

AID

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THE U.S. AND THE CARIBBEAN: PARTNERS IN ECONOMIC DEVELOPMENT

The Caribbean island nations, Central America, and the United States are more than just neighbors. They are partners in economic development. As part of the community of the Americas, the U.S. and the Caribbean Basin nations are mutually dependent upon one another for economic growth, security, and prosperity.

Geographically close, the U.S. and the Caribbean Basin are natural trading partners. Florida is nearer to Haiti than to Illinois, New York is closer to Grenada than to Los Angeles. Stability and economic growth in the Caribbean and Central America is important to the United States.

Nearly two-thirds of U.S. seaborne foreign trade passes through the Caribbean, the Panama Canal, or the Gulf of Mexico. Three-fourths of U.S. imported oil, almost half of Alaska's crude oil shipments, and over half of the strategic minerals vital to U.S. industry and the military transit the Caribbean seaways.

The Caribbean Basin is a major market for U.S. industry. Exports total \$7 billion annually and include industrial machinery, transport equipment, chemicals, grain, and manufactured goods. Many Caribbean Basin nations purchase more than 50 percent of their imported goods from the United States. This trade has created more than 150,000 jobs for Americans. U.S. direct investment in the region totals over \$11 billion.

The U.S. is also a major market for Caribbean Basin nations. The United States purchases nearly 50 percent of the exports of many Caribbean Basin nations, including meat, sugar, coffee, bananas, clothing, and minerals like

The security and well-being of the countries of the Caribbean and Central America are vital to the United States and to the Western Hemisphere as a whole.

—President Ronald Reagan



bauxite. Over six million U.S. citizens visit the region annually, fueling the local tourist industry.

In the first 30 years after World War II, most Caribbean Basin nations experienced healthy economic growth. However, as the 1970s came to a close, declining prices for the region's traditional exports, higher costs for essential imports, and increased energy costs created serious balance-of-payments problems and contributed to widespread unemployment in the region. These problems were aggravated by poor government policies that in some cases led to excessive public sector spending and reduced private investment.

The deteriorating economic situation affected U.S. trade with the region—which is one-eighth of all total U.S. foreign trade. Thousands of U.S. jobs were lost when exports to the Caribbean Basin fell by \$12 billion between 1981 and 1983.

The economic downturn increased the flow of immigration into the U.S. Currently, over 200,000 citizens from Caribbean Basin countries immigrate, often illegally, into the United States every year. Not only does this deprive Caribbean Basin nations of the professional and skilled workers needed for development, but it puts a squeeze on the U.S. job market as well.

Unemployment and lack of foreign exchange are among the nagging problems that must be addressed to foster political stability in a region that has been a bright spot for democracy in the developing world. Most of the governments of the region hold regular elections.

To help alleviate the destabilizing economic situation faced by many

AID is firmly committed to the economic recovery and long-term development of Grenada.

—AID Administrator
M. Peter McPherson



Caribbean Basin nations today, the U.S. is supplementing its ongoing economic development activities in the region.

The U.S. Agency for International Development (AID) has increased its regular level of economic assistance to the region. Assistance to the Caribbean Basin has more than doubled over the \$335 million level of 1980. In 1983, AID provided nearly \$770 million in loans and grants to Basin countries. In 1984, that figure jumped to \$923 million. The U.S. is also cooperating with the governments of the region on a number of new initiatives. Chief among these new development efforts is the Caribbean Basin Initiative (CBI), a twelve-year program designed to stimulate economic growth and create jobs in the region through increased trade with the United States. Already, 20 of the 27 Caribbean Basin nations are participating.

The centerpiece of the CBI, which took effect in January, 1984, is an innovative one-way free trade provision allowing most Caribbean Basin exports duty-free trade access to U.S. markets. This is an incentive to entrepreneurs to bring new industries to the region. Other elements of the CBI include tax incentives aimed at bolstering the region's tourism industry and a one-time \$350 million balance-of-payments support and project assistance package, authorized during fiscal year 1982. AID administered the distribution of this one-time economic stabilization package.

