation of aid funds; and improve the flow of information in the region.

9. Condition the provision of aid, as well as trade and investment incentives, on, and only on, a government's demonstrated concern for the plight and development of its poorest citizens. Include representatives from a broad range of sectors, including the poor, in working out bilateral agreements, and support their inclusion in national planning and other decisionmaking.

10. Support more appropriate foreign investment in the region and fair arrangements with investing companies. Help balance

national negotiating power with that of multinational companies. Support the establishment of a regional code of conduct and an increase in national monitoring and policing power. Increase the flow of information within the region that enhances knowledge about the organization and operations of particular industries and helps countries to identify and control relevant, constructive types of investments. Support representative union development and ability to negotiate effectively. Provide significant tax exemptions only for foreign firms constructively involved in or contributing to important socio-economic activities.

11. Lessen the financial burden on the American taxpayer by eliminating or reducing most tax exemptions extended to large American and multinational firms. Use increased revenues to finance American job retraining and in other ways assist the American worker in accordance with the principle of compensation established elsewhere in the CBI.

12. Assist in restricting capital flight from the region in order to deal effectively with balance-of-payments problems.

13. Eliminate the military aspects of the CBI by reducing aid to El Salvador and by reducing parallel military aid throughout the region. Eliminate all strategic country exclusions.

PART II

CENTRAL AMERICAN AND CARIBBEAN DEVELOPMENT SUPPORT PLAN

During the first half of 1983, when the Reagan Administration's Caribbean Basin Initiative was again being considered in Congress, The Development GAP presented to policymakers the analysis of the CBI offered by the participants at the Jamaica conference. This analysis and broad policy perspectives, which together constitute Part I of this report, were first formally presented as testimony to the Senate Finance Committee in April and the House Ways and Means Committee in June.

Perspectives such as those emanating from Jamaica received little or no consideration during the Congressional debate on the CBI. The potential effects of the Administration's proposals on the poor in the region were subjected to, at best, a superficial analysis by policymakers. The interests of the poor were seen by many well intentioned members of Congress to be served by increases in economic assistance and trade liberalization. If representatives of the poor, such as those who gathered in Jamaica, had been consulted, however, policymakers would have been more aware of the economic and social dislocations and consequent local-level instability that these resource flows can foster if not designed and channelled appropriately.

Instability is the reality that now confronts much of Central America and the Caribbean, and the implementation of the Reagan Caribbean Basin Plan, like many U.S. policies and programs before it, will only exacerbate the destabilization of the region. This was the very clear message from the Jamaica conference. If the United States is to play a constructive role, it must be willing to discard old assumptions and practices and support fundamental structural changes that are necessary to effect equitable development in countries in which the majority of the population is poor. Pressures for such changes have swept the region, and continued attempts to resist them will only precipitate the violence already evidenced in many of the area's countries.

The critiques of the CBI advanced by the conference participants were incisive and yielded a set of ideas, presented at the end of Part I, upon which a far more sensible policy could be constructed. What follows is our attempt to present the framework for such a policy in the form of specific recommendations that are consistent with their findings. In so doing, we have drawn upon several sources, including amendments offered to the original CBI legislation and the Lomé Convention, which delineates the terms of the economic relationship between the European Economic Community and the countries of Africa, the Caribbean and the Pacific (ACP).

The Lomé Convention constitutes a multilateral mechanism for negotiation that was absent in the formulation of the Reagan Administration's Caribbean Basin Plan. While we propose the following recommendations as the basis of a far more appropriate Central American and Caribbean Development Support Plan, the final version

of this or any plan must be negotiated and implemented multilaterally and in a manner that incorporates the participation of representatives of the poor and others whom the plan would affect.

In our effort to formulate one set of recommendations for U.S. economic policy in both Central America and the Caribbean, we were confronted with some very basic cultural, economic and political differences between the two regions. Central America as a region is more uniform, for instance, than is the Caribbean in terms of language and tradition. Its countries have larger markets and greater infrastructure and thus are more economically diversified. Furthermore, the problems of most of those countries are currently manifested in military conflict. Ideally, two sets of recommendations should be presented. We have chosen, however, to fashion a unified plan in response to the CBI, with particular sections designed specifically or predominantly for Central America or the Caribbean. Our recommendations are presented in three sections: Economic Assistance and Development, Trade Policy, and Regional Mechanisms and Cooperation.

