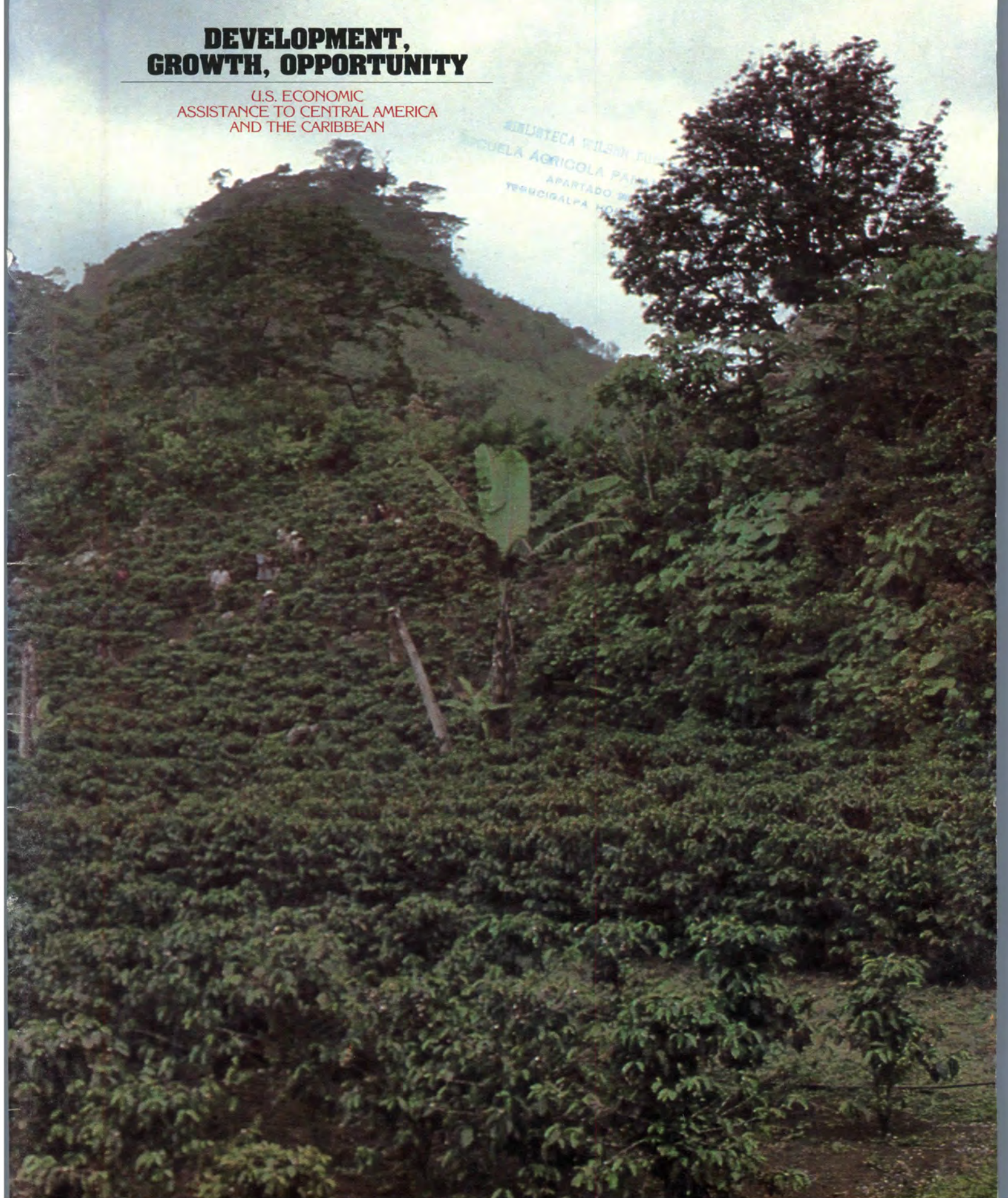


DEVELOPMENT, GROWTH, OPPORTUNITY

U.S. ECONOMIC
ASSISTANCE TO CENTRAL AMERICA
AND THE CARIBBEAN

BIBLIOTECA WILSON F...
ESCUELA AGRICOLA PA...
APARTADO 20...
YERUCIGALPA HO...



