

**THE RELATIONSHIP BETWEEN THE CURRENT CARIBBEAN BILL AND THE
CARIBBEAN BASIN INITIATIVE: THE IMPACT ON 24 CARIBBEAN COUNTRIES**

Presented by

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ABSTRACT

Exporting is crucial to America's economic health. Increase exports means business growth and business growth means bigger profits for U.S. companies resulting in more jobs for American workers. One way to expand export opportunities is to develop new trade zones in different countries which were recently passed by Congress to provide trade preference to nations of the Caribbean Basin as well as Sub-Saharan Africa. This paper will investigate the relationship between the present Caribbean bill and the Caribbean Basin Initiative trade economic stimulus package promoted by former President Ronald Reagan in the mid 1980's. The report will present a summary of the analysis of the impact of duty-free treatment of certain U.S. imports from Caribbean Basin beneficiaries under CBERA on U.S. trade and employment during the calendar 1998. Furthermore, the report will discuss the future impact of the recently passed Caribbean Basin Partnership Act and how it will impact the 24 Caribbean nations in promoting stable and sustainable economic growth.

Introduction

The intent of this paper is to provide an overview of the relationship between the U.S. Caribbean Basin Trade Partnership Act (CBTPA) of 2000 and the Caribbean Economic Recovery Act of 1983 (CBERA) or CBI. In addition this report will present a summary of the analysis of the impact of duty-free treatment of certain U.S. imports from Caribbean Basin beneficiaries under CBERA on U.S. trade and employment during the calendar 1998. Then the report will review trends in U.S. trade with CBERA beneficiaries and identify the leading items in U.S. trade (imports and exports) with those nations, followed by domestic employment trends for their impact.

Then, domestic employment trends are reviewed for their impact. The short comings of this report is the lack of data that was not available to measure the import flows and the U.S. employment trends from the recently passed Caribbean Basin Trade Partnership Act.

The 24 CBERA beneficiary countries and dependent territories covered by this report are: Antigua, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts & Nevis, St. Vincent & the Grenadines, and Trinidad & Tobago.

(Place Table 1 Here)

Finally, the report will discuss the current issues and problems facing the Caribbean Basin islands. Because of the recent passing of the Caribbean Basin Partnership Act, current data to identify import flows and employment trends was simply not available. Therefore, only future imports could be studied.

This very important trade legislation can substantially increase the profits of the U.S. apparel companies by allowing for duty and quota free-entry into the U.S. market of products made in Central America and the Caribbean of U.S. fabric. According to H.R. 434 Title 11-Trade Benefits for the Caribbean Basin Trade Partnership Act mentions that it is the U.S. Congress intent

- To increase trade and economic activity between the United States and countries in the Western Hemisphere.
- To create new jobs in the United States as a request of expanding export opportunities.
- According to CBTPA Section 202 (b)(1) “It is the policy of the United States...to offer Caribbean Basin beneficiary countries willing to prepare to become a party to the FTAA or another free trade agreement, tariff treatment essentially equivalent to that accorded to products of NAFTA countries for certain products not currently eligible for duty-free treatment under the CBERA.” Since this is U.S. trade legislation and not a trade treaty between countries, the U.S. can and has set certain criteria for eligibility, such as adequate respect for child labor laws and human rights, intellectual property protection and market access. These will be reviewed periodically by the United States and countries may be removed from the eligibility list.

As companies in the Caribbean and Central America prepare to meet the requirements of this new program, the Office of Textiles and Apparel (OTEXA) anticipates receiving an increased number of requests for names of U.S. yarn and fabric manufacturers.

Testifying May 16, 2000 before a sub-committee of the House of Representatives, Regina Vargo, Deputy Assistant Secretary for the Western Hemisphere said that for 15 years, the Caribbean Basin Initiative (CBI) has been fundamental to growth, economic diversification, and strengthening U.S. trade ties with Central America and the Caribbean island nations and has helped to open markets in the region for \$19 billion in U.S. exports. Now, with the passage of the legislation to enhance the CBI, partnership between U.S. and Caribbean Basin firms will be

strengthened in the textile and apparel sector. She added that the legislation will also improve the competitiveness of apparel assemblers from the Caribbean and Central America vis-à-vis assembly operations in other parts of the world that do not use U.S. fabric. She further mentions that the region is a major trade and investment partner for this country. The region accounts for one out of every five dollars in U.S. merchandise exports, up “dramatically” from under 14 percent at the beginning of 1990. In fact, Vargo said the region has been responsible for almost half of all U.S. export growth since 1995.

