INTERNATIONAL TRADE DEVELOPMENTS

U.S. Trade Measures and the Caribbean Export Profile

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The United States is the dominant trading partner for most Caribbean Basin countries, and Caribbean countries are an important source of certain U.S. import items. U.S. tariff and quota relief granted under production sharing provisions have had significant impact on income growth and investment, while less so under the Caribbean Basin Economic Recovery Act (CBERA). Both have been factors in shaping the profile of Caribbean exports to the United States.

U.S.-Caribbean Trade: its Significance for the Caribbean Basin and for the United States

The Caribbean Basin, a collective of 24 sovereign countries as defined for the purposes of this article, is a small trading partner for the United States. In the year 2000, the United States exported $20.7 billion dollars worth of goods to the region or 2.9 percent of all U.S. exports. In the same year, U.S. imports from the Caribbean countries amounted to $22.2 billion or 1.8 percent of all U.S. imports. The region ranked as the 9th largest recipient of U.S. exports during 2000, ahead of the Netherlands, but behind Taiwan, and the 12th largest U.S. supplier, ahead of Singapore, but behind Italy.

Global market developments and trade agreements are important factors in shaping the profile of U.S.-Caribbean trade, as is true for trade flows between all countries. However, U.S. trade measures and preferential programs have played an important role in molding this particular trade. As foreign trade is very important for many Caribbean countries and the United States is the dominant trading partner for most, U.S. trade measures and preferential programs appear to have affected the size and composition of Caribbean exports to the United States.[2]

U.S.-Caribbean trade, while small, is important for the United States as well. Between 1987 and 1998, the Caribbean region had been among the few trading partners with which the United States had consistently registered a collective trade surplus. In addition, the Caribbean Basin is one of the few major sites of production sharing for U.S. companies. These U.S. goods, co-produced in the Caribbean region with U.S. companies utilizing local labor and other resources, become more competitive in global markets. Finally, for a trading area so small, the region provides the United States with quite a few items of which it is either the principal supplier, or at least an important supplier, including hand-rolled cigars, methanol, liquified gas, and

[1] The views and conclusions expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission as a whole or of any individual Commissioner.

[2] For further details, see U.S. International Trade Commission, *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000,* Inv. No. 332-227, USITC Publication No. 3447, September 2000. The report showed that U.S. trade preferences involving production sharing had the most significant impact on income growth and investment in the Caribbean Basin countries. Although CBERA appeared to have had no evident effect on overall investment in the beneficiary countries, CBERA programs yielded small yet positive effects on income growth in those years when countries were undertaking at the same time their own trade and foreign-exchange reforms.

expandable polystyrene (see Appendix for a comprehensive list of these items).

Figure 1 shows U.S.–Caribbean bilateral trade and U.S. trade balances with the region in 4–year intervals during 1984–1996, and for the years 1998, 1999, and 2000.

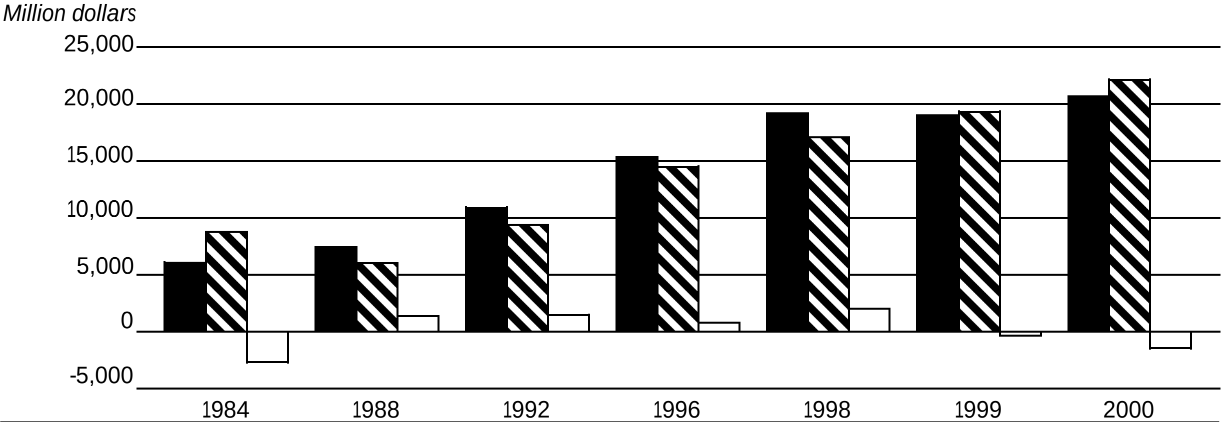
Changes in the Caribbean Export Profile to the United States