Coffee trees cover mountainous hillsides in Honduras. Fidel Leyba, once locked in a losing battle with the coffee farmer's traditional enemies of disease and soil erosion, is now using new conservation techniques and harvesting more disease-resistant varieties of coffee.



**DEVELOPMENT,
GROWTH, OPPORTUNITY**

U.S. ECONOMIC
ASSISTANCE TO CENTRAL AMERICA
AND THE CARIBBEAN

*Cover: Small, family-run farm
in Central America. Productivity
of such farms is vital to the
region's economic future.*

In the little village of Cacao, in Costa Rica, Javier Espinos Seguoiera, Jesús Peralta Fernández and Alberto Anchia Perez, using local materials, work in a new factory making brooms that bring a steady source of income into the community.





Deep in Jamaica's backcountry, Private Voluntary Organizations, Ltd. provides a mobile clinic with hearing and speech therapists, child psychologists and nurses who bring basic health services to the island nation's rural families.

The Chapeton brothers, formerly tenant farmers in western El Salvador, now own the land they farm through the "Land to the Tiller" program.





Development, growth, opportunity...these are the fundamental economic challenges facing the nations of Central America and the Caribbean. Meeting these challenges is a story about commitment and cooperation among governments and private businesses, multinational banks and voluntary organizations. Above all, it is the story of individuals working to build lives of opportunity and prosperity for themselves and their families.

The United States shares the goals of the countries of the region and is working to achieve, in the words of M. Peter McPherson, Administrator of the U.S. Agency for International Development (AID): "A free, secure world in which growth and development are self-sustaining and the extremes of poverty have been eliminated."

"Enlightened Self-Interest"

More than 75 percent of all U.S. assistance to Central America and the Caribbean is economic, a three-to-one ratio of economic to military aid that has remained remarkably consistent during the past several years (see table, page 45). Despite El Salvador's struggle against leftist guerrilla forces and Nicaragua's growing military threat, only one quarter, or less, of U.S. assistance has been military. Military assistance to the region has certainly increased—by approximately \$106 million from 1982-83 to 1984-85—but economic aid jumped \$710 million during the same period.

Many of the direct bilateral assistance programs in the region have been expanded dramatically in the past several years; as a result, several Central American and Caribbean nations are now among the highest per capita recipients of U.S. economic assistance in the world. This publication explores some of the initiatives of Central America and Caribbean nations, in partnership with the U.S., to revitalize their economies, extend the benefits of growth to all their citizens, and strengthen the institutions of democracy.

These cooperative programs are based upon the realization that a government responsible to its people cannot abuse them with impunity. In addition to being one of the best guarantors of human rights, democracy is also the best guarantor of the peace and stability necessary for growth and prosperity. Democratic governments do not drive their people into armed opposition, nor do they threaten to attack their neighbors in order to divert their citizens' attention from problems at home. As Secretary of State George Shultz said: "Freedom and economic development go hand in hand. This does not happen automatically.... Our support for democracy complements our support for economic development and free markets—and vice versa."

The Caribbean island nations, Central America and the United States are more than just neighbors. They are dependent upon one another for economic growth, security and prosperity. 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.



AID-funded aquaculture project is a source of protein and income for Panamanians. (AID)

