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GAO

Briefing Report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

August 1986

CARIBBEAN BASIN INITIATIVE

Need for More Reliable Data on Business Activity Resulting From the Initiative

131469

GAO
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National Security and
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The Honorable J. J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

On April 17, 1986, you requested that we conduct a survey of the 285 businesses cited by the Department of Commerce in February 1986 hearings on the Caribbean Basin Initiative (CBI). These firms were identified on a list developed by Commerce in 1985 as new businesses in the Caribbean Basin region. You asked that we question the firms regarding their operations in Central America and the Caribbean, including their relation to and experience with the CBI. This briefing report discusses how Commerce developed the list, the data it obtained on the 285 businesses, and the results of our conversations with some of these businesses.

BACKGROUND

The term "CBI" refers to overall U.S. efforts to stimulate economic activity in Caribbean Basin countries by increasing private sector trade and investment. Its principal feature is the provision of duty-free treatment for eligible exports to the United States from beneficiary countries in Central America and the Caribbean. These trade provisions were enacted in August 1983 as the Caribbean Basin Economic Recovery Act (19 U.S.C. 2701). CBI trade benefits for most countries went into effect on January 1, 1984. According to Commerce, other features of the CBI include U.S. economic assistance, trade missions, technical assistance programs, and other promotional activities. The Caribbean Basin Business Information Center within Commerce's International Trade Administration is the contact point for CBI information.

In February 1986, the Department of Commerce testified on the results of CBI initiatives before the Subcommittee on Oversight. During this testimony, Commerce referred to a survey that it completed in mid-1985 showing that 285 businessses had begun operations in Central America and the Caribbean since the enactment of the CBI trade benefits, and during questioning it stated "we believe it [the CBI] is responsible for the vast bulk of those initiatives".

COMMERCE DATA ON CBI-RELATED FIRMS IS LIMITED

We examined Commerce's list of 285 CBI-related business firms and supporting documentation and found that there was no information on the dates that 100 of the businesses began or expanded operations or whether 200 of the businesses had been assisted by any U.S. government agency. Commerce did not have addresses for 274, or 96 percent, of the businesses or telephone numbers for 253, or 89 percent, of the businesses. Commerce officials explained that they relied on information supplied by U.S. overseas posts and domestic agencies in preparing the list and had not attempted to obtain addresses and telephone numbers for each business.

Our examination of the Commerce list showed that many of the 285 businesses could not have begun as a result of the CBI trade provisions because they would not benefit from them. For example, 74 businesses produced textiles which are not eligible for CBI trade benefits, 7 businesses involved domestic services including hotels and a pizza parlor, and 24 businesses were receiving reduced tariffs on exports to the United States under trade provisions in effect before the CBI. Furthermore, the Commerce list included 2 businesses in countries not designated to receive CBI benefits.

The Department of Commerce explained that in developing the list of 285 businesses, it had sought to include export-oriented business activities which had begun operations since January 1984. It had defined investment broadly to cover any productive export-oriented or tourism-related venture, new manufacturing contracts, or major CBI export orders started or expanded since 1984--including investments which involve products not eligible for CBI trade benefits. Commerce officials acknowledged that, based on this criteria, the list included many businesses which did not result from the CBI trade provisions. Commerce explained that, in its testimony, it meant to indicate that the 285 businesses may have been influenced by some aspect of the CBI, not necessarily the trade provisions.

BUSINESS FIRMS' RESPONSES
TO OUR QUESTIONS ON CBI

As your office requested, we contacted some of the firms on the Commerce list by telephone and asked a series of questions pertaining to the following areas which you asked that we examine.

--Date business began operations, products produced and exported, and country of ownership.

--Relationship of business to the CBI, importance of the CBI to the decision to begin operations, and trade provisions affecting exports to the United States.

--Business experience with U.S. and host-country government agencies.

We relied on Commerce to provide telephone numbers for each firm; we did not attempt to independently obtain telephone numbers. Commerce explained that telephone numbers were not readily available but that it would gather them from overseas posts and other sources. Because Commerce could not provide numbers for all the firms, we were unable to conduct a statistically valid survey. However, we were able to interview 106 of the firms.

As discussed with your office, the results of these calls, which are described in appendices II and III, should not be used to generalize about the CBI or Commerce's list of 285 business firms. Nevertheless, the data we obtained indicates that some firms on the Commerce list were not related to the CBI trade provisions. Of the 106 we were able to contact, 87 firms said they were exporting to the United States and 63 of the 87 said they were receiving duty-free or reduced tariff treatment. Only 23 of the firms were receiving duty-free benefits under the CBI. These firms' exports included agricultural products, such as vegetables, flowers, and processed foods, and other items, such as ceramic products and computer components. Some firms not exporting under CBI pointed out, however, that the CBI had focused attention on the region and that it had an importance beyond trade benefits. Over one third of the firms we contacted were in business before 1984 and some had been in business for decades.

Overall, 37 of the 106 businesses indicated that the CBI had greatly influenced their decision to establish operations in the Caribbean Basin, 26 said the CBI had some influence, and 39 said it had not been a factor. Four other businesses were either not yet operational or did not respond to this question.

RELIABLE DATA NEEDED ON EFFECTIVENESS OF CBI

From Commerce data and our interviews, we were able to determine that about half of the 285 businesses were not related to the CBI trade provisions.

--35 had never opened, had closed, were double-counted, or were located in non-CBI beneficiary countries; 10 additional businesses appeared to be closed or to never have opened.

--56 either were not exporting to the United States or were exporting under trade provisions other than CBI.

--42 additional businesses were producing goods not eligible for CBI trade benefits.

Further, the 1985 list is out of date and does not reflect recent business activity. The CBI's duty-free provisions have now been in effect for 2-1/2 years. Various U.S. government agencies have completed or are conducting studies of the CBI to assess how it is working and to measure its impact. Commerce intends to begin a new survey of business activity in Caribbean Basin countries in September 1986 and plans to coordinate this effort with other U.S. federal agencies.

CONCLUSIONS

Commerce's 1985 list is not a reliable indicator of business investments made as a result of the CBI. We believe that reliable information on CBI-related businesses would be helpful in measuring program effectiveness. Furthermore, information on successful ventures, when appropriately publicized, can inform and encourage potential investors. Therefore, it is important for Commerce to develop reliable data on CBI-related business activity. Such data should differentiate among (1) proposed and actual investments, (2) new firms opened and expanded as a result of CBI trade provisions, and (3) new business activities whose relationship to CBI may be less direct. This would lessen the risk that the information would be misinterpreted or misrepresented.

RECOMMENDATION

We recommend that the Secretary of Commerce ensure that the planned 1986 survey of CBI-related business activity develops reliable data. At a minimum, the data should be

--screened to avoid double-counting of firms and to exclude firms that have no relationship to the CBI,

--verified to ensure completeness and accuracy, and

--analyzed to determine each business's operational status and relationship to the CBI.

AGENCY COMMENTS

Commerce agreed with our recommendation and said the agency will take action to carry it out. Commerce emphasized that the CBI, in addition to trade benefits, encompasses economic assistance, promotional activities, and other supporting programs and that some businesses which did not result directly from the CBI trade provisions may have been influenced by other features of the program. Nevertheless, Commerce acknowledged that the reliability and completeness of data on CBI-related businesses needed improvement.

SCOPE AND METHODOLOGY

We examined the Commerce list of CBI-related businesses and supporting documentation in May 1986 and interviewed 106 businesses on that list by telephone during June 1986. We did not perform field work in CBI beneficiary countries or interview U.S. embassy officials involved in the 1985 Commerce survey. We did not attempt to determine the overall effectiveness of the CBI or the number of firms initiated as a result of the CBI. We conducted our work in accordance with generally accepted government auditing standards.

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Further information on Commerce's survey and our interviews with selected businesses is included in the appendices. As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this briefing report until 30 days from the date of issue. At that time, we will send copies to cognizant congressional committees and other interested parties and make copies available to others upon request.

