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## TRADE BETWEEN THE FRENCH DEPARTEMENTS AND THE UNITED STATES

*Thierry Gallet de Saint Aurin\**

### THE FRENCH DEPARTEMENTS IN THE CARIBBEAN BASIN

There are two main islands — Martinique and Guadeloupe — plus four smaller islands: Les Saintes, Marie-Galante, St. Barthelemy, and St. Martin (the French part of St. Martin) that belong to the *departement*<sup>1</sup> of Guadeloupe and to the arcade of the small West Indies. The change of the status of the islands just after the Second World War in 1946 from

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\* Assistant Trade Commissioner of France to the United States.

1. A "*departement*" is an administrative entity, headed by a prefect who is a civil servant. The French departements in the Caribbean Basin report to the French Minister for Overseas Departements and Territories. The *departements* in the Caribbean Basin represent some 750,000 people of French, African and Indian descent.

colonies to *departements* has dramatically influenced the course of things and has further emphasized the individuality of the French islands especially in their economic and social aspects.

Not so much because of physical and economic fundamentals, but mainly for historical reasons, the economy of the French *departements* differs greatly from those of its neighbors. The French *departements* physically resemble the other islands. Martinique and Guadeloupe might be more endowed by nature than most of their neighbors in terms of natural resources for agriculture and tourism, but unlike Trinidad, for instance, they have no oil, minerals or raw materials.

As in most developing countries, the forces at work are in fact adverse to development. The growth of the "*Product Interieur Brut*" — an index similar to the United States GDP — of the islands is lower than the natural growth rate of the population, excluding immigration. The economic fundamentals, however, have improved considerably since 1946. Prior to this "departementalization" date, Martinique and Guadeloupe were just other third world entities struggling with adverse fundamental forces. This condition was further worsened by their situation as colonies with the concomitant implications regarding economic structures (*e.g.*, acknowledged exploitation for the profit of a mother country).

The infrastructures have been tremendously improved. As far as ports, road systems, schools and hospitals are concerned, the French Caribbean *departements* now have nothing to envy of their continental counterparts. Construction of dams has made irrigation possible for agriculture. The level of education has made much progress and is rapidly advancing towards that of continental France.

The people in the French *departements* enjoy a relatively high standard of living. The average yearly income per person in the *departements* is approximately \$2400 or about fifty percent of that found in continental France, and it is making substantial progress. This figure is second only to that of American territories in the Caribbean (Puerto Rico and the Virgin Islands).

In fact, an estimated one-half of the \$2400 is derived from transfers from France in one form or another. The result is that the French *departements* have an economy that still has many characteristics shared by the developing countries. Nevertheless, they enjoy a standard of living of the developed countries with a very high level of consumption.

Due to the special historical conditions under which Martinique and Guadeloupe have evolved, particularly in the past thirty-three years, their economy differs from those of their neighbors in many ways, such as:

1. *More specialization in production.* The existing links with France have specialized the Caribbean *departements* in areas where they have a

competitive advantage. Their industry is now as developed as in other islands of the Caribbean. In the French islands, industry makes up only seventeen percent of the GNP as opposed to twenty-seven to twenty-nine percent on the average for neighboring islands. The French islands are more geared than their neighbors toward agriculture and, above all, toward commerce and tourism.

2. *Heavier costs of labor.* The minimum salary required by law is only fifteen to twenty percent below that of continental France, and the cost of labor is from three to four times greater than that of most of the other islands.

3. *More sophisticated labor.* The effort made in education has effected a very low rate of illiteracy and an availability of well-educated and well-trained people with relatively high productivity.

4. *Better infrastructures.* This factor was discussed above.

5. *Greater consumption.* The patterns of consumption are close to those of Western European countries, and the people of the French islands consume more and more elaborate products than most of their neighbors.

6. *Heavy dependence on France.* A large part of the purchasing power of the people is derived directly or indirectly through social transfers and a number of French governmental programs. The French islands can only afford their heavy consumption because of the assistance of the mother country. This dependence will be further illustrated in the analysis of the exterior trade of the islands.

#### EXTERNAL TRADE OF THE FRENCH DEPARTEMENTS

The external trade of the French Caribbean *departements* is characterized by a deficit in the balance of trade and the important role played by continental France in the exchange. For the two *departements* (Martinique and Guadeloupe) imports were valued at \$540 million and exports \$160 million in 1976, showing an unbalance of seventy percent. Historically, the trend has been for this deficit to grow larger and larger, the imports growing at a faster rate than the exports, although the growth of both items is only moderate (growth of imports from 1971-76: 100% and growth of exports from 1971-76: seventy percent).

