United States International Trade Commission

The Impact of the Caribbean Basin Economic Recovery Act

Sixteenth Report 2001-2002

Investigation No. 332-227
USITC Publication 3636
September 2003

U.S. International Trade Commission

Address all communications to
Secretary to the Commission
United States International Trade Commission
Washington, DC 20436

U.S. International Trade Commission

Washington, DC 20436

www.usitc.gov

The Impact of the Caribbean Basin Economic Recovery Act

Sixteenth Report 2001-2002

Investigation No. 332-227

Publication 3636 **September 2003**

Country and Regional Analysis Division
Arona M. Butcher, *Chief*

This report was prepared by

Project Leader
Walker A. Pollar
wpollard@usitc.gov; (202) 205-3228

Deputy Project Leader
Thomas Jennings

Primary Reviewer
John Giamalva

Contributing Authors
Michael Barry

Office of Industries
Warren Payne, *Coordinator*
Laura Rodriguez
Ralph Watkins

Office of Information Services
Patricia Holland
Peggy Verdine

Interns
Shakira Van Savage
Saba Zeleke

Supporting assistance was provided by
Cecelia Allen
Patricia M. Thomas

ABSTRACT

The submission of this study to the Congress and to the President continues the reporting by the U.S. International Trade Commission (Commission) on the impact of the Caribbean Basin Economic Recovery Act (CBERA) on U.S. industries and consumers.

CBERA, enacted on August 5, 1983 (Public Law 98-67, title II; 97 Stat. 384, 19 U.S.C. 2701 et seq.), authorized the President to proclaim duty-free treatment for eligible articles from designated Caribbean Basin countries and territories. Duty-free treatment became effective January 1, 1984. Section 215 of the act requires the Commission to assess both the actual and the probable future effects of CBERA on the U.S. economy generally, on U.S. consumers, and on U.S. industries producing like products or products directly competitive with those products imported from beneficiary countries. The Commission was required to submit its report to the President and the Congress annually by September 30.

The preferences under the CBERA program were enhanced by the United States-Caribbean Trade Preference Act (CBTPA), passed in May 2000. This legislation altered the frequency of the USITC report, and also elaborated on the Commission's reporting requirement under the statute. Under the CBTPA, the Commission is to submit reports on CBERA biennially in odd-numbered years. The CBTPA mandates that in all future reports under the statute, the Commission report the impact of the CBERA program on the economy of the beneficiary countries. This sixteenth report is the second report to be submitted under the new law.

The current study fulfills the Commission's reporting requirement under the statute for calendar year 2002. The overall effect of CBERA-exclusive imports on the U.S. economy and consumers continued to be negligible in 2002. Based on the upper estimates and industry analysis, the Commission did not identify any U.S. industries that would face potentially significant negative effects from CBERA-exclusive imports. U.S. industries supplying inputs to CBERA country apparel producers benefit from the CBTPA enhancements. U.S. imports of the 20 leading CBERA-exclusive items, except one sugar subheading, produced net welfare gains for U.S. consumers in 2000. The probable future effect of CBERA on the United States, as estimated by an examination of export-oriented investment in the beneficiary countries, is also expected to be minimal in most sectors. However, in one sector, textiles and apparel, the probable future effect is likely to be significant, following the CBTPA inclusion of certain apparel articles as eligible for preferential treatment. While U.S. imports under CBTPA increased dramatically in 2001 and 2002, the change reflects a bookkeeping-like shift from one form of preferential treatment to another, i.e. from production-sharing to CBTPA.

The impact of the CBERA program on beneficiary countries is small, but positive and has been enhanced by the CBTPA. The prospect of a Central American Free Trade Agreement between the United States and the countries of the region, all of whom are CBERA beneficiaries, has shifted the focus from the unilateral preference program to the potential for increased benefits under a new trading arrangement.

The information provided in this report is for the purpose of this report only. Nothing in this report should be construed as indicating what the Commission's determination would be in an investigation involving the same or similar subject matter conducted under another statutory authority.

TABLE OF CONTENTS

TABLE OF CONTENTS-*Continued*

TABLE OF CONTENTS-*Continued*

TABLE OF CONTENTS-*Continued*

ITC READER SATISFACTION SURVEY

The Impact of the Caribbean Basin Economic Recovery Act

The U.S. International Trade Commission (USITC) is interested in your voluntary comments (burden less than 10 minutes) to help assess the value and quality of our reports, and to assist in improving future products. Please **return survey by facsimile (202-205-2340) or by mail** to the USITC, or visit the USITC Internet home page (*http://reportweb.usitc.gov/reader_survey/readersurvey.html*) to electronically submit a Web version of the survey.

(Please print; r*esponses below not for attribution):*

Your name and title: ____________________

Organization (if applicable): ____________________

Which format is most useful to you? ❑ CD-ROM ❑ Hardcopy ❑ USITC Internet site

Circle your assessment of each factor below: **SA** = strongly agree, **A** = agree, **N** = no opinion, **D** = disagree, or **SD** = strongly disagree.

Value of this report:					
▶ Statistical data are useful	SA	A	N	D	SD
▶ Other non-numerical facts are useful	SA	A	N	D	SD
▶ Analysis augments statistical data/other facts	SA	A	N	D	SD
▶ Relevant topic(s)/subject matter	SA	A	N	D	SD
▶ Primary or leading source of information on this subject	SA	A	N	D	SD
Quality of this report:					
▶ Clearly written	SA	A	N	D	SD
▶ Key issues are addressed	SA	A	N	D	SD
▶ Charts and graphs aid understanding	SA	A	N	D	SD
▶ References cite pertinent sources	SA	A	N	D	SD

Other preferred source of information on this subject: ____________________

Specify chapters, sections, or topics in report that are most useful: ____________________

Identify any type of additional information that should have been included in report: ____________________

Suggestions for improving report: ____________________

Please update your mailing and electronic addresses below (voluntary)-

Mailing address: ____________________

City, state, and zip code: ____________________

E-mail address: ____________________

FOLD

UNITED STATES
INTERNATIONAL TRADE COMMISSION
WASHINGTON, DC 20436

OFFICIAL BUSINESS
PENALTY FOR PRIVATE, USE $300

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

BUSINESS REPLY MAIL

FIRST CLASS PERMIT NO. 12840 WASHINGTON, DC

POSTAGE WILL BE PAID BY ADDRESSEE

U.S INTERNATIONAL TRADE COMMISSION
500 E STREET, SW.
WASHINGTON, DC 20277–2840

ATTN:
OFFICE OF ECONOMICS
The Impact of the Caribbean Basin Economic
Recovery Act

EXECUTIVE SUMMARY

This report covers the impact of the Caribbean Basin Economic Recovery Act (CBERA) on the United States with particular emphasis on calendar year 2002. Section 215 of CBERA requires the U.S. International Trade Commission (Commission or USITC) to prepare a biennial report assessing both the actual and the probable future effects of CBERA on the U.S. economy generally, on U.S. industries, and on U.S. consumers. The section was amended 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 evaluated by an examination of export-oriented investment in the beneficiary countries. Data sources for the report included field interviews, interviews with other government agencies, U.S. Department of Commerce data, data reported by multilateral banks and international agencies, 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 as of August 20, 1990. It eliminates or reduces 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 the Caribbean Basin countries and to diversify their economies away from traditional agricultural products and raw materials. CBERA applies to almost all of the tariff categories covered by the U.S. Generalized System of Preferences (GSP), but it differs from GSP in that CBERA's benefits apply to additional products and the product-qualifying rules 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.

Impact of CBERA on the United States in 2002

- The overall effect of CBERA-exclusive imports (imports that could 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 benefited exclusively from CBERA. The five leading items benefiting 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 surplus ($107 million to $116 million) resulting exclusively from CBERA tariff preferences in 2002. Br assieres provided the second-largest gain in consumer surplus ($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, worldwide foreign direct investment decreased between 2000 and 2002. In the Latin American/Caribbean region it decreased 41 percent over the same period. Estimated investment flows to the region amounted to approximately $56 billion in 2002. Only $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.

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/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 Korea-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 waiting for rules of origin under the 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/apparel sector than any unilateral preference program of the United States.

Trade-related activities

- Total U.S. imports from CBERA beneficiary countries measured $21.3 billion in 2002, of which $10.0 billion 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 during 2000-2002, 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. CBERA countries combined constituted the 12th-largest U.S. supplier during 2002–ahead of Singapore but behind Italy.

- 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 significantly changed due to CBTPA provisions on apparel products. While the total value of apparel imported from CBERA countries decreased 1.1 percent during 2000–2002, that portion of apparel imports entering under CBERA significantly increased. Knit and non-knit apparel, which collectively accounted for only 8.3 percent of total imports under CBERA in 2000 increased to 61.0 percent of the total in 2002.

- 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, 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.

- 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 less precut garment pieces, the total value of U.S. exports of textiles and apparel to CBERA countries decreased only slightly during 2000-2002.

- 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.

- 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).

CHAPTER 1: Introduction

The Caribbean Basin Economic Recovery Act (CBERA)[1] was implemented in 1984 to encourage economic growth and development in the Caribbean Basin countries by promoting increased production and exports of nontraditional products. CBERA authorizes the President to proclaim preferential rates of duty on many products entering the United States from the region. The Commission has been reporting the impact of CBERA preferences on the U.S. economy since 1986.

This report fulfills a statutory mandate under CBERA that the U.S. International Trade Commission (the Commission) report biennially on the economic impact of CBERA on U.S. industries, consumers, the U.S. economy in general, and the economy of the beneficiary countries.[2] This report is the 16th in the series and covers calendar year 2002. This is the first report to cover a full year under CBERA as amended by the Caribbean Basin Trade Partnership Act (CBTPA) since the provisions of CBTPA entered into effect on October 1, 2000. The current publication, covering calendar year 2002, assesses CBERA's effects. Table 1-1 summarizes the major provisions of CBERA.

Throughout this report, the term "CBERA" will refer to CBERA as amended by CBTPA and the Trade Act of 2002. For purposes of identifying CBERA as it existed before CBTPA, the term "original CBERA" will be used.

Organization of the Report

Chapter 1 summarizes the provisions of CBERA, including amendments to original CBERA by CBTPA and the Trade Act of 2002 , and describes the analytical approach used in the report. Chapter 2 analyzes U.S. trade with CBERA beneficiaries during 2002. Chapter 3 addresses the estimated effects of CBERA in 2002 on the U.S. economy generally, as well as on U.S. industries and consumers. Chapter 3 also examines the probable future effects of CBERA. Chapter 4 addresses the CBERA program's effects on beneficiary countries.

[1] CBERA was enacted Aug. 5, 1983, as Public Law 98-67, title II; 97 Stat. 384, 19 U.S.C. 2701 et seq. and became effective Jan. 1, 1984 (Presidential Proclamation 5133, 48 F.R. 54453). Minor amendments to CBERA were made by Public Laws 98-573, 99-514, 99-570, and 100-418. Major amendments were made to CBERA by Public Law 106-200, the Caribbean Basin Trade Partnership Act. Further modifications were made by Public Law 107-210, the Trade Act of 2002. CBERA beneficiary countries are listed in table 1-1.

[2] The reporting requirement is set forth in section 215(a) of CBERA (19 U.S.C. 2704(a)).

Table 1-1
Summary of CBERA preferential provisions, year-end 2000

Inception	Enacted 8/5/83 - CBERA Expanded 8/20/90 - CBEREA[1] Enhanced 5/18/00 - CBTPA[2] Modified 8/6/02 - Trade Act of 2002[3]
Benefits	Duty-free entry and reduced duty entry granted on a non-reciprocal, non-MFN basis
Exclusions[4]	Textiles/apparel, leather, canned tuna, petroleum and derivatives, certain footwear, certain watches/parts; over-TRQ agricultural goods
Duration	Originally 12 years, until 9/30/95 CBEREA: indefinite CBTPA: until 9/30/08[5]
Beneficiaries[6]	24 Central American & Caribbean countries: Antigua, Aruba, The Bahamas, Barbados,* Belize,* British Virgin Islands, Costa Rica,* Dominica, Dominican Republic,* El Salvador,* Grenada, Guatemala,* Guyana,* Haiti,* Honduras,* Jamaica,* Montserrat, Netherlands Antilles, Nicaragua,* Panama,* St. Kitts and Nevis, St. Lucia,* St. Vincent and the Grenadines, and Trinidad and Tobago*
Coverage (eligible items)[7]	Approximately 6,332
Value of imports under the program (million dollars)	$9,996
Significance:	
Share of U.S. imports from the region as a share of total U.S. imports	1.8%
Share of imports from beneficiaries that receive program preferences	47.0%

[1] Caribbean Basin Economic Recovery Expansion Act of 1990.

[2] Caribbean Basin Trade Partnership Act, title II of the Trade and Development Act of 2000, effective October 2000. The measure gives certain preferential treatment to goods primarily excluded from the CBERA's benefits by law.

[3] Trade Act of 2002.