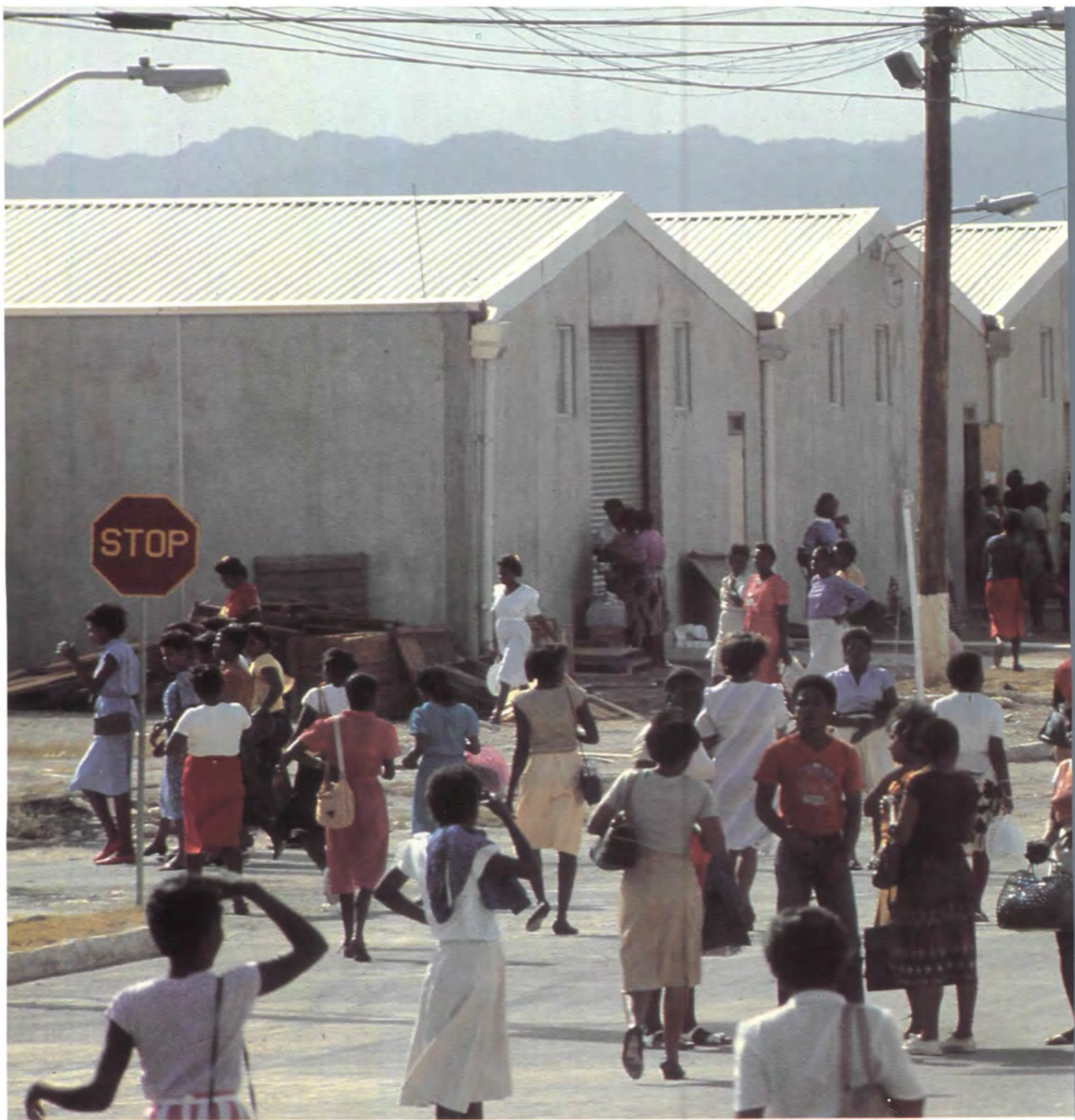
U.S. investment in the region, for example, amounts to 62 percent of all U.S. direct investment in developing countries. The region was the second largest export market for the United States after Western Europe in 1981, purchasing \$42.1 thousand million of U.S. exports. When the region's economies declined in 1983-84, U.S. exports to the region dropped to less than \$30 thousand million, resulting in a loss of jobs and income for U.S. workers, factories and farms.

Nearly half U.S. total exports and imports, representing over two-thirds of its seaborne foreign trade, pass through the vital commercial arteries of the Panama Canal, the Caribbean or the Gulf of Mexico. Caribbean trade routes are of particular importance to the U.S. economy since they carry three-fourths of the imported oil for the U.S. In addition, over half of the strategic minerals imported by the United States pass through the Panama Canal or the Basin's sea lanes.

Housing project (below) built with U.S. funds in San Bartolo, El Salvador, contains 4,000 units. Some 60 to 65 percent of the monies for such projects is spent on labor, i.e., on employment for Salvadorans.

Bottom, rural electrification, supported by AID, is an important element in Guatemala's development program.





