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EXPORT FINANCING, THE INTER-AMERICAN DEVELOPMENT BANK AND US- CARIBBEAN BASIN TRADE

*Charles A. T. Skeete**

US-CARIBBEAN BASIN TRADE FLOW: AN OVERVIEW

Perhaps no area of United States-Latin American relations better illustrates the complexity and contradictions as well as the interdependence inherent in the United States' relationship with the area as a whole than a comparison of US-Latin American with US-Caribbean Basin trading patterns.

The United States has for many years now, including those of the past decade, realized a trading surplus with Latin America as a whole. Indeed, the merchandise balance for what are described as the "Nineteen American Republics" stood at \$2.2 billion in 1976 (the highest for the decade). By contrast, an interesting feature of US-Caribbean trade is that the former has sustained a deficit for some time now in its trade with the latter. Indeed, while the deficit in 1972 amounted to a little over \$200 million, the deficit in 1976 stood at just over \$2 billion or approximately ten times its 1972 level. There is little doubt that movements in the prices of petroleum products and coffee have had substantial impact on the size of this deficit. The 1974 deficit of \$2.5 billion, for example, was five and one-half times the 1973 deficit of just under \$500 million. And yet, the best markets for U.S. products are Venezuela, Mexico and Colombia and, to a lesser extent, Ecuador and the Central American Common Market, of

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which all except Ecuador are included in our definition of the Caribbean Basin.

Even if a definition of the Caribbean Basin is adopted which excludes the larger continental countries of Mexico, Venezuela and Colombia, a deficit of some \$1.2 million for 1976 is still realized in United States trade with the rest of the Basin area. Not surprisingly, Venezuela accounted for some fifty percent of this deficit in 1976, and the CARICOM countries, which include Trinidad and Tobago (the only other oil-exporting country of the group), accounted for almost all of the remainder. Yet again, the Dominican Republic and Trinidad and Tobago are, respectively, the largest and the fastest growing markets of what may be more narrowly referred to as the "Caribbean."

Deficits or surpluses notwithstanding, the United States and Latin America have been for some time, and remain even now, the single most important markets for each other's products. For example, Latin American exports to the United States on average accounted for thirty-three percent of all Latin exports between the years 1970-75. Latin imports from the United States, by comparison, accounted for thirty-six percent of all imports for the corresponding period. In comparison, the EEC, which is the second largest trading area for Latin America, accounted for less than thirty percent for imports or exports.

The nature of US-Caribbean Basin interdependence in the area of trade is illustrated also by the composition of trade. For the most part, United States imports from the Basin countries are made up of fuel (fifty percent) and primary products (twenty-four percent). United States exports to the area, on the other hand, are made up of machinery and equipment (forty percent) and manufactured goods (twenty-one percent). On the export side, the composition of U.S. exports to the Basin area is not dissimilar to the composition of exports to Latin America as a whole.

TRADE FLOWS AND THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS

United States concern with post-War reconstruction was largely responsible for the birth of a multilateral framework for the structuring of world economic relations. As has been pointed out by students of international economic relations, the "post-War economic system was organized by Latin America and the Soviet Union."¹ International Financial Institutions (IFIs) also played an important role in the post-War reconstruction. When the IFIs began to shift their attention from

1. See C. BERGSTEN, R. KEOHANE, AND J. NEYE, *INTERNATIONAL ECONOMICS AND INTERNATIONAL POLITICS: A FRAMEWORK FOR ANALYSIS* (1975).

reconstruction to development assistance, a debate arose concerning the nature and priorities of their economic objectives. The debate has since intensified because of what some have regarded as the failure of development assistance to achieve its goals.

The charters of the multilateral institutions, fashioned in the immediate post-War era, focused on the means of achieving two stated goals: full employment and growth. These goals are now the subject of controversy. Much of the dispute, like the unhappiness over the lamented failure of development assistance, springs from the varying motives of aid donors. The question of motivation as it concerns US-Caribbean Basin relations will be addressed in a later section of this paper. Some attention will now be given to the confusion over means, and between means and ends as it concerns IFIs and trade flows.

