USITC Releases Report on the Impact of CBERA in 2001-2002

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The USITC recently released its biennial report on the impact of the Caribbean Basin Economic Recovery Act (CBERA) in 2001-2002. The report shows that the impact of imports under CBERA on the overall U.S. economy, industries, and consumers continued to be negligible in 2001-2002, despite enhancements to the program in 2000. The enhancements may lead to significant future effects in the textiles and apparel sectors.

Introduction

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 October 16, 2003.[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 the economy of the 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 impact of CBERA in promoting export-led growth and export diversification in three beneficiary countries. Data sources for the report included: field interviews, on-site tours of manufacturing facilities, interviews with government agencies, information from the U.S. Department of Commerce, data reported by international agencies and multilateral banks, submissions from interested parties, and reports from U.S. embassies in CBERA countries.

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 differs from GSP in that CBERA's benefits apply to additional products and the qualifying rules for trade in these products are more liberal.

CBTPA, which amended CBERA, was enacted in May 2000 and implemented in October 2000. The first full calendar year that CBTPA was in effect was 2001. A number of products became eligible for preferential duty treatment under CBERA for the first time with the implementation of CBTPA, most notably apparel made from U.S. inputs, and petroleum and petroleum products. Apparel and petroleum categories have dominated total U.S. imports from CBERA beneficiary countries for a number of years and now dominate imports under CBERA preferences. In 2002, imports of products in these categories accounted for 58 percent of the value of total U.S. imports from CBERA countries and 71 percent of the value of U.S. imports under CBERA preferences, including preferences introduced by CBTPA.

The report looks at the CBERA from three vantage points: the trade-related activities resulting from the

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[2] USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Sixteenth Report 2001-2002,* Inv. No. 332-227, USITC Publication 3636, September 2003.

preference program in 2001-2002; its impacts on the United States, and the impacts on the beneficiary countries.

Trade-related Activities

Total U.S. imports from CBERA beneficiary countries amounted to $21.3 billion in 2002, of which $10.0 billion or 47 percent entered under CBERA preferences. While the introduction of CBTPA resulted in a $7.2 billion increase in the value of U.S. imports under CBERA from 2000 to 2002, total imports from CBERA countries (all goods, regardless of duty treatment) actually decreased 4.1 percent during the same period, in line with the decrease in total U.S. imports from all countries during the same period. Four countries–the Dominican Republic, Honduras, Trinidad and Tobago, and Costa Rica–accounted for 70 percent of all U.S. imports under CBERA.

The leading U.S. categories of total imports from CBERA beneficiary countries remained the same during 2000-2002, and included apparel, mineral fuels, electrical machinery, and edible fruits. Four countries–the Dominican Republic, Honduras, Costa Rica, and Guatemala–supplied 62.9 percent of these imports in 2002.

The U.S. trade deficit with CBERA countries measured $561.8 million in 2001, and $552.3 million in 2002. Between 1987 and 1998, CBERA countries had been among the few trading partners with which the United States had consistently registered a collective merchandise trade surplus. However, since 1999, the United States has had a trade deficit with CBERA countries.

The composition of leading U.S. imports under CBERA changed significantly because CBTPA opened preferential treatment to apparel and petroleum products. While the total value of apparel imported from CBERA countries decreased 1.1 percent from 2000 to 2002, that portion of apparel imports entering under CBERA increased significantly. Apparel accounted for only 8.3 percent of total imports under CBERA in 2000, but it accounted for 61.0 percent of the total in 2002. While the total value of mineral fuels imported from CBERA countries decreased 7.5 percent from 2000 to 2002, imports of mineral fuels under CBERA increased from zero in 2000 to 10 percent of total imports in 2002 under CBERA.

Knit and non-knit (mostly woven) apparel became the two leading U.S. import categories under CBERA in 2001. Imports under CBERA of knit apparel increased 17.9 percent in 2002 to $3.5 billion. Similarly, imports of non-knit apparel under CBERA increased by 17.0 percent in 2002 to $2.6 billion. Four countries supplied 85.2 percent of apparel imports under CBERA in 2002: Honduras, the Dominican Republic, El Salvador, and Guatemala.

Of the 20 leading import items entering under CBERA in 2002, 11 were apparel items. The largest apparel imports under CBERA included knit cotton t-shirts, men's or boy's woven cotton trousers and shorts, knit cotton tops, men's or boys' knit cotton underpants, brassieres, women's or girls' woven cotton trousers and shorts, men's or boys' woven man-made fiber trousers and shorts, and women's or girls' cotton knit panties. Other large import items under CBERA, classified by 8-digit HTS provision, included crude oil, cigars, precious metal jewelry, methanol, fuel oil, and fresh pineapples.

The value of U.S. exports to CBERA countries was nearly unchanged in the period 2000-2002. U.S. exports to the region decreased 0.1 percent to $20.7 billion in 2002. As in recent years, the Dominican Republic, Costa Rica, Honduras, Guatemala, and El Salvador remain the principal Caribbean markets for the United States, collectively responsible for 55.6 percent of all U.S. exports to CBERA countries in 2002.

CBTPA provisions resulted in a significant shift in the mix between U.S. exports of textiles and apparel to CBERA countries. The new preferences allow more of the production process in the transformation of textiles into apparel to be located in the Caribbean. Cut apparel parts are generally classified as apparel, and the guaranteed access program required these parts to be cut in the United States to qualify for the preferences in most instances. However, CBTPA now allows CBERA countries to cut their own parts as long as the fabric used is made in the United States. Since CBTPA was implemented, the United States has exported significantly more textiles (78.2 percent increase in 2001 and another 34.0 percent increase in 2002) to CBERA countries, and significantly less apparel (26.1 percent decrease in 2001 and another 20.8 percent decrease in 2002). Despite the shift toward exporting more uncut fabric to CBERA countries and fewer precut garment pieces (which have a higher value per square meter than uncut fabric), the total value of U.S. exports of textiles and apparel to CBERA countries decreased only slightly during 2000-2002.