The Caribbean export profile, examined here as the composition of U.S. imports from Caribbean Basin countries, experienced dramatic changes between 1984, 1998, and 2000 (figure 2). In 1984, mineral fuels accounted for nearly one half of U.S. imports from Caribbean countries; by 1998, their share dropped to less than 6 percent of the total, mainly because of a sharp decline of petroleum prices in the mid–1980s. Imports of petroleum derivatives were replaced with apparel as the dominant category. In 1984, apparel, not knitted, constituted only some 4 percent of total U.S. imports from the region, while knitted apparel imports were minimal. By 1998, however, apparel (knitted and not knitted combined) replaced mineral fuels as the principal import from Caribbean countries, accounting for nearly one half of the entire trade flow. Imports of mineral fuel rebounded somewhat in 2000, reflecting soaring energy prices on world markets that year. At the same time, although the dominance of the apparel group in U.S. imports from the Caribbean Basin prevailed, the share of apparel dipped a few percentage points compared with 1998. The reasons for these changes in the composition of this trade are discussed below.

U.S. Trade Provisions as Incentives for Caribbean Export Diversification

During the period 1984–2000, all Caribbean countries were undertaking significant unilateral foreign trade and exchange reforms, which had beneficial effects on their exports and export diversification. At the same time, the Caribbean Basin benefitted from various U.S. tariff and non–tariff provisions that facilitated access for its products to the U.S. market. Table 1 shows the breakdown of U.S. imports from Caribbean countries by duty treatment in 1984, 1998, and 2000.

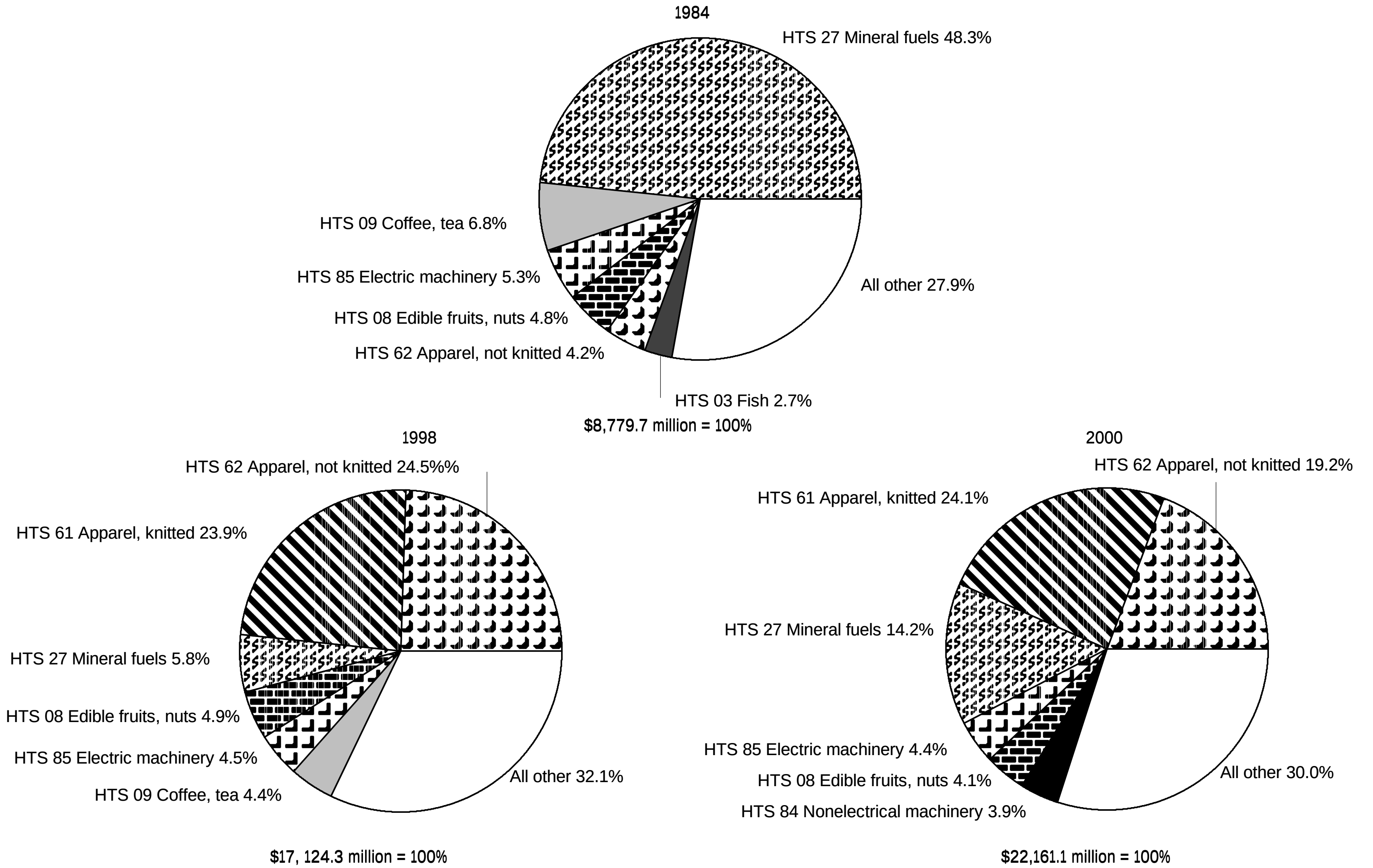
Figure 1
U.S. trade with CBERA countries, 1984, 1988, 1992, 1996, 1998, 1999, and 2000