[4] The CBTPA provides for the application of Mexico's NAFTA rates, where goods from CBTPA countries meet NAFTA rule-of-origin criteria, for most goods excluded from CBERA except for the agricultural and textile/apparel products. Certain apparel and textile luggage made from U.S. imports are eligible for duty-free and quota-free entry (see subchapter XX of chapter 98 of the Harmonized Tariff Schedule. No other CBTPA benefits apply to excluded agricultural and textile/apparel products (that is, NAFTA parity is not accorded).

[5] Preferential treatment under CBTPA expires on either Sept. 30, 2008, or the date on which the FTAA or a comparable agreement enters into force, whichever is earlier.

[6] Asterisk [*] indicates beneficiary countries under the CBTPA.

[7] 8-digit HTS items.

Source: Commission compilation.

Appendix A reproduces the Federal Register notice by which the Commission solicited public comment on the CBERA program and appendix B contains a summary of responses received. Appendix C explains the economic model used to derive the findings presented in chapter 3. Appendix D includes tabular presentations of the data underlying some of the analysis of trade trends in chapter 2. Appendix E contains a listing of leading U.S. imports benefiting exclusively from CBERA in 2001. Finally, appendix F contains a list of frequently used abbreviations.

Summary of the CBERA Program

CBERA authorizes the President to grant certain unilateral preferential trade benefits to Caribbean Basin countries and territories. The program permits shippers from designated beneficiaries to claim duty-free or reduced-duty treatment for eligible products imported into the customs territory of the United States; if importers do not claim this status, the goods are dutiable under the general rates of duty column accorded to countries having normal trade relations and generally known as NTR rates of duty.[3] CBERA was initially given statutory effect through September 30, 1995; the Caribbean Basin Economic Recovery Expansion Act (CBEREA) of 1990[4] repealed that termination date, made the program permanent, and expanded CBERA benefits in several respects.[5] In May 2000, the United States-Caribbean Basin Trade Partnership Act (CBTPA) further expanded the CBERA program and extended trade preferences to textiles and apparel from the region.[6] In August 2002, the Trade Act of 2002[7] amended CBERA to clarify and modify several CBTPA provisions.

In September 1995, the United States requested that the World Trade Organization (WTO) renew a prior waiver of U.S. obligations under Article I of the General Agreement on Tariffs and Trade (GATT) (nondiscriminatory treatment) to allow continuation of CBERA tariff preferences; that request was granted on November 15, 1995 through December 31, 2005.[8] The United States sought a WTO waiver because CBERA tariff preferences were extended on a nonreciprocal basis to a limited number of countries, rather than to all WTO members.

---

[3] This is nondiscriminatory tariff treatment, which is commonly and historically called "most-favored-nation" (MFN) status in trade circles and is called normal trade relations (NTR) status in the United States.

[4] The Caribbean Basin Economic Recovery Expansion Act of 1990 was signed into law on Aug. 20, 1990, as part of the Customs and Trade Act of 1990 (Public Law 101-382, title II, 104 Stat. 629, 19 U.S.C. 2101).

[5] Among other things, the 1990 act provided duty reductions for certain products previously excluded from such treatment. For a comprehensive description of the 1990 act, see U.S. International Trade Commission (USITC), *Report on the Impact of the Caribbean Basin Economic Recovery Act, Sixth Report 1990*, USITC publication 2432, September 1991, pp. 1-1 to 1-5.

[6] A description of CBTPA and the enhancement of the preference program is contained in a separate section of this chapter.

[7] Modifications to CBERA were made in section 3107 of the Trade Act of 2002 (Public Law 107-210, Aug. 6, 2002).

[8] Decision of the WTO General Council of Nov. 15, 1995 (WT/L/104).

The following sections summarize CBERA provisions concerning beneficiaries, trade benefits, and qualifying rules, and the relationship between CBERA and the U.S. Generalized System of Preferences (GSP) program. A description of the CBTPA concludes this chapter.

Beneficiaries

Eligible imports from 24 countries received CBERA tariff preferences during 2002.[9] Four other countries–Anguilla, Cayman Islands, Suriname, and Turks and Caicos Islands–are potentially eligible for CBERA benefits but have not requested that status.[10] The President can terminate beneficiary status or suspend or limit a country's CBERA benefits at any time.[11]

CBERA beneficiaries are required to afford internationally recognized worker rights under the definition used in the GSP program[12] and to provide effective protection of intellectual property rights (IPR), including copyrights for film and television material. The President may waive either condition if he determines, and so reports to Congress, that the designation of a particular country would be in the economic or security interest of the United States.[13] To date, the United States has withdrawn CBERA benefits from only one country, Honduras, on the basis of worker rights or U.S. intellectual property rights violations.[14]

In April 2002, the Office of the U.S. Trade Representative (USTR) conducted its annual review of country practices pertaining to IPR protection under the Special 301 provisions of the Trade Act of 1974, identifying 51 countries that deny adequate and effective IPR protection.[15] Of the CBERA beneficiaries, the Dominican Republic was among the 16 countries placed on the "Priority Watch List," and The Bahamas, Costa Rica, Guatemala, and Jamaica were among the 33 countries placed on the "Watch List."[16]

---

[9] Those countries were Antigua, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. See Harmonized Tariff Schedule (HTS) general note 7.

[10] The Caribbean, Central American, and South American countries and territories potentially eligible for CBERA benefits are listed in 19 U.S.C. 2702(b).

[11] 19 U.S.C. 2702(e).

[12] 19 U.S.C. 2462.

[13] 19 U.S.C. 2702(b).

[14] Benefits were withdrawn on a limited number of products. See USTR, "USTR Barshefsky Announces Action to Address Honduran Failure to Protect Intellectual Property Rights," press release 97-94, Nov. 4, 1997and 63 F.R. 16607-16608; USTR, "Trade Preferences for Honduras Suspended," press release 98-36, March 30, 1998; and USTR, "Trade Preferences for Honduras Restored," press release 98-65, July 1, 1998 and 63 F.R. 35633-35634.

[15] See USTR, "USTR Releases Annual $Special 301' Report on Global Intellectual Property Protection," press release 02-48, Apr. 30, 2002, and 67 F.R. 30412, May 6, 2002. See also USTR, *2002 Special 301 Report*, found at *http://www.ustr.gov/reports/special301.htm*, retrieved May 19, 2003.

[16] Ibid.

CBERA beneficiary countries must be designated by the President for the enhanced benefits of CBTPA–they are not automatically eligible for CBTPA preferences. In considering the eligibility of these countries for CBTPA beneficiary country status, the CBTPA requires the President to take into account certain eligibility criteria in addition to those normally required for CBERA eligibility, including the extent to which the country has implemented its WTO commitments, participated in the Free Trade Area of the Americas (FTAA) process, protected intellectual property rights and internationally recognized workers' rights, implemented its commitments to eliminate the worst forms of child labor, cooperated with the United States on counternarcotic initiatives, implemented an international anticorruption convention, and applied transparent, nondiscriminatory, and competitive procedures in government procurement.

During the summer of 2000, USTR conducted an extensive review of CBERA beneficiaries' compliance with these requirements. Based on this review, on October 2, 2000, President Clinton designated all 24 current CBERA beneficiaries as eligible for CBTPA preferences, but this designation did not mean that each of the 24 would immediately receive all CBTPA benefits.[17] Ten countries were found by USTR to satisfy customs-related requirements established in the CBTPA as well, thereby becoming fully eligible for benefits under the new legislation pursuant to USTR notices.[18] These countries were Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Nicaragua, and Panama. Barbados, Guyana, St. Lucia, and Trinidad and Tobago have since qualified.[19]

Trade Benefits Under CBERA

CBERA provides duty-free and reduced-duty treatment to qualifying imports from designated beneficiary countries.[20] For some products, duty-free entry under CBERA is subject to statutory conditions in addition to normal program rules. In addition to these basic preference-eligibility rules, certain conditions apply to CBERA duty-free entries of sugar, beef,[21] and ethyl alcohol.[22] Imports of sugar and beef, like those of

---

[17] Presidential Proclamation 7351–To Implement the United States-Caribbean Trade Partnership Act, Oct. 2, 2000.

[18] 65 F.R. 60236-60237.

[19] See HTS general note 17 and U.S. notes in subchapters II and XX of chapter 98 of the HTS. Countries can be added to the general note list, dealing with nonapparel goods, without qualifying for the apparel articles benefits of chapter 98.

[20] General note 3(c) to the HTS summarizes the special tariff treatment for eligible products of designated countries under various U.S. trade programs, including CBERA. General note 7 covers CBERA in detail.

[21] Sugar (including syrups and molasses) and beef (including veal) are eligible for duty-free entry only if the exporting CBERA country submits a "Stable Food Production Plan" to the United States, assuring that its agricultural exports do not interfere with its domestic food supply and its use and ownership of land. See 19 U.S.C. 2703(c)(1)(B).

[22] Ethyl alcohol produced from agricultural feedstock grown in a CBERA country is admitted free of duty; however, preferential treatment for alcohol produced from non-CBERA agricultural feedstock is restricted to 60 million gallons (227.1 million liters) or 7 percent of the U.S. domestic ethanol market, whichever is greater. See19 U.S.C. 2703(a)(1); and section 423 of the Tax Reform Act of 1986, as amended by section 7 of the Steel Trade Liberalization Program Implementation Act of 1989 (19 U.S.C. 203 nt; Public Law 99-514 as amended by Public Law 101-221).

some other agricultural products, remain subject to any applicable and generally imposed U.S. tariff-rate quotas (TRQs) and food-safety requirements.[23] Under the original CBERA, certain leather handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel were eligible to enter at reduced rates of duty.[24] Not eligible for any preferential duty treatment under the original CBERA were cotton, wool, and manmade fiber textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, and certain watches and parts.[25]

The CBTPA amended CBERA to authorize duty-free treatment to some products previously ineligible for CBERA preferences, most notably certain apparel, as well as equivalent treatment given to Mexico under NAFTA for other products previously ineligible for duty-free treatment, including certain footwear; canned tuna; the above-mentioned handbags, luggage, flat goods, work gloves, and leather wearing apparel; petroleum and petroleum derivatives; and certain watches and watch parts. Roughly 6,330 8-digit tariff lines or products are now covered by CBERA trade preferences, of which about 460 were added by CBTPA. The products that continue to be excluded by statute from receiving preferential treatment are textile and apparel articles not otherwise eligible for preferential treatment under CBTPA and above-quota imports of certain agricultural products subject to tariff-rate quotas.

Qualifying Rules

CBERA generally provides that eligible products must either be wholly grown, produced, or manufactured in a designated CBERA country or be "new or different" articles made from substantially transformed non-CBERA inputs in order to receive duty-free entry into the United States.[26] The cost or value of the local (CBERA region)

[23] These U.S. measures include tariff-rate quotas on imports of sugar and beef, established pursuant to sections 401 and 404 of the Uruguay Round Agreements Act (URAA). These provisions replaced absolute quotas on imports of certain agricultural products imported under section 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624), the Meat Import Act of 1979 (Public Law 88-482), and other authority. The URAA also amended CBERA by excluding from tariff preferences any imports from beneficiary countries in quantities exceeding the new tariff-rate quotas' global trigger levels or individual country allocations. Imports of agricultural products from beneficiary countries remain subject to sanitary and phytosanitary restrictions, such as those administered by the U.S. Animal and Plant Health Inspection Service.

[24] These are articles that were not designated for GSP duty-free entry as of Aug. 5, 1983. Under CBERA, beginning in 1992, duties on these goods were reduced slightly in five equal annual stages. See19 U.S.C. 2703(h).

[25] See 19 U.S.C. 2703(b). For discussions of products originally excluded from CBERA and subsequent modifications to the list of excluded products, see USITC, *Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers: The First Ten Years of CBERA, Ninth Report 1993*, USITC publication 2813, September 1994, pp. 2-9, and *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Tenth Report 1994*, USITC publication 2927, September 1995, pp. 3-4.

[26] Certain products do not qualify. These include products that undergo simple combining or packaging operations, dilution with water, or dilution with another substance that does not materially alter the characteristics of the article. See19 U.S.C. 2703(a)(2). Articles, other than textiles and apparel or

materials plus the direct cost of processing in one or more CBERA countries must total at least 35 percent of the appraised customs value of the product at the time of entry. These rules of preference allow CBERA countries to pool their resources to meet the local-value-content requirement on an aggregated basis.[27] Also, inputs from Puerto Rico and the U.S. Virgin Islands may count in full toward the value threshold. As an advantage over the GSP program, the CBERA local-value-content requirement can also be met when the CBERA content is 20 percent of the customs value and the remaining 15 percent is attributable to U.S.-made (excluding Puerto Rican) materials or components.[28] To encourage production sharing between Puerto Rico and CBERA countries, CBERA allows duty-free entry for articles produced in Puerto Rico that are "by any means advanced in value or improved in condition" in a CBERA country.[29]

Qualifying rules for duty-free importation of apparel are complex and are discussed in the upcoming section on CBTPA.