Overview

On May 18, 2000, President Clinton signed into law the Caribbean Basin Trade Partnership Act (CBTPA) Title II of the Trade and Development Act of 2000, which went into effect October 2000. The act involves the entry of specific textile and apparel articles free of duty and free of any quantitative restrictions, limitations, or consultation levels and the extension of NAFTA duty treatment standards to non-textile articles that are excluded from duty-free treatment under the Caribbean Basin Initiative (CBI) program. The Presidential Proclamation declares 24 current beneficiary countries of the Caribbean Basin Initiative to be “Beneficiary Countries” for the purposes of the enhanced trade preferences made available under the CBTPA. The CBTPA significantly expands preferential treatment for apparel made in the Caribbean Basin region. Duty and quota-free treatment is provided for apparel made in the CBI from U.S. fabrics formed from U.S. yarns. Duty/quota-free treatment is also available for certain knit apparel made in CBTPA beneficiary countries from fabrics formed in the Caribbean Basin region, provided that U.S. yarns are used in forming the fabric. This regional fabric benefit for knit apparel is subject to an overall yearly limit, with a separate limit provided for t-shirts.

The Caribbean Basin Economic Recovery Act (CBERA), which was enacted on August 5, 1983 (Public Law 98-67, Title II) contains the trade component of the Caribbean Basin Initiative (CBI) that was launched in 1983 to expand private sector opportunities and investment in non-traditional sectors of the Caribbean Basin beneficiaries as a way to help them diversify their economies and expand their exports. The CBERA authorized the President to proclaim duty-free treatment to eligible articles from designated beneficiary Caribbean Basin countries and dependent territories.

In addition CBERA provides beneficiary countries duty-free access to the U.S. market for all products not excluded by law. CBERA was amended in 1990; CBERA II (also known as CBI II) made the CBERA a permanent program.

U.S. Trade with the CBERA Beneficiaries

The fifteenth annual report to the Congress pursuant to Section 216 of the Caribbean Basin Economic Recovery Act reported that U.S. imports from the 24 CBERA beneficiaries in 1998 accounted for 1.9 percent of total U.S. merchandise imports from all countries and amounted to \$17.1 billion, a 3.3 percent increase over their level in 1997. U.S. exports to the CBERA beneficiaries in 1998 accounted for 3.4 percent of all U.S. merchandise exports to the world and amounted to \$19.2 billion, a 7.8 percent increase over their level in 1997.

(Place Table 2 Here)

Leading industrial categories of U.S. imports from the CBERA beneficiaries in 1998 included: apparel (\$8,158 million); agricultural products (\$1,892 million); refined petroleum products (\$808 million); electrical machinery (\$750 million); food products (\$659 million); chemicals (\$615 million); fishery products (\$564 million); instruments (\$423 million); leather goods (\$399 million); and non-electrical machinery (\$369 million). These top-ten categories based on the 2-digit Standard Industrial Classification system, accounted for 85 percent of all

U.S. imports from the CBERA beneficiaries in 1998. During 1998, there was an extremely large increase in U.S. imports from the CBERA beneficiaries of non-electrical machinery, which increased from \$18 million in 1997 to \$369 million in 1998 due to increased imports of printed circuit assemblies.

(Place Table 3 Here)

Leading industrial categories of U.S. exports to the CBERA beneficiaries in 1998 included: apparel (\$3,635 million); non-electrical machinery (\$2,327 million); food products (\$1,539 million); electrical machinery (\$1,532 million); chemicals (\$1,418 million); miscellaneous manufactures, not specifically provided for (\$1,120 million); transportation equipment (\$1,099 million); agricultural products (\$981 million); textiles (\$872 million); and refined petroleum products (\$761 million). These top-ten categories based on the 2-digit Standard Industrial Classification system, accounted for 80 percent of all U.S. exports to the CBERA beneficiaries in 1998.

Many of the leading categories of U.S. exports to the Caribbean Basin region are also among the leading import categories, indicating a substantial two-way flow of trade. For a large part, this results from the extensive trade under provisions 9802.00.60 and 9802.00.80 in the Harmonized Tariff Schedule (HTS)--formerly items 806.30 and 807.00 in the Tariff Schedules of the United States--that assess U.S. import duties only on the foreign value-added in offshore assembly or further processing of U.S.-made components which are then imported into the United States. In 1998, 34 percent of the total value of all U.S. imports subject to duty from the CBERA beneficiaries entered the United States duty-free under these provisions.