Sincerely yours,

Frank C Conahan

Frank C. Conahan
Assistant Comptroller General

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ABBREVIATIONS

AID Agency for International Development
CBI Caribbean Basin Initiative
GAO General Accounting Office
GSP Generalized System of Preferences
OPIC Overseas Private Investment Corporation
TSUS Tariff Schedules of the United States

DEPARTMENT OF COMMERCE

1985 SURVEY OF CARIBBEAN BASIN INITIATIVE-RELATED BUSINESSES

In the spring of 1985, the Caribbean Basin Business Information Center within the Department of Commerce conducted a survey of investments related to the Caribbean Basin Initiative (CBI). Survey results were reported in the Caribbean Basin Initiative Business Bulletin in June and August 1985. In February 1986, the Department of Commerce testified before the Subcommittee on Oversight, House Committee on Ways and Means, on CBI implementation and cited the results of this survey. This appendix describes how the Commerce survey was conducted and provides our observations on the data developed.

BACKGROUND

The administration proposed the Caribbean Basin Initiative in February 1982 to promote economic development and political stability in Central America and the Caribbean through aid and trade and investment incentives. The goal was to attract foreign and domestic investment to these countries, thereby diversifying the economies and expanding exports.

CBI trade incentives were enacted in August 1983 under the Caribbean Basin Economic Recovery Act (19 U.S.C 2701). The Act permits eligible products from the region to be imported into the United States duty free and listed 27 countries which could receive CBI trade benefits if designated as eligible by the administration. Significant restrictions were placed on products eligible for duty-free treatment; for example, petroleum products, virtually all textiles, and certain leather goods are not eligible. In addition, the legislation requires that at least 35 percent of the product value stem from materials and/or labor from eligible CBI countries. CBI trade benefits are scheduled to expire at the end of 1995.

In addition to trade benefits, the CBI encompasses various programs to promote business activity in the Caribbean Basin. According to Commerce, the CBI includes U.S. economic assistance programs administered by several U.S. agencies such as the Agency for International Development (AID) and the Overseas Private Investment Corporation (OPIC). These programs support private sector development by providing trade and investment financing, establishing development banks and skills training programs, and assisting CBI beneficiary countries to establish investment incentives and improve the business climate. Commerce also explained that the CBI includes a range of promotional programs, including trade missions and technical assistance programs, as well as support from other trading partners and from multinational development institutions, such as the Inter-American Development Bank and the World Bank. For example, the Caribbean Basin Business Information Center within

Commerce's International Trade Administration provides information and conducts seminars on CBI trade opportunities and promotes business interests in CBI beneficiary countries. The center is the contact point in Washington, D.C., for CBI information.

Although the term "CBI" has been used to describe overall U.S. economic programs in the Caribbean Basin countries, over time it has become most closely identified with the trade incentive provisions; the proposed investment incentives were not included in the CBI legislation and the National Bipartisan Commission on Central America, which recommended increased aid to Central America, is now more closely associated with the increased aid levels than is the CBI.

In late 1983, the administration designated 20 countries and territories to receive CBI trade benefits beginning January 1, 1984. In 1985, an additional country became eligible, so that 21 out of the 27 potentially eligible countries were receiving CBI trade benefits at the end of 1985.

Two other U.S. trade benefit programs, in effect prior to CBI, eliminated or reduced duties on over 40 percent of all U.S. imports from the region.

--The Generalized System of Preferences (GSP), in effect until 1993, eliminates duties on about 2,800 products imported by the United States from CBI beneficiary countries and other developing countries worldwide.

--Tariff schedules of the United States (TSUS) items 806.30 and 807.00 reduce duties for U.S.-origin products, such as textiles and metal articles, assembled or processed outside the United States under certain circumstances.

METHODOLOGY USED BY COMMERCE

In early 1985, Commerce headquarters staff began to prepare a list of all known export-oriented business activities that had started or significantly expanded since January 1984 when the CBI trade provisions first went into effect. A spokesman for the Caribbean Basin Business Information Center explained that this initial list, which included 90 businesses, was cabled to U.S. diplomatic posts in the region. Posts were asked to verify the list of 90 firms and to add all other known investments. The resulting list was to be used to compile statistics and reports on new business activity in the Caribbean Basin.

In a joint cable from the Departments of State and Commerce, posts were instructed that this survey of business activity was a priority and that survey results would be widely used. The cable emphasized that data on new investment should be complete and reliable, noting that:

> "These investments must be solid, active businesses that will stand up to intense scrutiny. One investment from a list reported by a CBI country was checked by a Business Week reporter, found not to exist, and the entire list was discredited".

Posts were instructed that:

> "For the purpose of this listing investment is broadly defined to cover any productive export-oriented venture, new manufacturing contracts, or major CBI export orders started or expanded since January 1984. Investment includes non-CBI products like apparel and leather goods, and can include U.S., local or third-country parties."

One post told Commerce that the criteria for developing the list of CBI-related businesses was confusing and conflicting, since all CBI-related business investments were to be included, yet investments involving non-CBI products were also to be included. This post also questioned inclusion of hotel investments and other service businesses, cautioning that "inclusion of businesses whose linkage to CBI may be non-existent or, at best, tenuous" might result in a list that could not withstand intense scrutiny. Another post said that because this was the first report by country on specific investment projects, it would not be a definitive analysis but if periodically updated would become more precise.

Commerce officials told us that each responding post used available in-country data sources to develop the requested information. A Commerce official acknowledged that posts may not have always verified information with individual companies. For example, we noted that information provided by at least three posts appeared to be based entirely on lists of investments supplied by host-country investment promotion agencies. Commerce analyzed the information supplied by post officials and compiled it to form a business activity list. Commerce officials told us they had asked posts to confirm information obtained on some of the larger businesses.

Firms that had started in business before 1984 were excluded during the initial screening of the data, including businesses which had opened as late as December 1983. However, when the post provided no information regarding the date a business began operations, it was included on the list, as were some planned businesses which had not yet opened.

RESULTS OF SURVEY

At an interagency press briefing in late April 1985, preliminary results of the Commerce survey were first revealed publicly. A special June 1985 edition of Commerce's Caribbean Basin Initiative Business Bulletin, a monthly newsletter, contained "a preliminary list of some of the export-oriented business that had gone into the Caribbean Basin since January 1, 1984," and listed 270 businesses, providing names and some data for many of the businesses.

Final survey results were reported in an August 1985 edition of the Bulletin. According to this issue, there were 285 new export-oriented business activities in CBI countries, valued at $208 million and creating 35,891 jobs. The published summary of survey results is shown in table I.1.

Table I.1: Published Summary Data on CBI-Related Businesses

CBI Business Bulletin August 1985

CBI: NEW INVESTMENTS AND EXPORT CONTRACTS

This spring, the Commerce Department's CBI Center surveyed major business organizations and the U.S. Embassies throughout the Caribbean Basin in an effort to identify major new export-oriented business activity that had started since January 1984. While the Caribbean Basin Initiative (CBI) is a long-term program and the amount of business interest-which continues to be very high-is as important at this stage as the actual number of new investments, many observers were surprised by the results of the Commerce survey. The table below shows the final survey results with a sector breakdown for the new businesses in the various countries. The sector breakdown shows a diverse blend with only 31% of the projects in assembly industries (26% in textile/apparel and 5% in electronics), 8% in wood products and furniture, and 18% in miscellaneous manufactures. Agribusiness projects totalled 35% of the total number of new businesses, with 8% in horticulture and 11% in fruits and vegetables. The list shows that Dominican Republic and Jamaica where especially successful in attracting textile operations, while most of the electronic operations went to the smaller Eastern Caribbean islands. Barbados and Honduras accounted for over half of the new wood product businesses. The miscellaneous manufactures were concentrated in Barbados, Dominican Republic, Haiti, Honduras and Jamaica. New agribusiness projects were spread across the region, with ten or more in Costa Rica, Jamaica and Panama. For more details on most of the projects, see the preliminary CBI Business Activity List published in the June 1985 issue of the CBI Business Bulletin.