	1984	1988	1992	1996	1998	1999	2000
Exports	$6,111.3	$7,427.8	$10,901.7	$15,374.7	$19,200.1	$19,029.6	$20,727.9
Imports	$8,781.7	$6,062.2	$9,425.6	$14,544.8	$17,124.3	$19,364.8	$22,161.1
Balance	-$2,670.4	$1,365.7	$1,476.1	$829.9	$2,075.8	-$335.2	-$1,433.1

Source: Compiled from official statistics of the U.S. Department of Commerce.

Figure 2
U.S. imports from Caribbean countries, by major product category, 1984, 1998, and 2000



Note.—Percentages may not add to 100 because of rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 1
U.S. Imports from Caribbean Countries by U.S. Trade Provisions

	1984	1998	2000
			(Thousand dollars, customs value)
Free of Duty			
Under HTS Column 1 (NTR)	2,170,537	3,864,752	6,640,928
Under Chapter 98 (production sharing)	587,560	4,525,187	4,633,704
Under CBERA	575,994	3,096,758	2,735,711
Under the General System of Preferences (GSP)	592,249	195,407	202,062
Other duty-free	155,479	58,031	67,137
Total, duty-free	4,081,819	11,740,135	14,279,542
Dutiable			
Under Chapter 98 (foreign value-added in shared production)	([2])	2,670,309	2,810,910
Reduced-duty under CBERA	([3])	63,930	54,511
Other dutiable	4,567,416	2,713,838	4,978,325
Total, dutiable	4,567,416	5,384,147	7,789,235
All imports	8,649,235	17,124,281	22,057,117
			(Percent)
Free of Duty			
Under HTS Column 1 (NTR)	25.1	22.6	30.1
Under Chapter 98 (production sharing)	6.8	26.4	21.0
Under CBERA	6.7	18.1	12.4
Under the General System of Preferences (GSP)	6.8	0.5	0.9
Other duty-free	1.8	1.0	0.3
Total, duty-free	47.2	68.6	64.7
Dutiable			
Under Chapter 98 (foreign value-added in shared production)	([2])	15.6	12.7
Reduced-duty under CBERA	([3])	0.4	0.2
Other dutiable	52.8	15.5	22.3
Total, dutiable	52.8	31.4	35.3
All imports	100.0	100.0	100.0

[1] Includes CBTPA.
[2] Not available; included in “other dutiable.”
[3] Not applicable; not yet in effect.
Source: Compiled from official statistics of the U.S. Department of Commerce.