CBERA and GSP

All CBERA beneficiaries except Aruba, The Bahamas, Netherlands Antilles, and Nicaragua are also GSP beneficiaries.[30] CBERA and GSP are similar in many ways, and many products may enter the United States free of duty under either program. Both programs offer increased access to the U.S. market. Like CBERA, GSP requires that eligible imports (1) be imported directly from beneficiaries into the customs territory of the United States, (2) meet the substantial transformation requirement for any foreign inputs,[31] and (3) contain a minimum of 35 percent local-value content. The documentary requirements necessary to claim either CBERA or GSP duty-free entry

---

[16]—*Continued*
petroleum and petroleum products, that are assembled or processed in CBERA countries wholly from U.S. components or materials also are eligible for duty-free entry pursuant to note 2 to subchapter II, chapter 98, of the HTS. Articles produced through operations such as enameling, simple assembly or finishing, and certain repairs or alterations may qualify for CBERA duty-free entry pursuant to changes made in 1990. For a more detailed discussion, see USITC, Report on the Impact of the Caribbean Basin Economic Recovery Act, Seventh Report 1991, USITC publication 2553, September 1992, p. 1-4.

[27] The Commission is not aware of any articles imported under CBERA that take advantage of the aggregated local-content requirement.

[28] See 19 U.S.C. 2703(a)(1).

[29] Any materials added to such Puerto Rican articles must be of U.S. or CBERA-country origin. The final product must be imported directly into the customs territory of the United States from the CBERA country. See19 U.S.C. 2703(a)(5).

[30] The U.S. GSP program was originally enacted pursuant to title V of the Trade Act of 1974, Public Law 93-618, 88 Stat. 2066 et seq. and was renewed for an additional 10 years pursuant to title V of the Trade and Tariff Act of 1984, Public Law 98-573, 98 Stat. 3018 et seq. as amended by 19 U.S.C. 2461et seq. Since that time, the GSP program has expired and been renewed several times. GSP expiration and renewal issues are discussed later in this section.

[31] In the GSP program a double substantial transformation standard is used. It involves transforming foreign material into a new or different product that, in turn, becomes the constituent material used to produce a second new or different article in the beneficiary country.

are identical—a Certificate of Origin Form A is to be presented at the time the qualifying products enter the United States, though slightly varying value-related information may be required under the two programs.[32]

However, the programs differ in several ways that tend to make Caribbean Basin producers prefer the more liberal CBERA. First, CBERA covers more tariff categories than does GSP ; unless specifically excluded, all products eligible to enter the United States under CBERA can receive a tariff preference, including some textile and apparel goods ineligible for GSP treatment, if the importer claims it. Second, U.S. imports under CBERA are not subject to GSP competitive-need and country-income restrictions. Under GSP, products that achieve a specified market penetration in the United States (the competitive-need limit) may be excluded from GSP eligibility;[33] products so restricted may continue to enter free of duty under CBERA. Moreover, countries may lose all GSP privileges once their per capita income grows to exceed a specified amount,[34] but they retain their CBERA eligibility. Third, CBERA qualifying rules for individual products are more liberal than those of GSP. GSP requires that 35 percent of the value of the product be added in a single beneficiary or in a specified association of eligible GSP countries,[35] whereas CBERA allows regional aggregation within CBERA plus U.S. content.

The tariff preferences of the U.S. GSP program have not been in continuous effect in recent years. The preferences expired at midnight on July 31, 1995 and were not renewed until October 1, 1996 (the preferences were renewed retroactive to August 1, 1995, and extended through May 31, 1997). [36]The GSP program expired again on May 31, 1997, but was renewed August 5, 1997, retroactive to June 1, 1997 through June 30, 1998.[37] On June 30, 1998, the program expired again and then was renewed October 21, 1998, retroactive to July 1, 1998 through June 30, 1999.[38] The GSP program again expired on June 30, 1999, but was extended retroactively through September 30, 2001 on December 18, 1999.[39] Most recently, after expiring on September 30, 2001, the GSP was extended retroactively through December 31, 2006 by legislation signed by the President on August 6, 2002.[40] All imports claiming the GSP tariff preference that entered during periods when GSP was not in effect were

[32] CBTPA requires a unique certificate of origin form. The requirements for enhanced preferences are not unlike those of the NAFTA program.

[33] A beneficiary developing country loses GSP benefits for an eligible product when U.S. imports of the product exceed either a specific annually adjusted value ($105 million in 2002) or 50 percent of the value of total U.S. imports of the product in the preceding calendar year–the competitive-need limit (section 503(c))(2) of the Trade Act of 1974, as amended).

[34] See 19 U.S.C. 2464(c)-(f).

[35] See 19 U.S.C. 2463(b)(1)(B).

[36] On Aug. 20, 1996, the President signed the Small Business Job Protection Act of 1996 (Public Law 104-188, 110 Stat. 1755). Subtitle J, title I, of that law contains provisions entitled the GSP Renewal Act of 1996 (110 Stat. 1917). See also 61 F.R. 52078.

[37] See 62 F.R. 46549-46550.

[38] See 63 F.R. 67169-67170.

[39] See Public Law 106-170.

[40] See Public Law 107-210.

subject to ordinary NTR duties at the time of entry unless other preferential treatment, such as CBERA, was claimed. Duties paid on such articles were eligible for refund after the GSP became operative again. During the lapses in GSP, however, suppliers in CBERA countries could use the preferential tariff provisions of the CBERA instead, and know they were in force. As a result, there was a marked shift away from using GSP to CBERA, particularly in 1995 and 1996, and many Caribbean Basin suppliers continued to enter goods under CBERA even after GSP was reauthorized.

Caribbean Basin Trade Partnership Act

The United States-Caribbean Basin Trade Partnership Act (CBTPA), enacted May 18, 2000, is the most recent major enhancement of the CBERA program.[41] Minor modifications and clarifications were made in the Trade Act of 2002, enacted August 6, 2002.[42] CBTPA became effective on October 1, 2000, and is scheduled to expire on September 30, 2008, unless the FTAA or a comparable free trade agreement between the United States and CBERA countries enters into force earlier. The legislation authorizes, for the first time, duty-free treatment for imports of qualifying cotton, wool, and manmade fiber apparel from CBERA countries.

CBTPA is principally aimed at reducing the competitive disadvantage CBERA countries have faced vis-a-vis Mexico since NAFTA entered into force in 1994. Notably, CBTPA authorizes preferential tariff treatment for certain qualifying apparel articles. Key apparel provisions are summarized in table 1-2. For the most part, these CBTPA apparel goods must be made wholly of U.S. inputs and assembled in an eligible CBTPA country listed in chapter 98 of the HTS. The CBTPA also extended preferential treatment (rates of duty identical to those accorded to like goods of Mexico, under the same rules of origin applicable under NAFTA pursuant to HTS general note 12) to a number of other products previously excluded from CBERA, including certain tuna, petroleum products, certain footwear, and certain watches and watch parts. CBTPA also provided duty-free treatment for textile luggage made from inputs of U.S. origin.[43]

CBTPA authorizes unlimited duty-free entry for imports of apparel assembled in CBERA countries from fabrics made and cut in the United States of U.S. yarns. If the U.S. fabrics used in the production of such apparel are cut into garment parts in CBTPA countries rather than the United States, the apparel must also be sewn together with U.S. thread. The 2002 modifications required that U.S. fabric cut in CBTPA countries must be dyed, printed, and finished in the United States. CBTPA countries are also eligible to receive unlimited duty-free entry for textile luggage assembled from U.S. fabrics made of U.S. yarns; apparel assembled from fabrics or yarns deemed to be in “short supply” in the United States; and handloomed, handmade, and folklore articles.

[41] See Trade and Development Act of 2000 (Public Law 106-200, title II).
[42] See Public Law 107-210.
[43] See HTS provision 9802.00.8046 and U.S. note 7(b) to chapter 98, subchapter II.

Table 1-2
Textiles and apparel made in CBERA countries that are eligible for duty-free and quota-free entry under the United States-Caribbean Basin Trade Partnership Act (CBTPA), as amended by the Trade Act of 2002

Brief description of article[1]	Brief description of criteria and related information
Apparel assembled from U.S.-formed and -cut fabric HTS 9802.00.80.44 and 9820.11.03 (the latter provision is for apparel that underwent further processing such as stone-washing or embroidering)	* Unlimited duty-free and quota-free treatment * Fabric must be made wholly of U.S. yarn * Fabric, whether knit or woven, must be dyed, printed, and finished in the United States
Apparel cut and assembled from U.S. fabric HTS 9820.11.06 Woven apparel HTS 9820.11.18 Knit apparel	* Unlimited duty-free and quota-free treatment * Fabric must be made wholly of U.S. yarn * Fabric, whether knit or woven, must be dyed, printed, and finished in the United States * Apparel must be sewn together with U.S. thread
Certain apparel of "regional knit fabrics" – includes apparel knit-to-shape directly from U.S. yarn (other than socks) and knit apparel cut and assembled from regional or regional and U.S. fabrics HTS 9820.11.09 Knit apparel except outerwear T-shirts HTS 9820.11.12 Outerwear T-shirts	* Fabric must be made wholly of U.S. yarn * Preferential treatment subject to "caps" for 12-month period beginning on October 1 of— **Year — HTS 9820.11.09 — HTS 9820.11.12** 2000 — 250 million SMEs — 4,200,000 dozen 2001 — 290 million SMEs — 4,872,000 dozen 2002 — 500 million SMEs — 9,000,000 dozen 2003 — 850 million SMEs — 10,000,000 dozen 2004 — 970 million SMEs — 12,000,000 dozen Note.– SMEs is square meter equivalents. The 2004 caps apply to subsequent 12-month periods.
Brassieres cut and assembled in the United States and/or the region from U.S. fabric (HTS 9820.11.15)	* Producer must satisfy rule that the total cost of U.S. fabric components used in its brassieres in preceding 12-month period was at least 75 percent of the aggregate declared customs value of the fabric contained in all its brassieres in that period (exclusive of findings and trimmings).
Textile luggage cut and assembled from U.S. fabric (HTS 9820.11.21)	* Fabric must be made wholly of U.S. yarn
Apparel cut and assembled from fabrics or yarn in "short supply," as identified in annex 401 of NAFTA (HTS 9820.11.24) Apparel cut and assembled from additional fabrics or yarns designated as not available in commercial quantities in the United States (HTS 9820.11.27)	* Includes apparel of silk; linen; cotton velveteen and fine-wale corduroy fabric; hand-woven Harris Tweed wool fabric; woven wool fabric made with fine animal hair; high-thread count polyester-cotton woven fabric; fine-count cotton fabric for nightwear and underwear; and high-thread count woven fabric for men's and boys' shirts. * On request of an interested party, the President may proclaim preferential treatment for apparel made from additional fabrics or yarn if the President determines that such fabrics or yarn cannot be supplied by the domestic industry in commercial quantities in a timely manner.
Handloomed, handmade, and folklore articles (HTS 9820.1130)	* Must be certified as such by exporting country

[1] Applies to apparel articles of cotton, wool, and manmade fibers, which were ineligible for duty-free treatment under the original CBERA.
Source: United States-Caribbean Basin Trade Partnership Act, as amended by the Trade Act of 2002.

CBTPA provides for duty-free treatment for limited quantities of knit apparel, except socks,[44] made in CBTPA countries from fabrics knitted in those countries provided that the fabrics are produced of U.S. yarns (known as regional knit fabrics).[45] This preferential treatment was limited to 4.2 million dozen outerwear t-shirts and 250 million square meter equivalents (SMEs) of other knit apparel, for the 1-year period beginning on October 1, 2000. Both regional caps were expanded beyond the original caps under the 2002 modifications as shown in table 1-2.

Duty-free treatment is also provided for imports of brassieres from CBTPA countries cut and sewn or otherwise assembled in the United States or CBTPA countries, or both. For the 1-year period beginning on October 1, 2001, and in each of the six succeeding 1-year periods, such treatment is only granted to producers whose total cost of the U.S. fabric components during the previous 1-year period is at least 75 percent of the aggregate declared customs value of the fabric contained in all of their brassieres entered during that period. In general, preferential treatment is only granted to producers who use mostly U.S. fabric components.

On March 5, 2001 the Commission instituted investigation No. 332-428, Apparel Inputs in "Short Supply": Effect of Providing Preferential Treatment to Apparel from Sub-Saharan African and Caribbean Basin Countries, under section 332(g) of the Tariff Act of 1930 at the request of USTR. The Commission provided advice regarding the probable economic effect of providing preferential treatment for apparel made in African Growth and Opportunity Act and/or CBTPA beneficiary countries from fabrics or yarn, regardless of the source of the fabrics or yarn, which allegedly cannot be supplied by the domestic industry in commercial quantities in a timely manner (i.e., which allegedly are in "short supply"). The advice was provided as to the probable economic effect of each such requested action on affected segments of the U.S. textile and apparel industries, workers in these industries, and consumers of affected goods.[46] In subsequent years, the Commission instituted similar investigations.[47]

---

[44] The Trade Act of 2002 extended preferential treatment to imports of socks from CBERA countries (where the sock toes are sewn together) if they are knit to shape in the United States of U.S. yarn. However, socks knit to shape in the CBERA countries of U.S. yarn are still excluded from preferential treatment.

