CARICOM PARTICIPATION IN CARIBBEAN BASIN INITIATIVE: LESSONS FOR FTAA

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The Caribbean Basin Initiative (CBI) was envisioned as a program to facilitate the investment in and export diversification of the Caribbean Basin economies. This paper examines the impact of the program on the CARICOM member states of the CBI. To date, any growth in the flow of imports from the CARICOM region to the United States appears to have occurred, not because of, but in spite of CBI provisions. The march toward a non-tariff hemisphere and world has been eroding the already slight margin of preference from which the region was supposed to benefit. Only a very small window of opportunity remains within which the program may be adjusted to allow CARICOM to reap the program's intended benefits. Small adjustments to the customs rules and procedures implementing the CBI could go a long way to making the program achieve its goals for the CARICOM region. Additionally, those adjustments provide lessons that must be transferred to the Free Trade Areas of the Americas (FTAA) if CARICOM is not to be left behind.

The Caribbean Basic Economic Recovery Act (CBERA) initiated the CBI in 1984 as a unilateral trade preference program to give free access to the U.S. market for most Caribbean Basin exports. Effective October, 2000, the Caribbean Basin Trade Partnership Act (CBTPA) expanded the program to grant NAFTA parity to products that had previously been excluded from the CBI. Consequently, until September 2008, or the

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entry into force of the FTAA, whichever comes first, CBI countries now have duty-free and quota-free access to U.S. markets for most products, including apparel sewn and assembled by CBI countries from U.S. cloth and yarn; duty-free entry for a certain amount of apparel made from fabric knitted in the CBI region; and entry at NAFTA levels for all other previously-excluded products, including footwear, petroleum products, watches, and canned tuna.

The data shows that Caribbean Basin imports entered under CBERA are accounting for a declining share of total U.S. imports from the region. Thus, between 1998 and August 2001, total imports from CBI countries to the United States showed continued growth, with imports from the region growing by 13 percent in 1999, and by 14.4 percent in 2000.[2] During this same period, however, CBERA imports declined as a proportion of total imports from the region.[3] CBERA imports as a percentage of total U.S. imports from the region stood at 18.8 percent in 1998, 13.6 percent in 1999, and 11.9 percent in 2000.[4] Under the CBTPA, those percentages shot up, in 2001 to 40 percent, and up through May 2002 (the latest period for which data is currently available), to 48 percent.[5] These figures suggest that small adjustments can, indeed, enhance the effectiveness of the program.

Unfortunately, these adjustments have not improved the trade flow of the CARICOM members of the CBI. In 2001, even after the passage of the CBTPA, U.S.

[2] Office of the U.S. Trade Representative, *Fourth Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act*, December 31, 2001, p. 11.
[3] *Ibid.* p. 11.
[4] *Ibid.*
[5] Magda Kornis, "Challenges Facing the Caribbean Region in the Era of Globalization, and the U.S.-Caribbean Trade Relationship," in INTERNATIONAL ECONOMIC REVIEW, USITC Publication 3558, September/October 2002, pp. 8-9.

imports from CARICOM dropped by 6.8 percent.[6] As Table 1 illustrates, since 1998 the share of CBI imports into the United States from most CARICOM countries has been declining. At the same time, the largest share of U.S. imports from the majority of CARICOM countries relied on duty-free entry under normal trade relations (NTR) (or most-favored nation) status. That share has been increasing. The table also indicates the very small share of imports that have relied on the Generalized System of Preferences (GSP) program for duty-free entry into the United States.

These patterns are particularly striking given that, for many of the products involved, Caribbean exporters would have had their choice of entry under CBI, GSP, and NTR. The growing reliance on NTR both explains and highlights the problem behind the low use by CARICOM of CBI. As part of its Uruguay Round commitments, the United States has been liberalizing tariffs, thereby providing duty-free access for a growing number of products that previously would have incurred a duty if entered under NTR. Given the choice, a U.S. importer will always choose NTR in order to avoid the additional hassles required to claim entry under a preferential program. So, at first glance, CARICOM's growing use of NTR, over the CBI preferences, would seem to support U.S. policy of moving toward a tariff-free world. At the same time, this pattern also highlights the fast erosion of the margin of preferences from which CBI countries are supposed to benefit.

