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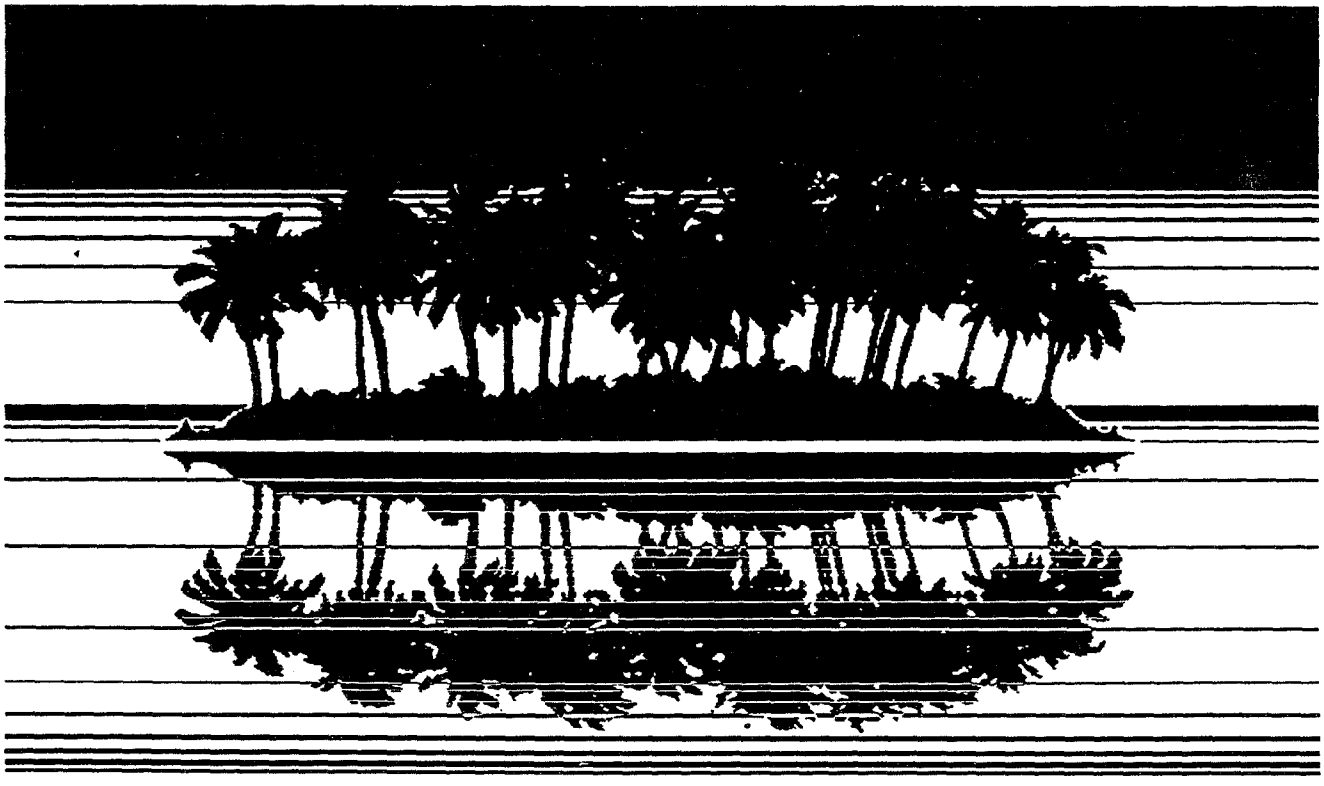
Economic Assistance Strategy for the Caribbean 1992-2000



U.S. Agency for International Development

Washington, D.C.
August 1992

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ECONOMIC ASSISTANCE STRATEGY FOR THE CARIBBEAN 1992-2000

EXECUTIVE SUMMARY

The Caribbean -- a region rich in cultural, linguistic, and developmental diversity -- faces an unprecedented challenge in the 1990s. The profound economic and political changes that are occurring around the world and in the Western Hemisphere will have a direct impact on the future of the Caribbean nations. As other countries liberalize their economies and strengthen their democratic institutions, Caribbean nations must adjust as well, or they risk being left behind. Caribbean leaders recognize these trends and many are implementing reforms essential for broadly based, sustainable economic growth and stable, democratic societies.

Economic development strategies that depend upon foreign assistance and special trade preferences are no longer viable. Global assistance levels from the international donor community are declining, including U.S. levels, and the pressing needs of other regions are competing with the Caribbean for access to those resources. The value of preferential trade regimes will gradually erode as trade barriers are reduced for others. As a result, Caribbean nations will have to depend more on increased competitiveness in international trade and private investment flows to generate the economic growth needed for sustained development.

In order to enhance their capacity to produce and trade, Caribbean nations will have to implement more effective economic integration to achieve economies of scale and bargaining leverage. Reforms at the national level will be required, as well, to eliminate economic and business distortions and reduce obstacles to business development. Areas of competitive advantage will have to be cultivated and strengthened, such as the environment for tourism. A healthy and educated workforce and popular participation in vigorous democratic institutions will be necessary to assure political stability and preservation of broad access to the benefits and opportunities of economic growth.

The United States, through the Enterprise for the Americas Initiative (EAI), has called for an eventual hemisphere-wide free trade zone, enhancing trade and investment opportunities for all nations in the Western Hemisphere, including the Caribbean. Within the framework of the EAI, U.S. economic assistance for the Caribbean in the 1990s will be based on the achievement of broad-based, sustainable economic growth and the strengthening of stable, participatory democracies. The U.S. Agency for International Development (USAID) will pursue these objectives through its own bilateral and regional programs, and through heightened collaboration with other U.S. government agencies, multilateral development institutions, and other bilateral donors. USAID programs will increasingly support regional approaches, working with both government and private organizations in the Caribbean.

To stimulate economic growth, USAID will: (a) help Caribbean nations liberalize their economies to increase and diversify trade and investment and expand opportunities; (b) support efforts to improve management of natural resources; and (c) assist in human resource development.

To strengthen democracy, USAID will help Caribbean nations promote and solidify democratic values and institutions through the strengthening of: (a) the competence, accountability and responsiveness of key government institutions; and (b) public participation in democratic processes and institutions.