Country	Total Number Invest.	US$ (Mill) Value of Invest.	Jobs Created	Textile/ Apparel	Electr. Products	Wood/ Furn. Products	Misc. Mfrs.	Hortic.	Fruit/ Vegs.	Other Agribus.	All Others
Antigua	6	1.02	386	1	3	0	2	0	0	0	0
Barbados	20	0.83	197	4	1	6	7	0	1	0	1
Belize	12	15.7	310	0	0	3	1	0	4	3	1
Costa Rica	22	43.03	4456	3	0	0	1	7	5	3	3
Dominica	4	0.58	148	1	0	0	0	1	0	2	0
Dominican Republic	31	43.95	9789	12	0	2	7	0	7	1	2
El Salvador	11	4.01	3295	0	1	0	3	1	3	2	1
Grenada	6	1.22	118	1	0	1	0	0	0	2	2
Guatemala	12	8.54	1063	2	0	1	4	0	1	2	2
Guyana	1	NA	10	0	0	0	0	0	0	1	0
Haiti	21	8.81	2144	6	2	1	9	1	0	2	0
Honduras	29	15.19	4312	9	0	7	8	0	4	0	1
Jamaica	75	48.28	4621	25	1	3	8	13	4	15	6
Montserrat	2	NA	80	2	0	0	0	0	0	0	0
Panama	18	15.35	4086	5	0	0	0	0	1	9	3
St. Kitts	2	0.3	NA	0	1	0	0	0	0	1	0
St. Lucia	11	1.17	676	3	4	0	1	0	1	1	1
St. Vincent	1	0.35	120	0	0	0	0	0	0	1	0
Turks & Caicos	1	0.15	80	0	0	0	0	0	0	1	0
TOTAL	285	208.46	35891	74	13	24	51	23	31	46	23

Source: Caribbean Basin Initiative Business Bulletin, Vol. 3, No. 8, August 1985.

COMMERCE TESTIMONY BEFORE SUBCOMMITTEE ON OVERSIGHT

In February 1986, the Department of Commerce testified before the Subcommittee on Oversight on the results of the CBI to date, stating that a survey of new business activity in the first 18 months of the CBI had "counted 285 new investments in CBI beneficiary countries."

In a subsequent discussion, Subcommittee members questioned whether the 285 businesses were attributable to the CBI and whether some of them would have been established without the CBI. The Commerce representative told the Subcommittee that it was the agency's belief that the CBI "is responsible for the vast bulk of those initiatives."

OUR OBSERVATIONS ON COMMERCE DATA

We examined the list of 285 business firms and the supporting documentation maintained by Commerce's Caribbean Basin Business Information Center. Available information was limited; for example, we could not locate information on the dates that 100 of the businesses began or expanded their operations or on whether 200 of the businesses had been assisted by any U.S. government agency. In several cases, no information was available on a firm's product or even the name of the business. Further, Commerce did not have addresses for 274, or 96 percent, of the businesses or telephone numbers for 253, or 89 percent, of the businesses. Commerce explained that it had relied on information supplied by overseas posts and domestic agencies in preparing the list and had not attempted to obtain addresses and telephone numbers for each business.

Although the data available in Commerce records on the 285 firms was limited, we were able to determine that some of the businesses did not directly result from the CBI trade provisions. The published survey results show that 74 businesses were textile/apparel operations, which are not eligible for duty-free status under the CBI, and that 24 businesses were involved in exporting goods under TSUS 806.30 and 807.00, a trade benefit program which had been in effect before the CBI was enacted. Commerce officials explained that because of the methodology used in compiling data for the list, the survey results do not show businesses that are a direct result of the CBI trade provisions. Rather, the list was meant to demonstrate new export-oriented or tourism-related business activity in the CBI region since January 1984. We noted that the list included at least 7 businesses which were known not to be involved in the export business, including a pizza parlor and several hotels.

The list also included business activity in Guyana and the Turks and Caicos Islands, which are not currently receiving CBI trade benefits. Conversely, the list did not include business activity in eight countries in the CBI region, four of which are receiving CBI trade benefits--the Bahamas, British Virgin Islands, Netherlands Antilles, and Trinidad and Tobago. The other four countries--Anguilla, Cayman Islands, Nicaragua, and Suriname--have not been designated to receive CBI benefits.

Using available Commerce data and the results of our interviews with some of the businesses, we attempted to determine the status of the 285 businesses as of June 1986 and what portion of them were related to the CBI trade provisions. We excluded businesses which were

1. double counted,

2. had not begun operations,

3. had ceased operations,

4. were located in countries not receiving CBI trade benefits,

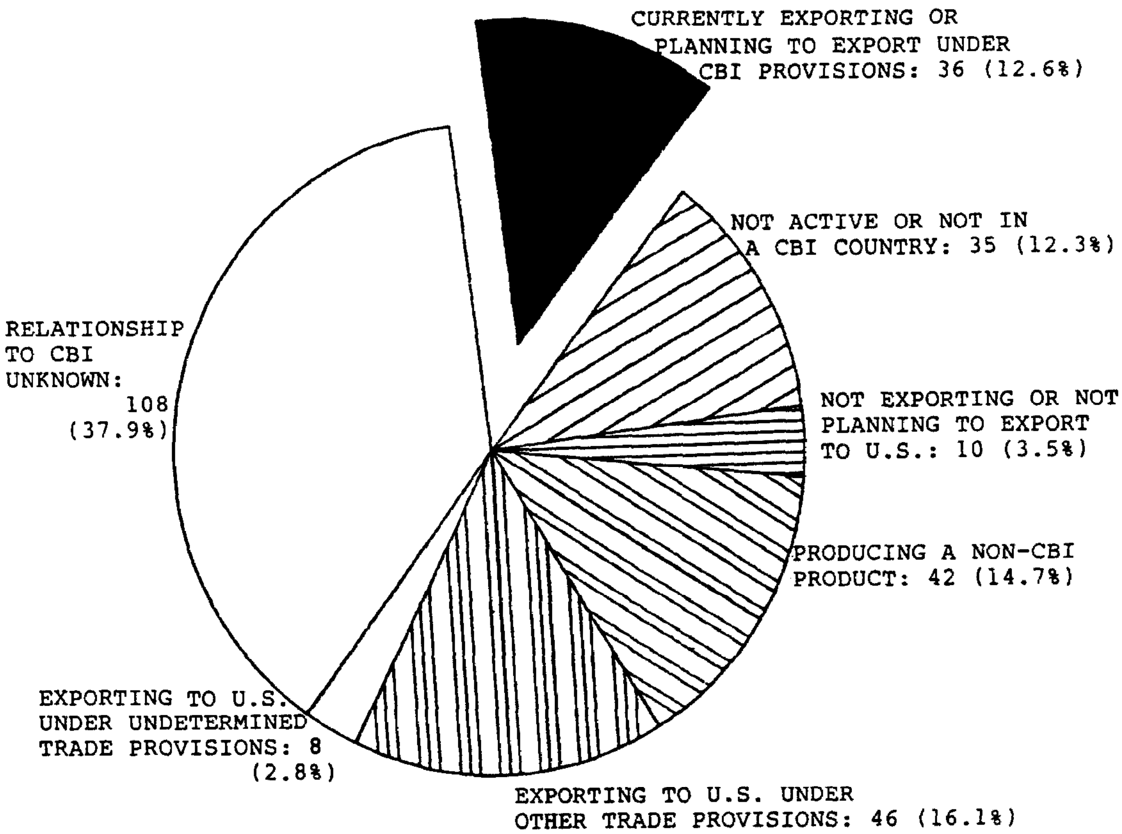
5. not exporting or planning to export to the United States,

6 exporting under trade provisions other than CBI,

7. producing goods not eligible for CBI trade benefits.