Mobilizing the Private Sector for Caribbean Development

After only ten months, the CBI is off to a promising start. U.S. imports from CBI countries are up 17 percent over the same period last year. Non-traditional exports from Caribbean Basin countries are up 14 percent over this same period.

U.S.-provided assistance is reviving the economies of the region and increasing their capacity to buy our exports. For the first four months of 1984, our exports to the region rose by 12 percent, reversing the declines of 1981 and 1982.

This heightened economic activity has spurred job creation throughout the Caribbean as well as in the U.S. For example:

- A large American toy manufacturer has entered into a subcontracting agreement with a Costa Rican firm to produce over \$600,000 worth of merchandise;
- An Arkansas lumber mill has contracted to sell plywood and other mill products to a Haitian manufacturer who will produce furniture for the U.S. market;
- The MacGregor Sporting Goods Company of East Rutherford, New Jersey is relocating its basketball production operation from Taiwan to Haiti. MacGregor will employ 200 Haitian workers. The company will purchase U.S. tanned leather, as well as \$2-3 million worth of U.S. materials for manufacturing at its Haitian facility.

The CBI has also spawned a number of cooperative arrangements between the private sector and federal agencies like AID, the Department of Commerce, and the Department of Agriculture designed to generate new business activity in the Caribbean. One such AID-supported effort, the Project Development Assistance Program (PDAP), promotes trade and investment opportunities in the English-speaking Caribbean. So far, PDAP has led to investments and contracts employing over 3,000 Caribbean workers in new enterprises, often in non-traditional industries like computer products, sports equipment and household chemicals. Next year, employment generated by PDAP projects is expected to double.

AID also helped link the Chicago Association of Commerce and Industry with the Chambers of Commerce of Costa Rica and the Dominican Republic, resulting in the introduction of six new products to the midwestern United States market.

Besides promoting new business opportunities for U.S. firms in Caribbean nations, AID is helping Caribbean companies enter the U.S. market. AID-supported U.S. private and voluntary organizations like Partners of the Americas have held trade fairs like one recently in New York for 20 manufacturers from Barbados.

In their first-ever foray into the U.S. market, the Barbadian firms sold nearly all of their products. The trade fair also fostered several long-term relationships between Barbadian firms and U.S. companies, allowing the U.S. firms to enter an overseas market for the first time.

The myriad of efforts which make up the CBI are creating a new business climate in the region. The CBI is popular with government leaders and businessmen alike. Notes Clarence Seignoret, President of Dominica, "Washington's Caribbean Basin Initiative represents the first recognition that the region's problems required a

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comprehensive approach, and that the United States had to play a significant role in the region's future."

Says Frederic Brooks, Chairman of MacGregor Sporting Goods, "The message that's getting across is that the Caribbean is going to be a reasonable place to do business."

Toward Stability Through Development

A vital commercial sector requires a supportive infrastructure. This includes a healthy workforce, skilled managers, transportation and communication networks and other basic elements that form the foundation for sustained economic growth. U.S. foreign assistance plays a significant role in helping build this needed infrastructure throughout the region.

In agriculture, AID promotes commercial production of exportable crops to help Caribbean nations earn foreign exchange. AID works with organizations like the Caribbean Development Bank to provide credit to farmers, and increase their access to markets through the construction of rural feeder roads. Advances in crop breeding and productivity are promoted by groups like the Caribbean Agricultural Research and Development Institute, which receives AID support. In Honduras, AID is assisting the Honduran Coffee Institute improve technology so small coffee farmers can bolster production of their country's number one cash crop. By introducing new varieties of coffee plants and new planting techniques, 500-1000 percent increases in yields have been obtained.

Improving primary education to raise literacy levels also helps build a foundation for development. Beyond efforts like working with the University of the West Indies and the Caribbean Examinations Council to improve school curricula, AID's educational programs include management and skills training enabling Caribbean workers and businesses to become more competitive in the world economy.

For example, AID is working with the Organization of American States in a program providing saleable skills and new jobs to unemployed and underemployed youths in St. Lucia, Barbados, and Dominica.

