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Caribbean Initiative Can Help the U.S.

By Kevin P. Power

WASHINGTON — The continuing debate in Congress over President Reagan's Caribbean Basin Initiative has raised doubts among Caribbean leaders as to whether the measure will ever become law. Congress did not approve the initiative's $350 million aid package until six months after it was proposed. And the more important components of trade and investment incentives are still being held up by fear of their potential impact on the American labor force.

Congressional leaders, especially in this election year, are worried that the initiative will result in the export of American jobs, but these fears are misplaced. United States labor-intensive operations, such as clothing and electronic assembly, stand to benefit from the provisions of the initiative. For many years, these industries have been facing increasing competition from imports from Taiwan, Hong Kong and Singapore. In fact, many American businesses have established trade links or subcontracting arrangements with producers in these countries.

The likely impact of the initiative will be to encourage American companies that are operating in the Far East to relocate or expand into the Caribbean because of the added incentives. For mainland manufacturers that are unable to compete with imports, sharing some aspects of the production process with Caribbean economies may offer a chance to meet the competition and save American jobs that would otherwise be lost.

Many United States manufacturing companies already situated in the Caribbean are enjoying such shared production. As Peter Drucker noted recently: "For many U.S. companies, production sharing will increasingly be the only way to stay in manufacturing, no matter how protectionist we become. Production sharing has already become official policy in Japan. It is the fastest growing mode of industrial organization in the world today. And it is growing quickly in America despite all resistance by government, by labor unions and, incidentally, by manufacturers themselves."

The practicality of this idea for the Caribbean is demonstrated by the recent cooperative effort between Jamaica and Puerto Rico to encourage manufacturers to share production between the two islands. The "twin plant" concept enables manufacturers in Puerto Rico to offset their own high labor rates with lower labor rates in Jamaica. This insures that the industry remains in the Caribbean. Similarly, American sporting goods manufacturers share production with contractors in the Caribbean. Eighty percent of all baseballs used in the United States are hand sewn in Haiti.

United States imports for the period 1970-1980 show the extent of production sharing in the United States economy. During that period, imports of products made of American components that were processed or assembled abroad increased from $2.2 billion to just under $14 billion, a compound annual growth rate of 20.3 percent. Moreover, the share of these imports accounted for by developing countries increased from 24 percent to 45 percent. And in 1980, imports coming from Malaysia, Singapore, Hong Kong, Taiwan, South Korea and the Philippines represented over 50 percent of the total for developing countries; imports from the Caribbean represented less than 1 percent.

By the year 2000, 30 percent of the world's manufactured goods will be produced in third world economies. For these economies, there will be increased competition for a share of the manufacturing trade. The countries in the Caribbean acknowledge the importance of this trend. Their industrial incentive laws encourage the formation of export-oriented industries by offering tax-free profits, duty-free imports of raw materials and provisions for the development of free zones, where exporters have access to shipping, a large pool of labor and freedom from exchange controls.

The importance and effectiveness of the Caribbean Basin Initiative lies in its potential to complement the existing investment incentives offered by governments in the region and to expand the trade benefits available under various market agreements. Without the trade and investment provisions of the initiative, Caribbean countries may be unable to attract the capital and technology necessary to develop their economies. Recent cutbacks in international bank lending to developing countries will make it even more difficult for these countries to generate growth from their own resources.

Prime Minister Seaga of Jamaica has said that the initiative, if implemented, "could magnetize worldwide investments to the area as a free zone for production and exports to United States." The result could be increased stability for this important region by offering the countries there a chance to compete for a share of the world manufacturing trade. Access to United States markets will give them the competitive edge.

Kevin P. Power has traveled extensively in the Caribbean Basin for American business and international financial institutions.