A. Economic Assistance and Development

For the countries of the Caribbean Basin to prosper and for their poor to share equitably in this development, domestic economic activity must be diversified and integrated. Local food production and economic self-sufficiency, in general, must be increased. Aid is required that supports these policies, stimulates public participation in development planning and enhances local institutional capacity. Government agencies and other institutions that have

demonstrated a commitment to the poor are the logical candidates to serve as channels for foreign economic assistance and implementors of development programs.

Governments have a critical role to play in the development process, particularly in the setting of policy, the building of infrastructure and the coordination of major economic ventures. In order to ensure, however, that these undertakings do not prove counterproductive to the poor as a result, for example, of political manipulation or economic and physical dislocations, safeguards must be established. Principal among these is the inclusion of the poor in programmatic planning and in other decisionmaking that affects their future.

1. The building of democratic institutions. A major purpose of the economic assistance delivered by the United States to the countries of the region should be the strengthening and, where necessary, support for the emergence of institutions which incorporate the poor in decisionmaking regarding resource allocation in their communities and at the national level. These institutions may be both public and private in nature, although in some countries funding would of necessity be concentrated upon non-governmental and popular organizations. These should include farmers' unions, cooperatives, labor organizations, women's groups, community organizations and those service and assistance institutions which promote the organizations, organized activities and the economic, political and legal rights of the poor.

Funds from the United States should be made available for the support of:

a. projects in which the poor participate actively in decisionmaking and which serve to strengthen their organizations;

b. the coordination of the activities of several such organizations and the formation or strengthening of representative regional and national institutions;

c. the development of institutional mechanisms through which poor citizens effectively excluded from the political process can participate in regional and national development decisionmaking; and

d. the establishment of alternative national and regional financial systems in the region which permit the poor effective access to critical resources.

The amount of money actually expended during any fiscal year should be based upon a determination of the aggregate absorptive capacity of those institutions in the region which are organized democratically, represent the poor and/or effectively involve the poor in institutional and programmatic decisionmaking, rather than on the need to expend allocated funds. All unexpended funds should be carried forward for use in the next fiscal year.

The reasons for this measure are twofold. First, representative and popular organizations are the backbone of democratic societies. They form the strongest basis of social stability, particularly in times of increasing domestic repression or radical political change. By involving the poor in the shaping of their own future, they constitute the surest protection against attempts by the state or private interests to concentrate power and productive resources. Second, and equally important, is the fact that such institutions

provide critically important mechanisms for effecting meaningful and lasting change and development in the region.

Funding decisions regarding specific institutions should thus be based solely upon the democratic nature of those institutions, the degree to which the poor are beneficiaries of their development work and participate actively in project and/or institutional decisionmaking, and their effectiveness in promoting the economic advancement of the poor. As the functioning of such institutions takes on added significance in otherwise non-democratic societies, there should be no country exclusions.

2. Conditioning of government-to-government development assistance. In that decisions regarding the funding of development programs and projects should be predicated upon the characteristics, capacity and effectiveness of the best available implementing institutions in each country, no funds should be made available for use by agencies of those governments in the region which have demonstrated little or no concern for the economic welfare of their poor and working classes, and, hence, little or no interest or ability to use their institutions toward that end.

To be eligible for American aid, each government should be required to demonstrate that the income and property gaps between the rich and the poor in their respective countries have been narrowing during the term of its administration and/or that policies are presently in place that are designed specifically to directly achieve that end. Additional evidence of government concern for the less

privileged segments of the population are free-functioning and democratic labor unions, producers' organizations, community associations and other popular organizations, as well as the right to freely establish such institutions. Furthermore, there should be evidence that those to be affected by programs and projects supported by U.S. aid participate in their planning and implementation.

No other conditions should be attached to eligibility for government-to-government aid. No political or economic operating philosophy should be a prerequisite for funding. The public and private sectors (as well as the non-governmental, non-commercial sector) play important roles in these societies, and the United States should not intervene in the affairs of a country to affect the balance established by government between these two sectors as part of national planning. The public sector has a legitimate role in regulating and promoting the private sector and in providing increased opportunities, improved resource access, and economic support (subsidized where necessary) to the poor and working classes. To the extent that this sector narrows the domestic income and property gap, it merits U.S. aid.