Caribbean Basin Initiative

JAMAICA—

In operation since 1976, the Kingston Export Free Zone is a bustling industrial park which offers complete duty-free "off-shore" facilities, from warehousing

and repackaging to manufacturing. Over 60 units have been completed of 540 square meters each. Occupancy is 100 percent.

While companies within the Free Zone do not generate profits directly for Jamaica, they do increase employment, which now totals more than 2,500 people working with

14 different companies.

Although not subsidized directly with U.S. funds, the Kingston Export Free Zone grew out of a marketing study sponsored by the U.S. Agency for International Development, which also supported the Kingston Free Zone's marketing and promotion programs in the United States.

While the U.S. commitment to economic growth and development is long-standing, it has been spurred recently by two dramatic initiatives. The first, announced in February 1982 by President Reagan at a meeting of the Organization of American States, was a response to the continuing economic crisis in the nations in and around the Caribbean—the Caribbean Basin Initiative. The second, based on recommendations of the National



Bipartisan Commission on Central America, came to be called the Jackson Plan in honor of the late U.S. Senator Henry Jackson whose concern for the region led to the study.

The Caribbean Basin Initiative, or CBI, is an innovative program that integrates trade, tax and regional assistance in a mutually reinforcing package intended to foster long-term, self-sustaining economic development. CBI is designed to expand

the production and export capacity of the region through trade and tax provisions that will harness the private sector to the enormous resource potential of the Caribbean Basin area.

The centerpiece of the initiative is a provision that virtually all products exported by Basin countries—which include most Caribbean islands and Central America—be allowed duty-free entry to the United States for 12 years.

*Workers depart
factories in
the Kingston
Export Free Zone
at the end
of
the day.*

The one-way free trade provision was passed by Congress in the Caribbean Basin Economic Recovery Act, and was signed by the President in August 1983. The act also permits a tax deduction for business conventions, thus aiding tourism to CBI countries.

In addition, several U.S. government departments with international responsibilities have active programs in the Caribbean Basin. Examples are the technical and business support services of the Agriculture and Commerce Departments, the investment insurance and information offered by

the Overseas Private Investment Corporation, and the export credit and guarantee programs of the U.S. Export-Import Bank.

The duty-free provision offers higher revenues immediately for traditional exports from the region; in addition, duties have also been eliminated for Caribbean Basin nations on thousands of items imported by the U.S. which are not currently produced by those countries. This is an incentive for entrepreneurs in each country to identify products they can produce and export efficiently—thereby attracting new investment and creating new jobs.

As of September 1985, the President has designated 21 countries as CBI beneficiaries: Antigua and Barbuda, the Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Christopher and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Other countries have not as yet requested designation or are in the process of negotiating CBI status.

Since the CBI was first conceived in 1982, over \$2 thousand million in U.S. government resources have been committed to CBI-related programs.

In 1984 the U.S. provided almost \$600 million in support of the CBI. That funding is being used to support public and private sector projects in the Caribbean Basin, and to finance critical imports—such as machinery and other capital goods—from the United States for private-sector producers in Basin countries.

In the first two years, the U.S. cooperated in efforts to promote economic recovery and stability in the Basin countries. The United States today is supporting national programs to remove barriers to trade and growth, restore domestic business confidence, rationalize interest rates, attract foreign investment and develop new trading patterns.

HONDURAS—

Delicate ceramic jewelry based on palm and banana leaf patterns, intricately carved wooden chests that reflect the traditions of rural Honduras, and hand-made wood carvings—the AID-supported Artisan Marketing Project encourages the making and marketing of these crafts, which can increase income and employment for craft workers in Honduras. This program is expected to serve as a model for similar projects throughout Latin America and the Caribbean.

Aid to Artisans (ATA), the private voluntary organization that administers the project, identifies craft and folk art pieces that are best suited to U.S. markets and are most representative of the indigenous culture. ATA then assists in their importation and distribution in the U.S. (now duty-free under the CBI program). In some cases, ATA has given grants to craft groups and cooperatives for tools, equipment and raw materials—and then provided advice on product design and marketing.