Based on these exclusionary criteria, we determined that 133 businesses were not related to the CBI trade provisions. (See fig. I.1.) Of the 152 remaining businesses, 36 export or are planning to export under the CBI and 8 export under undetermined trade provisions. We do not have sufficient information on the 108 remaining businesses to determine their relationship to the CBI. However, available information suggests that 10 of these businesses may be inactive.

Figure I.1: Relationship of the 285 Businesses to CBI Trade Benefits



We discussed the data and the methodology used in selecting businesses included on the list with Commerce officials. They acknowledged that the list included many businesses which did not directly result from the CBI trade provisions. Commerce explained that, in its testimony, it meant to indicate that the 285 businesses may have been influenced by some aspect of the CBI, not necessarily the trade provisions. However, it acknowledged that the reliability and completeness of data on CBI-related businesses needed improvement.

INFORMATION OBTAINED FROM GAO TELEPHONE INTERVIEWS WITH SELECTED BUSINESSES

Data in this appendix is based on telephone interviews with 106 businesses from the 1985 Commerce list. On April 28, 1986, we asked the Department of Commerce to provide names, addresses, and telephone numbers of representatives of each of the 285 firms on the list. Commerce officials explained that this information was not readily available but they would gather it from overseas posts and other sources. As of June 2, 1986, we had received telephone numbers for 154 businesses; we did not attempt to independently obtain telephone numbers for the remaining firms. As your office requested, we attempted to contact the 154 firms by telephone to gather more information. Because we had no contact information on the other 131 firms, we were unable to conduct a statistically valid survey. In some cases, contact information was not available because businesses had closed or never opened. In other cases, sources contacted by Commerce had not yet provided the requested telephone numbers. Later, we received additional information on 50 firms which we could not contact because of time constraints.

In conducting the interviews, we asked to speak with the individual Commerce had designated as the appropriate contact person. If this person was not available, we asked to speak with a cognizant official. As noted above, we were able to conduct interviews with 106 of the 154 businesses--37 percent of the firms on the Commerce list. We called each number on at least three different days at various times of the day. Most of the firms we were unable to contact did not respond after three separate attempts. Also, several spokesmen refused to participate in our telephone survey for various reasons. Table II.1 shows the portion of the businesses on Commerce's list that we interviewed, by country.

Selected results of our interviews are summarized below. The 106 businesses we interviewed are not necessarily representative of the 285 businesses on the 1985 Commerce list or of businesses which have invested in the Caribbean Basin countries. We did not obtain responses to each question from all 106 businesses because, in some cases, questions could not be answered or were not applicable. Additional details and comments made by these businesses are presented by country in appendix III.

Table II.1: Number of Businesses Interviewed By GAO

Country	Number of businesses on 1985 Commerce list	Number of businesses we interviewed	Percent of businesses interviewed
Belize	12	6	50
Costa Rica	22	2	9
El Salvador	11	6	55
Guatemala	12	5	42
Honduras	29	10	34
Panama	18	8	44
Antigua	6	2[a]	33[a]
Barbados	20	3	15
Dominica	4	4	100
Dominican Republic	31	15	32
Grenada	6	1	17
Guyana[b]	1	0	0
Haiti	21	4	19
Jamaica	75	29	39
Montserrat	2	0	0
St. Kitts	2	3[a]	150[a]
St. Lucia	11	8	73
St. Vincent	1	0	0
Turks and Caicos[b]	1	0	0
	285	106	37

[a]Three businesses included under Antigua on the Commerce list are actually located in St. Kitts.

[b]Guyana and the Turks and Caicos have not been designated to receive CBI trade benefits.

Description of businesses interviewed

About one third of the 106 businesses interviewed were engaged in the manufacture or assembly of textiles, which are not eligible for CBI trade benefits. Electronic and agribusiness products were also frequently cited as being produced. Eighty-seven of the businesses exported, and the United States was the principal market for most of these businesses; 17 businesses were not exporting, and 6 of them had no plans to export.

Forty-four percent of the businesses were fully or partially owned by U.S. interests. Almost an equal portion were owned by interests within the country where the business was located. Country ownership of the remaining businesses included Hong Kong, Taiwan, and South Korea.

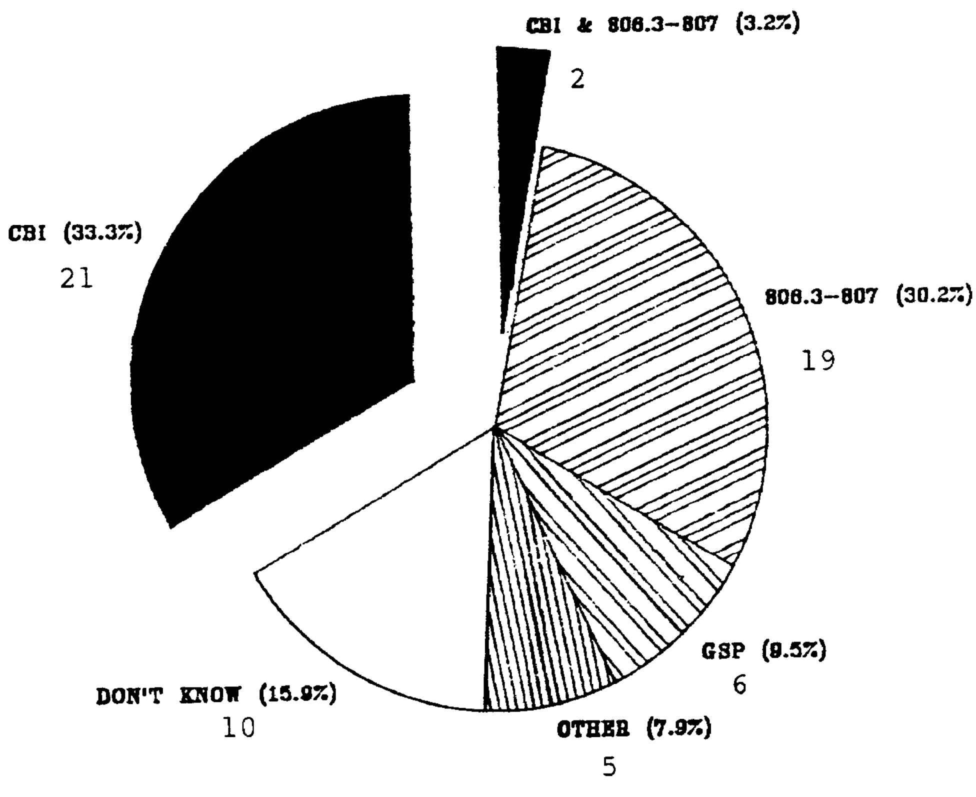
When did business operations begin?

Forty-three businesses had begun operations in Central America or the Caribbean before 1984; 20 of them had been in business for at least 10 years, and one had been in operation since 1910. At least 23 of these 43 businesses indicated that they had not expanded or diversified their operations due to any aspect of the CBI. Several other firms were not yet operational. However, in some cases it was difficult to determine a precise starting date for a business operation; for example, several firms opened before 1984 but began to export in 1984; several others invested money after 1984 but have not begun to produce or export.

What is the tariff status of businesses' exports?

Sixty-three businesses said their exports to the United States are duty free or subject to reduced tariffs; 19 of them said they exported under TSUS 806.30 and 807.00, which provide reduced duties for eligible U.S.-origin products assembled or processed offshore. Twenty-one businesses stated their goods entered the United States duty free because of the CBI. Two other businesses explained they were exporting under both the CBI and TSUS 806.30 and 807.00. The remaining 21 businesses said their exports were duty free under the GSP or subject to reduced tariffs under an unknown trade provision.