3. Promoting domestic economic integration. Major objectives of the delivery of financial and technical assistance to the states of the region should be an increase in the diversification of local economic activity and a greater integration among these activities at both the national and regional levels. Priority should be given to assisting small- and medium-scale, indigenously owned agro-industries in an effort to increase local food production, slow rural-

urban migration by providing expanded rural opportunities and expand natural-resource-based industrial production for domestic and foreign markets. Industries which are in other ways linked to the development of agriculture, to other economic sectors or to other domestic industrial production should also be promoted.

Toward this end, support should be given to facilitate the transfer and adaptation of industrial and agricultural technologies, to promote rural small- and medium-scale cooperative and community-based industries, to identify and develop alternative energy sources, to develop the infrastructure required for these ventures, to provide industrial and managerial skills training in appropriate technical fields and to promote joint ventures between local firms and American investors under conditions beneficial to the general public of both countries. Technical assistance should be provided in the identification, evaluation, selection and development of appropriate technologies available both within and outside the Caribbean Basin region. Training should be financed that would permit workers to acquire, develop and adapt the skills essential for the proper use of such technology. As part of the promotion of co-ventures and other direct investments by American companies, assistance should be provided during the process of negotiation so as to ensure a balance in relative negotiating strength and subsequent fair arrangements for all parties involved. Representative union development and enhanced capacity for negotiations with investors should also be supported, as should national

efforts to minimize detrimental environmental impact. As the region's governments collectively are in a better position to determine the nature and conditions of needed investment, no special fiscal incentives should be provided by this country to foreign companies interested in investing in the region.

The United States should support the establishment of an Industrial Development Center as a regional mechanism designed to help effect the industrial policies outlined above. A principal task of the Center would be the establishment of an effective code of corporate conduct. It should also provide information about local investment priorities and opportunities, as well as enhance knowledge throughout the region about the organization and operations of a wide range of industries, in order to help countries identify and oversee relevant, constructive investments. In addition, it should act as a center for information on appropriate technologies, the use of local materials, labor-intensive options for off-season, off-farm productive activities, and new opportunities in foreign markets. Finally, it should provide training and technical assistance resources in the areas of product identification, research, development and promotion, as well as market linkages. Representatives from the public, business, labor and non-governmental development sectors should constitute the management of the Center.

4. Expanding local food production. In accordance with the recognized need for the countries of the Basin to move toward greater economic self-sufficiency on a national or regional basis and away

from dependence upon the United States, support should be given to efforts to increase staple-crop food production for domestic consumption. Financing and technical assistance should be provided for integrated rural development projects involving: peasant family holdings, cooperatives and other organized groups; hydroagricultural improvement schemes using available water resources and appropriate technology; projects designed for crop protection, preservation, storage and marketing, as well as processing; fishery and fish-farming projects; and other endeavors aimed at providing incentives for increasing food production and at improving social and physical infrastructure that increase the attractiveness of rural life. Appropriate research and training programs should also be supported, as should the development and exploitation of forestry resources as an environmentally sound export alternative to more land-intensive production.

Support should be extended to both public agencies and non-governmental institutions which have demonstrated an interest and effectiveness in promoting and expanding food production for domestic consumption, improving the quality of that production and satisfying local nutritional requirements, and increasing the security of food supplies for the local population. These organizations should have as objectives an increase in the population's capacity to control its own development, an improvement in the productivity and diversification of agricultural and other rural activities, and the general social and cultural development of the rural community.

5. Promoting regional project collaboration. The availability of a large assistance fund will permit the financing of large-scale projects, often on a regional basis, that usually cannot be financed by any one source alone. A priority in this area should be the expansion of inter-island transportation and communications links in the Eastern Caribbean to help overcome some critical bottlenecks, particularly in the movement of goods in the region. Other areas of financing could include the exploration for and development of energy resources in the region, economic recovery and reconstruction in the aftermath of national disasters and humanitarian assistance to the region's growing number of refugees. In all these areas, as well as in other development efforts, including those in the fields of agriculture and industry discussed above, regional cooperation among the state of the region should be encouraged by the United States.

To strengthen the basis for expanded regional integration and collaboration, increased funding should be directed to the Central American Bank for Economic Integration (CABEI), the Caribbean Development Bank (CDB), and the Fund for Special Operations and the Small Projects Unit of the Inter-American Development Bank. In addition to financing projects of a regional nature, these institutions should utilize the additional funds to promote regional food self-sufficiency and the improvement of nutritional levels and to support effective institutions -- public and non-governmental -- working directly with the poor. Agreements made to channel funds through these regional institutions should be contingent upon the

promulgation of program policies within these institutions that promote the interests of this population.