By the year 2000, the strategy emphasizes the following goals, to be realized with international community support:

- *The Caribbean region will have a more active role in the world economy, with market-oriented economic polices that lead to increases in employment and productivity based on the region's comparative advantages.*

- *Government policies will increasingly focus on facilitating business development, encouraging sound management of the natural resource base, and broadening the economic base by improving access to quality basic education and health care.*

- *The private sector will be more disposed to responding to the improved policy environment with increased private investment, employment and income, and with a diversification of the industry base, particularly in the manufacturing, service and agri-business sectors.*

- *The entire Caribbean region will be characterized by more stable, more participatory democracies. Free and open national and local elections will be the norm; judiciaries will increase respect for the rule of law and human rights; legislatures will function more effectively; the influence of the military in political and economic processes will be diminished; civic participation in the democratic process will be broader and more unfettered; and the press and other media will be freer and a more credible force for informing public opinion.*

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II. INTRODUCTION: THE CARIBBEAN IN A CHANGING WORLD

A. A CHANGING WORLD DEVELOPMENT ENVIRONMENT

The decade of the 1990s is witnessing some of the most fundamental changes in world political and economic systems since the Second World War. Countries are moving rapidly to adopt increasingly democratic political systems and economic competition is replacing Cold War political tensions and related conflict. Trade is becoming increasingly liberalized, leading to a more efficient world-wide economy which maximizes national and regional comparative advantages and more rapidly improves living standards for all peoples.

The changes are equally profound and pervasive in the Western Hemisphere. Popularly elected governments are now the accepted norm, market-based economic policies have achieved renewed stability, and regional cooperation has been revitalized on the basis of free trade among neighboring countries.

In the Caribbean region, a number of countries are moving to adjust their economies toward greater competitiveness and dynamism. A renewed effort is underway to integrate the economies in the Caribbean in order to improve the region's competitive stature in the world economy.

The Enterprise for the Americas Initiative

In order to promote economic growth and political stability in Latin America and the Caribbean, the United States inaugurated the Enterprise for the Americas Initiative (EAI) in June 1990. The EAI aims to forge a mutually beneficial partnership of free market reform through trade expansion, increased investment, and debt reduction. In announcing the EAI, President Bush set the tone for future U.S. development policy for the region by noting that ultimately "prosperity in our hemisphere depends on trade, not aid" and that "the future...lies with free government and free markets."

The United States is actively pursuing the long-term EAI objective of creating a hemisphere-wide free trade area. The vigor and enthusiasm of the response by the nations of Latin America and the Caribbean is demonstrated by the conclusion of trade and investment framework agreements with more than thirty countries, including a multilateral agreement with the Caribbean Common Market (CARICOM).[1] In recognition of significant progress toward economic reforms conducive to more liberalized investment climates, the U.S. in 1991 reduced the stock of official debt in the Caribbean by $429 million ($113 million for Guyana, $99 million for Haiti, and $219 million for Jamaica).

[1] CARICOM member-states include: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

While the EAI envisions an eventual hemisphere-wide free trade area, a number of trade cooperation arrangements have already been established, or are under negotiation, in the Western Hemisphere, demonstrating the pervasiveness of the liberalized trade trend which is underway. Canada, the United States, and Mexico have negotiated a North American Free Trade Agreement (NAFTA); the Central American Common Market is being revitalized; Colombia, Mexico and Venezuela, known as the Group of Three (G-3), have established a trade relationship; MERCOSUR -- a common market among Southern Cone countries (Argentina, Brazil, Paraguay, and Uruguay) -- was launched in 1991; and the Andean countries have agreed to consolidate their grouping into a single market. Inter-regional trade and investment liberalization arrangements are also increasing. Mexico, in addition to its NAFTA and G-3 relationships, is developing free trade arrangements with Chile, Central America and the Caribbean.

B. THE CHALLENGE FOR THE CARIBBEAN

This period of world-wide change and transition, including within the Western Hemisphere, poses a special challenge for the diverse countries of the Caribbean. The region's economies have been among the smallest, most highly protected and import-dependent in the Hemisphere. Their relatively similar economies and their natural resource bases are vulnerable to external shocks and natural disasters.

In contrast to the region's common characteristics, living standards and growth prospects of the region vary dramatically. Haiti and Guyana are the two poorest countries in the Hemisphere -- yet, other Caribbean countries have the highest per capita gross domestic product (GDP) south of the Rio Grande (see Tables 1a and 1b). Any regional review must acknowledge this diversity: in culture, language, and colonial heritage; in living standards, economic status, and health and education indices; and in legal and political systems.

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Table 1a: Caribbean Socio–Economic Profile
Independent Economies

Country	Demographics: Area Km2	1991 Pop. in (000)	1991 Pop. Growth Rate	Socio–Economic Development Indicators: 1990 GDP per Capita (U.S. $)	1990 Human Development Index	1987–91 Real GDP Growth Rate	1991 Under 1 Infant Mortality (per 1000)	1990 Rate of Literacy (%)	Trade: 1991 U.S. Trade with the Caribbean ($Millions) Exports	Imports	Total
Group 1 – Large Low–income Economies											
1. Haiti	28,000	6,598	1.8%	370	0.296	–2.5%	92	53	392.1	284.3	676.4
2. Guyana	215,000	744	–0.5%	340	0.589	–2.8%	54	96	86.1	73.7	159.8
3. Dominican Republic	49000	7,343	2.3%	830	0.622	–0.1%	61	83	1,742.7	1,976.6	3,719.3
Group 2 – Mixed Profile											
1. Jamaica	11,000	2,392	0.7%	1,631	0.761	0.6%	16	97	962.9	561.2	1,524.1
2. Belize	23,288	195	2.4%	1,973	0.700	11.7%	50	93	114.2	35.6	149.8
3. Cuba (est.)	110,860	10,735	1.1%	1,170	0.754	N/A	11	94	1.4	0.0	1.4
4. Suriname	166,120	402	1.4%	3,050	0.792	2.2%	32	95	134.5	51.7	186.2
5. Trinidad and Tobago	5,000	1,285	1.1%	4,127	0.876	3.4%	15	96	468.9	819.7	1,288.6
6. Bahamas	14,146	252	1.4%	10,565	0.920	0.2%	26	95	720.9	465.3	1,186.2
Group 3 – Small Higher–income Economies											
1. St. Vincent	394	114	1.4%	1,620	0.636	6.7%	25	82	43.5	7.5	51.0
2. Grenada	315	84	–0.4%	2,000	0.751	4.4%	34	96	31.6	8.1	39.7
3. St. Lucia	625	149	1.7%	2,414	0.699	3.5%	21	82	88.6	21.7	110.3
4. Dominica	759	86	1.7%	2,049	0.800	3.9%	18	94	42.5	5.9	48.4
5. St. Kitts and Nevis	310	40	0.1%	3,559	0.719	5.4%	28	90	35.0	15.6	50.6
6. Antigua and Barbuda	284	64	0.3%	4,985	0.832	4.6%	22	95	74.7	3.9	78.6
7. Barbados	436	255	0.1%	6,683	0.945	0.7%	11	98	166.5	31.5	198.0