[45] Knit apparel made in CBTPA countries from regional knit fabrics includes garments cut and assembled from knit fabrics or those knit-to-shape directly from yarns, such as sweaters. The Trade Act of 2002 clarified that preferential treatment is to be provided for knit-to-shape garments assembled in CBERA countries. The interim regulations issued by the U.S. Customs Service to implement the trade benefit provisions of the CBTPA had stipulated that knit-to-shape garments were not eligible for trade benefits because they technically do not go through a fabric manufacturing stage (the garments are knitted to shape directly from yarns). See U.S. House of Representatives, *Andean Trade Promotion and Drug Eradication Act*, 107th Congress, first session, Report 107-290, Nov. 14, 2001, p. 18.

[46] For a detailed discussion of the CBTPA, including recent trade in affected apparel items, see Laura Rodriquez-Archila, "Apparel Market: New U.S. Legislation Places CBERA Countries on a More Equal Competitive Basis with Mexico," USITC, *Industry Trade and Technology Review,* July 2000, USITC publication 3335, pp. 21-32.

[47] Most recently, on Jan. 28, 2003, the Commission instituted investigation No. 332-450, *Commercial Availability of Apparel Inputs (2003): Effect of Providing Preferential Treatment to Apparel from Sub-Saharan African, Caribbean Basin, and Andean Countries*.

The CBTPA builds upon existing U.S. trade programs that have encouraged U.S. producers of apparel to establish production-sharing arrangements in CBERA countries and Mexico. Under the production-sharing provisions of HTS heading 9802.00.80 and related legal notes of the HTS, commonly referred to by its former Tariff Schedules of the United States (TSUS) designation as "807," U.S. importers receive a partial-duty exemption for articles assembled abroad in whole or in part of U.S. components. In general, the duty is assessed only on the value added abroad (mainly the cost of sewing the garment parts together). The fabric for making the apparel parts can be of either U.S. or foreign origin as long as the fabric is cut to shape in the United States, exported ready for assembly, and not advanced in value abroad except by assembly and incidental operations. During the late 1980s, the United States created special programs under the former 807 tariff provision for CBERA countries and Mexico to give these countries, in addition to the reduced duties, virtually unlimited market access for apparel assembled there from fabrics wholly made and cut in the United States (commonly known as "807A" imports).[48] But with implementation of NAFTA in 1994, U.S. imports of 807A-type apparel from Mexico became eligible to enter completely free of duty and quota under heading 9802.00.90 of the HTS. By contrast, imports of similar 807A-type apparel from CBERA countries could enter under preferential quotas but were still subject to duty on the value added abroad until October 1, 2000.[49]

Although the CBTPA was expected to substantially boost U.S.-CBERA sector trade, the anticipated benefits of the CBTPA in the first 2 years of the program were tempered by weak U.S. economic activity and also by "unresolved implementation and technical issues" associated with the language of the legislation.[50] Industry sources report that U.S. companies seemed to look to the CBTPA program primarily to achieve duty savings on existing trade rather than to redirect sourcing currently placed elsewhere.[51]

On January 16, 2002, President George Bush announced his intention to explore a free trade agreement with Central American nations. The President formally notified Congress of his intention to begin free trade negotiations on October 1, 2002, following passage of the Trade Promotion Authority.[52] Key issues that industry officials

[48] The United States currently has preferential quotas for 807A imports (known as guaranteed access levels (GALs)) and regular quotas with six CBERA countries–Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Jamaica.

[49] The dutiable foreign value-added accounted for 31 percent of the customs value of U.S. imports of underwear, foundation garments, and outerwear t-shirts from CBERA countries in 1999, and the duty-free U.S. value was 69 percent. The effective U.S. rate of duty on such CBERA goods averaged 4.7 percent ad valorem.

[50] Office of the United States Trade Representative, *Fourth Report to Congress on the Operation of the Caribbean Basin Economic Recovery Act*, Dec. 31, 2001, p. 58.

[51] Stephen Lamar, Executive Vice President, American Apparel and Footwear Association, "Caribbean Basin Trade Partnership Act - 2002 Review of Apparel Provision," facsimile sent to USITC staff, Apr. 30, 2003.

[52] USTR, "Proposed U.S.-Central America Free Trade Agreement Fact Sheet," found at *http://www.ustr.gov/CAFTA Fact Sheet.pdf*, Jan. 16, 2002, retrieved Apr. 28, 2003, and "2003 Trade Policy Agenda and 2002 Annual Report of the President of the United States on the Trade Agreements Program," March 2003, p. 148.

in Central America raised during the Central American Free Trade Agreement (CAFTA) negotiations included interest in establishing expanded rules of origin that would grant preferential treatment to apparel made of regional or third-country (e.g., Mexican or Asian) inputs; provisions allowing dyeing and finishing of fabrics in the region without loss of duty-free entry into the United States; and the inclusion of trade benefits for apparel articles made from regional woven fabric in addition to those made of knit fabric.[53]

Analytical Approach

The core of the original CBERA is the duty-free treatment importers can claim when entering qualifying products of designated beneficiary countries (where goods are not specifically excluded from the program). In each case, the duty elimination for all eligible products occurred at once as countries were designated as beneficiaries; while there was generally no phase-in of duty preferences, the duty reductions for a few goods were phased in over 5 years.[54] Direct effects of such a one-time duty elimination can be expected to consist primarily of increased U.S. imports from beneficiary countries resulting from trade and resource diversion to take advantage of lower duties in the U.S. market, including: (1) a diversion of beneficiary-country production away from domestic sales and non-U.S. foreign markets; and (2) a diversion of variable resources (such as labor and materials) away from production for domestic and non-U.S. foreign markets. In general, these direct effects are likely to occur within a short time (probably a year or two) after the duty elimination. It is therefore likely that these effects have been fully realized in the original CBERA program, which has been in effect since 1984. Imports of products that became eligible with the implementation of CBTPA on October 1, 2000, are probably nearing the end of their short-term effects on the U.S. economy as a whole, U.S. industries and consumers, and the economy of the beneficiary countries. Over a longer period, the effects of CBERA will flow mostly from investment in industries in beneficiary countries that benefit from the duty elimination or reduction. Both short-term and long-term effects are limited by the small size of the CBERA beneficiary-country economies, and the long-term effects are likely to be difficult to distinguish from other market forces in play since the program was initiated. Investment, however, has been tracked in past CBERA reports in order to examine the trends in, and composition of, investment in the region.

The effects of CBERA on the U.S. economy, industries, and consumers are assessed through an analysis of (1) imports entered under each program and trends in U.S. consumption of those imports; (2) estimates of gains to U.S. consumers, losses to the U.S. Treasury resulting from reduced tariff revenues, and potential displacement in

[53] Alfredo Milian, Executive Coordinator, Central American & Caribbean Textiles and Apparel Council, interview by Commission staff, Apr. 16, 2003, and Government of Guatemala, Executive Office of Textiles and Apparel Quotas, written submission to the Commission, Feb. 5, 2003.

[54] A number of previously excluded products were added for reduced-duty treatment under the Caribbean Basin Economic Recovery Expansion Act of 1990.

U.S. industries competing with the leading U.S. imports that benefited exclusively from the CBERA program in 2002,[55] as well as gains to U.S. industries that supply inputs to CBERA-country producers; and (3) an examination of trends in production and other economic factors in the industries identified as likely to be particularly affected by such imports. General economic and trade data come from official statistics of the U.S. Department of Commerce and from materials developed by country/regional and industry analysts of the Commission. The report also incorporates public comments received in response to the Commission's Federal Register notice regarding the investigation and field work in beneficiary countries.[56]

As in previous reports in this series, the effects of CBERA are analyzed by estimating the differences in benefits to U.S. consumers, U.S. tariff revenues, and U.S. industry production that would likely have occurred if the tariffs had been in place for beneficiary countries in 2002. Actual 2002 market conditions are compared with a hypothetical case in which NTR duties were imposed for the year. The effects of CBERA duty reductions for 2002 are estimated by using a standard economic approach for measuring the impact of a change in the prices of one or more goods. Specifically, a partial-equilibrium model is used to estimate gains to consumers, losses in tariff revenues, and industry displacement or gains.[57] Previous analyses in this series have shown that since CBERA has been in effect, U.S. consumers have benefited from lower prices and higher consumption, competing U.S. producers have had lower sales, and tariff revenues to the U.S. Treasury have been lower.

Generally, the net welfare effect is measured by adding three components: (1) the change in consumer surplus, (2) the change in tariff revenues to the U.S. Treasury resulting from the CBERA duty reduction, and (3) the change in producer surplus.[58] The model used in this analysis assumes that the supply of U.S. domestic production is perfectly elastic; that is, U.S. domestic prices do not fall in response to CBERA duty reductions. Thus, decreases in U.S. producer surplus are not captured in this analysis. The effects of CBERA duty reductions on most U.S. industries are expected to be small.

---

[55] That is, those that are not excluded or do not receive unconditional NTR duty-free treatment or duty-free treatment under other preference programs such as GSP.

[56] A copy of the notice is contained in appendix A. Summaries of comments received are included in appendix B.

[57] A more detailed explanation of the approach can be found in appendix C.

[58] Consumer surplus is a dollar measure of the total net gain to U.S. consumers from lower prices. It is defined as the difference between the total value consumers receive from the consumption of a particular good and the total amount they pay for the good.

Producer surplus is a dollar measure of the total net loss to competing U.S. producers from increased competition with imports. It is defined as the return to entrepreneurs and owners of capital above what they would have earned in their next-best opportunities. See Walter Nicholson, *Microeconomic Theory: Basic Principles and Extensions* (New York: The Dryden Press, 1989), for further discussion of consumer and producer surplus.

The welfare effects do not include short-run adjustment costs to the economy from reallocating resources among different industries.

Ranges of potential net welfare and industry displacement estimates are reported, which reflect a range of assumed substitutabilities between CBERA products and competing U.S. output. The upper estimates reflect the assumption of high substitution elasticities.[59] The lower estimates reflect the assumption of low substitution elasticities. Upper estimates are used to identify items that could be most affected by CBERA.

The analysis was conducted on the 20 leading product categories that benefited exclusively from CBERA tariff preferences (see chapter 3).[60] Estimates of welfare and potential U.S. industry displacement and/or gains were made. Further analysis is done on industries for which the upper estimate of displacement is more than 5 percent of the value of U.S. production, the threshold traditionally used in this series for selecting industries for further analysis. No industries met that criterion in 2002.

Probable future effects of CBERA are discussed on the basis of a qualitative analysis of economic trends and investment patterns in beneficiary countries and in competing U.S. industries. Information on investment in CBERA-related production facilities was obtained from U.S. embassies in the regions and from interviews and other fieldwork.

CBTPA requires the Commission to report on the impact of CBERA on the economy of the beneficiary countries. Beneficiary country impact is assessed by means of economic profiles of selected beneficiary countries and through State Department cables and USITC field work, as discussed later in this report.[61]

---

[59] Commission industry analysts provided evaluations of the substitutability of CBERA products and competing U.S. products, which were translated into a range of substitution elasticities–3 to 5 for high substitutability, 2 to 4 for medium, and 1 to 3 for low. Although there is no theoretical upper limit to elasticities of substitution, a substitution elasticity of 5 is consistent with the upper range of estimates in the economics literature. Estimates in the literature tend to be predominantly lower. See, for example, Clinton R. Shiells, Robert M. Stern, and Alan V. Deardorff, "Estimates of the Elasticities of Substitution Between Imports and Home Goods for the United States," Weltwirtschaftliches Archiv, vol. 122, 1986, pp. 497-519; and Michael P. Gallaway, Christine A. McDaniel, and Sandra A. Rivera, "Short-Run and Long-Run Estimates of U.S. Armington Elasticities," *North American Journal of Economics and Finance*, 14 (2003), pp. 49-68.

[60] Commission industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefited exclusively from CBERA, as well as evaluations of the substitutability of CBERA-exclusive imports and competing U.S. products.

[61] The Commission's 15th report undertook an econometric analysis of the original CBERA preference program. Results suggested that CBERA may have had an overall impact on income growth in the region, but that effect was small, and significant only when combined with trade and foreign exchange reforms on the part of the beneficiary countries themselves. The analysis confirmed that another preferential program that focused on apparel (the production-sharing program) did spur growth and investment in CBERA beneficiary countries.

CHAPTER 2: U.S. Trade With the Caribbean Basin

Introduction

This chapter covers trade with the 24 countries that are currently designated as CBERA beneficiaries (hereinafter CBERA countries).[1] Imports that entered under CBERA preferential tariff provisions during the 2-year span encompassing 2001 and 2002 are examined. The introduction of the new CBTPA provisions has significantly affected the magnitude and composition of imports entering the United States from CBERA countries–especially imports of apparel. While the share of U.S. imports from the region entering under CBERA measured just 12.6 percent of all imports from CBERA countries in 2000, the share increased to 47.0 percent in 2002. Almost all of this shift is owing to CBTPA provisions. Other provisions affecting the region include the staged reduction of U.S. duties under the Uruguay Round Agreements (URA), production sharing, and GSP. In this chapter, imports under CBERA are analyzed in the context of overall bilateral trade between the United States and CBERA countries.[2]

In this chapter, trade is discussed on the basis of 2-digit Harmonized Tariff Schedule (HTS) chapters and 8-digit HTS subheadings in terms of (a) two-way trade, (b) overall U.S. imports from the beneficiaries, (c) the portion of U.S. imports that enters under CBERA preferences, and (d) U.S. exports to the region's countries. Although a comprehensive discussion of the 24 beneficiaries is not feasible, individual beneficiary countries as sources of and destinations for this trade are also covered.