The post-War arrangements established not one, but two different international financial institutions, namely the World Bank and the IMF, and a separate multilateral framework designed to regulate and promote an ordered growth of trade — the GATT. The first to be established and come into operation was the World Bank or the International Bank for Reconstruction and Development. It quickly became an institution for channeling development assistance in a multilateral framework. The economic instruments at its disposal, however, were designed with the goals of economic efficiency and increased productive capacity in mind. This orientation was due to the well-known conviction, derived from classical English economics, that development was a problem of capital accumulation.² The Bank was and is “project-oriented.” Even now its financing is mainly directed toward meeting the foreign exchange costs of capital goods.

Persons of far greater ingenuity than this writer have expended considerable intellectual effort to demonstrate that an increase in productive or industrial capacity has historically been accompanied by an expansion in world trade, and not the opposite. While admiring their expertise, I remain unable to make the intellectual leap involved in concluding that the World Bank, and institutions like it, do significantly more in the field of trade flows than make possible the export of capital goods from high-technology centers (developed countries) to low-technology centers (developing countries). This is not meant to imply that there are no benefits from these transfers for recipient countries, but merely to point out that, unless the IMF and the GATT also adopt economic instruments specifically designed to facilitate developing-country exports, expansion in productive capacity will not, by itself, lead to this result.

2. See H. JOHNSON, *THE WORLD ECONOMY AT THE CROSSROADS* (1965).

Partly as a result of what was recognized to be World Bank deficiencies in dealing with the social aspects of development problems, and partly, no doubt, because of their long-standing special relationship with the United States, the nineteen American Republics established, with U.S. support, the first regional institution of its kind — the Inter-American Development Bank (IDB). This Bank resembles in its essential features, the World Bank. As indicated, in the debates and negotiations that preceded its creation, many authorities recognized that the social integration of the millions of low-income people in Latin America was an essential condition for faster economic progress in the region. This concern led to the establishment of a concessional loan window — the Fund for Special Operations — to enable the institution to finance activities that may be slow-yielding in the economic sense or have a low rate of return in the financial sense. This special capability to engage in concessional lending was reinforced in 1961 when the Bank was designated by the United States to be the administrator of the Social Progress Trust Fund whose resources were meant “to support the efforts of the Latin American countries with a view to achieving greater social progress and more balanced economic growth.”

By December 31, 1977, the cumulative total lending by the Bank in its seventeen years of operation was approximately \$12 billion, net of cancellations and exchange adjustments. The Bank's lending to Latin America during 1977 of \$1.8 billion exceeded the World Bank's lending to the region for the corresponding period. As will be further explained in the following section, many of the regional members of the Bank were of the opinion at the very beginning that the Bank should include, among its instruments for raising living standards, a program designed specifically to promote Latin American exports. That issue was then, and remains now, the subject to much controversy and sharp disagreement between donor and borrowing member-countries of the Bank.

THE EXPORT FINANCING SCHEME OF THE INTER-AMERICAN DEVELOPMENT BANK

At the time of its establishment in 1963, the Export Financing Program of the IDB was limited to financing the export of capital goods (machinery and equipment) and services to the Latin American or “regional” member countries of the Bank. Indeed, except for schemes financed with the resources of the Venezuelan Trust Fund, the program was and is designed to finance intra-regional trade. It is not possible under the program, for example, to finance exports to the United States. Initially, the program was confined to medium-term financing (between 180 days and five years) of capital goods and services. It has since been expanded to allow short-term financing of certain manufactured and semi-manufactured goods such as fertilizers and construction materials.

Under a separate program, financed with resources from the Venezuelan Trust Fund, a number of new features have been introduced, aimed at overcoming the limitations of the program just described. Under the Trust Fund it is possible, for instance, to finance the following: a) exports of capital goods outside the region; b) exports of manufactured and semi-manufactured goods to all member countries of the IMF and Switzerland; and, c) in the case of the least developed of the borrowing members of the Bank, exports of an even wider category of goods than is permitted under a) and b) above (a wide category of primary products). Under both programs, the Bank's role is financial rather than "trade-oriented" and the Bank has no operational relations at the country level with exporters or importers. Briefly, the Bank's Export Financing Program is a "rediscount mechanism" for nontraditional export paper held by borrowing countries. For this reason, the Bank insists that its relations be limited to an institution at the country level which deals in such paper — usually a Central Bank.