Table 1b: Caribbean Socio–Economic Profile
Dependent Economies

Country	Area Km2	1991 Pop. in (000)	1991 Pop. Growth Rate	1990 GDP per Capita (U.S. $)	Rate of Literacy (%)	1991 U.S. Trade with the Caribbean ($ MILLIONS) Exports	Imports	Total
1. Anguilla (U.K.)	91	6.9	0.6%	5,906	95	11.4	1.4	12.8
2. Cayman Islands (U.K.)	260	27.5	4.2%	13,670	98	116.4	17.6	134.0
3. Guadeloupe (France)	1,780	345	0.8%	3,300	90	83.4	1.5	84.9
4. Martinique (France)	1,100	345	0.9%	6,000	93	36.6	0.8	37.4
5. Montserrat (U.K.)	100	12.5	1.0%	6,133	97	8.1	2.2	10.3
6. Netherlands Antilles	960	184	0.2%	5,500	94	628.8	620.8	1,249.6
7. Puerto Rico	9,104	3,295	0.1%	6,100	89	10,700	18,500	29,200
8. Turks and Caicos (U.K.)	430	10	2.2%	5,669	98	39.8	4.2	44.0
9. Virgin Islands (British)	150	12.4	1.1%	9,946	98	41.7	2.6	44.3
10. Virgin Islands (U.S.)	352	99	0.7%	9,000	90	1,226.0	2,645.0	3,871.0

SOURCES and NOTES for TABLE 1a:

1. A.I.D. Report: Latin America and the Caribbean, Selected Economic and Social Data, April 1992 (Population, Population Growth Rate, and Real GDP Growth) "Real GDP Growth" is a constant annual rate. Guyana, Belize and St. Kitts use 1987–90; Suriname, Trinidad and Tobago, and Bahamas use 1987–89.
2. Caribbean Development Bank (GDP per Capita). GDP per Capita figure for Cuba is a GNP per Capita figure from UNICEF and is a 1989 estimate. GDP per Capita figures for Suriname, Haiti, and the Dominican Republic are "GNP per Capita" from the World Bank's "World Development Report".
3. Department of Commerce (U.S. Trade with the Caribbean)
4. World Development Report (Size)
5. United Nations (Under 1 Infant Mortality and Human Development Index–HDI): The HDI combines national income with adult literacy and life expectancy to give a composite measure of human progress. Under One Mortality Rate is the annual number of deaths of infants under one year of age per 1,000 live births.
6. UNICEF (Rate of Literacy): The percentage of persons aged 15 and over who can, with understanding, both read and write a short simple statement on everday life. Coverage rates other than 1990 are: Grenada(1984), St. Kitts(1970), and Trinidad and Tobago(1985). Rate for the Bahamas(1986) is from the CIA's "World Factbook".

SOURCES and NOTES for TABLE 1b:

Sources:

1. The World Factbook, 1991 (Area, Population, Population Growth, and Rate of Literacy)
   Literacy rate coverage includes: Anguilla(1984), Cayman Islands(1970), Guadeloupe(1982), Martinique(1982), Netherlands Antilles(1981), Turks and Caicos(1970), British Virgin Islands(1970), Puerto Rico(1980), and Montserrat(1970). The rate for the U.S. Virgin Islands is from the CIA's "World Factbook, 1989".
2. Department of Commerce (U.S. Trade with the Caribbean): except Puerto Rico (Puerto Rico Economic Development Administration) and the U.S. Virgin Islands (Bureau of Economic Research of the Virgin Islands). Trade with the U.S. Virgin Islands are 1990 figures.
3. Caribbean Development Report (GDP per Capita): except Guadeloupe(1987), Martinique(1986), Cayman Islands(1989), Netherland Antilles(1988), Puerto Rico(1989), and U.S. Virgin Islands(1985) which are from the "World Factbook, 1991". Puerto Rico uses GNP per capita instead of "GDP per Capita".

The Regional Cooperation Challenge

The recent world economic and political changes are drawing together the Caribbean nations, despite individual differences. In a paper presented to CARICOM in July 1989, the Honorable A.N.R. Robinson, then Prime Minister of Trinidad and Tobago, concluded that "against this background of historic change and historic appraisal, the Caribbean could be in danger of becoming a backwater, separated from the main current of human advance into the twenty-first century...." It is critical that the Caribbean nations address the new global challenges by deepening regional integration in order to prepare their peoples for the future. Many of the region's countries have small populations and need economies of scale, pooled technical expertise and common services.

The Economic Challenge

The Caribbean's traditional reliance on preferential trade arrangements and foreign aid from Europe and North America is becoming less viable. The focus of EAI on a region-wide free trade area offers far greater long-term benefit to the Caribbean countries, if they adopt the reforms necessary to be eligible. International donor assistance levels are small compared to the potential gains from increased trade and investment flows, as well as from official debt reduction. The Caribbean cannot rely upon the continuation of relatively high assistance levels, as changing world conditions create new priorities.

The Caribbean region is reacting slowly to this situation and has yet to achieve either competitive integration into the world trade system or sustainable long-term growth. Economic productivity tends to be low, and production generally is not based on economic comparative advantage, especially in agriculture. Significant local economic distortions, including tariffs and quotas, remain in place. With little incentive to the domestic producer to be more efficient, many Caribbean economies are characterized by high-priced domestic goods, an inability to export in the open market, and diversion of resources toward inefficient production.

In June 1992, the Barbados-based Caribbean Association of Industry and Commerce (CAIC) recommended that a comprehensive study of the implications of a lower regional tariff on foreign imports. "CARICOM business have to focus on a future in which increased productivity, consistently high quality, and overall international competitiveness are the essential guidelines," CAIC reported.

As world trading conditions continue to liberalize, failure to further free trade can be expected to have serious adverse effects on the region. Conversely, improvements to the trade regime, as witnessed by results observed in neighboring Central America and Mexico, can be expected to have a major positive impact on diversification, investment, employment and, importantly, national household income and welfare.

The Political Challenge

The English-speaking states in the Caribbean generally have strong traditional, democratic structures. The Dominican Republic has also established a practice of peaceful transitions of duly-elected governments. But for a number of other Caribbean nations, problems are evident which present both challenges and opportunities. Haiti is currently engaged in the complex process of attempting to restore constitutional democracy. Guyana continues to struggle with the challenge of institutionalizing free and fair elections. And, for the first time in over thirty years, change in Cuba, with consequences for the whole Caribbean region, appears to be on the horizon.[2]

It is important for all nations of the Caribbean to establish and strengthen democratic institutions as commonly shared democratic values and basic human rights are becoming a critical component of regional integration. The opportunities for increased economic growth through regional integration are enhanced through participation of the people at all levels in the democratic process. There is growing evidence that open societies that value individual rights, respect the rule of law and have open and accountable governments, will provide better opportunities for sustained economic development than closed systems which stifle individual initiative.

