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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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STATEMENT FOR THE RECORD
BY THE
INTERNATIONAL DIVISION
U.S. GENERAL ACCOUNTING OFFICE
SUBMITTED TO THE
COMMITTEE ON APPROPRIATIONS
SUBCOMMITTEE ON FOREIGN OPERATIONS
HOUSE OF REPRESENTATIVES
ON
THE CARIBBEAN BASIN INITIATIVE

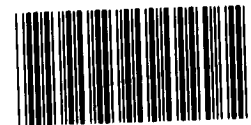
Mr. Chairman and Members of the Subcommittee:

We are pleased to provide you with some questions and concerns about the Caribbean Basin Initiative (CBI) that arise from our reviews of U.S. development assistance programs in general, and of those in the Caribbean and Latin America. We believe some basic premises should be considered as the Congress and the Administration continue to examine the proposed legislation.

Some of these include:

--Economic recovery in the Caribbean Basin must be addressed by analyzing specific country problems, not only on a regional basis.

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- Successful accomplishment of development assistance and CBI objectives require extensive recipient country cooperation.
- United States' activities in development assistance (bilaterally and multilaterally) need to be effectively coordinated.
- Lessons learned from past AID efforts could be applicable to the CBI.
- A major benefit for Economic Support Fund (ESF) assistance is usually perceived to be its quick disbursing aspect such as cash transfers. However, it is difficult to relate the proposed ESF for the CBI to identifiable U.S. bilateral objectives and/or long-term development assistance goals.

With such premises in mind, we would like to take this opportunity to provide the Subcommittee with some questions we believe should be answered during any discussion relative to the CBI.

Trade and Investment Initiatives

The CBI is proposed on the premise that the trade and investment incentives offered will encourage additional private sector investment and participation and thus stimulate the economic well being of the target countries. The legislation and the Administration's supporting statements, however, are lacking in detail and specifics in this regard. For example:

- What is specifically meant by "private sector," and what forms of private sector participation would be emphasized?

- What are the primary disincentives to investment in the Caribbean countries?
- What are the prospects for acceptance of bilateral investment treaties by the Caribbean countries?
- What assurances are there that private investment can be attained in areas and sectors having the greatest needs?-- for example, in rural (agri-sector) vs urban areas. Uncontrolled investment in the cities could aggravate already overcrowded conditions due to existing high levels of migration to cities.
- In view of current conditions existing in most of the countries in the area that could inhibit private sector participation, is it probable that the CBI tax incentive alone can stimulate the participation needed?

Administration officials acknowledge that the investment objectives of the CBI are going to be difficult to accomplish by tax incentive alone. We share the Administration's opinion that improvement of climate in the Caribbean Basin will have to come primarily from the individual countries in the region.

One-Way Free Trade

A key factor of the CBI pertains to the one-way free trade provided for the Caribbean Basin countries. However, a dilemma exists. On the one hand, there is concern that any further reduction of U.S. import tariffs could adversely affect U.S. (or U.S. territory) industry since the Caribbean products currently denied free-access to the U.S. market are those already determined

to be competitive with U.S. products. Yet, on the other hand, if free entry to the U.S. market is not extended to those competitive products currently available for export, the duty-free proposal will have little if any effect (at least until new exportable products are developed) for the area. Questions that arise include:

- What Caribbean export industries have benefitted from trade concessions offered by other countries and are there any lessons to be learned from those experiences which are applicable to the CBI?
- What products can be characterized as promising prospects for Basin exports.

Economic Support Funds

The initial thrust of the CBI includes the \$350 million in ESF. This is intended to be followed in fiscal year 1983 by increased economic assistance to the region totaling about \$664 million. Emphasis on the use of ESF, is intended to relieve recipient country's balance-of-payment burdens and to stimulate the private sector. We have had some concerns about ESF in general and these concerns may apply to the CBI.

- How will ESF complement AID's current programs in the region and those planned for fiscal year 1983 and beyond? How does the CBI fit in with AID's country development strategies for the nations in the region?
- Are the recipients prepared and capable of using the funds effectively? What emphasis would be placed on obtaining

the capital improvements and infrastructure needed to sustain economic development?

--To what extent will this represent new and additional responsibilities to AID and does it have adequate resources to meet them?

--How well can AID control and monitor the funds to ensure that they are used effectively and not diverted to other than appropriate purposes?

Coordination

Coordination of assistance is always an important element in development assistance efforts. We have found that such coordination is sometimes not adequately attained. The CBI introduces new initiatives which require coordination for the program to be successful. For example:

--The CBI incorporates the assistance efforts of the U.S., other donor countries; a multitude of multilateral donor organizations--public and private; and the private business sector. Which U.S. entity would be responsible for coordination?

--In addition to AID, other U.S. government organizations, e.g., the Department of Commerce, and OPIC are expected to be actively involved in promoting private sector participation. How would overlap and duplication be avoided?

The Caribbean Group for Coordination in Economic Development, whose membership consists of 31 donor and recipient countries, and

16 international institutions, will, no doubt, be an important factor in overall coordination. At this time, however, little specific information is presented on what role the Group can or will play in the CBI.

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As discussed with Subcommittee staff, while there are many issues that are raised by the CBI, the questions and concerns we have outlined are limited to those that arise from our review efforts on related issues. We appreciate the opportunity to provide these matters for your consideration.