USITC Reports that CBERA Imports Will Likely Increase

Thomas F. Jennings[1]
tjennings@usitc.gov
202-205-3260

As a result of a recently inaugurated expansion of the Caribbean Basin Economic Recovery Act (CBERA), U.S. imports from Central American and Caribbean beneficiary countries–particularly of textiles and apparel–have already increased. It is expected that this trend will increase and such imports will eventually dominate trade from the region.

The biennial report of the United States International Trade Commission (USITC, or the Commission) on the impact of trade with countries eligible under the U.S. Caribbean Basin Economic Recovery Act (CBERA) was released on November 6, 2001.[2] Section 215 of the CBERA requires the Commission to prepare a report assessing both the actual and the probable future effects of CBERA on the U.S. economy, on U.S. industries, and on U.S. consumers. The section was amended in May 2000 by the Caribbean Basin Trade Partnership Act (CBTPA), which instructed the Commission also to report on the impact of the overall preference program on beneficiary countries.

The Commission used partial-equilibrium analysis to estimate the impact of CBERA on the United States. The probable future effect of CBERA on the United States was estimated by an examination of export-oriented investment in the beneficiary countries. This year's report also provides an assessment of the effectiveness of CBERA in promoting export-led growth and export diversification in the beneficiary countries. This examination of the impact of the U.S. preference program on trading partners in the Caribbean and Central American region was conducted by means of an econometric analysis. Data sources for the report included: field interviews, on-site tours of agricultural and manufacturing facilities, interviews with government agencies, information from the U.S. Department of Commerce, data reported by international agencies and multilateral banks, as well as reports from U.S. embassies.

The CBERA entered into effect on January 1, 1984, and became permanent on August 20, 1990. It reduces or eliminates tariffs on eligible products of designated Caribbean, Central American, and South American countries and territories. The primary goal of CBERA is to promote export-oriented growth in these 3 groups of Caribbean Basin countries and territories, and to diversify their economies away from traditional agricultural products and raw materials. CBERA applies to many of the same tariff categories covered by the U.S. Generalized System of Preferences (GSP), but is broader than the GSP in that CBERA's benefits apply to additional products and the qualifying rules for trade in these products are more liberal.

The report looks at the CBERA from three vantage points: the trade-related activities resulting from the preference program in 1999-2000; its impacts on the United States, and the impacts on the beneficiary countries.

Trade-Related Activities

Total U.S. imports from CBERA beneficiary countries in 2000 amounted to $22.2 billion, of which $2.8 billion or 11.9 percent entered under CBERA preferences. An additional $157 million, or 0.7 percent of the total, entered under the CBTPA program, which became effective only during the last quarter of 2000 for some countries eligible for CBERA. The leading items afforded duty-free entry under CBERA in 2000 were cigars and other tobacco products, methyl alcohol (methanol), gold and platinum, jewelry, sugar, and pineapples. Four countries–the Dominican Republic, Costa Rica, Trinidad and Tobago, and Guatemala–accounted for more than 75 percent of all U.S. imports under CBERA.

The above-mentioned share of U.S. imports from CBERA countries entering under CBERA preferences decreased from shares of 18.8 percent in 1998, to 13.6

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

[2] USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000*, Inv. No. 332-227, USITC Publication 3447, September 2001.

percent in 1999, and to 11.9 percent in 2000. The decline in the relative significance of CBERA can be attributed principally to three factors: (1) the elimination of duty rates for some CBERA-eligible products that made preferential access unnecessary; (2) a smaller U.S. quota and quota allocations for sugar (a CBERA-eligible product) from most countries, including CBERA beneficiaries; and (3) a surge in the price of petroleum products that increased the import value for those products coming from outside CBERA.

The United States registered a collective trade deficit with CBERA countries in both 1999 and 2000–the first U.S. deficits in this trade since 1986. The 1999 deficit was $335.2 million; the 2000 deficit was $1.4 billion. These deficits resulted largely from price increases, particularly the higher import value of petroleum and natural gas products imported from CBERA countries.

Apparel products continued to dominate U.S. imports from CBERA countries. However, the share of apparel products by value in total imports from CBERA countries dipped from 48 percent in 1998 to 43 percent in 2000, due to competition in the U.S. market from Mexican apparel entering duty-free under the North American Free Trade Agreement (NAFTA).

Imports contracted from most CBERA countries under the program during 1999 and 2000. Increased imports of methyl alcohol from Trinidad and Tobago, of expandable polystyrene from the Bahamas, and of frozen orange juice from Belize boosted overall imports under CBERA from these three countries, making them major exceptions to the overall contraction.