[2] Because the profound implications of an end to the current regime in Cuba cannot be calculated at this time, Cuba is not addressed in this strategy.

III. ECONOMIC ASSISTANCE STRATEGY FOR CARIBBEAN PROGRAMS IN THE 1990s

A. MOVING TOWARD A SHARED VISION

A shared vision of economic and political development in the Caribbean will require sensitivity, understanding and effort from all sides. Donors and recipients are cognizant of increasingly constrained foreign assistance budgets and the eroding value of trade preferences for the region. Partially on their own initiative, and partially as a reaction to external trends, the Caribbean nations are becoming aware they must look to private sector trade activity as the motor of their own development. This requires substantial rethinking of the respective roles of public and private sectors.

U.S. economic assistance programs for the Caribbean[3] need to be responsive to this evolving global context of public and private sector change, and work to implement the vision of the EAI.

The Future of Regionalism

During the CARICOM Heads of Government Conference in June-July of 1992, the heads of government reaffirmed their commitment to the creation of a CARICOM single market and economy. This commitment recognizes that in order for the Caribbean nations to assure long-term economic growth and in order to improve their competitive position in the world economy, regional cooperation and integration are critical.

The West Indian Commission, established by CARICOM's Grand Anse Declaration of 1989, submitted its final report to the CARICOM June-July 1992 Conference, in which 200 recommendations are outlined for addressing the challenges facing the Caribbean region, proceeding with regional integration, and preparing the region's economies for long-term growth. The report was favorably received and the newly appointed chairman of CARICOM, Trinidad and Tobago Prime Minister Patrick Manning, called for early implementation of the recommendations.

U.S. assistance programs will increasingly support regional approaches to common objectives in the Caribbean in the 1990s at three different levels:

- ***Sub-regionally***, USAID will support efforts to enhance integration within CARICOM, and will encourage cooperation on the island of Hispaniola.

[3] USAID-assisted countries in the Caribbean currently include Haiti, Dominican Republic, Jamaica, Belize, and the six Organization of Eastern Caribbean States (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines). Guyana, Barbados, Suriname, and Trinidad and Tobago are occasional recipients of minor assistance from USAID, essentially through regional programs.

- On a ***Caribbean-wide*** basis, USAID will support greater collaboration among CARICOM, Haiti, the Dominican Republic, and other Caribbean islands. The West Indian Commission report calls for a "widening of the process of integration" to the rest of the independent island states of the Caribbean Sea, as well as the Commonwealth of Puerto Rico, the island communities of the French West Indies, the Dutch Islands of Aruba and the Netherlands Antilles, the U.S. Virgin Islands and the remaining British dependencies. Puerto Rico, already a center for trade and finance in the Caribbean, has the potential to become a major force in some aspects of broader regional cooperation.

- USAID will also support stronger ***inter-regional*** cooperation, especially with countries that border the Caribbean Sea. The longer-term implications of current U.S. free trade negotiations with Mexico and the EAI objective of a hemisphere-wide free trade zone should lead to this type of regional collaboration in the future. The West Indian Commission report also recommends that CARICOM "reaching out" to Latin American countries of Central and South America whose shores border the Caribbean Sea. The convening in Honduras in January 1992 of the first Ministerial Conference between CARICOM and the Central American countries, as well as the development of a trade and investment agreement between Venezuela and CARICOM, are examples of how CARICOM's "reaching out" effort is already underway.

B. FRAMEWORK FOR ECONOMIC ASSISTANCE IN THE CARIBBEAN IN THE 1990s

In the Caribbean, as in the rest of the Hemisphere, the longer-term potential for development is based on all countries participating actively in reciprocal trade and investment relationships. The EAI provides a framework which can help guide the needed restructuring. The further liberalization of Caribbean economies will eliminate over time the economic distortions that discriminate against sustainable growth and limit individual opportunity. Increased tax revenue from economic growth will enable governments to finance public investment and services in education, health, nutrition, and other aspects of the quality of life that are necessary to improve living standards and support sustained growth. Increased attention to sound management of the natural resource base--one of the Caribbean's unique assets--will help assure that it remains a competitive advantage, leading to lasting economic growth and well being for future generations.

Broad-based and sustained economic growth will create jobs, increase income and improve the overall living standard for the Caribbean. At the same time, this growth will create larger markets in which U.S. businesses can export and invest, creating additional jobs and revenues in the United States. U.S. economic assistance is, thus, mutually beneficial. Additionally, the emphasis on free trade and sustainable private sector-led growth will tend to lessen dependence on external donor assistance.

The longer-term potential for development in the Caribbean is also based on full participation of people at all levels in the democratic process. The guarantee of self-determination, human rights, the rule of law, and political freedom will not only enhance individual opportunity but will strengthen the prospects of economic growth and prosperity.

Within the framework of the EAI, U.S. economic assistance to the Caribbean will be based on the following premises:

- USAID will participate in economic policy dialogue in the region to encourage reforms without which liberalized trade and development of a competitive investment climate cannot take place;

- USAID will work closely with Caribbean and U.S. businesses interested in trade and investment opportunities in the region, providing information, contacts, and targeted outreach services (e.g., trade missions and seminars);

- USAID will support sound natural resource management and development of the human resource base, which are critical to sustained economic growth, political development, and the broadening of participation in the benefits of growth;

- USAID will assist Caribbean efforts to strengthen democracy;

- in order to maximize the impact of its limited resources, USAID will seek to complement other donor flows to the region; and

- by virtue of the presence of its missions throughout the region, USAID will serve as a point of coordination with regional institutions, other U.S. government agencies and bilateral donors, and international financial institutions.

C. TARGETS FOR THE YEAR 2000

Within the framework outlined above, the Caribbean region can be a vibrant, increasingly prosperous and democratic region by the year 2000. With a combination of U.S. assistance and complementary, adequate international support, the following broadly stated targets should be attainable:

Broad-based, Sustainable Economic Growth

- The Caribbean region will have a more active role in the world economy, with market-oriented economic policies that make possible steady and sustainable increases in employment and productivity based on the region's comparative advantages.

- Government policies will increasingly focus on facilitating, rather than impeding, business development and will provide a more level playing field for all entrepreneurs within the framework of the rule of law.