Figure II.1: Tariff Status of 63 Businesses Receiving Duty-Free or Reduced Tariffs

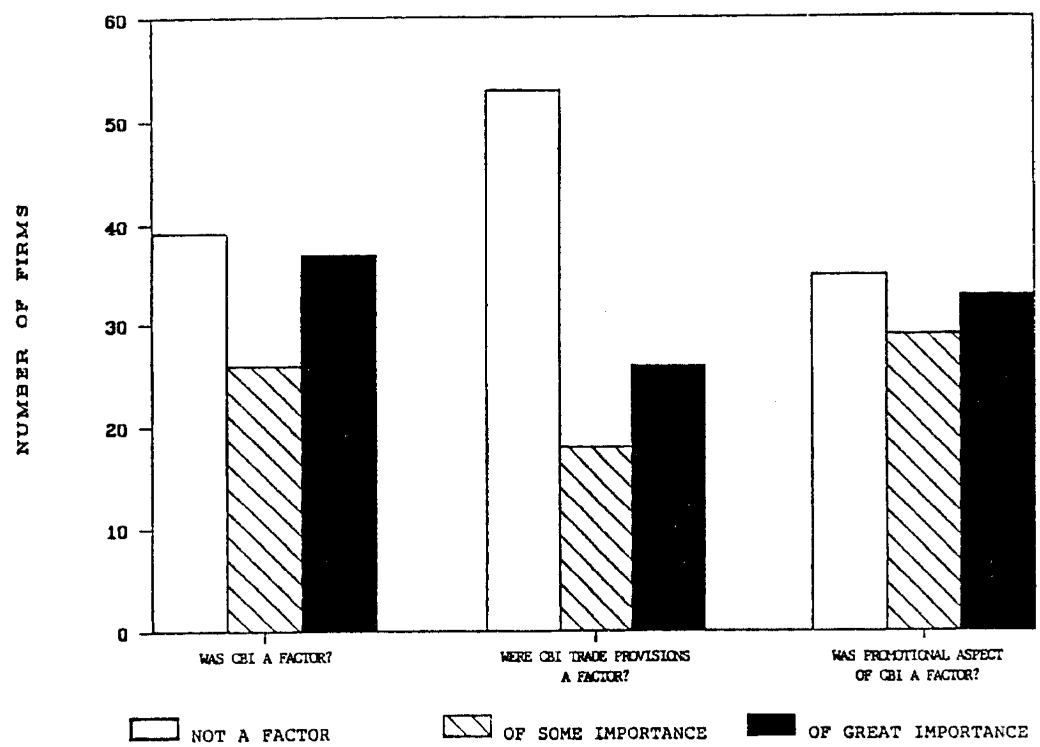


Did CBI motivate establishment or expansion of businesses?

Thirty-seven businesses said that the CBI had been of great importance in their decision to establish or expand operations. Since the CBI encompasses promotional activities (see p. 8) as well as trade benefits, we asked if both aspects of the program had motivated the establishment or expansion of their business operations. Thirty-three said that the promotional aspects of the CBI had been of great importance, and 26 said that the CBI duty-free provisions had been of great importance.

Sixteen firms said that TSUS 806.30 and 807.00 had been of great importance in their expansion or establishment.

Figure II.2: Importance of the CBI on Business Investment Decisions



In addition to trade provisions, over half of the businesses said that incentives offered by the host government and prevailing wage rates had influenced their decision to commence operations and almost one third cited availability of raw materials as a factor.

Did businesses have contact with U.S. agencies?

About two thirds of the businesses said they had had some contacts with U.S. government agencies. The U.S. embassy, AID, and OPIC were mentioned most frequently. For example, many businesses said embassy officials had provided information or advice and several said they had received credit from financial institutions supported by AID. Several firms said they had requested or received financing and/or insurance coverage from OPIC.

Generally, the businesses said that their experience with U.S. government agencies had been favorable. However, 17 businesses described unfavorable experiences, including

--inability to obtain insurance from OPIC, in one instance, because export of citrus fruit products was anticipated and current OPIC policy prohibits insuring investments of this type;

--delays in exporting goods to the United States under CBI because of the U.S. Customs Service's alleged lack of understanding of CBI trade provisions; and

--complexity and expense of complying with AID's administrative requirements in order to benefit from its projects.

How have host-government agencies affected businesses?

Most of the businesses said their experience with host-government agencies had been favorable, largely because of incentives offered by the governments, such as tax breaks and provision of factory space. Nineteen businesses said their experiences with local governments had been unfavorable for such reasons as bureaucratic red tape and limited access to foreign exchange and import permits needed to purchase spare parts.

Will businesses expand or decrease investment in the next 5 years?

Most of the businesses said they expected to increase the size of their operations in the future.

Businesses' general comments on the CBI

Although generally supportive of the CBI, many interviewees commented on problems they perceived with the program. Several interviewees asserted that too many products have been excluded from CBI trade benefits and that most traditional competitive products from the Caribbean Basin, such as textiles and leather goods, which could have benefited immediately from duty-free treatment have been excluded from the program. On the other hand, many industries which currently enjoy CBI trade benefits are not yet well established and need more time before they are in a position to compete in the U.S. market. Several company spokesmen suggested that the current 12-year term of CBI be extended. Several business spokesmen also commented that the CBI does not offer concrete incentives for U.S. firms to invest in the Caribbean Basin and that some type of tax incentives and/or financing mechanisms are needed to attract U.S investment.

SUMMARY OF INFORMATION BY COUNTRY

Of the 27 countries which are potentially eligible for CBI trade benefits, 21 have been designated by the United States to receive them thus far. Following is a summary by country highlighting information included in Commerce's 1985 list of CBI-related businesses and data and views obtained during our examination of Commerce records and interviews with selected businesses on the list. The data is grouped into two sections--one on Central America and one on the Caribbean--with countries listed alphabetically within each grouping.

For each country, we summarized information on (1) the businesses included on Commerce's 1985 list, (2) their relationship to the CBI, (3) their contacts with U.S. and host-country agencies, and (4) their comments, opinions, and suggestions. We did not attempt to verify the accuracy of statements made by business spokesmen. Unless otherwise indicated, each country began receiving CBI trade benefits on January 1, 1984.

CENTRAL AMERICAN COUNTRIES

Belize

The Commerce list included 12 businesses in Belize. We received telephone numbers for 7 and were able to contact 6. One interviewee indicated that his investment is a proposal which will not be operational for several years.

Five of the firms had been established or proposed after January 1984, but only three of these indicated that the CBI had been a factor in the decision to commence business operations. The sixth firm had no apparent relationship to the CBI, as it had been in operation for over 10 years and was exporting goods to the United States duty free under the GSP.

Only one firm was benefiting from CBI trade provisions. Four firms had not yet exported any goods to the United States but planned to do so in the future, and their products appeared to be eligible for duty-free treatment under CBI.

Most of the interviewees said they had generally favorable experiences dealing with federal agencies, including the embassy, OPIC, and AID. However, one interviewee said that OPIC had turned down his request for financing because he had insufficient experience in his line of business. He added that the AID mission in Belize had not been supportive of his investment. Another interviewee asserted that OPIC had turned down her firm's request for insurance coverage because of pressure from special interest groups not to insure citrus operations. In her view, many citrus-related businesses are being discouraged from investing in CBI beneficiary countries because of their inability to obtain OPIC insurance.

Most of the businessmen said that the local government had been very responsive to their needs. However, one was critical of the local government because he asserted that it charges unreasonably high duties on equipment and spare parts that firms operating in Belize import from the United States. Further, he maintained that the local customs agency causes unnecessary delays in the import of these materials.

With regard to the overall effectiveness of the CBI, one business spokesman asserted that the CBI is of "no value" because it does not give U.S. firms any concrete incentives to invest in the Caribbean. In his view, the CBI's trade provisions are insignificant, because most of the products that are duty free under CBI were already duty free under other trade provisions. He believes that the CBI should be restructured to provide some type of tax incentives for U.S. business to invest in the region. Currently, he argued, there are more tax incentives for U.S. firms to invest in other countries, such as Mexico, than in the Caribbean.