[6] *Ibid.* p. 9.

Table 1: CARICOM Share of U.S. Import Market

Country	Percent of Total Imports Into the United States			
	CBERA	CBTPA[7]	GSP	NTR Free
Antigua & Barbuda	1998 11.1% 1999 1.2% 2000 0.2% 2001 5.1%		1998 0.0% 1999 0.2% 2000 0.2% 2001 1.3%	1998 68.1% 1999 70.7% 2000 66.1% 2001 50.7%
The Bahamas	1998 24.3% 1999 28.8% 2000 27.3% 2001 26.7%			1998 68.8% 1999 52.2% 2000 47.3% 2001 39.6%
Barbados	1998 58.1% 1999 42.0% 2000 27.2% 2001 31.4%		2002 5.8% 2003 2.2% 2004 3.9% 2005 5.0%	1998 17.9% 1999 10.1% 2000 50.6% 2001 50.2%
Belize	1998 29.7% 1999 28.7% 2000 35.5% 2001 42.5%	1998 0.0% 1999 0.0% 2000 0.0% 2001 8.3%	1998 1.0% 1999 0.2% 2000 0.2% 2001 1.0%	1998 38.2% 1999 48.9% 2000 44.0% 2001 29.3%
British Virgin Islands[8]	1998 4.5% 1999 1.6% 2000 0.1% 2001 0.3%		1998 0.0% 1999 0.0% 2000 0.0% 2001 0.0%	1998 55.5% 1999 75.0% 2000 91.2% 2001 75.5%
Dominica	1998 29.1% 1999 41.3% 2000 2.8% 2001 1.4%		1998 1.5% 1999 0.4% 2000 0.6% 2001 0.0%	1998 29.2% 1999 36.0% 2000 43.1% 2001 67.5%
Grenada	1998 68.3% 1999 57.9% 2000 61.7% 2001 50.2%		1998 0.4% 1999 0.0% 2000 0.2% 2001 0.2%	1998 23.0% 1999 32.4% 2000 27.2% 2001 38.7%
Guyana	1998 20.9% 1999 14.5% 2000 12.9% 2001 9.6%	1998 0.0% 1999 0.0% 2000 0.6% 2001 5.3%	1998 2.3% 1999 2.2% 2000 4.6% 2001 0.4%	1998 65.4% 1999 70.7% 2000 69.5% 2001 81.0%
Haiti	1998 10.4 1999 7.3% 2000 6.9% 2001 6.0%	1998 0.0% 1999 0.0% 2000 1.6% 2001 51.0%	1998 0.5% 1999 0.3% 2000 0.9% 2001 1.1%	1998 5.9% 1999 5.8% 2000 4.8% 2001 4.5%S

[7] Some countries have not yet met the administrative requirements to import under CBTPA.
[8] The British Virgin Islands is the only associate member of CARICOM which has requested CBI benefits. The other associate members—Anguilla, Cayman Islands, and Turks & Caicos—as well as Suriname, a CARICOM member state, are eligible for but have not requested CBI benefits.

Country	Percent of Total Imports Into the United States			
	CBERA	**CBTPA**	**GSP**	**MFN Free**
Jamaica	1998 13.9% 1999 13.5% 2000 13.8% 2001 16.4%	1998 0.0% 1999 0.0% 2000 0.4% 2001 24.4%	1998 0.3% 1999 0.4% 2000 0.7% 2001 1.4%	1998 27.5% 1999 33.4% 2000 42.3% 2001 37.2%
Montserrat	1998 0.0% 1999 1.8% 2000 0.0% 2001 0.0%		1998 35.2% 1999 0.0% 2000 1.9% 2001 0.0%	1998 31.1% 1999 51.4% 2000 59.4% 2001 86.6%
St. Kitts and Nevis	1998 79.8% 1999 78.1% 2000 75.0% 2001 72.5%		1998 1.2% 1999 1.4% 2000 3.0% 2001 1.5%	1998 7.4% 1999 8.0% 2000 10.4% 2001 15.9%
St. Lucia	1998 34.9% 1999 32.8% 2000 33.6% 2001 29.0%		1998 0.4% 1999 1.9% 2000 2.3% 2001 1.3%	1998 5.3% 1999 25.8% 2000 25.1% 2001 43.0%
St. Vincent & the Grenadines	1998 74.0% 1999 87.4% 2000 22.1% 2001 15.9%		1998 0.0% 1999 0.0% 2000 1.1% 2001 0.0%	1998 19.2% 1999 8.6% 2000 69.7% 2001 72.7%
Trinidad & Tobago	1998 19.1% 1999 17.0% 2000 15.0% 2001 16.8%	1998 0.0% 1999 0.0% 2000 0.0% 2001 8.4%	1998 0.2% 1999 0.0% 2000 0.1% 2001 0.1%	1998 51.4% 1999 49.9% 2000 50.0% 2001 51.7%