- Government policies will encourage sound management of the natural resource base necessary to long-term economic viability and growth.

- There will be steady movement toward broadening the economic base by improving access to quality basic education and health care.

- The private sector will be more disposed to responding to the improved policy environment with increased private investment, employment and income, and with a diversification of the industry base, particularly in the manufacturing, service, and agri-business sectors.

Stable, Participatory Democracies

- Free and open national and local elections will be the norm.

- Strengthened judiciaries will increase respect for the rule of law and human rights, and will provide greater protection for the security of person and property.

- Legislatures will function more effectively.

- The influence of the military in political and economic processes will be diminished.

- Civic participation in the democratic process will be broader and more unfettered.

- The press and other communications media will become freer and increasingly become a more credible force for informing public opinion.

Some base-line data are included in Tables 1a and 1b. Specific quantitative goals will be reflected in individual USAID country strategies and annual Action Plans. This is particularly important due to the diversity that exists in the region in the quality of life, conditions and prospects for economic growth, and the stability and development of its democratic institutions.

IV. STRATEGY OBJECTIVE NUMBER ONE: ACHIEVEMENT OF BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH

The principal objective of USAID's strategy for the Caribbean region is to support Caribbean nations in their efforts to achieve broad-based, sustainable economic growth. USAID has identified three areas of focus which will facilitate that growth: (a) the rapid liberalization of Caribbean economies to increase trade and investment, (b) the optimal management of natural resources to sustain growth and employment, and (c) complementary human resource development.

A. INCREASED TRADE AND INVESTMENT

Constraints

The principal constraints to increased trade and investment in the region include:

- distorted resource allocations,
- limited world market competitiveness,
- legal and regulatory obstacles,
- inappropriate public and private sector roles,
- obstacles to (or suspicion of) foreign investment,
- fragile natural resource base, and
- markets unused to competition.

Strategic Elements

To address these constraints, USAID proposes a program of assistance based on five strategic elements:

1. To further liberalize participation in regional and global trade

USAID will collaborate with multilateral donors in assisting Caribbean private and public sectors liberalize and harmonize their trade regimes. Key areas of cooperation include:

- reduction (and eventual elimination) of tariffs, quotas, and non-tariff barriers;
- access to all resources, including foreign exchange, through market-based systems;
- development of growth-enhancing fiscal systems, through decreased reliance on taxation of international trade;

- greater budgetary control, rationalized public expenditures, and greater efficiency in social accounts;
- development of competitive financial markets; and
- development of attractive investment climates.

Assistance will be provided at both the country and regional level, working through both government and non-governmental organizations. USAID will also work to stimulate greater awareness of, and public debate on, the need for growth-oriented trade and investment policies.

2. ***To overcome legal, regulatory, and judicial obstacles to a competitive business environment and enhanced productivity***

USAID will support national and regional efforts to streamline and harmonize the business regulatory environment. Close cooperation with business, governments, selected regional organizations (e.g., University of the West Indies, Caribbean Law Institute, CAIC), as well as the interaction with other U.S. agencies, is required to identify bottlenecks to business growth and to work toward their elimination on a national and regional basis. Areas of particular focus will be:

- the adoption of international standards of accounting and auditing;
- customs and port handling;
- transparency in the administration of business, taxation, and investment codes;
- the recognition and protection of property rights, including intellectual property;
- legal and judicial systems which fairly and efficiently administer commercial laws and business regulations; and
- the use of market-based pricing mechanisms in the allocation of resources.

3. ***To stimulate private investment in the Caribbean***

In collaboration with other U.S. and international agencies, the USAID will:

- encourage wider private sector participation in the economy and assist the public sector in reducing its control and ownership of productive sectors;
- assist individual nations and groups of nations in their efforts to become more efficient through streamlined and decentralized administration, private or non-governmental organization provision of public services, appropriate cost sharing, and divestiture of parastatals;

- help individual nations and groups of nations create an investment climate which facilitates private investment, and encourage those nations to utilize the Multilateral Investment Fund and investment and financial sector loans (administered by the IDB and the Caribbean Development Bank (CDB)) to improve the investment climate on a regional basis;

- facilitate the private sector's policy, business, and regulatory dialogue with governments;

- work closely with Caribbean and U.S. businesses interested in trade and investment opportunities in the region, providing information, contact, and targeted outreach services (e.g., trade missions and seminars) to facilitate commercial linkages; and

- foster public and private understanding of the linkages between trade and investment efforts and necessary supporting infrastructure, including requirements for financing (by international financial institutions or local capital resources), cost recovery, privatization, efficient management, and maintenance.

4. ***To help the Caribbean private sector achieve greater competitiveness***

USAID will assist the Caribbean nations to strengthen areas of comparative advantage and to enhance private enterprise efficiency and collaboration to improve upon that advantage. Specifically, USAID will:

- assist the private sector in assuring that marketing information, new technology, and service training is widely available in competitive sectors; and

- foster privatization and public and private sector partnerships to enhance investments in human resources, facilitate technology transfers and adaptations, and improve business management, on a sustainable, cost-sharing basis.

5. ***To ensure that all segments of the populace participate in and benefit from trade and investment expansion***

USAID will monitor the social and equity impact of trade and investment expansion, designing selected interventions, as necessary, to encourage optimal participation by all in the benefits of growth. Trade and investment expansion will produce employment gains for the poorer segments of society in the long run. However, since such an expansion based on comparative advantage is a sharp departure from current practice, some of the more economically disadvantaged may be adversely affected in the short-term transition. Consequently, USAID will:

- finance analyses and develop baseline data on wages, incomes, and expenditures to assist in monitoring impact on various segments of the population;

- help to ameliorate short-term market imperfections, as required, through support of small and micro-enterprise sustainable credit and technical assistance programs; and

- join with international financial institutions in transition efforts to cushion the short-term impact of adjustments on the poor.

B. SUSTAINED NATURAL RESOURCES MANAGEMENT

Constraints

The wise use of natural resources is crucial to achieving sustainable development. The region's fragile natural resource base is one of its unique assets and should provide excellent opportunities for development, but will require special care to ensure its sustained use. For example, the strong comparative advantage in marine-based development can be undermined by the soil erosion, sewage, and fertilizer run-off which kill coral reefs, damage fisheries, and destroy the resource base upon which the tourism industry depends.

Selected political and social characteristics of the region also contribute to special natural resource vulnerability:

- environmental degradation tends to be greatest in coastal areas, where most people live and earn their livelihood;

- small countries are challenged by the high cost of effective resource management and should look for ways to work collectively to achieve economies of scale;

- environmental issues frequently transcend national boundaries (e.g., Hispaniola and a shared Caribbean Sea); and

- weak public and private institutions and the lack of appropriate technologies hamper sustainable economic growth.

