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Central Intelligence Agency



Washington, D. C. 20505

## Directorate of Intelligence

23 April 1982

The Caribbean: Economic Aid RequirementsSUMMARY

*This memorandum identifies four nations in the Caribbean region--Jamaica, the Dominican Republic, Dominica, and St. Lucia--that would benefit most from additional US assistance. Because economic problems are the chief threat to political stability in the region, increased economic aid is needed far more than military assistance. The amounts suggested here (see Table 1) would supplement existing aid packages such as the Caribbean Basin Initiative (CBI). Combined with an improved world economic situation, this assistance would strengthen democratic institutions in the recipient countries and increase US influence in the region.*

*The countries of the Caribbean Basin, except for oil-rich Trinidad and Tobago, have been hard hit by the escalating cost of oil and other imports and declining prices for their major exports--sugar, coffee, bauxite. This, in turn, has exacerbated the deep-rooted structural problems of such countries as Jamaica, the Dominican Republic, and the mini-states of the Eastern Caribbean. The result has been high unemployment, serious inflation, declining GDP growth, huge balance of payments deficits, and a pressing liquidity squeeze. This economic crisis threatens political and social stability throughout the region and creates conditions which Cuba and others seek to exploit through terrorism and subversion.*

*This memorandum was requested by the Executive Director of the Central Intelligence Agency. It was prepared [redacted] the Middle America/Caribbean Division of the Office of African and Latin American Analysis. Information available through 20 April 1982 was used in preparing this memorandum. It was coordinated with the Directorate of Operations and the National Intelligence Officer for Latin America. Questions and comments are welcome and should be directed to Chief, Middle America/Caribbean Division,*

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The US program for the Caribbean Basin Initiative (CBI) is an integrated approach, encompassing trade, investment, and aid to attack both emergency problems and structural impediments to long-range economic development. The CBI will supplement other US assistance programs for the region. (US economic aid to Jamaica, the Dominican Republic and the Eastern Caribbean is shown in Table 2). The CBI offer of one-way free trade rather than the more publicized \$350 million aid package, is the backbone of the CBI program. Incentives, particularly a significant tax break for US direct investment in the Basin, promise to boost the return to US investors and thus encourage the location of new production in the Basin even given the risks. The emergency economic aid program addresses the acute liquidity crisis faced by many countries in the region, a crisis threatening prospects for private sector investments.

But aid in addition to the CBI package--such as balance of payments support--would have a dramatic short term impact where growth has been stymied by foreign exchange constraints. Jamaica and the Dominican Republic fall into this category. In Jamaica, Prime Minister Seaga has reversed the trend of economic decline of the last seven years. Under the CBI, \$50 million is earmarked for supplemental aid to Kingston this year. Other US aid will bring the total to \$137 million (see Table 2). At currently projected aid and foreign investment levels, growth is expected to be the same as last year--about 1.5 percent. Increased aid, however, would quickly raise this growth rate. An infusion of \$300 million, for example, could enable Kingston to meet the targeted 4 percent level this year, by allowing an increase in imports of sorely needed raw materials and capital goods.

In the Dominican Republic, the recession in the US and Europe has eroded the values of all of the major exports--sugar, cacao gold, silver, and nickel--with coffee the only bright spot on the horizon. With a hotly contested election scheduled for May, the government has been reluctant to seek IMF assistance. A tough austerity program introduced last year caused a sharp slowdown in economic growth with imports cut back sharply to slow the soaring current account deficit. Supplemental aid of \$40 million is already programmed under the CBI in 1982 and the Dominican Republic will also benefit from the CBI's special treatment for sugar exports to the US. Nevertheless, additional balance of payments support of some \$150 million would enable inventories to be replenished and arrest the decline in GNP which otherwise will decline by as much as 3% this year.

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TABLE 1

Summary: Increased Aid Requirements  
(million US\$)

Jamaica	300
Dominican Republic	150
Dominica	5
St. Lucia	15
TOTAL	\$470

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TABLE 2

US Concessional Assistance: 1980-1983  
(1,000 US\$)

	1980 Actual	1981 Actual	1982 Current Budget	1983 Congressional Presentation
<u>Jamaica</u>				
Development Assistance	2,684	12,924	29,571	37,000
Economic Support Fund		41,000	40,000	55,000
PL 480 - Food for Peace	10,010	15,208	17,527	20,014
CBI - 1982 Supplemental			50,000	
<b>TOTAL</b>	<b>12,694</b>	<b>69,132</b>	<b>137,098</b>	<b>112,014</b>
<u>Dominican Republic</u>				
Development Assistance	34,640	17,393	24,700	26,000
Economic Support Fund				
PL 480 - Food for Peace	20,163	19,356	20,522	20,783
CBI - 1982 Supplemental			40,000	
<b>TOTAL</b>	<b>54,803</b>	<b>36,749</b>	<b>85,222</b>	<b>46,783</b>
<u>Caribbean Regional<sup>1</sup></u>				
Development Assistance	41,183	27,044	30,605	30,000
Economic Support Fund	4,000		20,000	31,000
PL 480 - Food for Peace	927	55	40	
CBI - 1982 Supplemental			10,000 <sup>2</sup>	
<b>TOTAL</b>	<b>46,110</b>	<b>27,099</b>	<b>60,645</b>	<b>61,000</b>

<sup>1</sup>Encompasses all Eastern Caribbean Ministates, including Dominica and St. Lucia; further breakdown not available.

<sup>2</sup>\$10 million allocated entirely to Dominica.

**SUBJECT: The Caribbean: Economic Aid Requirements**

**Original - Requestor**

- 1 - SA/DCI/IA
- 1 - DDI
- 1 - ADDI
- 1 - NIO/LA
- 1 - NIC/AG
- 1 - PDB Staff
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- 1 - DDI Rep/CINCLANT
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