Another interviewee expressed the view that the CBI's trade benefits should be extended over a longer period of time to enable projects that require substantial lead-time to take advantage of the program. Many businesses, such as those related to agricultural production, she pointed out, are not in a position to start exporting for many years after their initial start-up.

Costa Rica

The Commerce list included 22 firms for Costa Rica. In two separate instances, the same company was listed twice. According to OPIC data, 7 of the firms are investment proposals and are not yet operational. We obtained telephone numbers for only 3 businesses in Costa Rica and were able to interview 2.

One company spokesman indicated that his exports to the United States received reduced tariffs under TSUS 806.30 and 807.00, but he noted that the CBI had been of some importance in his decision to establish business operations in Costa Rica. The other interviewee explained that he had received an OPIC loan in 1984 to expand his business. Nevertheless, he said that the CBI had not influenced the expansion of his business which does not export to the United States.

One of the businessmen complained that firms from countries other than the United States and the Caribbean Basin region are taking advantage of the CBI by setting up business in a CBI country in order to export products to the United States without paying duty. He said he did not believe it was the intent of the CBI to help such firms gain access to the U.S. market.

El Salvador

The Commerce list included 11 firms in El Salvador, with one listed twice under different names. We received telephone numbers for 7 businesses and were able to interview 6. One of the businesses we interviewed was a government-owned organization which recently began exporting.

Although not all firms interviewed had benefited directly from CBI trade provisions, the majority were engaged in some business activity related to the CBI. Three firms indicated that their exports to the United States were duty free under the CBI. Two firms said they planned to export to the United States in the near future. The sixth firm exports products to the United States which are not eligible for CBI trade benefits.

Four firms stated that the CBI had been of great importance in their decision to establish business operations. One of these firms was established before January 1984 in anticipation of the CBI. A fifth interviewee noted that the CBI had been of some importance in expanding his business operations, since it allowed his product to be exported to the United States competitively. Only one of the 6 businesses interviewed said the CBI was not a factor in the company's decision to establish business operations or to export.

Several firms in El Salvador shared concerns about the CBI similar to those of their counterparts in other Caribbean and Central American countries; for example, one Salvadoran interviewee noted that the exports of the Caribbean-Central American area are very limited and that CBI duty-free treatment was not applicable to the most competitive traditional products, such as textiles. Another businessman said the 12-year term of the CBI should be extended. He believed the CBI's greatest benefit has been to demonstrate long-term U.S. commitment to the development of the region but that 12 years is not long enough to build successful export-oriented economies. One businessman said that high transportation costs for exports to the United States were an obstacle to development of trade. Two businessmen stated that more technical training needs to be provided for the workforce in El Salvador as the country tries to develop new industries.

Five of the 6 businesses indicated generally favorable experiences dealing with U.S. government agencies. Four firms mentioned that AID had provided or offered assistance. Two Salvadoran exporters said that the U.S. embassy and AID had helped them deal with local authorities to overcome obstacles in exporting.

Guatemala

The Commerce list included 12 firms in Guatemala. We received telephone numbers for 7 businesses and were able to interview 5.

Three of the 5 firms indicated that the CBI had been of great importance in their decision to establish business operations or to export to the United States, while the other 2 firms said the CBI had been of some importance. Exports from 3 firms to the United States were duty free under the CBI, and a fourth business was a shipping company transporting products which receive CBI benefits. The fifth interviewee was also exporting products to the United States which enjoyed reduced tariffs, but he was not able to identify under what trade provisions.

Honduras

The Commerce list included 30 firms in Honduras. In May 1986, Commerce confirmed that one company had terminated business operations. We received telephone numbers for 14 businesses in Honduras and were able to interview 10.

Among these firms, 5 export to the United States and 4 enjoy some type of reduced tariff or duty-free status for their products. Only one company spokesman indicated that his exports are eligible for CBI trade benefits, but his exports are also duty free under the GSP.

The other 5 firms which are not currently exporting to the United States plan to do so in the future. One of the businesses is not in operation, but has invested more than $1 million in building a new plant with the assistance of an AID loan. Another firm has been operational for 4 months, and will soon export to the United States under the CBI. Four firms have been in business for at least 15 years. Two of these indicated that the CBI was of great importance in their decision to begin exporting to the United States.

Firms in Honduras had similar concerns about the CBI as their counterparts in other Caribbean and Central American countries; for example, two company spokesmen said the CBI trade provisions need to be broadened to include textiles and other traditional products from the region. One interviewee suggested that the CBI's 12-year term should be extended, since it will take many years for competitive new industries to develop in Central America. Another businessman commented that even though his products are eligible for duty-free status under the CBI, he prefers to export under the GSP because of difficulties he experienced in the past with CBI paperwork.

Regarding transportation costs, one exporter said that he must pay the same amount for shipments to North Carolina as his competitors from the Far East, even though he is much closer to the United States.

One businessman criticized the limitations on OPIC financing. His interest in exporting to the United States had been triggered by a promotional seminar on the CBI sponsored by OPIC. However, he could not benefit from OPIC financing because there is no U.S. investment in his firm.

Nicaragua

Although eligible, Nicaragua has not been designated to receive CBI trade benefits. The Commerce list did not include any business activity in Nicaragua.

Panama

The Commerce list included 18 firms in Panama. One of these companies appears to have been listed twice under slightly different names. We received telephone numbers for 9 firms and were able to interview 8.

Six of the 8 firms enjoyed some type of reduced tariffs or duty-free status for their exports to the United States; 3 of the 6 were exporting under CBI trade provisions. Five company spokesmen agreed that the CBI had been of at least some importance in decisions to establish or expand their business operations.

Half of the firms interviewed in Panama expressed concern that the CBI trade provisions do not apply to products that Panama can export competitively. Four respondents agreed that the CBI needs to be expanded to include other products. Another respondent explained that Panama has very limited industrial experience, since it has traditionally relied on service industries. He emphasized that the few industries which could immediately benefit from CBI trade provisions produce goods, such as textiles, which are not eligible under the CBI. Two company spokesmen characterized the CBI as having failed to achieve the anticipated benefits because of its limited scope.

CARIBBEAN COUNTRIES

Anguilla

Although eligible, Anguilla has not been designated to receive CBI trade benefits. The Commerce list did not include any business activity in Anguilla.

Antigua

The Commerce list included 6 businesses in Antigua. However, 3 of these businesses were actually located in St. Kitts and had no operations in Antigua. We were able to contact 2 of the 3 businesses in Antigua.

One of the firms was a hotel which had been in business for almost 30 years. A spokesman said he was not aware of any connection between the hotel and the CBI. The president of the other firm said the CBI had been of some importance in his decision to establish business operations because of its trade provisions and because it made him aware of investment opportunities in the Caribbean. His firm is currently exporting goods to the United States which receive duty-free treatment under the CBI.

Bahamas

The Bahamas was not designated to receive CBI trade benefits until March 14, 1985. The Commerce list did not include any business activity in the Bahamas.

Barbados

The Commerce list included 20 businesses in Barbados. We received telephone numbers for 3 of these businesses and were able to interview all of them.

All 3 firms had been established prior to the enactment of the CBI. One firm had commenced business operations in 1910. However, 2 firms had either recently started exporting to the United States or planned to export to the United States for the first time as a result of the CBI's trade provisions. The third firm did not appear to be related to the CBI. A spokesman said that the CBI had not been a factor in this firm's establishment and that the firm was not exporting to the United States and had no plans to do so.

One businessman commented that most businesses in the Caribbean cannot benefit from the CBI because they do not produce goods that can compete in the U.S. market. In his view, the only firms that can benefit from the CBI are those in such industries as electronics assembly and wood/furniture production which may have a competitive advantage over their U.S. counterparts.

British Virgin Islands

The Commerce list did not include any business activity in the British Virgin Islands.

Cayman Islands

Although eligible, the Cayman Islands have not been designated to receive CBI trade benefits. The Commerce list did not include any business activity in the Cayman Islands.

Dominica

The Commerce list included four firms in Dominica. We received telephone numbers for these four businesses and were able to interview all of them.