Strategic Elements

1. To recognize the economic opportunities provided by natural ecosystems and to promote their conservation and judicious use

USAID will finance the training and institutional development of public entities in support of efforts to integrate environmental considerations into overall economic decision-making. Particular emphasis will be placed on strengthening economic accounting methods and improving market functions to reflect the true costs of resource degradation. Current problems include pricing policies that undervalue common goods, subsidies, inadequate rents and user fees, and tax policies that lead to inefficient use of resources.

2. *To stimulate key environmental policies and reforms*

USAID will promote public and private awareness of environmental issues in an effort to improve local policies. Environmental education in schools, universities, business fora, local communities, and governments will help develop an informed citizenry that plays a more effective role in defining the development agenda and encouraging formulation of key environmental protection policies and necessary reforms. By increasing participation and empowerment of citizens in environmental initiatives, the laws, regulatory systems, and enforcement mechanisms to support sustainable use of resources and to improve the human environment will be strengthened.

3. *To support governmental capacity to formulate and implement environmental and natural resource management policies*

USAID will assist public entities to:

- establish baseline monitoring systems and collect and analyze data;
- provide environmental education and training for employees and managers of policy and planning units;
- strengthen capacities to enforce environmental and natural resources policies, laws, and regulations; and
- improve coordination among institutions responsible for environmental protection and resources management.

In this effort, Caribbean experience, knowledge, and expertise must be fully utilized to harmonize environmental protection laws on a regional basis.

4. *To develop and strengthen regional institutions addressing environmental and natural resource management issues*

USAID will collaborate with CARICOM:

- to support the program expansion of a regional entity involved in environmental monitoring, data analysis, provision of services to national environmental protection agencies, and identification of viable environmental and economic policy alternatives; and
- to stimulate regional information exchanges to expand knowledge of policy and technology options.

5. To support disaster preparedness and mitigation

A special characteristic of the Caribbean islands is their vulnerability to natural (e.g., hurricane) and man-made (e.g., oil spill) disasters, on a fairly regular basis. Inadequate prevention and mitigation result in health problems, injury and loss of life, especially among the poor, the unnecessary destruction of homes and basic infrastructure, major economic dislocation, and accelerated environmental degradation. USAID will support Caribbean nations in their efforts to:

- improve environment and natural resources planning and management; and
- undertake structural risk assessments, code modification and enforcement, involvement of private insurers in prevention, and community readiness.

6. To support the development and use of sustainable technologies (such as, competitive farming systems, watershed and coastal zone management, management of parks and protected areas, and alternative energy resources)

USAID, in conjunction with the private sector, will facilitate the exchange of technology and information among Caribbean nations, concentrating efforts in farming systems, watershed and coastal zone management, management of parks and protected areas, and alternative energy resources. USAID will cooperate with local PVOs to enhance and expand their innovative approaches and pilot programs to improve the state of the art and facilitate the transfer of such technology. USAID will participate on or act in collaboration with the environmental councils established under EAI in consonance with this strategy.

USAID will consult closely with the IDB, the World Bank, CDB, and other bilateral donors in working toward these aspects of this strategic objective. In the formulation and management of its activities, USAID will engage the expertise of the U.S. Department of Agriculture (USDA), the U.S. Environmental Protection Agency (EPA), the U.S. Department of the Interior, the U.S. Peace Corps, the U.S. Coast Guard, the Commonwealth of Puerto Rico, and individual nongovernmental organizations active in environmental issues.

C. HUMAN RESOURCE DEVELOPMENT

Health and basic education services are under significant stress in most of the Caribbean as populations increase and public sector resources decrease. In a few countries, these services are significantly below standard and are major constraints to development. The special challenge narcotics pose for human resources development in the Caribbean must also be addressed. These areas are closely related to this strategic framework for the Caribbean, in that:

- a vibrant economy requires a healthy, educated workforce, as well as a fiscally-prudent public budget with appropriately allocated social expenditures;

- increased growth enhances prospects for greater disposable income for choice among social services options; and

- democratic participation will ensure that quality public social services are relevant and responsive to popular needs.

Family Health

In the English-speaking Caribbean, health is not a constraint to development, and only limited investments in health and family planning services, financing reform, and policy development will be undertaken on a country-by-country basis.

In Haiti and, to a lesser extent, the Dominican Republic, poor health status and high fertility are major constraints to improving living standards. With life expectancy in the mid-50s and fertility and population growth rates on the rise, Haiti's population is projected to double to 13 million by 2025. Most of this increase will be among people living in poverty, placing an even greater strain on the environment and already over stressed social institutions, and making it all the more difficult for democracy to flourish. Child survival indices in Haiti are among the worst in the Hemisphere. In the Dominican Republic, infant mortality is also too high and life expectancy too short. While the annual population growth rate is declining, it is still high at 2.3%.

USAID will support institutional and policy reforms in both public and private sectors that increase access to primary health care and remove obstacles to better resource allocation, increased efficiency, and more cost recovery in family health service delivery. AIDS is a growing problem throughout the region, particularly in Haiti, the Dominican Republic and Jamaica. USAID will assist those countries address the problems of AIDS through an intensive impact-oriented program. Finally, the region will continue to receive prompt support to prevent and control anticipated cholera outbreaks, using a Washington-based region-wide cholera program.

Education

Assistance in basic education will be important in Haiti and the Dominican Republic, where the local systems need to extend basic education to a larger proportion of the population. Assistance efforts will focus on restructuring government budgets and decentralization; reforming the curriculum; providing instructional materials and text books; and developing innovative approaches to encourage greater private sector support to sustain improved public and select private school systems.

USAID's programs in the rest of the Caribbean will respond to the diversity of human resource development levels among Caribbean countries. To support increased trade and investment, USAID will target training for labor leaders, businessmen, government officials and opinion makers. Management and vocational education will be geared to productive employment and increased efficiency in globally competitive enterprises. To the extent feasible, programs will be implemented by the Caribbean private sector, on a sustainable, cost-sharing basis.

Counternarcotics Efforts

Narcotics production, trafficking, and transshipment threaten to corrupt the fabric of society and to create a permanent underclass. While the Caribbean serves mainly as a transit point for drugs moving to the U.S. market, there is also production in some of the larger countries. Narcotics pose a growing threat to the development of the islands, with important economic and societal implications. The lack of viable economic alternatives for the unemployed, low public awareness of the dangers of narcotics, and inadequate judicial systems lead directly to increased corruption, ineffective government, and severe debilitation of drug users.