Efforts like these enable today's workers to take advantage of new job

The needs of the Caribbean Basin are urgent. The United States has an opportunity to play a constructive role in helping these countries shape a better future.

—Secretary of State
George Shultz



opportunities, while helping assure brighter economic futures for their countries.

U.S. foreign assistance supports a wide variety of health services in the region as well. The primary emphasis of the AID effort centers on disease control, improving water quality and sanitation, and reducing infant mortality. Increasing access to health care not only improves the quality of life, but helps raise the productivity of the region's workforce by reducing man-hours lost to illness. In Honduras, AID's oral rehydration therapy program has reduced the child mortality rate due to diarrhea by 40 percent.

Improving health care, increasing literacy, and promoting economic growth are all goals of U.S. foreign assistance efforts in the region. Through the CBI, the U.S. and the nations of the Caribbean Basin are working together to bring about a more prosperous and stable future.

Grenada: Taking Action to Promote Recovery

Some nations in the region face special difficulties on the road to development. In such cases, the U.S. has made an extra effort to improve the prospects for success. One such nation is Grenada. The United States

and AID have moved swiftly to promote recovery there. This effort will help Grenada take better advantage of development opportunities like the CBI.

The joint U.S./Caribbean rescue mission one year ago helped Grenadians restore order after chaos rocked the island in the wake of an attempted coup.

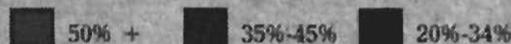
Grenada's economy had stagnated under the government of Maurice Bishop. During Bishop's tenure, overall economic growth fell 4 percent. What growth did occur primarily centered on the public sector, including Cuban-sponsored military construction. Agricultural production fell 6.7 percent during Bishop's last year in office. Since 1978, banana production declined 17,000 tons. Foreign exchange earnings from cocoa, Grenada's most important cash crop, dropped from \$10 million in 1979 to \$4 million in 1983. Grenada's infrastructure had suffered from several years of neglect, making many roads virtually impassable and wreaking havoc with the water and sewage systems, and the country's electrical generating facilities.

Immediately after the rescue mission last October, AID provided emergency supplies to Grenada. More than



THE CARIBBEAN BASIN: An Important Market for U.S. Goods

U.S. exports to Caribbean Basin Nations shown as percentage of each nation's imported goods.



\$475,000 worth of U.S. electrical generators, water tanks, medicines, food, and other supplies were delivered within weeks. Then, teams from AID, the Department of Defense, and the Atlanta Center for Disease Control made surveys of the island's needs. Subsequently, a \$1.7 million disaster rehabilitation program was initiated.

Chief among the rehabilitation efforts was partial restoration of 60 miles of roadway on the island. More

than \$500,000 was allocated to the task, employing 500 Grenadians in a major effort to restore vital links between commercial and population centers on the island. The U.S. also helped rehabilitate 44 of the island's school buildings, which had been neglected since 1979. Two new generators were ordered, together with power poles, electrical wire, and transformers to upgrade electric power. Sanitation facilities were also

improved. This effort is being further expanded by a new \$6 million infrastructure rehabilitation program.

Besides the \$2 million in emergency relief from the U.S. Office of Foreign Disaster Assistance, AID launched a \$19 million effort to complete the international airport at Point Salines. Overall, the U.S. is devoting \$57.2 million to revive Grenada's economy.

Grenada now participates in the CBI, and AID has been actively promoting private sector involvement in the island's development. Last February, AID sponsored a five-day investment mission to the island for a dozen interested U.S. companies considering projects in Grenada. Among the proposed ventures are a half-million dollar rice milling operation in partnership with a Grenadian firm, an integrated broiler operation capable of producing six million pounds of dressed chicken annually, and a plant producing canvas maulhags.

Already, the Ingle Toy Company of New Jersey has set up a wooden toy manufacturing facility in Granada. Nutmeg is also being marketed in U.S. supermarkets.

Such ventures by private firms complemented by appropriate changes in government policies will bring about the jobs and foreign exchange Grenada's economy needs to foster future economic growth and political stability. They complement the work of the U.S. foreign economic assistance program, which helps lay the groundwork for progress in the developing world.

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