The product composition of U.S. imports under CBERA has changed markedly since 1998 because of the lower tariffs resulting from the Uruguay Round of multilateral trade negotiations. Beginning in 1999, most instruments (HTS chapter 90) and footwear uppers (HTS chapter 64) that had been leading import categories in 1998, no longer entered under CBERA. As of 2000, many electrical machinery items no longer entered under CBERA. All of these items became duty-free rates under most-favored-nation status, known in the United States as normal trade relations status.

U.S. exports to CBERA countries totaled $20.7 billion in 2000, an 8.9 percent increase over 1999. CBERA countries' relative export market importance dipped slightly, from sixth in 1998 to ninth in 2000. The Dominican Republic, Honduras, Costa Rica, and Guatemala remained the principal U.S. markets, collectively accounting for 53.6 percent of U.S. exports to the region. The leading eight countries (top one third) have in recent years accounted for more than eighty percent of U.S. exports to CBERA countries.[3]

Goods provided for under HTS chapters for apparel, mineral fuels, vehicles (not railway), and cereals continued to dominate U.S. exports to the region. Six of the leading 20 export items fell under the textiles, apparel, or apparel parts category–trade driven primarily by production-sharing opportunities. Another four of the leading 20 export items fell under the category of mineral fuels and oil.

Impact of CBERA on the United States

Of the $2.8 billion in U.S. imports that entered under CBERA in 2000, imports amounting to $1.5 billion could not have received tariff preferences under any other program. The five leading items benefitting exclusively from CBERA in 2000 were methyl alcohol, higher priced cigars, pineapples, jewelry articles, and raw cane sugar.[4]

The overall effect of CBERA-exclusive imports on the U.S. economy and on consumers continued to be negligible in 2000. In that year, the value of U.S. imports under CBERA preferences was less than 0.03 percent of U.S. gross domestic product (GDP). The value of total U.S. imports from CBERA countries was 1.8 percent of total U.S. imports.

Fuel-grade ethyl alcohol provided the largest gain in consumer welfare (between $19.3 million and $27.7 million)[5] due to the lower prices resulting exclusively from CBERA tariff preferences in 2000.[6] Methyl alcohol provided the second largest gain in consumer welfare (between $19.0 million and $20.6 million). U.S. imports of the 20 leading CBERA-exclusive items (except for two sugar subheadings) produced net welfare gains for U.S. consumers in 2000.[7] For example, frozen concentrated orange juice yielded the largest net gain, valued at $4.2 million to $5.2 million, followed by fuel-grade ethyl alcohol and methyl alcohol.

---

[3] For a discussion of Caribbean exports to the United States, see related article by Magda Kornis, "U.S. Trade Measures and the Caribbean Export Profile," *International Economic Review*, November-December 2001.

[4] Ibid.

[5] The methodology employed in the analysis produces an upper and lower range estimate of the change in consumer welfare. As a result, a range of estimated effects is present here.

[6] The price U.S. consumers would have paid for imports of ethyl alcohol from CBERA countries would have been 49 percent higher (the ad valorem duty rate adjusted for freight and insurance charges) without CBERA. In general, items providing the largest gains in consumer welfare also have either the highest column 1 tariff rates, or the highest import volumes from CBERA countries, or both.

[7] Changes in consumer welfare are the result of lower prices.

No U.S. industries were identified as experiencing or potentially experiencing displacement of more than 5 percent of the value of U.S. production, based on an upper range estimate. The probable future effect of CBERA on the United States is expected to be minimal in most economic sectors. From field work, the Commission identified recent CBERA-related investments in the manufacturing and garment sectors, most likely focused on production-sharing arrangements. Thus, the largest future effect of CBERA on the United States is likely to result from enhanced preferences granted to certain apparel products under CBTPA in 2000.[8]

Impact of CBERA on Beneficiary Countries

The econometric analysis conducted in the USITC study examined the factors affecting exports and economic growth in the Caribbean region, attempting to isolate the impact of the CBERA program itself.[9] According to the analysis, CBERA appears to have had a small but positive effect on income growth in the beneficiary countries, but only during the years when these countries were undertaking their own trade and foreign exchange reforms. As expected, any impact CBERA may have had on growth has diminished as the U.S. trade regime has become more open over time.[10] Also, CBERA appears to have had no significant effect on overall investment in the beneficiary countries.

In contrast to CBERA, production-sharing has had a positive effect on growth of both investment and income in the beneficiary countries. This impact has also diminished as the U.S. market has become more open over time. NAFTA provisions, however, have also reduced the positive effects of the production-sharing program for the CBERA region, and directly diminished investment in the Caribbean beneficiary countries.