In Central America, the growing regional conflict may eventually necessitate a major commitment of funds for reconstruction purposes. For the moment, conditions created by the conflict make it unlikely that an increase in development aid to El Salvador, Honduras and Guatemala would promote economic and social progress. As peace is restored, however, these and the other countries of the region should be able to draw on a special escrow fund established within CABEI to help rebuild their economies.

6. Using Economic Support Funds (ESF) for development purposes. The United States should make available ESF financing to those countries in the Caribbean and Central America suffering from a scarcity of foreign exchange or requiring foreign currency to cover expected shortfalls during a period of economic or export diversification. Allocation of these monies -- split in each case between grants and soft loans -- should be based upon applications from the various nations, outlining the need for the funds and the use to which they would be put. The principal purpose of ESF financing should not be to free the limited foreign exchange holdings of these countries for repayment to international commercial banks, but rather to help nations improve the plight of their poor and working classes and to diversify their economies. Accordingly, funding should be made available to those countries which propose to make the additional foreign exchange available for the purchase of critical commodity imports by small- and medium-sized industries, farms and cooperatives which have

limited access to such financing, do not displace traditional lines of production and help to diversify the productive base of the economy. These funds should also be used for the purchase of key consumer goods that are in critically short supply, as well as critical inputs, the lack of which has caused bottlenecks in development projects directly benefiting and involving the poor.

No government should receive ESF assistance unless it adheres to the criteria outlined in sub-section 2 above, while recipients should be required to utilize the local currency counterpart generated by the use of the ESF grant component for development purposes, as defined in sub-sections 1, 3 and 4. These measures, like the others specified in this sub-section, have been designed in the belief that the poor and working classes should not bear a disproportionate share of the burden of economic adjustment necessitated by others' poor mangement and investment decisions and by shifts in the terms of international trade. Similarly, changes in fiscal policy, including the removal of subsidies on essential goods and services, which directly tax the poor, should be neither encouraged nor required as a condition of ESF financing.

In determining the level of ESF funding to a particular country, the President should also take into consideration the degree of cooperation on the part of the government of that nation with U.S. authorities to control the outflow of capital from its territory to the United States.

7. Implementing the assistance program. The aforementioned development programs should receive assistance through those institutional channels that best promote democratic organizations, economic progress on an equitable basis and regional integration. USAID should provide assistance only to those governments which demonstrate their commitment to bridging the gap between rich and poor. The Inter-American Foundation and those American private voluntary organizations which also work to strengthen local indigenous institutions deserve continued support for their efforts on behalf of democratic, participatory development.

Similarly, special allocations should be made to CABEI and the CDB for activities consistent with the goals listed above, while USAID should support the work of the Caribbean and Central American Common Markets. These institutions should be among those consulted on the best use of development assistance monies.

The level of subsidization of financing should be determined on the basis of the ultimate recipients and use of the funds. Loans designated for on-lending to private industry and other productive endeavors of the non-poor should be made at close to commercial rates to the governments involved. Financing of projects with limited or no direct or indirect economic returns expected in the short- or medium-term, as well as potentially productive endeavors of the very poor, should be made on a subsidized basis. The greater the degree of public participation in infrastructural and other large-scale (domestic or region-wide) projects, the higher should be the level of subsidy. Such subsidies would encourage and facili-

tate the solicitation of local input, thereby improving the quality of development planning.

The United States should also take steps to modify its long-standing practice of tying its economic aid to the purchase of American goods and services. While preference should be given to American sources where prices are competitive and the product appropriate, greater flexibility should be provided the borrower so that projects are not distorted in their design or implementation to accommodate inappropriate inputs. Such action would place this country in a leadership role within the community of Western donors, in which the tying of aid has become an increasingly common practice.

B. Trade Policy

The trade policy of the United States toward the region, like its aid program, should be designed to have a positive impact upon the poorest people of Central America and the Caribbean. Unfortunately, the debate in this country on trade policy has been cast as a choice between free trade and protectionism, while there is a need to be more innovative and to create a more just trading system that actually helps rather than hurts the poor. This calls for the placement of different conditions and restrictions on trade than are usually established. As the countries of the region are highly dependent on export trade, such conditions on improved access to the U.S. market may constitute the most effective means of protecting the interests of that part of the population which normally has no say in the formulation of national economic policy.