Honduran woodworking enterprise, with help from Aid to Artisans (ATA), generates employment for Honduran craft workers. In one notable example, ATA works with the Fundacion Hondureño de Rehabilitación e Integración de Limitados (FUHRIL) to teach handicapped persons various crafts and thus integrate them into the Honduran economy. Peace Corps volunteers serve as designers and supervisors in conjunction with many ATA enterprises.



One of the goals of the Jamaican government, in the words of Prime Minister Edward Seaga, is to drag Jamaican agriculture "screaming and kicking into the 20th and, possibly, the 21st century."

A part of that effort is a program called "Agro 21." Its goal is to provide employment by encouraging crop diversification (away from excessive reliance on sugar) and earn foreign exchange for Jamaica by increasing export production. AID is assisting Agro 21 by seeking ways to develop and expand Jamaica's agricultural enterprises, encourage joint ventures involving the private sector, utilize unused land, expand employment and reduce dependence on food imports.

As a result of an AID-financed study, Jamaica halted operation of its government-owned agricultural marketing corporation (AMC). Recently, the AMC facilities in Kingston were renovated under AID's Agricultural Marketing Project and leased to a joint U.S.-Jamaican group for the assembly, grading and inspection of produce, such as green peppers, for export to the United States. The project cost \$3.7 million, of which AID contributed approximately \$2.5 million. □

Woman sorting green peppers at the AMC export facility outside Kingston, Jamaica.

The Jackson Plan

In its report, the National Bipartisan Commission on Central America (also called the Kissinger Commission for its chairman, former Secretary of State Henry Kissinger) made recommendations that formed the basis of the legislation that became the President's Central America Democracy, Peace and Development Initiative—the Jackson Plan.

The Bipartisan Commission concluded: "Central America is both vital and vulnerable, and whatever other crises may arise to claim the nation's attention, the United States cannot afford to turn away from that threatened region." The crisis coincided with a global economic recession: the per capita income of several of the countries in the region had been reduced by 25 percent. Guerrillas in El Salvador, supported by Nicaragua, Cuba and the Soviet bloc, intensified the turmoil, exploiting persistent, often legitimate local grievances for their own purposes. Stating that the acute crisis in Central America endangers fundamental strategic and moral interests of the U.S., the Commission recommended a program emphasizing economic aid and policy reform to get at root causes of poverty and political unrest.

In the Jackson Plan, the U.S. recognizes that the crisis, because it has multiple causes that exacerbate each other, must be dealt with in its entirety. Security efforts will not produce political stability unless they are buttressed by economic growth and social reform; economic and social progress cannot be accomplished without a military shield.

The crux of the Commission's recommendations was that U.S. policy should be guided by the principles of democratic self-determination, economic and social development that fairly benefits all, respect for human rights, and cooperation in meeting threats to the security of the region.

The Jackson Plan, sent by President Reagan to the Congress in February 1984, is a comprehensive response to this "seamless web" of issues,

and included the following initiatives:

- financial stabilization of regional economies;
- trade credits for the region through the U.S. Export-Import Bank;
- provisions to strengthen the administration of justice;
- a greatly expanded scholarship program for Central Americans to study in the United States;
- support for land reform.

Even though only a short time has passed since the initiation of the Jackson Plan, it is apparent that the policy is working. During 1984 and 1985, U.S. economic assistance has been a critical factor in:

—Stopping the severe decline in the economies of Central America. In El Salvador, two percent growth is expected this year after five years of economic declines totaling 25 percent. In Costa Rica, growth could be 2.3 percent.

—Promoting renewal of private sector confidence and a reversal of the outflow of capital from the region.

—Improving economic policy to encourage the contributions of the private sector and spur growth.

—Reinforcing the positive trend toward equity and democracy through support for judicial reform and land reform in El Salvador; democratic elections in El Salvador, Panama and Honduras, as well as scheduled elections in Guatemala; and emergency assistance to displaced persons and victims of civil strife.

As Secretary of State Shultz said in February 1985: *Nowhere has the dynamic linkage...between democracy and economic opportunity been more dramatically illustrated than in Latin America and the Caribbean. The past year has provided strong evidence that democratic development and the rejection of the communist left and the far right are the keys to ensuring peace and improving standards of living for all...*