Challenges Facing the Caribbean Region in the Era of Globalization, and the U.S.-Caribbean Trade Relationship

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The Caribbean Basin Economic Recovery Act (CBERA) was dramatically revitalized by its extension in October 2000, which included the Caribbean Basin Trade Partnership Act (CBTPA). The short experience to date with the enhanced CBERA is also viewed here in the context of the Caribbean Region's overall developmental needs, as assessed by three authors. These authors discuss the new challenges the region faces in the post-colonial global economy, and the role the United States could play in assisting them.

The Revitalization of CBERA by the CBTPA

In January 1994, with the implementation of the North American Free Trade Agreement (NAFTA), 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 gained duty-free access, while Caribbean apparel remained dutiable. When the Caribbean apparel entered the U.S. market under production-sharing provisions, the Caribbean value-added portion of the imported product was still subject to duty.[2]

The competitive disadvantage that by Caribbean countries had to face gave rise to the U.S. law called the United States-Caribbean Basin Trade Partnership Act (CBTPA), which came into effect on October 1, 2000. This legislation enhanced the Caribbean Basin Economic Recovery Act (CBERA), a preferential import program that has benefitted Caribbean and Central American countries since 1984, but from which apparel and some other products had been generally excluded until the program's recent extension which the CBTPA included.[3]

CBTPA dramatically revitalized the CBERA program. CBERA's significance in U.S. imports from Caribbean countries began to decline after 1998, because several products that had been leading imports under the program became free of duty under normal trade relations (NTR) rates (formerly known as most-favored-nation rates), and therefore no longer entered under CBERA.[4] However, since CBERA was extended with CBTPA provisions, preferential trade from CBERA countries has accounted for a sharply increased share of total imports from these countries.

Table 1 shows total annual U.S. imports from the beneficiaries of CBERA countries in 1998-2001;

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[2] Production sharing occurs when two or more countries provide value-added during the production of a good and at least one country uses imported inputs in the production process. In a typical production-sharing arrangement of U.S. and Caribbean companies, the capital-intensive portion of the shared production process is located in the United States, and the labor-intensive operations are located a Caribbean country. Apparel, footwear, and electronics assembly lend themselves well to production sharing.

[3] The Caribbean Basin Initiative (CBI), a U.S. program to assist Caribbean countries, first came into effect in 1984 when CBERA, a preferential program for imports from eligible Caribbean countries, was implemented. In 1990, CBERA was extended by several additional preferential provisions. In October 2000, the Caribbean Basin Trade Partnership Act (CBTPA) was implemented as the second extension of CBERA, making apparel and some other Caribbean exports eligible for duty-free treatment under the program. For more information on CBERA, see the series of the U.S. International Trade Commission's *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers*, published annually in September since Sept. 1986 through 2001. Thereafter, the series became biennial, thus the next issue will be released in September 2003.

[4] For example, beginning in 1999, most instruments (HTS chapter 90) and footwear uppers (HTS chapter 64) that had been leading import categories under CBERA in 1998, became duty-free under normal tariff rates, therefore no longer entered under the program. Similar was the case for many electrical machinery items in 2000.

Table 1
U.S. imports from CBERA countries, 1998 to 2001, December 2000 to May 2001, and December 2001 to May 2002

Item	1998	1999	2000	2001	Dec. 2000-May 2001	Dec. 2001-May 2002
Total imports from CBERA countries (*1,000 dollars*)	17,124,281	19,364,762	22,161,075	20,678,868	10,722,288	9,580,378
Total imports under CBTPA (*1,000 dollars*)	([1])	([1])	157,004	5,592,870	1,999,731	3,096,135
Percent of total imports from CBERA countries			1	27	19	32
Total imports under CBERA excluding CBTPA (*1,000 dollars*)	3,224,564	2,637,200	2,635,549	2,706,287	1,419,783	1,462,766
Percent of total imports from CBERA countries	19	14	12	13	13	15
Total imports under CBERA including CBTPA (*1,000 dollars*)	3,224,564	2,637,200	2,792,553	8,299,157	3,419,514	4,558,901
Percent of total imports from CBERA countries	19	14	13	40	32	48

[1] Not applicable.

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

semiannual imports during December 2000–May 2001, the first half-year period during which entries under CBERA already reflected CBTPA; and imports during December 2001–May 2002, the most recent comparable semiannual period.