Products manufactured in continental France represent seventy to seventy-five percent of the imports (\$380 million in 1976). The other major trading partners are the United States at eight percent, Venezuela at three to four percent and the Netherlands at three percent. The balance is

accounted for by African countries (*i.e.*, Algeria, Gabon) and by the neighboring Caribbean Islands.

The tendency as far as the trading partners are concerned is twofold: a) there is a decreasing trend as far as France is concerned; and b) there is an increasing role played by the United States. More generally, there is a tendency towards more diversification for sources of imports, the composition of which is as follows:

Food products	24%
Semifinished products	20%
Construction materials	10%
Petroleum products	7%
Transportation equipment	7%
Other manufactured items	32%
	<u>100%</u>

In fact, the French islands import a large part of what they consume; except for a few local products new industries often come as substitutes to imports and are usually essentially geared toward local consumption. Agricultural products are notably absent from the above list since here the islands produce a surplus readily available for exports.

Continental France is the essential trading partner (ninety percent of exports valued at \$140 million in 1976) while the other partners are mainly countries of the European community, chiefly Great Britain. Exports to the United States represented 2.5 percent of total exports in 1976.

The evolution of the exports trend is toward more geographical diversity, mainly inside the EEC. The composition of exports is typically:

Bananas	68%
Sugar	15%
Rum	10%
Pineapples (in cans)	4%
Other (flowers, etc.)	3%
	<u>100%</u>

The evolution of the composition of exports of the French islands shows the growing role of bananas; there is a trend toward greater specialization in this product, since the French Caribbean islands are the only banana producers in the EEC today. This specialization in one main agricultural product, however, has its drawbacks: bananas are subject to the fluctuation of the international market as well as natural disasters.

## TRADE WITH THE UNITED STATES

Exchanges with the United States represent eight percent of the imports of the *departements* and two percent of their exports. The balance of trade with the United States is much in the latter's favor. This unbalanced trend can be illustrated through the import-export structure of trade and the composition of the trade.

Table I. Balance of Trade  
(in U.S.\$ million)

<i>Year</i>	<i>Imports</i>	<i>Exports</i>
1972	14.8	.7
1973	18.6	.6
1974	31.5	.5
1975	25.4	1.2
1976	30.7	6.9
1977	(not available)	3.6

Overall, the volume of trade has increased more in recent years with the United States than with other countries.

But if the imports from the United States are relatively steady the export figure on the contrary shows much more volatility. In 1976, the French islands exported \$5.2 million in petroleum products to the United States — seventy-five percent of their exports to the United States for that year.

Among the U.S. exports to the French West Indies are paper, furniture, power-generating and agricultural machinery, animal feedstock and chemical products. To be noted is the growing importance of manufactured goods, machinery and transport equipment which indicates an effort on the part of French Caribbean importers to diversify the sources of their imports, especially for consumer goods — there is a certain substitution of French products by American products.

It is difficult, on the other hand, to typify the products exported to the United States, due to a lack of steady flow. Two recent developments may be noted. First, for the past three years, the French West Indies have been reexporting electrical and telecommunication materials to the United States. Second, for the past two years (1976 and 1977), the French West Indies have been selling jet fuel to the United States. (This, however, could be referred to as local sales to particular U.S. airlines.)

The evolution of trade between the United States and the French West Indies shows a strong growth (200% from 1971-76) as well as an emerging pattern of diversification in imports and new exports. In fact, American products appear more and more in the French islands as an

alternative to European products so that the exchange rate of the dollar is favorable to the shift. On the other hand, Martinique and Guadeloupe, which used to sell mainly agricultural products or articles with little "added value" on the U.S. market, are now exporting more sophisticated products.

### *Tourism*

Due to their geographic location in one of the "paradises" of the world, the French West Indies have always enjoyed a steady stream of tourists. Once visited mainly by French vacationers from the continent, they have become more and more a tourist attraction for North Americans. This enables the island to thrive on two main tourist seasons — winter for the North American visitors and summer for the European (mainly French) visitors.

This flow, which has been on the increase since 1976 when five new international hotels opened in Guadeloupe, has a favorable effect on the islands' balance of payments, contributing to more than \$150 million spent locally — more than twenty percent of this amount coming from the North American continent.

### *United States-French Departement Trade Potential*

The proximity of the two markets and the fact that their respective production complement each other tends to brighten the terms of exchanges for the near future. The French islands are in the process of developing new agricultural and industrial products for which they have a competitive advantage. These products could profit from unique advantages of the French islands such as their climate, location and skilled labor. In the immediate future, they will include agricultural products with more value added, such as canned pineapples and other fruits, premixed rum cocktails, margarine, industrial products such as plastic, bagging supplies, wire and even more important sophisticated services such as telecommunication equipment maintenance and avionics maintenance.