U.S. trade with CBERA countries has undergone a number of changes during 2000-2002. Three major changes include: (1) the addition of CBTPA to CBERA; (2) the emergence of apparel and petroleum products as the dominant import categories benefiting from CBERA; and (3) the shift towards cutting U.S. fabric in CBERA countries.

Since October 1, 2000, CBTPA has also been in effect, adding to the trade benefits enjoyed under CBERA for the 14 CBTPA-eligible countries[3] and products. This is the first edition of this report in which CBTPA was in effect for the entire 2-year period under review. The provisions of CBTPA that resulted in the largest impacts were those for apparel, and petroleum and petroleum products. Besides these products, enhanced

[1] See table 1-1 for a list of beneficiary countries.

[2] As mentioned in chapter 1, in this report, "trade under CBERA" includes both imports entered under the original CBERA and imports entered under CBTPA provisions.

[3] See table 1-1 for the list of CBTPA-eligible countries.

benefits were also extended to footwear, tuna, certain watches, handbags, luggage, flat goods, and work gloves.[4]

With the addition of apparel to CBERA, after years of decline, imports entered under CBERA in the period 2000-2002 have accounted for an increasing share of U.S. imports from CBERA countries. Such imports constituted 40.1 percent of the total in 2001 and 47.0 percent in 2002. In comparison, imports covered under CBERA constituted 19.3 percent of the total in 1997, 18.8 percent in 1998, 13.6 percent in 1999, and 12.6 percent in 2000.[5] Major factors that affected U. S. imports from CBERA countries during the earlier period included: a continued tightening of the U.S. sugar TRQ overall to the WTO minimum, resulting in reduced allocations to individual CBERA beneficiaries; the resurgence of petroleum and natural gas prices, especially during 2000; and the staged duty reductions under the Uruguay Round, which made some major CBERA products free of duty on an NTR basis in 1999 and 2000.

Methodological Note

The data and discussion concentrate on the time span of 2001-2002. Because 2001 was the first full year for which CBTPA provisions were in effect, trade changes under CBERA appear enormous in 2001. For this reason, where CBTPA provisions are most significant, data from 2002 present a clearer picture of the market forces affecting trade with CBERA countries. In addition, in certain instances, data from earlier years are shown to give a longer-term perspective of changes in trade patterns. Some data are also compared to 1984, the first year of CBERA's implementation.

Two-Way Trade

This 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 were among the few trading partners with which the United States consistently registered a collective merchandise trade surplus. However, since 1999, the United States has had a trade deficit with CBERA countries. (table 2-1 and figure 2-1).

The U.S. deficit of the past 4 years, as well as those deficits that preceded 1987, resulted in large measure from the comparatively large import value of petroleum and petroleum products from CBERA countries. Beginning with 1987, the decline of

[4] Full discussion of CBERA legislation is contained in chapter 1. Also see HTS item 9802.00.8046 and U.S. note 7(b) to chapter 98, subchapter II; and U.S. Department of Commerce, Market Access and Compliance Division, "Frequently Asked Questions on CBI," found at Internet address: *www.mac.doc.gov/CBI,* retrieved July 31, 2003.

[5] These percentages include a small amount of reduced-duty items under the original CBERA and imports under CBTPA during the last quarter of 2000.

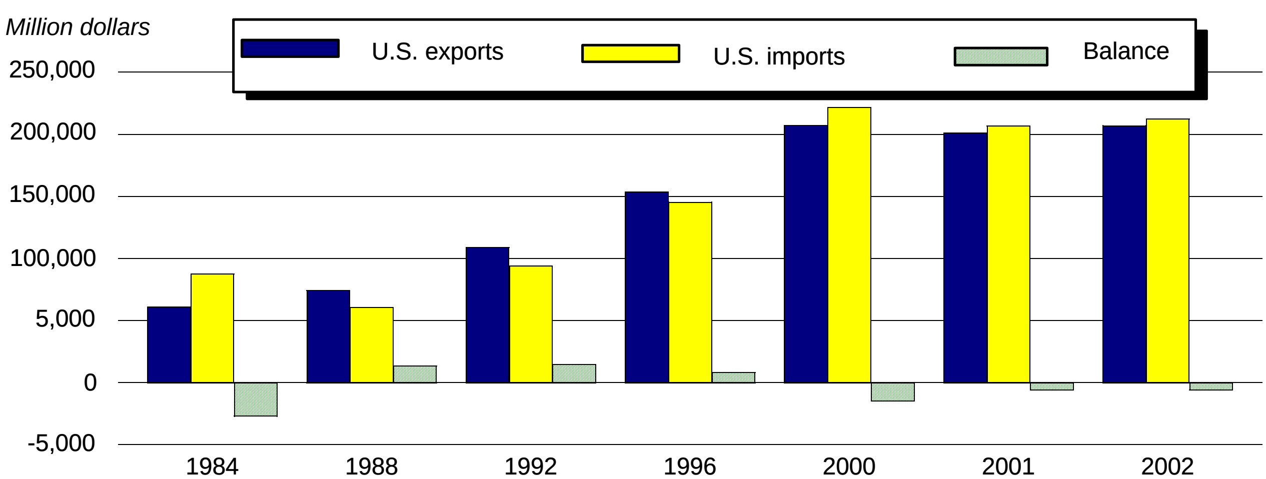
Table 2-1
U.S. trade with CBERA countries, 1980-2002

Year	U.S. exports[1]	Share of U.S. exports to the world	U.S.imports[2]	Share of U.S. imports from the world	U.S. trade balance
	Million dollars	*Percent*	*Million dollars*	*Percent*	*Million dollars*
1980	5,930.2	2.7	10,193.9	4.2	-4,263.8
1981	6,293.3	2.7	9,711.5	3.7	-3,418.1
1982	6,131.9	2.9	7,029.0	3.3	-897.1
1983	5,666.7	2.8	8,930.2	3.5	-3,263.6
1984	6,111.3	2.8	8,781.7	2.7	-2,670.4
1985	5,827.7	2.7	6,774.2	2.0	-946.6
1986	6,114.3	2.8	6,128.7	1.7	-14.5
1987	6,731.2	2.8	6,099.1	1.5	632.1
1988	7,427.8	2.4	6,062.2	1.4	1,365.7
1989	8,786.6	2.5	6,895.8	1.5	1,890.8
1990	9,307.1	2.5	7,525.2	1.5	1,781.9
1991	9,885.5	2.5	8,229.4	1.7	1,656.2
1992	10,901.7	2.6	9,425.6	1.8	1,476.1
1993	11,941.9	2.7	10,094.0	1.8	1,847.9
1994	12,822.0	2.7	11,200.3	1.7	1,621.7
1995	14,870.3	2.7	12,550.1	1.7	2,320.2
1996	15,374.7	2.6	14,544.8	1.8	829.9
1997	17,807.9	2.8	16,572.4	1.9	1,235.4
1998	19,200.1	3.0	17,124.3	1.9	2,075.8
1999	19,029.6	3.0	19,364.8	1.9	-335.2
2000	20,727.9	2.9	22,161.1	1.8	-1433.1
2001	20,117.1	3.0	20,678.9	1.8	-561.8
2002	20,702.5	3.3	21,254.8	1.8	-552.3

[1] Domestic exports, f.a.s. basis.
[2] Imports for consumption, customs value.

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

Figure 2-1
U.S trade with CBERA countires, 1984, 1988, 1992, 1996, 2000–02



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

petroleum prices, and more U.S. exports of machinery and transportation equipment induced by Caribbean diversification into apparel and other nontraditional products, led to a U.S. surplus in this trade. The United States maintained a trade surplus with the region through 1998.

Trade with CBERA countries increased somewhat in 2001 and 2002 as a percentage of U.S. trade with the world. The CBERA-country share of U.S. exports to the world rose to 3.0 percent in 2001, and to a record 3.3 percent in 2002. The CBERA-country share of total U.S. imports remained stable at 1.8 percent in the period 2000-2002.

Production-sharing operations under HTS heading 9802.00.80 contributed importantly to increasing U.S. trade with Caribbean countries in both directions before the implementation of CBTPA.[6] Although production sharing as a U.S. program predates CBERA, it was expanded in the 1980s, in particular with respect to CBERA countries. The program remains significant but relatively more trade has now come under the new CBTPA program. In 2000, imports reported under production-sharing provisions (PSP) of the HTS accounted for 36.1 percent of total U.S. imports from CBERA countries, but that measure decreased to 21.4 percent in 2002 as apparel producers added fabric cutting to their operations and the classification of the resulting apparel shifted from HTS heading 9802.00.80 to HTS 9820 (subchapter XX of HTS chapter 98). The Dominican Republic and Honduras were the leading CBERA sources of imports under PSP in 2002.[7] Apparel, most of which did not benefit from original CBERA preferences but which does benefit from CBTPA preferences, constitutes the principal sector in which production sharing takes place.

Total Imports

Total U.S. imports from CBERA countries (including imports affected and unaffected by CBERA preferences) were \$20.7 billion in 2001 and \$21.3 billion in 2002.[8] CBERA countries combined constituted the 12th-largest U.S. supplier during 2002–ahead of Singapore but behind Italy. Total U.S. imports from CBERA countries did not change as much as did U.S. imports under CBERA. This section will discuss overall imports from CBERA countries, regardless of whether they qualify for CBERA provisions. Imports under CBERA will be discussed in a later section.

---

[6] HTS heading 9802.00.80 provides for entry of goods assembled abroad from U.S. fabricated components. Normally duties are not assessed on the value of U.S. components, only on the foreign value of the finished products. Under CBTPA, qualifying products are free of all duties. See table 1-2.

[7] These data include all imports under HTS heading 9802.00.80, whether under normal eligibility standards or those of CBTPA.

[8] The analysis of U.S. imports and exports throughout this chapter is based on tables 2-1 through 2-5, tables 2-7 through 2-17, and table D-1 in appendix D. These tables were processed from entries as reported. An exception is table 2-6, which is based on entries adjusted for misreporting of items under CBERA provisions that are eligible for duty-free NTR treatment.

Product Composition and Leading Items

CBTPA provisions were added to the original CBERA beginning in October 2000, and the implementation of CBTPA caused some shifting of the import product mix, but relatively little shift in the overall pattern of imports. While the introduction of CBTPA resulted in a massive increase in U.S. imports under CBERA during 2000-2002, 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.

Table 2-2 and figure 2-2 show the changes of total U.S. imports from CBERA countries in major product categories (HTS chapters) between 1984, the first year of CBERA, and 2002, in multiyear intervals. The table and figure show the replacement of mineral fuel products by apparel as the dominant category and the importance of mineral fuel products in U.S. imports from CBERA countries in the period 2000-2002. The leading import categories from CBERA countries in 2002 were knit apparel (HTS chapter 61), non-knit apparel (HTS chapter 62), mineral fuels (HTS chapter 27), electrical machinery (HTS chapter 85), edible fruit (HTS chapter 8), and precision instruments (HTS chapter 90). Table 2-3 shows the 20 leading items on an 8-digit HTS basis, ranked by their 2002 import value.

CBTPA provides additional benefits beyond those provided in the original CBERA, especially for apparel. The broad-level effect of these provisions can be analyzed by the change in U.S. total imports from CBERA countries.[9] In the period 2000-2002, total U.S. imports from CBERA countries decreased 4.1 percent, but at the same time, U.S. imports of knit apparel (HTS chapter 61) increased 4.8 percent. Taken together, imports of knit- and non-knit-apparel as a percentage of all imports from CBERA countries increased from 43.3 percent of the total in 2000 to 46.0 percent in 2001 and 44.7 percent in 2002.[10] However, the total value of U.S. imports of apparel in HTS chapters 61 and 62 (which account for most imports of apparel), did not increase from levels preceding the implementation of CBTPA. In fact, total U.S. imports of apparel from CBERA countries decreased from $9.6 billion in 2000 to $9.5 billion in 2002, mainly because knit fabric is less expensive to produce than woven fabric. As U.S. apparel companies shifted the production of knit apparel from Mexico to CBERA countries and woven-fabric apparel from the Caribbean Basin to Asia, the quantity of apparel imported from CBERA countries increased but the total value of imports decreased slightly.

Before October 2000, the three petroleum and nine apparel articles on the 2002 list of leading 8-digit HTS items from CBERA countries (table 2-3) were dutiable at NTR rates. None of these products was eligible for duty-free treatment under the original CBERA program; however, all became eligible for entry free of duty or at reduced rates for

[9] In addition to the change in all imports from CBERA countries, a later section in the chapter will examine the change in imports entering under CBERA provisions.

[10] Textiles and apparel will be discussed in greater detail later in this chapter.