Section 211 of the CBTPA legislation extended North American Free Trade Area (NAFTA)-equivalent treatment to certain "import sensitive articles," including imports of certain mineral fuels (HTS provisions 2709 and 2710). Total imports of crude oil

(HTS provision 2709) increased 20.2 percent in 2001 and 72.9 percent in 2002; while such imports under CBERA increased 118.7 percent in 2002. Total imports of other petroleum products (HTS provision 2710) decreased 23.1 percent in 2001 and 6.8 percent in 2002; but such imports under CBERA increased 161.9 percent in 2002. (There were no imports of crude oil or other petroleum products under CBERA in 2000).

Impact of CBERA on the United States in 2002

The overall effect of CBERA-exclusive imports (imports that receive tariff preferences only under CBERA provisions) on the U.S. economy and on consumers continued to be negligible in 2002. In 2002, the value of all U.S. imports under CBERA preferences was less than 0.10 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.

Of the $10.0 billion in U.S. imports that entered under CBERA in 2002, imports amounting to $6.7 billion could not have received tariff preferences under any other program. The five leading items benefitting exclusively from CBERA in 2002 were knit cotton t-shirts, men's or boys' woven cotton trousers and shorts, heavy crude oil, brassieres, and knit cotton tops.

Knit cotton t-shirts provided the largest gain in consumer welfare ($107 million to $116 million) resulting exclusively from CBERA tariff preferences in 2002. Brassieres provided the second largest gain in consumer welfare ($53.1 million to $58.4 million). U.S. imports of the 20 leading CBERA-exclusive items, except for one sugar subheading, produced net welfare gains for U.S. consumers in 2002. Knit cotton t-shirts yielded the largest net gain, valued at $10.4 million to $16.7 million, followed by brassieres and knit cotton tops.

No U.S. industries were identified as potentially experiencing displacement of more than 5 percent of the value of U.S. production. U.S. industries producing knit manmade fiber t-shirts, men's or boys' knit cotton underpants, and knit cotton tops experienced the largest net increases in production as a result of CBERA preferences stemming from cut apparel parts supplied to CBERA producers. The U.S. textile industry maintained a heavy presence in supplying raw materials to the CBERA region.

According to the U.N. Economic Commission for Latin America and the Caribbean, foreign direct investment in the Latin American/Caribbean region decreased 41 percent between 2000 and 2002. In CBERA beneficiary countries, it decreased 19 percent over the same period. Estimated investment flows to the region amounted to approximately $56 billion in 2002. About $4.2 billion of that total was received by CBERA beneficiary countries.

The probable future effect of CBERA on the United States is expected to be minimal in most economic sectors. The Commission identified recent expansions in CBERA-related investments in the manufacturing and garment sectors, amounting to nearly $69 million in 2002.

The enhanced preferences granted under CBTPA in 2000, together with the investment induced by those preferences, will be the main source of future effects of CBERA on the United States. Imports of textiles and apparel under CBERA expanded significantly (up 34.8 percent) in the 2001-2002 period. However, the CBTPA enhanced preferences did not result in an overall increase in imports of apparel from the region. Rather, CBTPA prompted importers to switch from using the production-sharing program to using the new preferences.

The pattern of U.S. production-sharing activity in CBERA beneficiaries began to change with implementation of CBTPA. For instance, in Honduras, U.S. firms now ship uncut U.S. fabrics to Honduras for cutting and assembly into qualifying garments. Moreover, as a result of the CBTPA provision that grants duty-free and quota-free access to the U.S. market for specified quantities of garments made in CBI countries from regional knit fabrics, investors have established or expanded knitting operations in Honduras to make outerwear t-shirts, underwear, and other knitwear for export to the United States.

Many apparel producers have determined that, for the clothing they manufacture, the cost differential between U.S.-origin fabric and lower-priced fabric from Asia is greater than the duty-savings from entering the apparel into the United States under the CBTPA, making it more advantageous in many cases to use Asian fabric even though U.S. duties must be paid.

Impact of CBERA on Beneficiary Countries

According to the field work conducted by the Commission, recent enhancements to CBERA appear to have had a positive effect on investment in a number of beneficiary countries. Employment and investment effects are most pronounced in the textile and apparel sector.

Anticipation of NAFTA-parity legislation and the eventual entry into force of the CBTPA were responsible for the construction of nine textile mills in Guatemala in 2001 and 2002. Of these nine investments, at least three were U.S.-based and two were Korean-based. The apparel industry experienced some consolidation in the last 2 years, with some undercapitalized firms departing despite an overall growth in production in Guatemala. Although existing facilities are reported to be operating at full capacities, potential investors in new plants are awaiting establishment of rules of origin under any forthcoming Central American Free Trade Agreement before committing funds.

A number of beneficiary countries consistently maintain that the outcome of the ongoing negotiations toward a Central American Free Trade Agreement with the United States will be a greater determinant of future trading relationships in the increasingly significant textile and apparel sector than any unilateral preference program of the United States.

The USITC report, *The Impact of the Caribbean Basin Economic Recovery Act, Sixteenth Report 2001-2002* (Inv. No. 332-227, USITC Publication 3636, September 2003) is available on the USITC's Internet address at *http://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.