USAID, in cooperation with the U.S. Department of State, the United States Information Agency (USIA), the U.S. Department of Defense (DOD), and the U.S. Drug Enforcement Administration (DEA), will contribute to the counternarcotics effort by assisting Caribbean countries to increase public awareness of narcotics-related problems, to improve efforts for broad-based growth and employment, and to strengthen overall financial and administrative accountability.

V. STRATEGY OBJECTIVE NUMBER TWO: STRENGTHENING OF STABLE, PARTICIPATORY DEMOCRACIES

The opportunities for increased economic growth are enhanced through participation of the people at all levels of governance to ensure that services are equitably distributed and policies are relevant to their needs.

The status of democratic development in the Caribbean varies from country to country. In the Commonwealth Caribbean, democratic traditions tend to be strong. Guyana, with its multi-ethnic population is grappling with pluralism and the challenge of institutionalizing free and fair elections. In the Dominican Republic, there exists generally good respect for civil liberties, although the need for greater popular participation in governance and for improvements in the judicial system are issues under active debate. Haiti faces difficulties with political instability and intimidation, anti-democratic forces, and human rights violations, as it seeks to re-establish constitutional democracy.

Strategic Elements

The United States seeks to help Caribbean nations solidify their democratic institutions and shared values of self-determination, human rights, the rule of law, and political freedom. While external assistance in this area is helpful, strengthening democracy ultimately depends upon the political will and popular expectations of Caribbean societies.

Assistance in support of democracy in the Caribbean has two objectives:

1. ***To strengthen the competence, accountability, and responsiveness of key government institutions, that they might better govern and merit public confidence***

USAID will support:

- political system development, including electoral and legislative reforms;
- improvements in the regulatory and judicial environments;
- decentralization of bureaucracies and expanded citizen participation at the local level; and
- better financial management.

2. ***To strengthen public participation in democratic processes and institutions***

USAID will:

- encourage public debate and greater consensus on public policy issues;

- promote the teaching of democratic values, knowledge, and practices;
- support private organizations participating in an emerging civil society; and
- finance leadership training.

These actions will simultaneously help improve the overall business climate and thereby complement the first objective of this strategy.

The level of effort will differ in each Caribbean nation, reflecting the region's diversity in democratic development. USAID will operate within the context of the country team in the U.S. Embassy in the individual country, which will ensure coordination with the U.S. Department of State, the U.S. Information Agency, DOD, DEA, the U.S. Department of Justice, and the Peace Corps.

In Washington, USAID will consult with labor, human rights, and legal organizations, as well as the academic community, to continuously update and refine its strategic concerns and program design efforts.

USAID will work closely with individual key donors such as Canada, the United Kingdom, other European donors, the United Nations' Development Program, the Organization of American States, and the international financial institutions (IFIs), to ensure coordination.

VI. RESOURCES, ORGANIZATIONAL RELATIONSHIPS, AND MANAGEMENT CONSIDERATIONS

A. RESOURCES

Existing Resource Flows

Total resource flows to the Caribbean, from all sources, approached $9.2 billion during 1989, constituting a modest decrease in nominal terms from flows registered at the beginning of the decade. Despite the size and nature of these flows, the Caribbean countries did not record positive per capita growth during the 1980s.

EXISTING RESOURCE FLOWS

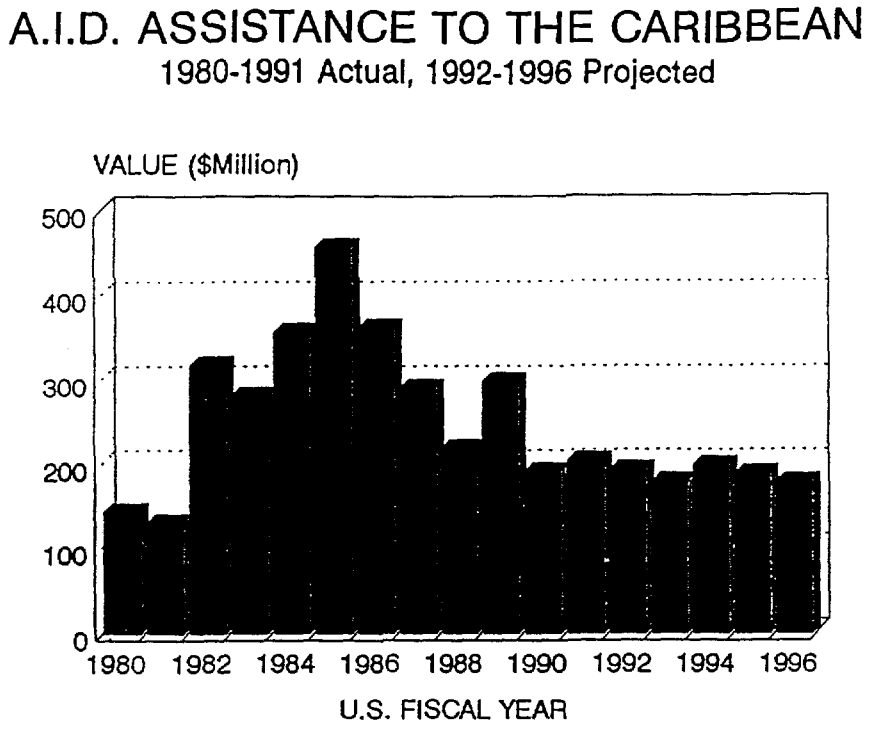
Total Resource Flows	**$9.2 Billion**
Merchandise Exports	$6.6 Billion
Tourism Receipts	$2.6 Billion
Private Flows	-$334 Million
Net Official Flows	$370 Million

Merchandise exports, currently responsible for 70-80% of foreign exchange flows into the Caribbean, have declined over the decade to $6.6 billion in 1989. Tourism receipts advanced 110% over 1981-89, reaching $2.6 billion at the end of that period. Private flows, consisting of commercial bank lending, direct foreign investment and export credits, were negative throughout 1981-89, representing minus $334 million in 1989. This was primarily repayment of principal and interest. Net official flows, including official development assistance, amounted to $370 million in 1989. This total is down from a peak of $1.1 billion in 1982. Key lenders include the World Bank, the International Monetary Fund (IMF), the IDB, the CDB, the European Economic Commission (EEC), the United States, Canada, and the United Kingdom.

Future Resource Trends

As a longer-term trend, the Caribbean cannot depend on U.S. and other donor economic assistance flows to fill future resource gaps in a sustained, significant way. U.S. government assistance has gradually declined (see Table 2) and levels in the year 2000 are expected to dip below the $200 million mark in nominal terms.