Among the ways that these interests can best be served is through the diversification and integration of economic activity, which in turn can be stimulated by a U.S. trade policy that gives preference to the goods of small- and medium-sized indigenous producers. More importantly perhaps, encouragement should not be given to production that reduces the degree of local food self-sufficiency or that does not protect the well-being of workers and the environment. At the same time, long-term improvement in the region's balance of payments will require a U.S. commitment to provide a stable market and to take steps toward the establishment of an effective commodity export earnings stabilization mechanism.

1. Granting duty-free treatment. All countries in the region, except those not taking immediate steps to bridge the gap between their rich and poor populations, should benefit from duty-free treatment for all eligible articles they directly export to the customs territory of the United States. Eligible articles are defined as:

a. those with over 50 percent local content and produced by businesses with at least 50 percent local ownership;

b. those goods produced under working conditions that meet with ILO standards;

c. those that for their increased production for export do not require the expanded use of critical resources, particularly land, essential to meet the food needs of the local population; and

d. those that have not had a net negative impact on the environment in the process of their production.

Such duty-free treatment should be offered in order to stimulate the development of primarily small- and medium-sized indigenous manufacturing and agricultural enterprises capable of contributing to the foreign exchange earnings of their respective countries, as well as to domestic economic diversification and integration, while protecting worker health and safety, the local food base and the environment. While foreign investors can play an important role as foreign exchange earners, preference should be given to local producers for the long-term advantage of the respective national economies and in an attempt to equalize competition with foreign firms that have their financial and marketing infrastructure and contacts already in place.

2. Reserving land and other natural resources for food production. Duty-free treatment of sugar, sirups and molasses, beef and veal products, and other primary and related semi-processed goods from a beneficiary country should be granted only upon that country's submission of an acceptable Staple Food Protection Plan. The purpose of the Plan would be to ensure that present levels of domestic food production and the nutritional health of the population are not adversely affected by changes in land and marine resource use and land ownership caused by expanded production of these products in response to duty-free access to the U.S. market. This Plan should be prepared by the beneficiary country and evaluated by the President. The President should monitor and report to the Congress each year on the efforts of each country granted duty-free treatment for these products to undertake the measures specified in the Plan and the impact thereof.

Should the government of any such country fail to make a good faith effort to implement the Plan, or should the measures taken fail to achieve their purpose, the President should suspend the duty-free treatment for those products.

This Staple Food Protection Plan should specify:

a. the current levels of food production and nutritional health of the population;

b. current levels of production and export of sugar, beef and other primary and related semi-processed products;

c. expected increases in production and export of such products as a result of duty-free access to the U.S. market;

d. measures to be taken to ensure that expanded production of these products resulting from duty-free access to the U.S. market will not occur at the expense of staple food production; and

e. proposals for a system to monitor the impact of duty-free treatment applied to these products on staple food production and land and marine resource use and land ownership patterns.

3. Integrating assistance for the U.S. territories and the Eastern Caribbean. While duty-free treatment should be granted to foreign Caribbean and Central American bottled rum, the existing tariff on all but the first 200,000 gallons of unaged bulk rum produced in the region and selling for US$2.00 or less per proof gallon at point of entry into the United States should be retained. Whatever tariff revenues might still be generated, along with excise taxes collected on all rum imported to the United States from beneficiary countries, should be allocated to a newly created Eastern Caribbean Regional Development Fund established by the Caribbean Development Bank. While at least 30 percent of the monies disbursed by the Fund should be earmarked for rum-producing beneficiary countries, there should be no direct link between rum production and

Fund payments. Rather, development projects proposed by island governments and non-governmental development institutions in the Eastern Caribbean and evaluated by the administrator of the Fund on the basis of their contribution to meeting the needs of the poor in the respective countries and/or to the process of regional integration should receive priority in financing. Criteria for the selection of projects should be consistent with those outlined in Section A.