Although all four firms were exporting to the United States under reduced tariffs or duty-free status, only one indicated that this was due to CBI. One company exported to the United States under GSP, and another company exported under TSUS 806.30 and 807.00. The fourth firm's products were subject to reduced tariffs under an unspecified trade provision.

Two firms agreed that the CBI had been of great importance in their decisions to establish business operations. Another interviewee said that the CBI, principally its promotional aspect, had been of some importance in his decision to establish business operations. However, he noted that he had not benefited directly from the program since his exports to the United States were already duty free before the CBI was enacted. The spokesman for the fourth company explained that the CBI had not been a factor in his firm's establishment but that it influenced the firm's recent expansion. Two firms were exporting to Europe as well as to the United States, and a third firm had established operations in Dominica in part because of the special access to European markets enjoyed by Dominican products.

Two firms had some experience with OPIC, which they described as generally favorable. One spokesman explained that his company's decision to establish business operations in Dominica was a direct result of an OPIC trade mission, and the other Dominican firm's spokesman said OPIC had helped him find U.S. investors to finance a business expansion.

One company spokesman expressed concern that high transportation costs undermined the advantages which Dominican products could enjoy because of proximity to the U.S. market.

Dominican Republic

The Commerce list included 31 firms from the Dominican Republic. In May 1986, the post reported that 5 of these firms had closed. According to Commerce information, one firm had been listed twice under different names. We obtained telephone numbers for 17 firms and were able to interview 15. One of the interviewees explained that his "investment" is a proposal with no immediate prospect of becoming operational.

Eleven of the businesses contacted currently export to the United States under some type of reduced tariff or duty-free program. Only one company spokesman indicated that his products are eligible for duty-free status under the CBI. Another firm plans to begin exporting to the United States under the CBI. By contrast, 6 businesses indicated that they presently export under TSUS 806.30 and 807.00.

Although only one firm currently benefits from CBI trade provisions, 12 company spokesmen said the CBI had been of some or great importance in their decisions to expand or establish business operations in the Dominican Republic; 10 of these firms indicated that it was primarily the CBI's promotional aspect which had influenced the establishment or expansion of business operations.

Many of the firms operating in the Dominican Republic commented on the role of local authorities with regard to the CBI. Three interviewees said that bureaucratic obstacles created by the local government customs agency needed attention. One said that his exports had been delayed by customs for up to 8 months. One exporter said the local government had generally been indifferent toward the private sector but had recently taken positive steps, perhaps as a result of the export climate created by the CBI. Two businessmen also believed that the CBI had encouraged government efforts to promote agricultural exports. Another local exporter said that government monetary policies have reduced available credit needed by export businesses.

Several businessmen had general comments about the CBI. Two spokesmen for textile firms said they would like the CBI to be expanded to include other products, such as textiles. Two other exporters said the workforce in the Dominican Republic needs more technical training. One of them, a businessman from the Far East, believed that the benefits of CBI will not become apparent until the productivity of the labor force is upgraded through appropriate training.

Grenada

The Commerce list included six firms in Grenada. Commerce reported in the survey that two of these firms were closed as of December 1984, 6 months before the list was first published. OPIC data revealed that another business on the list was not yet operational. We received telephone numbers for the other three listings and were able to interview one.

The spokesman for the business we contacted explained that he was not engaged in exporting and had no plans to do so. His business, operational several years before the CBI was enacted, was recently expanded due to increased business activity, which he said may have been caused by the promotional aspect of the CBI.

In April 1985, the commercial attache had characterized two investments included on the Commerce list as expansions of existing service sector businesses "not directly attributable to CBI". However, the attache believed that these expansions could be related to some extent to the promotional aspect of the CBI.

Guyana

Although eligible, Guyana has not been designated to receive CBI trade benefits. The Commerce list included one business in Guyana. We were not provided a telephone number for this business and therefore were unable to contact it.

Haiti

The Commerce list included 21 businesses in Haiti. In April 1985, the commercial attache reported that one firm on the list planned to terminate operations. In May 1986, the attache reported that he was unable to locate 2 other firms on the original list and that a third had never made an investment in Haiti. We received telephone numbers for 4 businesses from the original list and were able to contact all of them. In May 1986, the attache identified 6 new firms that had invested in Haiti since the list was compiled.

Two of the firms we contacted appeared to have no relationship to the CBI; both had established business operations prior to 1984 and one had been in business for 15 years. Spokesmen for these firms indicated that neither had established nor expanded their operations as a result of the CBI.

The 2 other firms we interviewed had commenced business operations after enactment of the CBI. A spokesman for one of the firms which is based in the United States said that the CBI had been of great importance in his decision to establish operations in Haiti, as the program made him aware of investment opportunities in the Caribbean. A spokesman for the other firm said the CBI had been of some importance in his firm's decision to commence operations.

Although all 4 firms were exporting to the United States and said that it was the principal market for their exports, none appeared to be benefiting from the CBI's trade provisions. Two firms export products to the United States which are not eligible for duty-free treatment under the CBI. A third firm exports products which receive duty-free treatment under the GSP. A spokesman for the fourth firm said his firm's exports were subject to reduced tariffs but he did not think this was due to the CBI.

The firms had mixed reactions to their involvement with U.S. agencies. The owner of a textile firm in Haiti said he had requested OPIC financing but had been turned down because of pressure from U.S. textile workers' unions. Another interviewee stated that OPIC sent three trade delegations to Haiti but nothing had materialized. One interviewee said he had a favorable experience with AID since he had received a loan and technical assistance from an AID-funded financial institution.

Most of the interviewees had suggestions or comments about various aspects of the CBI. One businessman stated that although the CBI is good in concept, it should provide some mechanism for U.S. businesses interested in investing in the Caribbean to obtain financing. Another businessman said there was a lot of initial enthusiasm among Caribbean businesses about the CBI but that most businesses have lost interest as they have found that the CBI offers "no appreciable help". Two interviewees were critical of the exclusion of textiles from the CBI's duty-free provisions. One of them asserted that this exclusion "gutted" the program, since textiles account for such a large percent of the region's exports to the United States.

Two businessmen commented that the uncertain political situation in Haiti has had an adverse effect on their businesses and on the private sector in Haiti in general. As a result, each has reduced the number of the firm's employees by 50 percent or more. According to one businessman, since the recent change in the Haitian government, several small Haitian industries have closed.

Jamaica

The Commerce list included 75 businesses in Jamaica. We received telephone numbers for 60 of these businesses and were able to contact 29. One of the businesses had been terminated and several of the telephone numbers we called were not in service.

Of the 75 businesses on the Commerce list, the commercial attache reported in May 1986 that 10 had closed and that an additional 5 should be deleted; the attache did not give a reason why the latter should be deleted. He also reported that 45 new firms had opened in Jamaica since the list was compiled. In submitting the original list of 75 businesses in 1985, the attache reported that the list had been compiled by a Jamaican government agency and that he was unable to confirm some of the businesses listed.

Only 5 of the 29 businesses we contacted were benefiting from the CBI's trade provisions. Nine firms were exporting goods which receive reduced tariffs under TSUS 806.30 and 807.00 and one firm was receiving duty-free treatment under the GSP. Nine other firms either were not exporting or were exporting only within the Caribbean region, and only 2 of them indicated that they planned to export to the United States in the future. The other firms export to the United States under other trade provisions.

Sixteen of the 29 firms we contacted had commenced business operations after January 1984, and 14 of these said the CBI had been a factor in their decision to establish business operations. Most of the other 15 firms did not appear to be related to the CBI, since they were either exporting under trade provisions other than the CBI or were not exporting to the United States and had no plans to do so; one of these firms was a pizza parlor.