The Dominican Republic is the United States' largest CBERA beneficiary trading partner with U.S. imports of \$4.4 billion and U.S. exports of \$3.9 billion. Other significant partners include Costa Rica (\$2.7 billion U.S. imports and \$2.2 billion U.S. exports), Honduras (\$2.5

billion U.S. imports and \$2.3 billion U.S. exports), and Guatemala (\$2.1 billion U.S. imports and \$1.9 billion U.S. exports).

U.S. Trade with the Caribbean Basin: U.S. Imports

U.S. imports from CBERA countries traditionally consisted of agricultural products, raw materials, and their derivatives—namely, petroleum products, sugar cane, coffee, cocoa, bananas, and aluminum ores and concentrates. The deterioration in the terms of trade for these export items and a quest for economic growth prompted CBERA countries to seek diversification in their export profile. The encouragement of such diversification of the Caribbean Basin economies was one of the intended goals of the United States in implementing the CBERA program.

There has been a significant shift in the composition of U.S. imports from CBERA beneficiaries. In 1984, petroleum products were nearly half of all imports from CBERA countries. By 1998, petroleum accounted for only 5.8% of the total. Apparel and clothing accessories have become the largest U.S. import from CBERA countries. U.S. imports of apparel from CBERA countries, both knitted and non-knitted, totaled \$8.2 billion in 1998, 48% of total CBERA exports to the United States. Apparel is not generally eligible for CBERA tariff preferences.

Other manufactured items, including electrical and electronic machinery and parts, optical, photographic and surgical instruments and nuclear reactor components have also emerged as significant CBERA exports to the United States. As a group, these product categories accounted for 9% of total CBERA exports to the U.S. in 1998. Some of the more progressive CBERA countries have also begun to attract the interest of the high technology

sector, with major investments made recently in high tech microprocessing and custom filtration equipment plants.

Traditional Caribbean exports remain an important source of income, and especially, employment for the region. CBERA traditional exports accounted for 18.8% of total U.S. imports from the region in 1998. Major product categories included: edible fruits and nuts; coffee, tea and spices; fish and shellfish and; tobacco. However, even in agricultural exports, there has been increasing diversification and some shift in the composition, with non-traditional products, such as strawberries and cut flowers, accounting for an increasing share of the total.

Imports from the Caribbean Basin accounted for 1.9% of total U.S. imports in 1998, down from the 2.7% registered in 1984 at the start of the program but up from the 1.8% level registered in 1996. While Caribbean Basin country products represent only a fraction of U.S. imports, the United States is the primary export market for many of these countries.

(Place Table 4 Here)

Apparel Imports from CBERA Countries

While generally not eligible for CBERA tariff preferences, apparel constitutes the largest category of imports from the CBERA countries—growing from just 5.5 percent of total U.S. imports from the region in 1984, to 48% in 1998. Apparel imports from the region were valued at \$8.2 billion in 1998 and has ranked as the leading category of U.S. imports from the region since 1988.

(Place Table 5 Here)

In the four years before the North American Free Trade Agreement (NAFTA) became effective on January 1, 1994, U.S. apparel imports from CBERA countries and Mexico rose at similar rates of 23 to 24 percent a year. However, NAFTA has resulted in a shift in favor of imports from Mexico. Mexico's share of the U.S. apparel assembly market has increased almost

10 percentage points since NAFTA was phased in. The CBI share of that market has dropped by about the same percentage. Mexico is now the overall largest supplier to the U.S. market.

(Place Table 6 Here)

The shift of apparel imports from CBERA countries to Mexico is generally attributed to the preferential tariffs accorded under NAFTA to Mexican goods. U.S. imports of apparel from Mexico that are assembled from U.S.-formed and cut fabric enter free of duty under NAFTA, but imports of such apparel from CBERA countries are still dutiable on the value added offshore. At the urging of CBI countries and their apparel manufacturing partners in the United States, legislation to enhance benefits on some categories of apparel imports from CBI beneficiaries is currently under consideration by Congress.