Based on statistics compiled by the U.S. International Trade Commission in its *Fourth Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act*, December 31, 2001.

Erosion of the CBI margins of preference removes the incentive to invest in CARICOM countries in order to take advantage of those preferences. The main long term benefit expected from the CBI program was investments in the industries in beneficiary countries that benefit from duty elimination or reduction.[9] Ideally, the program would attract U.S. and other investors to set up operations in the region to be able to import into the United States taking advantage of CBI treatment. Evidently,

[9] USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000.* USITC Publication 3447, September 2001, p. 11.

however, CBI has provided scant incentive to investors to start manufacturing or other commercial operations in CARICOM states. Moreover, as the United States expands duty free access to its markets through the various Free Trade Agreements being signed and negotiated, and continues to lower the tariffs applicable under NTR, the Caribbean will become even less attractive under the rationale of the CBI. All incentives will disappear when the United States moves to zero tariffs, a goal the Office of the U.S. Trade Representative (USTR) has stated it hopes to reach within the next ten years.

So a very small window of opportunity currently exists to adjust CBI so that CARICOM too might begin to better benefit from the program. This goal can be achieved by making slight adjustments to customs procedures with respect to the operation of the rules of origin, marking requirements, and other documentation required to support the entry of products wholly grown, produced, or manufactured in CBI beneficiary countries.

Rules of origin are used to avoid trade deflection, or the preferential importation of goods from non-member countries through the member country with the lowest tariff. Understandably, they are particularly important in a program such as the CBI, where the duty-free entry is granted on a unilateral basis. Hence, the rules are aimed at ensuring that only the intended beneficiary countries actually benefit from the preference programs.

CBI rules of origin require that importers wishing to take advantage of CBI market access preferences meet one of the following criteria:

1. The imported product must be wholly grown, produced, or manufactured in one or more countries of the region; OR

2. The import must be a “new or different” article made from substantially transformed non-CBI inputs, and with the cost or value of CBI materials and direct costs of processing totaling at least 35% of the appraised customs value at the time of entry.

The first criterion is fairly self-evident, and not very difficult to establish. The second criterion is more complex. They aim to prevent a British company, for example, from importing all the relevant parts and setting up minor operations in a CBI country in order to claim CBI treatment upon entry into the United States market. This second criterion is also very difficult for CARICOM countries to meet, particularly when one considers that the region’s major attraction is its cheap labor and raw materials. The more complex manufacturing operations would, more likely than not, require imported inputs exceeding the 65% value allowable under the program. When one adds to this scenario, the reality that operations meeting this second criterion are the easiest to pick up and leave for greener pastures when the preferences disappear, as happened with the nascent apparel industry on the advent of NAFTA, one sees that the preferences relying on the second criterion are generally not viable for CARICOM.

There are a few bright spots, however, that indicate where some solutions might lie. Imports of expandable polystyrene from the Bahamas, frozen orange juice from Belize, and methanol from Trinidad have bucked the declining trend. Additionally, though the export share of these other products has been declining, rum and ethanol (sugar cane by-products), beer, as well as high-priced cigars from Jamaica, are among the top CBI exports.[10] These items all meet the first criterion as products wholly grown, produced, or manufactured in the CBI beneficiary country.

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[10] USITC The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000, USITC Publication 3447, September 2001, pp. 36-40, 46 & 49.