Table 2-2

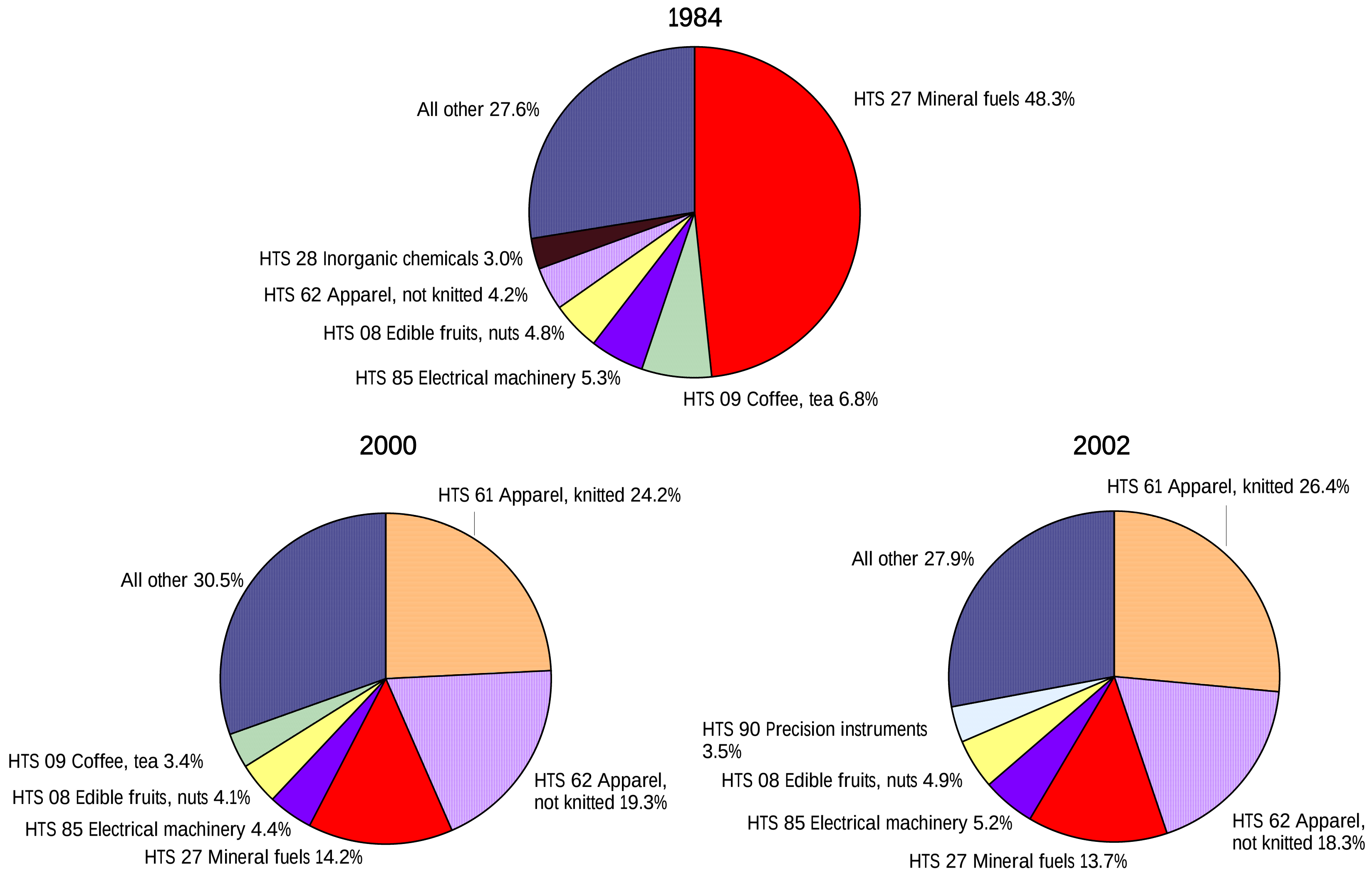
Leading U.S. imports for consumption from CBERA countries, by major product categories, 1984, 1988, 1992, 1996, 2000 and 2002

HTS chapter	Description	1984	1988	1992	1996	2000	2002
		Value *(1,000 dollars)*					
61	Articles of apparel and clothing accessories, knitted or crocheted	99,213	388,642	1,090,669	2,622,271	5,351,980	5,609,953
62	Articles of apparel and clothing accessories, not knitted or crocheted	365,798	1,020,191	2,105,963	3,374,519	4,266,139	3,899,599
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	4,242,235	1,075,310	1,474,451	1,659,041	3,140,624	2,904,256
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	462,050	244,647	312,774	506,458	982,360	1,112,695
08	Edible fruit and nuts; peel of citrus fruit or melons	423,869	544,052	654,267	892,666	909,693	1,041,540
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	11,288	47,869	142,271	366,161	562,277	749,352
03	Fish and crustaceans, molluscs and other aquatic invertebrates	235,131	279,182	319,978	507,734	646,526	594,248
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	238,359	242,161	188,958	325,770	270,916	447,111
09	Coffee, tea, mate and spices	600,635	390,412	384,725	500,636	758,410	410,263
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	260,746	107,195	176,784	390,358	402,459	364,629
	Total of above	6,939,324	4,339,661	6,850,839	11,145,614	17,291,384	17,133,646
	All other	1,842,392	1,722,514	2,574,778	3,399,195	4,869,691	4,121,182
	Total all commodities	8,781,716	6,062,175	9,425,616	14,544,810	22,161,075	21,254,828
		Percent of total					
61	Articles of apparel and clothing accessories, knitted or crocheted	1.13	6.41	11.57	18.03	24.15	26.39
62	Articles of apparel and clothing accessories, not knitted or crocheted	4.17	16.83	22.34	23.20	19.25	18.35
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	48.31	17.74	15.64	11.41	14.17	13.66
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	5.26	4.04	3.32	3.48	4.43	5.24
08	Edible fruit and nuts; peel of citrus fruit or melons	4.83	8.97	6.94	6.14	4.10	4.90
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	0.13	0.79	1.51	2.52	2.54	3.53
03	Fish and crustaceans, molluscs and other aquatic invertebrates	2.68	4.61	3.39	3.49	2.92	2.80
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	2.71	3.99	2.00	2.24	1.22	2.10
09	Coffee, tea, mate and spices	6.84	6.44	4.08	3.44	3.42	1.93
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, of radioactive elements or of isotopes	2.97	1.77	1.88	2.68	1.82	1.72
	Total of above	79.02	71.59	72.68	76.63	78.03	80.61
	All other	20.98	28.41	27.32	23.37	21.97	19.39
	Total all commodities	100.00	100.00	100.00	100.00	100.00	100.00

Note.—Because of rounding, figures may not add to totals shown.

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

Figure 2-2
U.S. imports from CBERA countries, by major product categories, 1984, 2000, and 2002



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

Table 2-3
Leading U.S. imports for consumption from CBERA countries, 2000-02

HTS items	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
		1,000 dollars			Percent		
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	1,212,444	1,294,129	1,360,159	6.7	5.1	12.2
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	1,242,870	1,152,243	1,265,181	-7.3	9.8	1.8
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15 or more by weight of down, etc	1,063,228	1,038,036	1,104,575	-2.4	6.4	3.9
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	0	0	662,630	-	-	-
9018.90.80	Instruments and appliances used in medical, surgical, dental or veterinary sciences, nesi, and parts and accessories thereof	512,102	607,693	658,178	18.7	8.3	28.5
0803.00.20	Bananas, fresh or dried	588,172	659,165	622,440	12.1	-5.6	5.8
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	216,351	338,984	609,840	56.7	79.9	181.9
2711.11.00	Natural gas, liquefied	326,988	485,785	565,947	48.6	16.5	73.1
2710.19.10	Distillate and residual fuel oil (including blends) derived from petroleum oils or oil of bituminous minerals, testing 25 degree A.P.I. or more	0	0	508,920	-	-	-
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	595,107	529,201	496,643	-11.1	-6.2	-16.5
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	376,416	378,035	466,815	0.4	23.5	24
8542.21.80	Electronic monolithic digital integrated circuits, nesi	0	0	439,655	-	-	-
6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70 by wt of silk or silk waste, whether or not knitted or crocheted	333,419	316,308	395,460	-5.1	25	18.6
0901.11.00	Coffee, not roasted, not decaffeinated	701,873	364,349	353,010	-48.1	-3.1	-49.7
2814.10.00	Anhydrous ammonia	331,972	386,071	312,255	16.3	-19.1	-5.9
6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15 wt down etc, cont under 36 wt wool, n/water resist, not k/c	265,247	298,863	311,032	12.7	4.1	17.3
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	307,727	265,234	273,805	-13.8	3.2	-11
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	171,112	204,844	256,151	19.7	25	49.7
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	337,115	315,877	252,170	-6.3	-20.2	-25.2
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	239,401	228,557	244,519	-4.5	7	2.1
	Total of items shown	8,821,545	8,863,375	11,159,386	0.5	25.9	26.5
	Total all commodities	22,161,075	20,678,868	21,254,828	-6.7	2.8	-4.1

Note.—Because of rounding , figures may not add to totals shown. The abbreviation "nesi" stands for "not elsewhere specified or included."

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

eligible countries under CBTPA in the last quarter of 2000. Several goods in table 2-3 were already free of duty on an NTR basis before the period covered, including medical instruments, bananas, natural gas, computer chips, coffee, and anhydrous ammonia.

Imports by Country

U.S. imports from each CBERA country in selected years since the implementation of CBERA are presented in table 2-4. The Dominican Republic remained the top U.S. supplier in 2002, although its share of total U.S. imports from CBERA countries continued to decline. The Dominican Republic accounted for 19.6 percent of all U.S. imports from the region in 2002, which was significantly less than a decade earlier when its share was 25.1 percent. The United States remains the Dominican Republic's dominant export destination. In 2001, 87.1 percent of the country's exports were sold to the United States.[11]

Honduras surpassed Costa Rica for the second-place position, while Guatemala remained fourth. After declining in relative significance as a source U.S. imports, imports from the top four CBERA countries as a share of all U.S. imports from CBERA countries stabilized in 2001 and 2002. The combined share of imports from the four leading Caribbean sources in all U.S. imports from the region dipped from 69.0 percent in 1998 to 68.2 percent in 1999, and fell more steeply to 61.6 percent in 2000. That share stabilized at 62.0 percent in 2001 and 62.9 percent in 2002.

Dutiability

The dutiable portion of U.S. total imports from CBERA countries measured 36.2 percent in 2000 but decreased to 27.0 percent in 2001 and 26.1 percent in 2002 (table 2-5). This declining share mainly reflects the 2000 implementation of CBTPA, which significantly decreased duties collected on U.S. imports of apparel products from CBERA countries.

U.S. tariff revenues derived from imports from CBERA countries, as indicated by "calculated duties," decreased from $915.4 million in 2000 to $577.6 million in 2001 and $496.4 million in 2002. The lower duties on apparel products resulting from CBTPA provisions can be analyzed on an aggregate level by computing an average tariff on apparel goods entering from CBERA countries. Combining HTS chapters 61 and 62, the computed average tariff on U.S. imports from CBERA countries measured 9.2 percent in 2000, 5.8 percent in 2001, and 5.0 percent in 2002.[12]

---

[11] *Economist Intelligence Unit*, "Dominican Republic Economy," found at Internet address *http://eiu.com,* retrieved Aug. 8, 2003.

[12] hese duty rates were calculated by dividing the value of apparel imports from CBERA countries (within HTS chapters 61 and 62) by the total calculated duties on these imports.