The combined programs (Regular and Venezuela Trust Fund) have enabled the Bank to make some thirty-four loans or credits totalling approximately \$200 million to Latin American member countries of the Bank to finance total exports in the approved categories with an invoice value of approximately \$300 million. In addition, much assistance has been directed towards helping member countries organize and strengthen their national systems for the financing of exports.

Under the Program, for the first ten years, lending amounted to a little over \$100 million for nineteen credit operations, financing exports of an invoice value of approximately \$156 million. Both the number of credits financed and the total value of those credits approximately doubled during the three year period between 1974 and 1977. It was in these three years that important modifications to the Program were introduced. It would seem reasonable to deduce, therefore, that relaxation of the limitation on the category of goods which could be financed has had a substantial impact on the demand for this type of financing within the region. Limited experience with the Venezuela Trust Fund also suggests that the removal of the limitation on the destination of exports could likewise have a substantial impact on the demand for this type of financing.

From the beginning, considerable controversy surrounded the operation by the IDB of an export financing program. The program was eventually introduced within the context of the canons that govern development financing by an institution such as the IDB. For example, the IDB suggests that it was established to foster development essentially through project operations. However, over ten years of experience in operating an export financing program within the limitations imposed by a development bank framework has persuaded borrowing countries of the

Bank that the goal of facilitating regional exports on terms competitive with developed countries should be pursued by means of an institution established precisely for that purpose. The Region has made substantial progress towards the establishment of an independent institution which would deal in the rediscounting of export credit papers for exports of all categories to all destinations.

US-CARIBBEAN RELATIONS

As pointed out by Frank and Baird,³ donor country motivations for granting aid seem to fall into four main categories:

1. Achievement of greater national security;
2. Fulfillment of humanitarian obligations to provide assistance to less fortunate nations and peoples;
3. Economic gains brought about either through opening and maintaining access to less-developed country markets on favorable terms or through ensuring access to raw material supplies; and
4. Diplomatic gains achieved through the expansion of national prestige and power.

It is only fair to state that U.S. aid efforts in the Caribbean and elsewhere have not been driven by a single motivation. In fact, it is difficult to identify what these motivations are.⁴ This difficulty arises at any given point in time and borders on the insurmountable when viewed over any significant period of time. Are executive branch motivations, on the one hand, and congressional motivations, on the other, one and the same in the field of development assistance? For example, how does the recipient, let alone a third party, view the continuation of military assistance and the denial of development assistance (and vice versa) to different countries at the same time? Still again, how can the alternating phases of neglect and assistance in the Caribbean be explained?⁵

One can of course strike safe ground and contend that, in the Caribbean Basin and elsewhere, U.S. motivations are marked by security, humanitarian, economic and diplomatic considerations. This mix of motivations is made more complex by regarding the thirty odd countries that make up the Caribbean Basin as some kind of unit. The explanation for this would seem to be justified only on geographical or security

3. See C. FRANK & M. BAIRD, *FOREIGN AID: ITS SPECKLED PAST AND FUTURE PROSPECTS* (date unavailable).

4. See K. SILVERT, *THE CARIBBEAN AND NORTH AMERICA* (1977).

5. I. HAWKINS, *THE CHANGING FACE OF THE CARIBBEAN* (1976).

grounds. It is difficult, for example, to be convinced that U.S. perceptions of its relations with Mexico are in any meaningful respect similar to the perceptions of its relations with Barbados or Anguilla.

The foregoing observations are outlined in order to make a point which, were it not for its historical neglect, would seem too obvious to be worthy of laboring. To be successful, United States initiatives in the area should be marked by consistency and continuity. Yet, the present Caribbean view of U.S. initiatives is that they are propelled, in the main, by periodic "discoveries" of the area. Mindful of the fact that we in the Caribbean anticipate a stable international presence for the Basin in the future, involvement in well-informed dialogue should be advantageous to all parties concerned.