Table 2: CARICOM Products Showing Export Growth Under CBI, 1998-2000

Country	Product	Growth in Exports to United States
The Bahamas	Expandable polystyrene	113.2%
Belize	Frozen orange juice	64.2%
Trinidad	Methanol (petroleum byproduct)	76.1%

From USITC *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000*, USITC Publication 3447, September 2001, pp. 46 & 49.

These successes suggest that CARICOM's strength under the CBI lies in the development of exports that qualify as wholly grown, produced, or manufactured in the country under CBI's rules of origin. Other examples include hand loomed and handmade craft products, jewelry, and frozen, processed, and exotic or niche fruits and vegetables. This conclusion, by no means relegates the region to a reliance on the growth and export of raw agricultural goods. Rather, as the above examples illustrate, they suggest that investment in the R&D needed to develop industries that rely on raw materials inherent to the region would go a long way toward allowing CARICOM to participate more competitively in the CBI program.

Yet, the cumbersome country of origin certificate, marking, and transshipment requirements required of CBI products entering the United States are, in large part geared towards ensuring that the second criterion for the rules of origin criteria is met. Users of CBI have consistently complained about the excessive, burdensome, and complicated certificate of origin documentation requirements, paperwork, and customs implementing rules.[11] U.S. Customs should be charged with removing or simplifying the entry

[11] USTR, *Fourth Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act*, December 31, 2001, pp. 59-60.

procedures required for CBI products entering under the first criterion.[12] The simplified procedures could include the use of advance rulings under which CBI manufacturers give U.S. Customs sufficient information to establish that the import is a product wholly grown, produced or manufactured in the relevant country. Once this is established, the importer would be able to enter the product under the simplified procedures for such products. Periodic audits could be used to verify that the information remains accurate.

Additionally, procedures aimed at verifying transshipment procedures could also be removed or simplified. Products coming from the Caribbean to the United States go directly from a Caribbean port or airport to a U.S. one without transshipment through a third country. Phyto-sanitary and other technical standards are often used as a protectionist measure and also need to be addressed. For example, U.S. Customs could start by accepting that a product that meets the standards for local consumption in the CBI country also meets the standards for export to the United States. Any concerns about the effectiveness of the local certifying body could be addressed by working with the local body to improve the efficiency and quality of its operations.

These procedural changes would replace the fast-eroding margin of preferences as a major incentive for potential investors in the region. The International Chamber of Commerce (ICC) considers that the biggest remaining obstacle to trade is complex and onerous customs procedures.[13] The underlying assumption is that, along with the commensurate policy emphases on the part of CARICOM states, the simplified entry procedures will encourage investments in operations resulting in the export of products

[12] 19 CFR 181.22(5)(d)(i) of the Customs regulations gives the port director the discretion to, in writing, waive the requirement for a Certificate of Origin where the director is otherwise satisfied that the good qualifies for preferential tariff under NAFTA.

[13] http://www.iccwbo.org/home/statements_rules/statements/1999/trade_liberalization.asp <last visited May 18, 2003>.

wholly grown, produced or manufactured in CBI countries. The suggested changes are aimed at building on the strengths of CARICOM within the CBI program. A key advantage is that it does this by making slight adjustments to the customs procedures applicable to CBI imports, creating simplified procedures from which any CBI beneficiary can benefit.

This approach is in step with the growing desire of developed countries to address the difficulties that developing countries face in this era of trade liberalization and globalization, but without carving out new areas of preferences. In fact, the move is away from existing preference programs. On the other hand, a move toward simplified customs procedures is exactly the direction in which the trade regime needs to move. The suggested changes to the CBI would give CBI beneficiaries a temporary advantage by creating a period during which they would be the only users of these simplified procedures. This could also be seen as a trial period in which to test and refine such procedures on a small area before expanding it to the hemisphere.

This approach, if successful, could be incorporated into the FTAA. If required, a timeframe could be established during which these simplified procedures would continue to remain available only to CBI beneficiaries to allow for an additional period of benefit.[14] This approach also suggests an alternative model to special and differential treatment that replaces preferences with procedural adjustments aimed at addressing the special limitations and needs that face small and underdeveloped economies as they liberalize their trade regimes.

[14] Under CBERA, CBI benefits are to be extended for an indefinite period.