Unilateral trade reforms–such as the removal of quantitative restrictions, reductions in tariff levels, removal of export taxes, and the like–when undertaken by the beneficiary countries, were significant catalysts for increased investment in the CBERA region and increased income growth in the Caribbean. U.S. trade reforms have also had a significant, positive effect on investment in Central American beneficiary countries, and on income growth in Caribbean beneficiary countries. In 2000, investment in the region increased nearly 14 percent over 1999. Estimated investment flows to the region amounted to just over $74 billion in 2000.[11]

Recent Trade Statistics

While the preferences afforded to items previously excluded under the program–notably textiles and apparel–became effective in October 2000, items did not start to enter the United States officially as imports under the CBTPA. Such CBPTA imports accounted for 0.7 percent of total U.S. imports from the region, or approximately 8.4 percent on an annualized basis. Imports under CBERA accounted for 11.9 percent in 2000.

Trade statistics for 2001 indicate that the value of imports under the new CBTPA element of the CBERA preference program has increased markedly (table1). For 2001, imports under CBTPA account for nearly 46 percent of total U.S. imports from the region, with the share of imports under the CBERA program representing 14 percent during the same time period. Table 1 illustrates that imports under the CBTPA program with its added textile preferences were more than twice the magnitude of their CBERA counterparts during 2001. Thus, the expanded preferences under CBTPA are changing the footprint of trade between the United States and many countries of Central America and the Caribbean.

The USITC report, *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000* (Inv. No. 332-227, USITC Publication No. 3447, September 2001) is available on the ITC's Internet site at ***www.usitc.gov***. A printed or CD-ROM version may be requested by calling 202-205-1809 or by writing to the Office of the Secretary, U.S. International Trade Commission, 500 E Street SW, Washington, DC 20436. Requests may also be faxed to 202-205-2104.

[8] Preferences to the CBERA program were enhanced in 2000 by the CBTPA, which accounted for a liberalization of certain apparel articles entering from the CBERA region. The program also included reduced duty rates for certain products previously excluded that occurred concurrently with CBERA. These programs included liberalization already embodied from the Uruguay Round, unilateral trade liberalization, regional trade agreements, and the establishment of free-trade zones.

[9] The econometric analysis examined the impact of CBERA on average annual GDP growth and annual investment as a percent of GDP in the beneficiary countries, while controlling for the impact of other major policy reforms.

[10] This is the result of the erosion of CBERA trade preferences following the elimination of U.S. duties on a number of other products from liberalization brought about under other agreements or policies.

[11] A recent report by the U.S. Trade Representative to the Congress provided a periodic update on the CBERA program. It included a description of the Caribbean Basin Initiative that later became the CBERA, and an overview of recent trade between the CBERA region and the United States. The USTR report also reviewed the eligibility criteria on which Congress originally conditioned the granting of trade preferences to beneficiary countries. These criteria, reflecting a number of key U.S. policy objectives, must be met and maintained in order to retain eligibility for CBERA trade preferences. See Office of the United States Trade Representative, *Fourth Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act* (USTR: Washington DC), Dec. 31, 2001.

Table 1
U.S. imports under CBERA and CBTPA, 1999-2001

(Million dollars)

	CBERA			CBTPA		
Country	**1999**	**2000**	**2001**	**1999**	**2000**	**2001**
Antigua and Barbuda	0	0	0	-	-	-
Aruba	0	0	0	-	-	-
The Bahamas	56	74	76	-	-	-
Barbados	25	10	12	-	-	-
Belize[1]	23	32	38	-	0	10
British Virgin Islands	0	0	0	-	-	-
Costa Rica[1]	683	601	585	-	16	427
Dominica	9	0	0	-	-	-
Dominican Republic[1]	820	805	810	-	47	1,554
El Salvador[1]	59	46	71	-	26	938
Grenada	11	17	7	-	-	-
Guatemala[1]	285	250	245	-	15	499
Guyana[1]	15	16	17	-	1	7
Haiti[1]	22	21	15	-	5	144
Honduras[1]	180	207	210	-	46	1,460
Jamaica[1]	90	87	84	-	2	111
Montserrat	0	0	0	-	-	-
Netherlands Antilles	2	4	6	-	-	-
Nicaragua[1]	51	57	67	-	0	81
Panama[1]	46	43	37	-	0	5
St. Kitts and Nevis	26	28	29	-	-	-
St. Lucia[2]	9	7	7	-	-	0
St. Vincent and the Grenadines	7	2	2	-	-	-
Trinidad and Tobago[2]	218	328	389	-	-	356
Total	2,637	2,636	2,706	-	157	5,593

[1] Country designated fully eligible for CBTPA benefits as of yearend 2000.
[2] Country designated fully eligible for CBTPA benefits beginning 2001.

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