CBERA Imports by Country

In 1998, the Dominican Republic continued to lead all countries in taking advantage of CBERA, as it has done virtually each year since the program became effective. U.S. imports under CBERA from the Dominican Republic constituted 40% of all imports, which entered the U.S. under CBERA. Costa Rica remained in second place, accounting for 24% of all U.S. imports under CBERA. Guatemala ranked as the third-leading CBERA beneficiary in 1998, as it has each year since 1989. Honduras ranked fourth in 1998, as it has every year since 1995, followed by Trinidad and Tobago. Import levels from Nicaragua and El Salvador, which had registered healthy increase in recent years, fell sharply following Hurricane Mitch last fall. Imports registered under the CBERA program from Nicaragua fell from \$135 million in 1997 to \$72 million in 1998. El Salvador's exports under the CBERA program dropped from \$81 million in 1997 to \$50 million in 1998. Similarly, imports from Belize fell from \$35 million in 1997 to \$20 million last year. In contrast, tiny Grenada succeeded in more than doubling its CBERA exports to the United States between 1997 and 1998.

(Place Table 7 Here)

The U.S. Employment Situation in 1998

During 1998, the overall employment situation in the United States remained strong. The U.S. economy added 3.1 million jobs during 1998; employment has increased by 17.6 million since 1991. Total non-farm employment in 1998 (125.8 million) was 16.4 million (or 15.0 percent) above the previous cyclical high recorded in 1990. The job gains during 1998 occurred in both the service-producing and goods-producing sectors. Within the goods-producing sector, there were job gains in construction and manufacturing, but a small decrease in mining. Employment in the goods-producing sector in 1998 (25.3 million) was 442,000 above its level in 1990. The manufacturing sector gained 97,000 jobs in 1998 (although the sector still has 304,000 jobs fewer than in 1990).

(Place Table 8 Here)

Conclusion

This paper has studied the relationship between the Caribbean Basin Partnership Trade Act of 2000 and the Caribbean Economic Recovery Act of 1983 and their future impact on trade and employment on the 24 Caribbean countries. Florida and the Caribbean leaders have spent seven years trying to establish close economic ties. The legislative breakthrough is expected to boost the apparel trade alone by billions of dollars with much of it passing through Florida ports.

The CBPTA bill, which was approved by a vote of 309 to 110, would reduce tariff on exports from the Caribbean including clothing if it is created from American-made fabric. The bill passed expands the Caribbean Basin Initiative, a trade and economic stimulus package promoted by former President Ronald Reagan in the mid 1980's. Another benefit is that it would benefit U.S. consumers by reducing the price of Caribbean imports, such as clothing, which is giving a boost to business in several states including the cotton fields of Texas to the large

seaports of Florida to the textile industries of both Georgia and North Carolina. Furthermore, tariffs would be eliminated only on imports such as apparel and luggage that are assembled in the Caribbean using yarn, cotton, and fabric grown or processed in the United States.

Another important objective of the Caribbean Basin Economic Recovery Act was to diversify the Caribbean Basin's export base away from traditional products and commodities. Historically, these products have been subject to volatile world prices and fluctuating levels of demands and therefore associated with widely diverging levels of export revenues. Export diversification is an important aspect of economic development and thus relevant for the countries in the Caribbean Basin. While several traditional exports (bananas, coffee, sugar, etc.) still remain significant sources of foreign exchange and employment for beneficiary countries, their relative importance has decreased in the years since CBERA was initiated.

There has been concern among beneficiary countries regarding the effect of the NAFTA on trade and investment in the region. I think with the passing of the current trade bill the administration will remain committed to enhancing trade benefits for the CBI region, as part of their efforts to help the region recover and rebuild after devastating hurricanes that hit in 1998 (Hurricane Mitch in Central America and Hurricane Georges in the Caribbean).

Another issue of concern is the apparent increase in the movement of illicit drugs in the Caribbean. As mentioned earlier, there has been significant growth in exports to the United States since the inception of the CBERA in 1984. The strengthening of the economies of CBERA beneficiary nations through access to U.S. markets for goods granted preferential treatment and the parallel growth of non-traditional exports provides an important alternative to drug trafficking in the region. Preferential tariff treatment under the CBERA does not appear to have had an adverse impact on, or have constituted a significant threat to, U.S. employment generally.

Finally, future research can be directed at the effects of duty-free provisions of the Caribbean Basin Partnership Trade Act on U.S. imports and their effects on other trade preference programs.

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