Whereas in 1984, 47 percent of imports from the Caribbean countries entered the United States free of duty, this percentage increased to 69 percent by 1998. The U.S. content of goods returning under production-sharing provisions accounted for most of this increase, and duty-free imports under the Caribbean Basin Economic Recovery Act (CBERA) for the remainder. Duty-free imports entering unconditionally free under Normal Trade Relations (NTR) rates dropped in this period from 25 percent in 1984 to 23 percent in 1998, in part, because apparel imports, which are dutiable, soared as a portion of the overall product mix.

Developments in 1999 and 2000 point in the opposite direction. The total duty-free portion of U.S. imports from Caribbean countries dropped to 65 percent in 2000, due to the shift that has taken place in the product mix of U.S. imports from the Caribbean Basin towards high-value petroleum and natural gas derivatives, which are dutiable. Meanwhile, the portion of U.S. imports from the Caribbean Basin entering unconditionally free of duty surged from 23 percent of the total in 1998 to 30 percent in 2000. The reason was that several major U.S. imports from the Caribbean Basin that had been free of duty only because of CBERA (or the General System of Preferences) or partially free because of production sharing became unconditionally free under NTR rates, in accordance with the Uruguay Round Agreements overseen by the World Trade Organization. Most leading products entering under CBERA or production sharing (medical and surgical instruments, leather footwear uppers, certain fish) became free of NTR duty in 1999, and therefore they left these programs. In 2000, some other major Caribbean exports that had enjoyed tariff concessions, notably electrical variable resistors, also became unconditionally duty-free. As the implementation of the Uruguay Round Agreements pushed parts of the Caribbean trade flow into the unconditionally duty-free category, the margin of preference provided under U.S. trade measures suffered some erosion.

HTS Heading 9802

During 1984, only 6.8 percent of U.S. imports from Caribbean countries were accounted for by U.S. inputs returning under the production-sharing provisions of heading 9802 of the Harmonized Tariff Schedules of the United States (HTS). By 1998, this amount had surged to 26 percent of U.S. imports entering under these HTS 9802 production-sharing arrangements, i.e. Caribbean value-added portion of shared production was 16 percent that year.

HTS 9802 provisions, enacted in 1984, extend partial duty exemption for articles assembled abroad in whole or part from U.S. components. These measures sought to enhance the global competitiveness of U.S. industries by enabling low-cost assembly in foreign countries using U.S.-origin content. Although any country is eligible to take advantage of this provision, Canada, Mexico, and Caribbean countries lent themselves best to cross-border manufacturing with the United States because of their proximity. As to Mexico and the Caribbean Basin–both developing areas–the typical production- sharing arrangement has the capital-intensive portion of the shared production process located in the United States, and the labor-intensive operations located in the developing countries.

The apparel industry accounts for over three fourths of U.S. imports from the region admitted under production sharing arrangements. In shared apparel production, U.S. firms ship garment parts to the region for sewing, and re-import the assembled articles. U.S. production sharing provisions triggered an unprecedented growth of the Caribbean apparel industry, especially from the late 1980s, when CBERA beneficiaries were granted large quotas, known as “guaranteed access levels” (GALs) to the U.S. market for apparel wholly made and cut from fabrics in the United States. Other product areas in which production sharing has taken place in the region included medical goods, footwear and parts, and electrical goods. Rapid growth of shared production fundamentally altered the economic and trade profile of some countries in the Caribbean Basin, especially the Dominican Republic and Costa Rica.

CBERA

This unilateral preferential trade program was designed specifically to benefit the Caribbean Basin. It seeks to promote export-oriented growth and diversification in the region away from traditional agricultural and mineral raw materials production, by granting total (and to a small extent, partial) duty exemption for nontraditional imports from eligible Caribbean countries.