Duty-free treatment of bottled rum is expected, in and of itself, to have a positive developmental effect on the rum-producing islands by encouraging local bottling operations that are highly labor-intensive. In fact, its job-creation impact should be greater than that of even a large increase in bulk gallonage shipped to the United States. At the same time, the retention of a tariff on expanded exportation of cheap, unaged bulk rum from the region should encourage the development of name-brand foreign rums, while providing adequate safeguards for the price-sensitive Virgin Islands rum industry from sharply increased shipments to the United States of bulk rum from beneficiary countries. Furthermore, the development funds allocated to projects in each country would help free the governments of the region from dependency upon the investment decisions of multinational or local rum distillers in deriving benefits from the rum trade to the United States.

4. Stabilizing commodity export earnings. The overreliance of the countries in the region on one or two export commodities makes them particularly vulnerable to price fluctuations in world markets.

Attempts to remedy the harmful effects of the instability of export earnings on the region's economies have left this problem unresolved -- present commodity agreements, the IMF compensation facility and the European Community's STABEX mechanism under the Lomé Convention not withstanding. The Europeans did, however, take an important step toward the provision of at least partial and temporary relief for their ACP partner states with the implementation of STABEX. The United States should establish a similar facility with the countries of the Basin, keeping in mind the difficulty of providing a comprehensive and permanent solution to the problem.

The system established would guarantee the stabilization of earnings derived from exports to the United States of products upon which these economies are dependent and which are affected by fluctuations in price and/or quantity. These products include those primary and semi-processed goods which have suffered from a deterioration in the terms of trade between the country concerned and the United States and which meet the same criteria, where relevant, as those used to determine the eligibility of products for duty-free treatment. Products qualifying under this system must also be responsible for at least 6.5 percent of a beneficiary nation's export earnings to all destinations in the previous year.

Under this system, a government would be entitled to request a financial transfer from the United States to compensate for a loss in export earnings from this country:

a. if that government has a program in place to increase food self-reliance and ensure an equitable distribution of land domestically; and

b. when that country's actual earnings in a calendar year from the export of a qualifying product to the United States fall at least 6.5 percent below the reference level calculated for that particular country and product; this reference level should correspond to the average of export earnings in the four years preceding each year of application.

In such instances, a non-interest-bearing loan the size of the annual earnings deficit should be made to the country in question once it has been determined that such a deficit was not due to an adverse change in government policy, particularly in the trade area. Policy changes promoting domestic economic and export diversification and food self-sufficiency should be encouraged, however, and, hence, they should not serve to disqualify a country from receiving benefits under this system; in fact, consideration should be given to extending the period during which a country continues to be eligible for compensation if an export of that country falls below the eligibility threshold due to the pursuit of such policies. Loans should be repaid over a seven-year period, with two years of grace, with the understanding that all or part of the payment due may be waived if the export performance of the product in question does not significantly improve. Due to expected losses each year, new allocations to this fund should be made annually to maintain available financing for this purpose.

Loans received by beneficiary countries under this system should be used either to increase local food production in order

to reduce import costs or to create or strengthen domestic economic linkages and stimulate non-traditional exports based on small-to-medium-scale agri-processing and similar forms of production. A country could also use the funds to improve the export performance of the good in question, but its loan request should be accompanied by an adapted version of a Staple Food Production Plan that demonstrates that increases in the production of that item over previous levels will not effect changes in land use and ownership that adversely affect domestic food production and the nutritional health of the population.

Finally, as this system to stabilize the region's export earnings is designed in part to help countries maintain an adequate level of foreign exchange reserves, consideration should be given by the President, in proffering or denying flexibility under the system, to the degree that a nation's government cooperates with U.S. authorities in controlling the outflow of capital from its territory to the United States.

5. Encouraging long-term export planning. In order to encourage governments and enterprises in the region to commit themselves to the long-term development of the physical and marketing infrastructure necessary to support new and expanded export production and trade, and to make investments in such production, the United States should commit itself to maintaining for a period of from five to ten years those trade incentives granted to a beneficiary country unless that country violates an aspect of the original agreement between the two countries. The exact

time period should be established in each instance in accordance with the requirements for covering the costs of the investments in question. Elimination of a commodity from the list of those receiving duty-free treatment due to emergency U.S. domestic economic reasons should be kept at an absolute minimum. If such action need be taken and consultation by the country concerned with the appropriate agency of the U.S. government does not result in a compromise acceptable to both parties, compensation should be paid to that government equal to the amount of public expenditure that had been committed to the development of that export trade.