Several interviewees complained that the CBI has not provided any benefits to textile/apparel firms operating in the Caribbean. This is particularly significant, one interviewee noted, since textiles is one of the few industries in which Caribbean firms have a competitive advantage over firms in more developed countries. Five interviewees, however, said they were pleased by the administration's recent pronouncements regarding more liberal quota treatment for textiles from CBI beneficiary countries. According to one business spokesman, the CBI has been a disappointment in Jamaica because it has not been successful in attracting new foreign investments.

Montserrat

The Commerce list included two businesses in Montserrat. We did not receive phone numbers for either business and were therefore unable to interview them.

Netherlands Antilles

The Commerce list did not include any business activity in the Netherlands Antilles. In 1986, Aruba, formerly part of the Netherlands Antilles, became an autonomous country and was separately designated to receive CBI trade benefits.

St. Kitts

The Commerce list included only two businesses in St. Kitts. Three additional firms listed under Antigua were actually located in St. Kitts. Of these five, we were able to contact three. According to OPIC, one of the other two businesses has terminated operations.

The three St. Kitts firms were all related to the CBI in some way. Spokesmen for two firms indicated that the CBI had been of some or great importance in their decisions to establish business operations. One of these firms currently exports to the United States duty-free under the CBI. Although the other firm was established in part to take advantage of the CBI's trade provisions, its exports are currently not enjoying duty-free status because less than 35 percent of their value is added in St. Kitts. A spokesman for this firm said it is hoping to expand operations so it can benefit from CBI trade provisions.

The third firm opened in St. Kitts in 1979, but it is currently expanding operations due to the trade benefits it is receiving under CBI. A company spokesman said the CBI has been of great benefit, since his firm no longer pays any duties on its exports whereas it was paying 7-1/2 percent duties prior to the CBI.

The firms had mixed comments on their experiences with U.S. agencies. One interviewee said he had an unfavorable experience dealing with the U.S. Customs Service. He asserted that Customs does not understand CBI trade provisions and that his firm has had to explain various provisions to Customs agents. Another interviewee commented that he had a favorable experience dealing with AID-funded private consultants stationed on the island. The consultants, he asserted, gave him useful advice and encouraged him to open his business in St. Kitts.

All three interviewees commented that the investment climate in St. Kitts is very favorable. One interviewee noted that five U.S. firms have recently commenced operations in St. Kitts because of the low wage rates and the local government's responsiveness to the needs of the private sector. Another businessman said that the only problem he noted in St. Kitts was that the labor force is relatively unskilled.

St. Lucia

The Commerce list included 11 firms in St. Lucia. We received telephone numbers for 10 of these firms and were able to contact 8. One of the 8 firms had terminated business operations in 1985 because of problems it experienced in exporting goods to the United States.

Four of the 8 firms we contacted had commenced operations before the CBI was enacted. Although one of these firms opened in anticipation of receiving CBI trade benefits, the other 3 did not appear to have established or expanded their operations as a result of the CBI and were not benefiting from its trade provisions.

Two firms said the CBI's duty-free provisions had been of great importance in the decision to commence operations, and one said the program's promotional aspect had been of great importance. The other 5 firms said the CBI had not been a factor in their establishment.

All but one of the firms were exporting to the United States and indicated that it was their principal market. However, only 2 firms were exporting products that receive duty-free treatment under CBI. Two firms were exporting products that are subject to reduced tariffs under TSUS 806.30 and 807.00. Another firm currently does not qualify for CBI trade benefits because it does not meet the 35 percent value-added requirement; it is looking for ways to increase the value added to its exports in St. Lucia so it can receive CBI trade benefits.

Spokesmen for 3 firms indicated that U.S. and/or local government agencies had hindered their business operations in some way. One said his firm had opened as a result of the CBI but had ceased operations in 1985 because of delays in exporting goods to the United States. He asserted that both the U.S. Customs Service and the local government required a great deal of export documentation and that the U.S. Customs agents he dealt with did not understand CBI trade provisions. Another businessman also commented that many local government agencies had to approve his exports to the United States, thereby causing delays. One interviewee maintained that OPIC had encouraged him to establish his business in St. Lucia but had then denied his request for insurance coverage. The reason for OPIC's denial, he asserted, was unclear.

The other interviewees indicated they had generally favorable experiences dealing with U.S. agencies, including the embassy and Commerce. One businessman noted that he had received useful advice from an AID-funded private sector consultant stationed on the island.

With regard to the overall effectiveness of the CBI, one businessman asserted that the CBI should offer more concrete benefits to firms investing in the Caribbean. He maintained that most firms cannot benefit from CBI trade provisions because there are few products eligible for duty-free treatment that can be competitive in the U.S. market. In his view, the CBI will have little impact unless it offers more concrete benefits to investors, such as tax incentives. Currently, he believes, there are more tax incentives for U.S. businesses to invest in other countries, such as Mexico, than in the CBI region.

St. Vincent

The Commerce list included one business in St. Vincent. We were not provided a telephone number and did not attempt to contact this business.

Suriname

Although eligible, Suriname has not been designated to receive CBI trade benefits. The Commerce list did not include any business activity in Suriname.

Trinidad and Tobago

The Commerce list did not include any business activity in Trinidad and Tobago.

Turks and Caicos Islands

Although eligible, the Turks and Caicos Islands have not been designated to receive CBI trade benefits. The Commerce list, however, included one business from this country, but we were not given a telephone number to contact it.

SOURCES OF INFORMATION ON THE CARIBBEAN BASIN INITIATIVE

During our work, we noted a number of completed and/or ongoing studies prepared by U.S. government agencies on different aspects of the CBI. We did not review these studies in detail. However, because of the limitations regarding Commerce's list of CBI-related businesses and our examination of that list, we have included a brief description of these sources of information on the implementation and impact of the CBI.

Department of Labor

Section 216 of the Caribbean Basin Economic Recovery Act requires that the Secretary of Labor undertake a continuing review and analysis of the CBI's impact on U.S. labor and submit annual reports to the Congress. Labor's first report was completed August 30, 1985. It concluded that because the CBI program was not yet well established and trade flows from the Caribbean were relatively small, CBI impact on U.S. labor has been negligible. The report also discussed the technical difficulties of isolating CBI effects from other tariff programs. The Department of Labor planned to issue its second annual report in September 1986.

International Trade Commission

Section 215(a) of the Caribbean Basin Economic Recovery Act requires the International Trade Commission to report periodically on the CBI's economic impact on U.S. industries and consumers. The first report is scheduled for completion in September 1986. Commission officials told us that they were using the 1985 Commerce list of CBI-related firms in their study and had selected 45 of these firms which they believed were most closely associated with the CBI. The Commission's planned methodology included a field trip to Central America and the Caribbean and extensive reliance on State Department Economic Officers posted in CBI beneficiary countries.

Congressional Research Service

On February 20 and 21, 1986, the Congressional Research Service issued two memoranda on the CBI which concluded that the CBI's economic impact on the United States has been limited. They also noted that there is a widely held view that the CBI's benefits to the region are marginal because important items, such as textiles and leather products, are excluded and other eligible products, such as ethanol, might be excluded in the future. Furthermore, the Congressional Research Service emphasized that several tariff reduction programs already applied to products exported to the United States from Central America and the Caribbean prior to the CBI's enactment.

Department of State

The Department of State issues status reports on the CBI biannually which include trade and investment data obtained from Commerce, AID, and the U.S. Customs Service. The most recent report, issued in May 1986, summarizes export and economic growth data for the Caribbean Basin countries.

Agency for International Development

In February 1986, at the Subcommittee on Oversight hearings, AID indicated that it had attempted to measure accomplishments in investment and new export growth in the Caribbean Basin during the first 2 years of the CBI. According to AID, $510 million in new investment had been made in the region as of November and December 1985, substantially more than reported by Commerce. In April 1986, AID testified before the Subcommittee on Foreign Operations, House Committee on Appropriations, that more than 260 new export-oriented businesses have been established in the Caribbean Basin countries. AID plans to issue a report on CBI implementation progress by the end of fiscal year 1986 which will discuss AID's role in implementing programs in support of the CBI and provide data on these new investments in the region.

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