Notably, some major U.S. imports from the Caribbean Basin, including petroleum and most apparel, had been excluded from duty-free entry under CBERA. However, CBERA countries obtained virtually unlimited quotas for apparel products imported under the GALs production-sharing provisions mentioned above (commonly known as 807A imports); in that sense, their apparel production and exports benefitted from CBERA too.

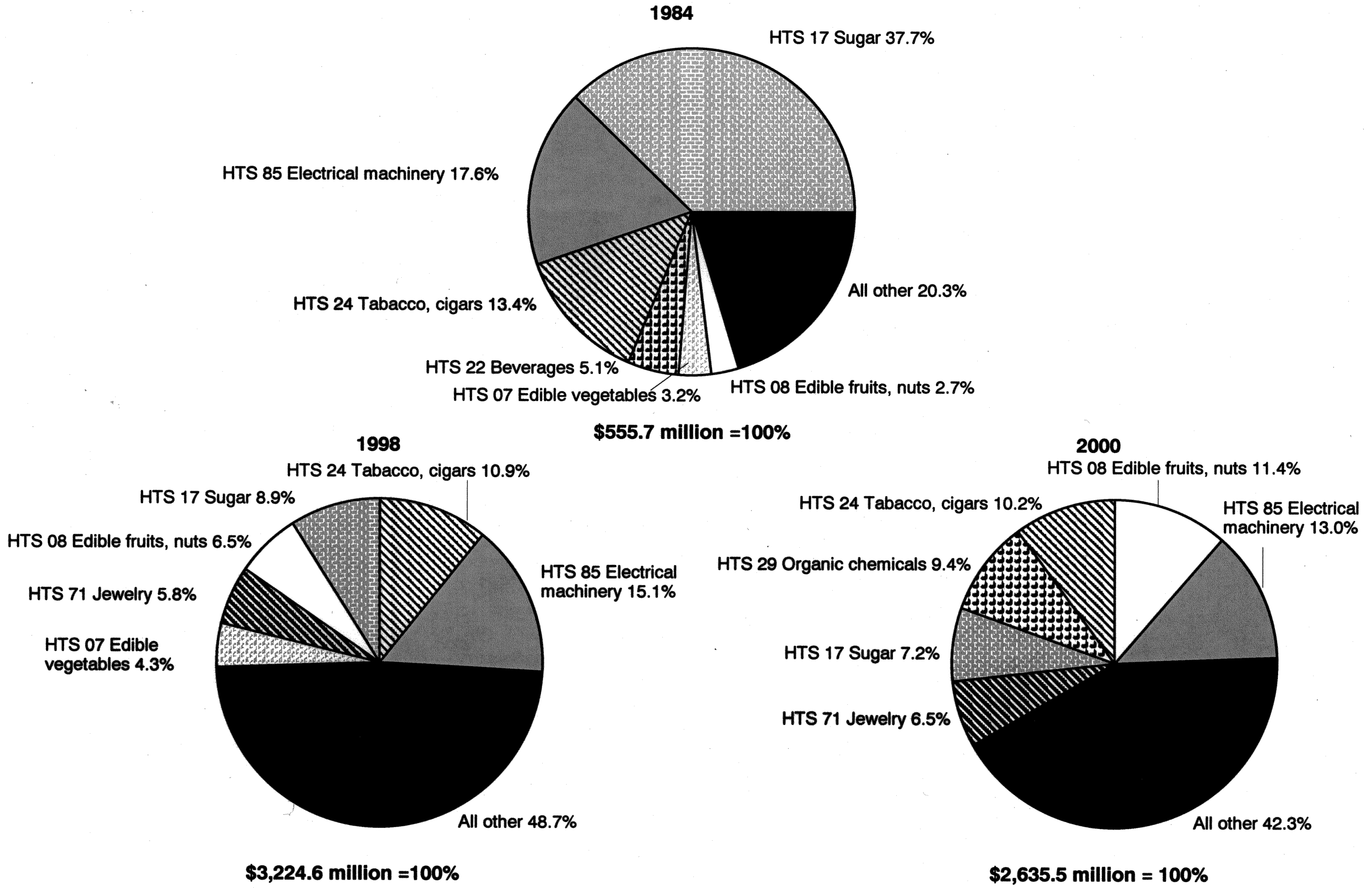
In 1984, the first year of CBERA, 6.7 percent of U.S. imports from Caribbean countries entered under this program. This share increased rapidly, peaking at 19.3 percent of the total in 1997, after which year it began to decline. The program provided incentives for the growth of nontraditional industries in the Caribbean Basin. Figure 3 illustrates Caribbean export diversification by showing changes in the composition of only those U.S. imports from Caribbean countries that entered under the CBERA program.