In 2001, its first full year, CBTPA alone accounted for relatively more program-related duty-free imports from Caribbean countries than CBERA ever has. CBTPA alone accounted for 27 percent of all U.S. imports from CBERA countries, compared with 13 percent of the total by CBERA alone. During the same year, the new, extended CBERA program–CBERA and CBTPA combined–was responsible for 40 percent of all imports from these countries. Notably, however, CBTPA has not boosted total imports from the Caribbean region in 2001; in fact, imports dropped from $22.2 billion in the year 2000 to $20.7 million, or by 6.8 percent. The likely positive impact of CBTPA on this trade was offset by other factors, such as slackening U.S. demand due to recession, and lower prices in some groups of imports, especially petroleum products.

During December 2001–May 2002, both CBERA and CBTPA separately were higher as a portion of overall U.S. imports from CBERA countries than they had been in the comparable period of December 2000–May 2001. The extended CBERA accounted for 48 percent of the total in December 2000–May 2001, compared with 32 percent in the prior 6 months.

Challenges and the Role the United States in the Caribbean Region: A Review

For any student of CBERA's extension by the CBTPA, or of policies affecting the Caribbean in general, a paper released by the Center for Strategic and International Studies (CSIS) may be of interest. Entitled "The United States and Caribbean Strategies," this paper contains three assessments of Caribbean developmental needs, and of policies the authors believe the United States should implement.[5]

The paper touches on several policy issues in addition to economic and trade policy, including political, security, ecological, and social issues; immigration; organized crime; narcotics trafficking; and U.S. policy on Cuba and Haiti. What follows is a review of the authors' policy recommendations pertaining to economics and trade.

It should be noted that the authors generally view the region in terms of the Caribbean Community and Common Market (CARICOM),[6] which the CARICOM member countries are seeking to call the Caribbean Single Market and Economy (CSME) once they achieve an economically integrated unit.[7] However, when citing specific U.S. policies, the authors adapt to the U.S. practice that includes the Central American countries in their denotation of the Caribbean region. Also this article will use the term "Caribbean Region" loosely, depending on the context discussed.

Recognizing the CBTPA, but Looking for More

The authors consider the CBTPA "a significant step toward parity of market access between Mexico and CBI countries,[8] particularly as the program relates to apparel" (Bernal p. 10; see also Bryan p. 36, and Fauriol p. 44). All three assessments agree that U.S. policies are of utmost importance for the region's economy, because of geographic proximity (Bryan p. 31); because "the NAFTA trade market remains a prize" (Fauriol, p. 42); and "because the United States is the largest trading partner and capital source for the region" (Bernal, p. 8).

However, the authors indicate that they are interested in U.S. engagement on behalf of the Caribbean well beyond preferential trade programs; they propose initiating new U.S. policy actions in some areas and discontinuing existing ones in others. Fauriol does not dispute that the most immediate opportunity for the United States to assist the Caribbean region is in the area of trade and development (p. 35). However, he questions the "compartmentalized nature of U.S.

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[5] The three assessments, released on Apr. 16, 2002, are authored by Richard L. Bernal, Ambassador of Jamaica to the United States "U.S. Caribbean Relations at the Dawn of the Twenty-First Century;" Anthony T. Bryan, professor, University of Miami, "Caribbean Trends and a U.S. Policy Agenda;" and Georges A. Fauriol, director, CSIS Americas Program, "U.S. Policy Prospects toward the Caribbean."

[6] CARICOM, established in 1975, includes 15 Caribbean countries: Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, Suriname, St. Vincent and the Grenadines, and Trinidad and Tobago.

[7] Many other definitions exist which all could stand for the "Caribbean Region." The broadest is The Association of Caribbean States (ACS), which comprises 37 nations, including the mainland states of Venezuela, Colombia, Mexico, and the Central American countries. U.S. policies with respect to the Caribbean region are principally concerned with those 24 countries that are beneficiaries of the Caribbean Basin Economic Recovery Act (CBERA), and these include some Caribbean islands outside CARICOM, such as the Dominican Republic, and the Central American countries. Reports of the United States International Trade Commission refer to these countries combined as the "CBERA region" or "CBERA countries."

[8] The term "CBI countries" also refers to the beneficiaries of CBERA (a.k.a. CBERA countries).

policies with respect to the Caribbean," which consist of various "country-specific agendas (especially with respect to Cuba and Haiti)" and of discrete issues such as general trade, narcotics trade, money laundering, and immigration (p. 39). But he realizes that "..the United States also faces a region that remains fragmented geographically, as well as politically, which explains in part the absence of an integrated U.S. policy" (p. 41).

The Short-Term Nature of Preferential Trade Programs

Bryan emphasizes the short-term nature of CBERA and of the trade preferences Caribbean nations now enjoy from any government. He warns that Caribbean nations must plan for the long term without counting on such preferences. In his words: "The generous preferential market access for their (i.e. Caribbean countries') exports to the European Union (EU) and North America is in danger of being eroded or phased out in the coming years" (p. 31).