Table 2-4
U.S. imports for consumption, by sources, 1984, 1988, 1992, 1996, 2000, and 2002

Source	1984	1988	1992	1996	2000	2002
			Value *(1,000 dollars)*			
Dominican Republic	994,427	1,425,371	2,366,509	3,581,593	4,378,235	4,166,739
Honduras	393,769	439,504	780,638	1,797,025	3,090,922	3,261,983
Costa Rica	468,633	777,797	1,402,042	1,962,915	3,555,153	3,146,218
Guatemala	446,267	436,979	1,072,697	1,694,470	2,603,452	2,784,536
Trinidad and Tobago	1,360,106	701,738	839,788	1,345,360	2,179,039	2,418,657
El Salvador	381,391	282,584	383,245	974,079	1,925,054	1,975,782
Aruba[1]	-	647	189,657	427,328	1,222,018	710,618
Nicaragua	58,064	1,121	68,609	349,299	596,931	677,447
Bahamas	1,154,282	268,328	580,700	162,125	272,794	459,436
Netherlands Antilles	2,024,367	408,100	569,689	647,030	720,950	388,387
Jamaica	396,949	440,934	593,361	827,613	631,452	372,940
Panama	311,627	256,046	218,232	337,861	296,917	295,439
Haiti	377,413	382,466	107,170	143,425	296,713	254,581
Guyana	74,417	50,432	87,064	103,368	126,700	104,435
Belize	42,843	52,049	58,510	67,953	91,073	75,448
St. Kitts-Nevis	23,135	20,822	22,857	22,742	36,808	48,629
Barbados	252,598	51,413	30,528	40,969	38,451	34,380
British Virgin Island	1,335	684	3,235	6,624	30,943	26,529
St. Lucia	7,397	26,044	28,065	22,069	22,208	19,148
St. Vincent & Grenadines	2,958	13,950	4,530	6,782	8,800	16,475
Grenada	766	7,349	7,476	3,577	27,072	7,730
Dominica	86	8,530	4,506	7,680	6,938	5,335
Antigua and Barbuda	7,898	6,893	5,414	8,678	2,286	3,527
Montserrat	989	2,393	1,095	4,243	167	430
Total	8,781,716	6,062,175	9,425,616	14,544,810	22,161,075	21,254,828
			Percent			
Dominican Republic	11.32	23.51	25.11	24.62	19.76	19.60
Honduras	4.48	7.25	8.28	12.36	13.95	15.35
Costa Rica	5.34	12.83	14.87	13.50	16.04	14.80
Guatemala	5.08	7.21	11.38	11.65	11.75	13.10
Trinidad and Tobago	15.49	11.58	8.91	9.25	9.83	11.38
El Salvador	4.34	4.66	4.07	6.70	8.69	9.30
Aruba[1]	-	([2])	2.01	2.94	5.51	3.34
Nicaragua	0.66	0.02	0.73	2.40	2.69	3.19
Bahamas	13.14	4.43	6.16	1.11	1.23	2.16
Netherlands Antilles	23.05	6.73	6.04	4.45	3.25	1.83
Jamaica	4.52	7.27	6.30	5.69	2.85	1.75
Panama	3.55	4.22	2.32	2.32	1.34	1.39
Haiti	4.30	6.31	1.14	0.99	1.34	1.20
Guyana	0.85	0.83	0.92	0.71	0.57	0.49
Belize	0.49	0.86	0.62	0.47	0.41	0.36
St. Kitts-Nevis	0.26	0.34	0.24	0.16	0.17	0.23
Barbados	2.88	0.85	0.32	0.28	0.17	0.16
British Virgin Islands	0.02	0.01	0.03	0.05	0.14	0.12
St. Lucia	0.08	0.43	0.30	0.15	0.10	0.09
St. Vincent & Grenadines	0.03	0.23	0.05	0.05	0.04	0.08
Grenada	0.01	0.12	0.08	0.02	0.12	0.04
Dominica	([2])	0.14	0.05	0.05	0.03	0.03
Antigua Barbuda	0.09	0.11	0.06	0.06	0.01	0.02
Montserrat Island	0.01	0.04	0.01	0.03	([2])	([2])
Total	100.00	100.00	100.00	100.00	100.00	100.00

[1] Aruba was designated a beneficiary country effective Jan. 1, 1986.

[2] Less than 0.005.

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

Table 2-5
U.S. imports for consumption from CBERA countries: Dutiable value, calculated duties, and average duty, 1984, 1988, 1992, 1996, and 2000-02

Item	1984	1988	1992	1996	2000	2001	2002
Dutiable value *(1,000 dollars)*[1] . . .	4,567,416	1,975,850	3,269,148	4,568,359	8,022,472	5,589,630	5,555,955
Dutiable as a share of total imports *(percent)*	52.8	32.6	34.7	31.4	36.2	27.0	26.1
Calculated duties *(1,000 dollars)*[1]	75,293	157,605	322,434	530,118	915,368	577,598	496,376
Average duty (percent)[2]	1.6	8.0	9.9	11.6	11.4	10.3	8.9

[1] Dutiable value and calculated duty exclude the U.S. content entering under HTS heading 9802.00.80 and heading 9802.00.60 and misreported imports. Data based on product eligibility corresponding to each year.

[2] Average duty = (calculated duty/dutiable value) * 100.

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

Duty-Free Imports

Duty-free imports entered in 2002 under one of the following provisions: (1) unconditionally free under NTR duties; (2) conditionally free under GSP; (3) conditionally free under the production sharing provisions of HTS heading 9802.00.80; (4) conditionally free under CBERA;[13] or (5) free of duty under other provisions. Table 2-6 shows the breakdown of dutiable imports and duty-free imports. In this table, data have been adjusted for entries made by the importer under inappropriate U.S. duty provisions. Therefore, some data in table 2-6 may conflict with their counterparts in tables 2-7, 2-8, and 2-14, which are unadjusted, i.e., based on entries as reported.

The share of imports entering under the original CBERA (both the reduced-duty and duty-free portions) increased during 2000-2002. Duty-free imports entering under the original CBERA as a share of total imports from CBERA countries increased from 11.7 percent in 2000 to 12.7 percent in 2001 and 13.3 percent in 2002. With CBTPA imports included, the share of total imports entering free of duty under CBERA measured 12.4 percent in 2000, 37.6 percent in 2001, and 41.9 percent in 2002.

In the same period, the share of imports under production sharing provisions (both the dutiable and duty-free portion) declined. The returning duty-free content (U.S. value) accounted for 21.0 percent in 2000, 6.7 percent in 2001, and 3.5 percent in 2002. These changes reflect the effects of provisions of CBTPA allowing for duty-free entry of apparel assembled from U.S. made and cut fabric, or apparel cut and assembled from U.S. fabric made with U.S. yarn. The portion of imports from CBERA countries entering unconditionally free of duty remained relatively stable from 2000 to 2002, measuring 30.1 percent in 2000, 27.3 percent in 2001, and 27.5 percent in 2002.

[13] Including CBTPA.

Table 2-6
U.S. imports for consumption from CBERA countries, by duty treatment, 1984, 1992, 2000, 2001, and 2002

Item	1984	1992	2000	2001	2002
	Value (1,000 dollars, customs value)				
Total imports	[1]8,649,235	9,425,616	22,057,117	20,605,872	21,184,912
Dutiable value[2]	4,567,416	3,269,148	7,789,235	5,589,630	5,555,937
Production sharing[3]	([4])	863,225	2,810,910	1,395,432	992,164
CBERA reduced duty[5]	([5])	29,418	54,511	83,305	109,410
CBTPA reduced duty[10]	([10])	([10])	([10])	453,314	1,016,931
Other dutiable	4,567,416	2,376,505	4,912,155	3,657,579	3,437,431
Duty-free value[6]	4,081,819	6,156,467	14,279,541	15,016,242	15,628,975
NTR[7]	2,170,537	2,097,079	6,640,928	5,621,251	5,822,878
Production sharing[8]	587,560	1,777,260	4,633,704	1,373,895	749,245
CBERA[9]	575,994	1,498,556	2,578,707	2,622,559	2,808,986
CBTPA[10]	([10])	([10])	157,004	5,139,556	6,061,079
GSP[11]	592,249	340,666	202,062	178,855	93,074
Other duty free[12]	155,479	442,904	67,137	80,126	93,714
	Percent of total				
Total imports	100.0	100.0	100.0	100.0	100.0
Dutiable value[2]	52.8	34.7	35.3	27.1	26.2
Production sharing[3]	(4)	9.2	12.7	6.8	4.7
CBERA reduced duty[5]	(5)	0.3	0.2	0.4	0.5
CBTPA reduced duty[10]	([10])	([10])	([10])	2.2	4.8
Other dutiable	52.8	25.2	22.3	17.8	16.2
Duty-free value[6]	47.2	65.3	64.7	72.9	73.8
NTR[7]	25.1	22.2	30.1	27.3	27.5
Production sharing[8]	6.8	18.9	21.0	6.7	3.5
CBERA[9]	6.7	15.9	38.8	12.7	13.3
CBTPA[10]	([10])	([10])	0.7	24.9	28.6
GSP[11]	6.8	3.6	0.9	0.9	0.4
Other duty free[12]	1.8	4.7	0.3	0.4	0.4

[1] Nicaragua and Guyana, currently covered by CBERA, were not beneficiaries and therefore were excluded from the data for 1984.

[2] Dutiable value excludes the U.S. content entering under HTS heading 9802.00.80 and heading 9802.00.60, and misreported imports.

[3] Value of Caribbean Basin-origin value added, under HTS heading 9802.00.80 and heading 9802.00.60, excluding items entered under CBERA, CBTPA or GSP provisions.

[4] Not available, included in "Other dutiable."

[5] Presidential Proclamation 6428 of May 1, 1992 first implemented reduced duties for certain products of beneficiary countries under CBERA.

[6] Calculated as total imports less dutiable value.

[7] Value of imports which have a col. 1-general duty rate of free.

[8] Value of nondutiable exported and returned U.S.-origin products or components, under HTS heading 9802.00.80 and heading 9802.00.60, excluding items entered under CBERA or GSP provisions.

[9] Reduced by the value of unconditionally duty-free imports and ineligible items that were misreported as entering under the CBERA program and the value of reduced-duty items (handbags, luggage, flat goods, work gloves, and leather wearing apparel) reported separately above as dutiable.

[10] CBTPA— Presidential Proclamation 7351. Program first implemented October 2, 2000.

[11] Reduced by the value of unconditionally duty-free imports and ineligible items that were misreported as entering under the GSP program.

[12] Calculated as a remainder, and represents imports entering free of duty under column 1-special.

Note.—This is the only table in this chapter with adjusted data. The adjusted data differ from their counterparts in the other tables, which contain data based on unadjusted, reported entries. Virgin Islands data have been excluded from this table.

Note.—Because of rounding, figures may not add to the totals shown.

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

In 2000, U.S. imports under CBERA measured $2.8 billion, but sharply increased to $10.0 billion in 2002. This increase represents a 258.0 percent increase over two years, including a 197.2 percent increase in 2001 and 20.5 percent increase in 2002. Almost all of this increase is due to the introduction of CBTPA preferences, which give increased market access to imports of articles that were previously excluded (tables 2-7 and 2-8 and figure 2-3). Trade under CBERA has shifted in composition and volume due to several CBTPA provisions.

Product Composition and Leading Items

Under CBTPA apparel has become, overwhelmingly, the major category of imports benefiting from CBERA, and petroleum has become the second largest. While the total value of knit and non-knit apparel imported from CBERA countries decreased 1.1 percent during 2000-2002, the portion of apparel imports entering under CBERA significantly increased. Knit and non-knit apparel, which collectively accounted for only 8.3 percent of total imports under CBERA in 2000, increased to 61.0 percent of the total in 2002.

Other significant import categories included mineral fuels (HTS chapter 27), edible nuts and fruits (HTS chapter 8), electrical machinery (HTS chapter 85), and organic chemicals (HTS chapter 29). Leading HTS chapters in U.S. imports under CBERA in 2000-2002 will be discussed below, in conjunction with the top tariff items classified under each chapter.

Knit and non-knit apparel became the two leading U.S. import categories under CBERA in 2001. Imports under CBERA of knit apparel (HTS chapter 61) increased more than 35 times in the 1-year period 2000-2001 (from $0.8 billion in 2000 to $2.9 billion in 2001) and increased another 17.9 percent in 2002 (to $3.5 billion). Similarly, imports of non-knit apparel under CBERA (HTS chapter 62) increased almost 14 times between 2000 and 2001, from less than $0.2 billion in 2000 to $2.3 billion in 2001. Imports of non-knit apparel increased an additional 17.0 percent in 2002 to $2.6 billion.

The large increases in imports under CBERA during 2000-2001 reflect the implementation of new CBTPA provisions on apparel. The smaller increases during 2001-2002 reflect the growing use of the provisions by CBERA countries. However, the large increase in apparel imports under CBERA have been offset by a decrease in apparel imports from CBERA countries at NTR duty rates. As a result, the total of apparel imports from CBERA countries (both under CBERA and not under CBERA) actually decreased in the period 2000-2002. Much of this decrease, however, can be attributed to a slow U.S. economy.

Table 2-7
Leading U.S. imports for consumption under CBERA, by major product categories, 1984, 1988, 1992, 1996, 2000, and 2002

HTS chapter	Description	1984	1988	1992	1996	2000	2002
		Value *(1,000 dollars)*					
61	Articles of apparel and clothing accessories, knitted or crocheted	1	149	3,546	4,064	81,021	3,461,319
62	Articles of apparel and clothing accessories, not knitted or crocheted	895	767	13,568	44,375	150,932	2,639,772
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0	0	0	0	0	996,610
8	Edible fruit and nuts; peel of citrus fruit or melons	15,183	74,935	113,539	172,981	300,942	396,224
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	98,042	112,708	173,879	358,242	343,536	307,333
24	Tobacco and manufactured tobacco substitutes	74,488	43,823	84,490	184,486	268,435	274,889
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	2,978	31,901	75,632	186,378	171,056	240,663
29	Organic chemicals	37	39,453	94,699	84,107	246,629	221,314
17	Sugars and sugar confectionery	209,456	120,920	213,325	364,760	189,189	211,657
39	Plastics and articles thereof	243	7,968	22,176	73,354	123,435	161,514
	Total of above	401,323	432,624	794,854	1,472,747	1,875,174	8,911,295
	All other	176,381	414,618	733,835	1,318,308	917,379	1,085,111
	Total all commodities	577,704	847,242	1,528,690	2,791,055	2,792,553	9,996,406
		Percent of total					
61	Articles of apparel and clothing accessories, knitted or crocheted	([1])	0.02	0.23	0.15	2.90	34.63
62	Articles of apparel and clothing accessories, not knitted or crocheted	0.16	0.09	0.89	1.59	5.40	26.41
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	0	0	0	0	0	9.97
8	Edible fruit and nuts; peel of citrus fruit or melons	2.63	8.84	7.43	6.20	10.78	3.96
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	16.97	13.30	11.37	12.84	12.30	3.07
24	Tobacco and manufactured tobacco substitutes	12.89	5.17	5.53	6.61	9.61	2.75
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	0.52	3.65	4.95	6.68	6.13	2.41
29	Organic chemicals	0.01	4.66	6.19	3.01	8.83	2.21
17	Sugars and sugar confectionery	36.26	14.27	13.95	13.07	6.77	2.12
39	Plastics and articles thereof	0.04	0.94	1.45	2.63	4.42	1.62
	Total of above	69.47	50.94	52.00	52.77	67.15	89.14
	All other	30.53	49.06	48.00	47.23	32.85	10.86
	Total all commodities	100.00	100.00	100.00	100.00	100.00	100.00

[1] Less than 0.005.