As shown in figure 3, in 1998 and 2000, jewelry and organic chemicals were leading import categories under CBERA. These sectors were virtually nonexistent in 1984. Other industries, such as edible vegetables and fruits were able to increase their share in U.S. imports under CBERA. The “all other” category was wider in 1998 and 2000 than it was in 1984, because this miscellaneous group accommodated several new, smaller categories of goods produced for exports to the United States in recent years, such as prepared food and plastics. This may be seen as a further indication that CBERA was influential in export diversification.

Production Sharing and CBERA Compared

It should be noted that production sharing provisions, reinforced with liberal quota treatment for apparel under GALs, have generated more progress in the Caribbean economy than has the preferential CBERA, which was enacted solely on behalf of Caribbean countries. The principal reasons are: the number of major Caribbean export items that received preferential duty treatment exclusively because of CBERA was small; many items in which the Caribbean had a comparative advantage were excluded (apparel, petroleum products); other such goods were already duty-free under normal rates (coffee, bananas) or under GSP (jewelry, sugar). For example, in 2000, only 6.8 percent of total U.S. imports from CBERA countries entered free of duty exclusively because of CBERA (cigars, methanol).

Figure 3
U.S. imports under CBERA, by major product categories, 1984, 1998, and 2000



Note.—Percentages may not add to 100 because of rounding.
Source: Compiled from official statistics of the U.S. Department of Commerce.

Caribbean utilization of production sharing provisions and CBERA is compared in the breakdown of U.S. imports from Caribbean countries by those U.S. trade measures under which they entered free of duty. Figure 4 (to be seen in conjunction with table 1) shows that in 1998, when the utilization of both of these programs had been near their peak, $4.5 billion (26 percent of all U.S. imports) entered free of duty under production sharing provisions, and $3.1 billion (18 percent of the total) under CBERA. In 2000, when both production sharing and CBERA lost some of their relative importance, the respective numbers were $4.6 billion (21 percent) and $2.7 billion (12 percent).