Bryan reminds the reader that by 2005, newly liberalized global apparel trade will allow additional countries, including China, to compete with Caribbean and other suppliers that now have preferential access to the U.S. market.[9] Also Fauriol writes that "Preferential trade agreements–the CBI for example–are an endangered species" (p. 44). He is referring to upcoming events in the area of regional and global integration, including negotiations to establish a Free Trade Agreement of the Americas (FTAA) or new World Trade Organization (WTO) rounds on the horizon, which could further challenge the economies of the region (p. 44).

Caribbean Merchandise Exports Other Than Those Affected by the Extended CBERA

The authors point out the continuing importance for the region of merchandise exports that do not benefit, or benefit only in part, from U.S. preferential trade measures, but for which the U.S. market and U.S. policies still play a major role. Bryan comments that "The challenges facing CBI countries, even with the CBTPA, may have less to do now with textiles and apparel products, and more with taking full advantage of tariff-free treatment for non-apparel products. Indeed, the psychological advantages of awakening latent production forces and attracting new investment can be more important than increased market access" (p. 36).

The authors cite bananas as an example of Caribbean exports that are greatly affected by U.S. policies outside of CBERA programs.[10] In the banana case, they see the position the United States has taken in the past on international banana trade to have been detrimental to the interest of some Caribbean island nations. For years, Caribbean island nations exported bananas mostly to Europe, where they enjoyed privileged access to the European market under the EU's preferential program in favor of African, Caribbean, and Pacific (ACP) countries. The authors claim that the recent adoption by the EU of a more competitive system of international banana trade at the insistence of the United States,[11] resulted in the loss of the Caribbean island nations' privileges in the European market.[12] This loss became a serious problem for some Caribbean countries, whose economies depend largely on banana exports (Bernal, p. 8; see also Bernal, pp. 11-12; Bryan, p. 38; Fauriol, p. 41). Small banana farmers of Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines were especially affected.[13]

Bernal cites sugar as another example of the large impact U.S. policies have on Caribbean trade. Caribbean sugar exports to the U.S. market, while benefitting from duty-free treatment under CBERA,

[9] The Uruguay Round Agreement on Textiles and Clothing (ATC) calls for the gradual and complete elimination by January 1, 2005 of import quotas on textiles and apparel established by the United States and other importing countries under the Multifiber Arrangement (MFA).

[10] Bananas are free of duty under the U.S. Harmonized Tariff System (HTS), therefore they do not need to enter the U.S. market under CBERA.

[11] The EU adopted a new trade regime in April 2001 in response to U.S. pressure on behalf of Latin American and Central American suppliers, and a World Trade Organization (WTO) ruling, which favored the United States in this U.S.-EU dispute. Notably, however, the WTO ruling benefits the Central American banana producers who are also CBERA beneficiaries; it also benefits Ecuador, the world's largest banana producer. It does aggravate the competitive position of some Caribbean island producers, especially small ones, whose economies rely heavily on the export of bananas.

[12] Before a tariff-only trading system is to be implemented in 2006, a transitional tariff-rate quota system is in effect with allocations based on past trade.

[13] Following the release of the CSIS article under discussion, the predicament the Caribbean banana producing countries was alleviated by waivers the WTO granted to the EU, allowing them to maintain preferential access to ACP countries, subject to specific limitations.

are subject to U.S. tariff-rate quotas (TRQs). He mentions the threat for Caribbean sugar producers of the Mexican Government's continuing pressure on the United States to allocate much larger sugar quotas to Mexico. Caribbean producers are concerned that Mexico might eventually succeed in obtaining larger quotas, but will do so at the expense of Caribbean quotas (p. 12). To date, U.S. quotas have been allocated according to historical trade patterns. At the time of this writing the threat has not materialized, and the Dominican Republic still enjoys the largest U.S. sugar quotas among all nations.

Caribbean Foreign-Exchange Earners Other Than Merchandise Exports

The authors call attention to important sectors and sector potential for the Caribbean economy other than the merchandise eligible under preferential trade programs. They point especially to some services, which already are major sources of foreign-exchange earnings in the region. Bryan believes that "The Caribbean region shows potential for global competitiveness in tourism, offshore financial and other services, and major energy-based industries and manufacturing" (p. 32).

Also Bernal extolls the importance of tourism for the Caribbean, saying that "Tourism has been the principal sector which accounts for about 30 percent of the region's export earnings and one in every five jobs" (p. 8). For some small Caribbean countries–he points out–this ratio can be as high as 70 percent (p. 6). Bernal sees information technology (IT) also as an important service provided by certain Caribbean countries, and as a basis for sustained economic growth for some, including Jamaica and Barbados (p. 8).