Table 2:



NOTE: In most Caribbean nations, USAID assistance will be limited and focused on realizing the vision of the EAI. Haiti will be the principal recipient of significant resource transfers by USAID.

Under the EAI, those nations which maintain sound economic policies and are progressing toward liberalized investment regimes are eligible for official debt reduction. Table 3 provides the stock of debt which Caribbean nations owe the United States and other creditors (in the aggregate).

TABLE 3. CARIBBEAN COUNTRIES: SELECTED DEBT INDICATORS

Country	Total External Debt Outstanding ($ million)	Owed to U.S. Government ($ million)
Antigua and Barbuda	n/a	21
Barbados	n/a	7
Belize	158	32
Dominican Republic	4,400	780
Grenada	104	2
Guyana	1,960	4
Haiti	874	49
Jamaica	4,598	691
St. Kitts and Nevis	37	10
St. Vincent and the Grenadines	59	2
Trinidad and Tobago	2,307	118

SOURCE: World Bank, World Debt Tables, 1991-92; U.S. Treasury, Status of Active Foreign Credits of the U.S. Government, December 31, 1991.

B. ORGANIZATIONAL RELATIONSHIPS

To maximize the impact of scarce and declining resources, future implementation of USAID activities will require greater focussing and even selected phasing out of activities which diverge significantly from the strategy framework. To provide clearer organizational focus at the regional level, it is expected that the regional mission in Barbados (RDO/C) will work closely with the bilateral missions to develop and coordinate selected region-wide programs, as appropriate, in consultation with Washington. Additionally, USAID will develop a more concerted working relationship internally, with other U.S. government agencies, and with the international donor community.

Coordination Within USAID

Field missions and Washington jointly prepare bilateral and regional program statements which define strategic objectives and expected accomplishments. Progress against these objectives is reviewed annually, with participation of offices from USAID and other U.S. government agencies. To enhance coordination and more effectively integrate bilateral and regional programming, a new management oversight structure will be established for USAID Caribbean programs. The Assistant Administrator will chair a Steering Committee, to be comprised of the directors of USAID missions in the Caribbean, and the Office of Caribbean Affairs, with the director of the Office of Caribbean Affairs serving as Executive Secretariat. This committee will convene at least annually to review overall priorities, address region-wide issues, assess progress against strategic objectives, and to provide input to the Caribbean Group for Cooperation in Economic Development (CGCED), part of the World Bank consultative group process. Finally, planning conferences will be held on special topics, as needed, to ensure optimal coordination.

U.S. Government Coordination

A number of U.S. government agencies have a mandate to provide expertise and funding in areas related to the objectives of this strategy. Close coordination with these agencies is essential to ensure maximum impact of overall U.S. assistance to the region, and judicious use of limited U.S. government resources. Consultations on EAI will occur through existing committees, coordinated at the Cabinet level by the EAI Policy Coordination Committee. The Treasury Working Group on Debt, the Joint Trade and Investment Councils, and the Environment for the Americas Board bring USAID into operational relationships with the U.S. Department of Commerce, EPA, Interior, State, the U.S. Department of Treasury, USDA, and the Office of the U.S. Trade Representative. In improving natural resource management, USAID will coordinate with and gain access to the expertise of EPA, the Park Service and the Fisheries and Wildlife Service, Peace Corps, U.S. Coast Guard, and the USDA. USAID also will work closely with DOD, Justice, Peace Corps, State, and the USIA on democratic development and with the DEA and the U.S. Department of State's Bureau of International Narcotics Matters (INM) on drug awareness programs. Finally, USAID will engage the Puerto Rican public and private sectors to increase trade and investment and to supply natural resource management technology. The Caribbean stands to derive significant gains if it can more effectively use Puerto Rico's Section 936 monies.

Donor Coordination

Implementation of the strategy necessitates convergence of policies and practices among the international donor community. The principal donor coordination forum in the Caribbean is the CGCED chaired by the World Bank. While the United States has been actively engaged in past bi-annual CGCED meetings, we plan to become even more active in that forum in the future. In order to implement the EAI, USAID will continue to coordinate with the IDB and the CDB in supporting trade and investment reform through access to sector loans and the Multilateral Investment Fund.

Congressional Collaboration

Considerable funding flexibility will be needed to enable USAID to respond effectively with declining resources to the region's needs, to ensure adequate program and financial accountability, and to demonstrate program impact. Congress and USAID can collaborate meaningfully in the achievement of these strategic objectives (a) by providing relief from the rigidities of functional accounts and earmarks and (b) by appropriating sufficient funds available for activities currently financed from the Private Sector, Energy, and Environment account.

EAI is the cornerstone of the Caribbean strategy which seeks to promote an economically vibrant region due largely to increased trade and investment flows by active participation of the private sector. Congress could enhance prospects of achievement of these strategic objectives through (a) enactment of those elements of the EAI which have not yet been authorized by law and (b) appropriation of sufficient resources.

C. MANAGEMENT CONSIDERATIONS

As USAID increasingly focuses its activities and concentrates resources on major objectives, options will be explored which permit greater management efficiency. Important considerations include the need (a) to reduce non-strategic targets of opportunity, (b) to increase use of non-project assistance, and (c) to selectively expand reliance on regional institutions for program implementation. USAID will attempt to:

- restructure its overseas staff mix in order to place stronger emphasis on expertise needed to implement the Caribbean Strategy, particularly in the area of trade and investment;
- continue to improve management capacity of missions;
- as appropriate, utilize the staff of The Caribbean Regional Development Office (RDO/C) to support bilateral missions and engage Caribbean nations in regional programs to advance the EAI process.

Given the likelihood that program and staff reductions will continue throughout the remainder of the 1990s, the LAC Bureau Steering Committee for the Caribbean will review the management of overseas operations as part of its regular oversight functions.

ACRONYMS

CAIC	Caribbean Association of Industry and Commerce
CARICOM	Caribbean Common Market
CBI	Caribbean Basin Initiative
CDB	Caribbean Development Bank
CGCED	Caribbean Group for Cooperation in Economic Development
CLAA	Caribbean Latin American Action
CLI	Caribbean Law Institute
DEA	Drug Enforcement Administration
DOD	Department of Defense
EAI	Enterprise for the Americas Initiative
EEC	European Economic Community
EPA	Environmental Protection Agency
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INM	Bureau of International Narcotics Matters (State)
LAC	Bureau for Latin America and Caribbean (USAID)
MIF	Multilateral Investment Fund
NAFTA	North American Free Trade Agreement
RDO/C	Regional Development Office/Caribbean (Barbados)
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USG	United States Government
USIA	United States Information Agency
USTR	United States Trade Representative
UWI	University of the West Indies