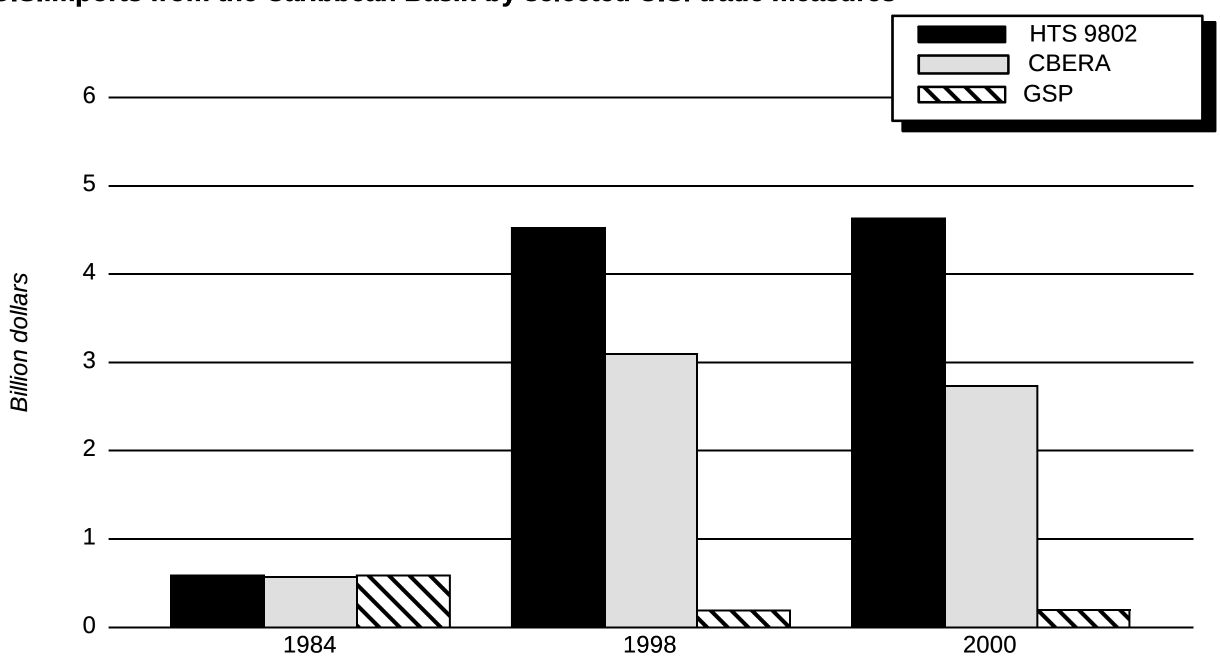
CBTPA

Because of the North American Free Trade Agreement (NAFTA), a regional free trade accord of the United States with Canada and Mexico that entered into force in 1994, Caribbean countries found themselves in a position of competitive disadvantage with Mexico in the U.S. market for certain products, especially apparel. Under NAFTA, apparel from Mexico had gained completely duty-free access, while access for the Caribbean value-added portion of products imported under production-sharing provisions remained subject to duty.

As a result, Caribbean apparel has lost some ground in the U.S. market in recent years. The combined share of apparel goods (HTS chapters 62 and 61 combined) in total imports from Caribbean countries fell from 48 percent in 1998 to 43 percent in 2000. Accordingly, the years 1999 and 2000 brought a relative drop in imports under production sharing provisions (both in the dutiable and duty-free portions), as shown in table 1 and figure 4.

The competitive disadvantage faced by Caribbean countries due to NAFTA gave rise to the United States-Caribbean Basin Trade Partnership Act (CBTPA). This legislation seeks primarily to offset the adverse effects of NAFTA on Caribbean countries in the area of apparel, but acts as an enhancement of CBERA in other ways as well.

Figure 4
U.S.imports from the Caribbean Basin by selected U.S. trade measures



Source: Compiled from official statistics of the U.S. Department of Commerce.

CBTPA entered into force on October 1, 2000. It is scheduled to expire in 2008, unless the Free Trade Area of the Americas (FTAA) or a comparable free trade agreement between the United States and CBERA beneficiaries enters into force earlier. CBTPA grants duty-free and quota-free treatment to imports of qualifying textile and apparel articles from Caribbean countries. Products other than textiles and apparel, which are excluded from CBERA, also receive NAFTA-equivalent preferential treatment under the CBTPA. The trade preferences granted by CBTPA are expected to boost growth of Caribbean production and exports in product areas for which they facilitate access to the U.S. market, especially for apparel.[3]

[3] Certain textile provisions of the CBTPA and their possible amendment have been an item of discussion in recent legislative sessions, held in December 2001, focused on renewing U.S. trade promotion authority. For further detail, see Warren Vieth, "How Pro-Textile Votes Held Sway in Trade Bill Passage," *Los Angeles Times*, Dec. 7, 2001; Edward Alden, "Trading nations count the cost of fast-track," *Financial Times*, Dec. 10, 2001, p. 8.