C. Regional Mechanisms and Cooperation

Any plan that will influence the economic future of the Caribbean and Central America must involve the region's representatives in its design and execution. This involvement should include a heavy representation of the poor, who constitute the majority of the population of the region. The implementation of the plan should, to the extent feasible, involve regional development, economic and financial institutions.

1. Establishing a multilateral forum for negotiations and implementation of the Plan. The Central American and Caribbean Development Support Plan described in these pages is based upon input -- provided at a regional conference and during subsequent discussions -- from Central Americans and Caribbeans who represent or work closely with the region's poor. This undertaking constitutes a first step toward incorporating the views of those most

affected by U.S. policy into the development of a comprehensive program for the region. Arrangements should be made to conclude the negotiation of a multilateral agreement with the countries of the Caribbean and Central America collectively represented through their own regional body. That body, much like the International Labour Office, would incorporate both governmental and non-governmental participation, thereby enabling broad, popular involvement. The use of such a mechanism in this fashion would allow the countries of the Basin to represent to the United States the collective needs of the people of the region rather than those of any one country, sector or population group, as well as enhance the process of regional cohesion and integration.

The United States should negotiate with any regional body:

a. whether it be an existing regional institution, a combination or modification of existing organizations, or a totally new creation;

b. that excludes none of the region's countries from participation; and

c. includes broad representation from all sectors of each society, including representatives of popular organizations and non-governmental development organizations directly involving the poor.

The President should appoint a commission, also with broad representation across the various sectors of American society, to negotiate a multilateral agreement every five years with those regional representatives. The commission, in conjunction with the regional body, should constitute a multilateral council which, through appropriate committees, should assume the following responsibilities in the implementation of the agreement:

a. monitoring and evaluating the social and economic progress

made in the region under the Plan, as well as its other impacts;

b. providing advice on the allocation of economic assistance funds;

c. drawing on the knowledge and experience of the poor in the region in these two areas;

d. seeking regional rather than national or bilateral solutions to common problems in the area, utilizing and strengthening regional institutions in the process;

e. monitoring the negotiations of any bilateral agreements evolving from the Plan in order to ensure an equitable relationship between the two parties;

f. establishing a common code of conduct for multinational companies investing and operating in the region, with special attention paid to environmental and work and product safety concerns; and

g. generally enhancing the flow in the region of information in all the critical areas discussed in this document.

2. Strengthening regional institutions. A major purpose of the Plan being the promotion of regional cohesion and economic integration in both the Caribbean and Central America, the United States and the countries of these regions should, on their respective parts, maximize the involvement of the Basin's two regional common markets and regional development banks, as well as other regional insitutions, in carrying out this Plan.

APPENDIX

PARTICIPANTS AT WORKING CONFERENCE ON CARIBBEAN AND CENTRAL AMERICAN DEVELOPMENT KINGSTON, JAMAICA

December 1982

Richard L. Bernal	Economics Department University of the West Indies	Jamaica
Liliana Cabral	Caribbean Council of Churches	Dominican Republic
Amalia Chamorro	Institute for Social and Economic Research (INIES)	Nicaragua
Bernard Etheart	CHADEV (Comite Haitien de Developpement)	Haiti
Manolo Garcia	Oficina de Servicios de Solidarid (OSS)	Guatemala
Ramon Gonzalez Vaglio	Union Nacional de Pequenos y Medianos Productores Agro-pecuarios (UPANACIONAL)	Costa Rica
Sandra M. Laureano	Caribbean Project for Justice and Peace	Puerto Rico
Sam Lawrence	Private farmer; formerly executive director of Jamaica Manufacturers Association	Jamaica
Neville Linton	Caribbean Conference of Churches	Guyana/Trinidad and Tobago
Atherton Martin	Dominica Farmers' Union and The American Friends Service Committee	Dominica
Luis Lopezllera Mendez	Promocion del Desarrollo Popular A.C. and CRES	Mexico
Lindwall Purcell (Thomas)	For Judy Williams, Pope Paul's Ecumenical Center	Grenada
Jorge Sol	Institute for Policy Studies	El Salvador
Benjamin Villaneuva	Research and Development Technical Corp.	Honduras
Douglas Hellinger Stephen Hellinger	The Development Group for Alternative Policies	United States
Jim Cotter	International Voluntary Services	United States
Cheryl Morden	Church World Service/ Lutheran World Relief	United States