Offshore financial services, in which small economies have the opportunity of becoming competitive, have assumed considerable importance in the region. However, some Caribbean islands, including Antigua and Barbuda, the Bahamas,[14] Barbados, Belize, St. Lucia, and St. Vincent and the Grenadines, were included in a list of 35 countries that the inter-governmental Financial Action Task Force (FATF)[15] identified as lacking anti-money-laundering measures and as ones which had inadequate bank supervisory and regulatory regimes (Bernal p. 15, see also Bryan, p. 37). Bernal emphasizes the importance of the U.S. Government's role in supporting ongoing efforts by CARICOM to regulate financial services in Caribbean countries (p. 20). Bryan speaks about "unfair assaults on the Caribbean offshore financial sector by intergovernmental organizations," stating that most Caribbean offshore jurisdictions already have stronger banking regulations, "know your customer" rules, and "due diligence" procedures than similar jurisdictions in the United States (p. 37).

The authors also comment on narcotics' and weapons' trafficking as part of the Caribbean economic spectrum (Bernal, pp. 15-21). Bernal believes that the U.S. anti-narcotic effort in source nations (such as in Colombia) ought to be extended to the transit countries of the drug trade in the Caribbean (p. 19). Also Bryan believes that U.S. technical assistance to counter narcotics trade should be an important component of U.S. policy with respect to the Caribbean (p. 38). But Fauriol says that "There is some resentment among the region's leadership towards the United States, because of Washington's heightened pressure regarding drugs and money laundering" (p. 41).

Vulnerability of Caribbean Countries to External Economic Events

Bernal writes about the vulnerability of the Caribbean economies because of their small size and their consequent disadvantage in obtaining foreign direct investment (FDI), for which small countries are rated more risky than large countries by international lenders and the like. He also identifies the continuing dependence of Caribbean nations on relatively few primary products, and the prevalence of natural disasters in the area as major causes of Caribbean vulnerability (p. 6).

Bryan says that while the Caribbean has been integrated into the world economy since the late fifteenth century through trade and investment, post-colonial globalization added to the vulnerability of the region (pp. 27-28). Caribbean countries lost their special ties to former colonial powers and now "openness renders them extremely vulnerable to external shocks" (p. 31). Also, "While the economies (of the region) were benefitting from low import prices, exports of commodities suffered under the effects of dismantling of trade barriers" (p. 28).

However, Bryan also recognizes Caribbean success stories in the era of post-colonial globalization, such as those of Trinidad and Tobago, and the Dominican Republic (p. 29). So does Fauriol who, in reference to those same two countries and Barbados, concludes that "What one is likely to see are sets of countries

[14] Financial services reportedly account for 12 percent of employment and 15 percent of GDP in the Bahamas (Bernal, p. 15).

[15] FATF is an inter-governmental body established by the G-7 summit in Paris in 1989, whose purpose is the development and promotion of policies, both on the national and international level, to combat money laundering.

engaging globalization at different speeds and defining niche markets" (p. 45).

The U.S. Interest

In these three assessments, the U.S. interest in the Caribbean is described mostly in non-economic terms; the security and environmental aspects of the U.S. relationship with the Caribbean are emphasized. Nonetheless, certain purely economic interests are identified from the U.S. as well as the Caribbean point of view. Bernal points out that major Caribbean export products–sugar, bananas, and bauxite–which made the region important in the past for the United States (and for Europe) no longer matter, since these products are now readily available elsewhere, in some cases at lower prices (p. 8). At the same time, Bernal touts the importance of the region as an export market for the United States, pointing out that "The Caribbean Basin is, in the aggregate, now the tenth largest market for the United States, surpassing other U.S. trading partners, such as France" (p. 8).[16] Fauriol also comments that " ...the aggregate of Caribbean (and Central American) economies surprisingly amounts to a total two-way trade with the United States of about $40 billion,[17] ranking the region as a significant global player" (p. 40).

Bernal also mentions co-production (referred to in USITC reports as "production sharing")[18] an arrangement, which helps to increase U.S. competitiveness, especially in the apparel sector, as a notable aspect of U.S.-Caribbean economic interdependence (p. 22).

[16] In its last report on the Caribbean Basin Economic Recovery Act, covering trade in the year 2000, the U.S. International Trade Commission found that the CBERA countries combined ranked ninth among other U.S. market destinations, ahead of the Netherlands.

[17] Official U.S. data show 2001 U.S. imports for consumption from CBERA countries at $20.6 billion, and U.S. domestic exports to these countries at $20.1 billion. Thus, two-way trade amounted to $40.7 billion in 2001.

[18] See footnote 2.