APPENDIX

Principal U.S. imports from the Caribbean region

The Caribbean region is the only or a major U.S. supplier of the items listed

Item	Comments
Traditional Caribbean Export Items	
Sugar	The Dominican Republic is the number one U.S. supplier of raw cane sugar in solid form, followed by Brazil and the Philippines. Guatemala is the leading supplier of raw cane sugar used for re-export, followed by Colombia and Mexico.
Bananas	Costa Rica is the number one U.S. banana supplier. Guatemala is third after Ecuador, and Honduras fifth. The region as a whole provides well over one half of all bananas imported by the United States.
Coffee	The region is number one U.S. supplier , followed by Mexico and Colombia. Guatemala by itself is the third largest U.S. supplier, after Mexico and Colombia. El Salvador and Honduras are also important suppliers.
Rum	As the traditional principal U.S. source of rum , the region provides some four fifths of all U.S. imports. Jamaica is the number one U.S. supplier worldwide, accounting for 44.5 percent of the total. Barbados and the Bahamas are second and third.
Diversification into Raw and Processed Agricultural Items	
Hand-rolled Cigars	Over 90 percent of all U.S. imports originate in the region. The Dominican Republic alone provides 70 percent of the total; Honduras of 19 percent.
Frozen Orange Juice	After Brazil, the region is the second largest source of U.S. imports, accounting in 2000 for 31.1 percent of the total. Costa Rica alone, with one fifth of all U.S. imports that year is the second-largest U.S. supplier, having surpassed Mexico. Belize and Honduras are fourth and fifth largest suppliers.
Pineapples	Caribbean countries are the principal U.S. source of pineapples—especially Costa Rica, which provided more than four fifths of U.S. imports of pineapples from all countries of the world in 2000. Honduras, the number two U.S. supplier, provided some 10 percent of the total.
Cantaloupes	After Mexico, four Caribbean countries—Guatemala, Costa Rica, Honduras, and the Dominican Republic–are the principal U.S. suppliers of seasonal cantaloupes, collectively accounting for 65.6 percent of U.S. imports from all countries in 2000. (Mexico alone accounted for some 27 percent of the total).
Melons other than Cantaloupes	More than half of this fruit imported by the United States in 2000 originated in CBERA countries; most of the rest came from Mexico.
Ethyl Alcohol (Ethanol)	Ethanol is imported for use mostly as an additive to gasoline. Sugarcane is the major indigenous feedstock used in Caribbean ethanol production. All Caribbean ethanol enters the United States under CBERA. Jamaica, Costa Rica and El Salvador combined were the source of 42.9 percent of U.S. ethanol imports from all countries in 2000. Jamaica is the second leading U.S. supplier of ethanol after Saudi Arabia, and Costa Rica the third.
Diversification into Manufactured Items	
Apparel	The Caribbean collectively is number one source of certain apparel items, including T shirts of which Mexico is the leading country supplier. Sweaters are another example, of which Honduras is the leading supplier. The region is the second-largest U.S. source of men's or boys trousers and shorts, after Mexico. The Dominican Republic provides more than 10 percent of such imports.
Medical and Dental Instruments and Appliances	The region is the number one U.S. supplier. The Dominican Republic by itself is the number two supplier, not much behind Mexico. In 2000, Mexico provided 25.6 percent of U.S. imports and Mexico 23.4 percent. Costa Rica supplied 11.9 percent of the total.
Anhydrous Ammonia	Trinidad and Tobago provide more than half of all U.S. imports. Canada and the Ukraine are second and third suppliers.

APPENDIX—*Continued*

Principal U.S. imports from the Caribbean region

The Caribbean region is the only or a major U.S. supplier of the items listed

Item	Comments
Diversification into Raw and Processed Agricultural Items—Continued	
Expandable Poly-styrene	In 2000, the Bahamas provided more than half of all U.S. imports of expandable polystyrene beads, which are processed into styrofoam cups. Until as recently as 1998, Canada had been this product's principal supplier.
Goods Taking Advantage of Local Mineral Resources	
Distillate and residual fuel oils (bituminous), under 25 A.P.I.	Caribbean countries are the only source of U.S. imports; Trinidad and Tobago provide one third of the total.
Petroleum oils, under 25 degrees A.P.I.	Trinidad and Tobago supplies virtually all U.S. imports.
Methyl alcohol (methanol)	Trinidad and Tobago accounts for some 40 percent of U.S. methanol imports from all countries of the world. Venezuela, Chile, and Canada were second, third, and fourth suppliers in 2000. Trinidad and Tobago has been the number one U.S. supplier since 1998. The methanol manufactured in Trinidad and Tobago is made from natural gas and used as a fuel additive.
Liquified Gas	Trinidad and Tobago is the leading U.S. source, providing more than one half of all U.S. imports by value.