Note.—Because of rounding, figures may not add to totals shown. Data based on current definition of CBERA-eligible countries.

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

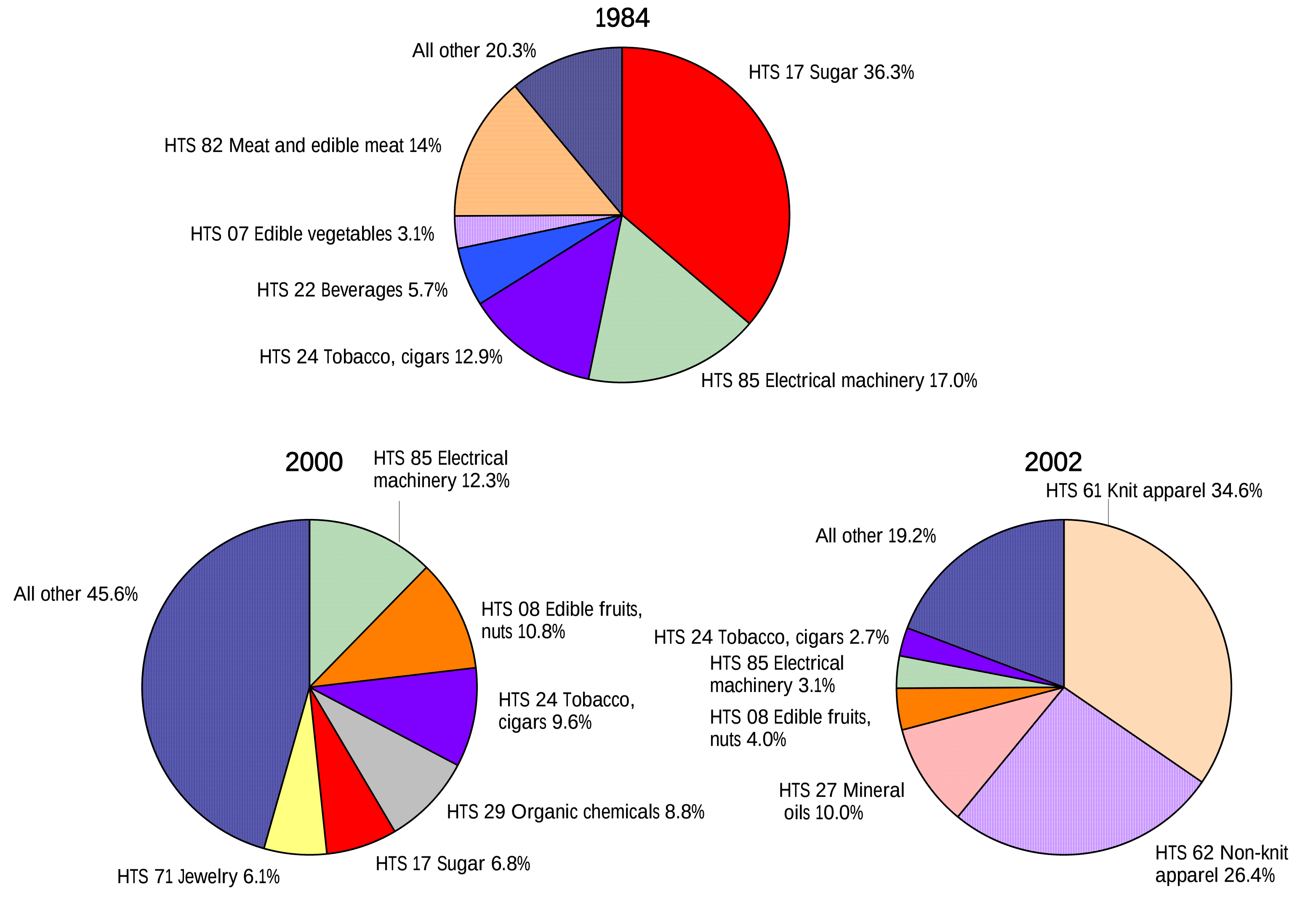
Table 2-8
Leading U.S. imports for consumption under CBERA, 2000-02

HTS item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002	Leading CBERA source
		1,000 dollars			Percent			
6109.10.00	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	26,813	931,920	1,093,055	3,375.6	17.3	3,976.6	Honduras
6203.42.40	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15 percent or more down	34,445	759,714	863,751	2,105.6	13.7	2,407.6	Dominican Republic
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	0	263,518	609,776	-	131.4	-	Trinidad & Tobago
6110.20.20	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of cotton, nesi	10,873	376,228	485,435	3,360.2	29.0	4,364.6	Guatemala
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	8,482	305,308	438,609	3,499.5	43.7	5,071.1	Dominican Republic
6212.10.90	Brassieres, not containing lace, net, or embroidery, not 70 percent or more silk, whether or not knitted or crocheted	6,603	221,991	385,518	3,262.0	73.7	5,738.5	Honduras
6204.62.40	Women's or girls' trousers, breeches, and shorts, not knitted or crocheted, of cotton, nesi.	12,261	283,586	290,408	2,213.0	2.4	2,268.6	Dominican Republic
6203.43.40	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of synthetic fibers, nesi.	9,462	249,310	289,466	2,534.9	16.1	2,959.2	Dominican Republic
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	3,436	195,541	261,127	5,591.0	33.5	7,499.7	Costa Rica
2402.10.80	Cigars, cheroots and cigarillos, each valued 23 cents or over	223,464	211,637	228,526	-5.3	8.0	2.3	Dominican Republic
7113.19.50	Articles of jewelry and parts thereof, of precious metal except silver, except necklaces and clasps	159,702	185,193	227,516	16.0	22.9	42.5	Dominican Republic
2905.11.20	Methanol (methyl alcohol), nesi.	222,229	281,988	219,876	26.9	-22.0	-1.1	Trinidad & Tobago
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	0	0	215,416	-	-	-	Trinidad & Tobago
6109.90.10	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of man-made fibers	7,595	209,080	173,750	2,652.9	-16.9	2,187.7	Honduras
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	113,822	133,608	168,287	17.4	26.0	47.9	Costa Rica
1701.11.10	Raw sugar not containing added flavoring or coloring	134,009	117,133	148,769	-12.6	27.0	11.0	Dominican Republic
6110.30.30	Sweaters, pullovers, sweatshirts, waistcoats, and similar articles, knitted or crocheted, of man-made fibers, nesi	2,430	111,888	138,743	4,504.4	24.0	5,609.6	Honduras
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	4,040	149,340	132,954	3,596.5	-11.0	3,190.9	Honduras
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	75,180	130,900	-	74.1	-	Guatemala
0807.19.20	Cantaloupes, fresh, not entered Aug. 1-Sept. 15	97,547	114,444	122,203	17.3	6.8	25.3	Guatemala
	Total of above	1,077,213	5,176,606	6,624,085	380.6	28.0	514.9	
	All other	1,715,340	3,122,551	3,375,377	82.0	8.1	96.8	
	Total	2,792,553	8,299,157	9,996,406	197.2	20.5	258.0	

Note.—Because of rounding, figures may not add to totals shown. The abbreviation nesi stands for "not elsewhere specified or included."

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

Figure 2-3
U.S. imports under CBERA, by major product categories, 1984, 2000, and 2002



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

Among knit apparel products, the largest U.S. import items under CBERA were knit cotton t-shirts (HTS provision 6109.10.00), knit cotton tops (HTS provision 6110.20.20), mens's or boys' knit cotton underpants (HTS provision 6107.11.00), women's or girls' knit cotton panties (HTS provision 6108.21.00), knit manmade fiber shirts (HTS provision 6109.90.10), knit manmade fiber tops (HTS provision 6110.30.30), and men's or boys' knit cotton shirts (HTS provision 6105.10.00). These 7 import items accounted for 78.7 percent of chapter 61 imports under CBERA in 2002.

Among non-knit apparel products, the largest U.S. imports under CBERA were men's or boys' woven cotton trousers and shorts (HTS provision 6203.42.40), brassieres (HTS provision 6212.10.90), women's or girls' woven cotton trousers (HTS provision 6204.62.40), and mens' or boys' woven manmade fiber trousers and shorts (HTS provision 6203.43.40). These 4 import items accounted for 69.3 percent of chapter 62 imports under CBERA in 2002.

Section 211 of the CBTPA legislation extended NAFTA-equivalent treatment to certain "import sensitive articles," including imports of certain mineral fuels (HTS provisions 2709 and 2710).[14] Imports of mineral fuels (HTS chapter 27) ranked as the third largest U.S. import under CBERA in 2002. While no mineral fuels entered under CBERA in 2000, by 2002, imports measured $996.6 million, with imports increasing 128.4 percent during 2001-2002. Imports of crude oil (HTS provision 2709) under CBERA measured zero in 2000, but increased to $338.7 million in 2001 and $740.7 million in 2002. Imports of petroleum products (HTS provision 2710) under CBERA also measured zero in 2000, but increased to $97.7 million in 2001 and $255.9 million in 2002.[15] Three chapter 27 import items (heavy crude oil, HTS provision 2709.00.20; light fuel oil, HTS provision 2710.19.05; and light crude oil, HTS provision 2709.00.10) accounted for 95.9 percent of chapter 27 imports under CBERA in 2002.

Edible fruits and nuts (HTS chapter 8) ranked as the fourth leading U.S. import category under CBERA in 2002. Fresh pineapples (HTS provision 0804.30.40) and seasonal cantaloupes (HTS provision 0807.19.20) were leading imports accounting for 74.7 percent of chapter 8 imports under CBERA in 2002. Imports of fresh pineapples increased 47.9 percent in the period 2000-2002, including a 17.4 percent increase in 2001 and a 26.0 percent increase in 2002. Imports of seasonal cantaloupes increased 25.3 percent during 2000-2002, including a 17.3 percent increase in 2001 and a 6.8 percent increase in 2002. Almost all U.S. imports of pineapples (92.8 percent in 2002) come from CBERA countries. Costa Rica, which produces the so-called gold pineapple, a popular yellow variety, supplied more than 89.3 percent of U.S. imports of pineapples from all countries of the world in 2002.

---

[14] A more complete discussion of CBTPA legislation is available in chapter 1. Also see U.S. Department of Commerce, Market Access and Compliance Division, "Frequently Asked Questions on CBI," found at Internet address: *www.mac.doc.gov/CBI*, retrieved July 31, 2003.

[15] This chapter reports imports by 2-digit and 8-digit HTS classification in most sections. However, because the CBTPA legislation specifies crude oils and fuels under 4-digit specification, trade data for these provisions is included here.

Electrical machinery (HTS chapter 85) ranked as the fifth leading U.S. import category under CBERA in 2002. The value of electrical machinery imports decreased 10.5 percent over the 2-year period 2000-2002. The value of these imports decreased by 29.8 percent between 1998 and 2000, mainly because several products classified in this group became unconditionally free of duty on an NTR basis during 2000. The list of leading imports under CBERA included five items in the electrical category in 1998, three items in 2000, and none in 2002.

Tobacco and manufactured tobacco (HTS chapter 24) was the sixth-leading import category under CBERA in 2002, when ranked at the 2-digit HTS level. U.S. imports of tobacco products under CBERA increased 2.4 percent in the period 2000-2002, while the share of these imports under CBERA as a share of U.S. tobacco imports from the world decreased from 24.4 percent in 1999 to 22.3 percent in 2001 and 22.1 percent in 2002. The largest CBERA suppliers of tobacco products in 2002 included the Dominican Republic (15.3 percent of U.S. imports from the world), Honduras (3.6 percent), and Nicaragua (1.7 percent). Higher priced cigars (HTS provision 2402.10.80) have traditionally been one of the largest U.S. import items entering under CBERA. While imports remain strong, cigars are no longer the top import item. Imports of higher priced cigars under CBERA remained relatively constant, with a 2.3 percent increase over the period 2000-2002. Higher priced cigars accounted for 83.1 percent of chapter 24 imports under CBERA in 2002.

Jewelry (HTS chapter 71) ranked as the seventh largest U.S. import category under CBERA in 2002, when examined at the HTS chapter level.[16] While U.S. imports of this jewelry under CBERA account for only 0.9 percent of U.S. imports of jewelry from the world, imports from CBERA countries increased 40.7 percent during the period 2000-2002. The Dominican Republic, Guatemala, and Costa Rica accounted for 98.7 percent of jewelry imports under CBERA in 2002. During 2000-2002, total U.S. imports of this jewelry from the world decreased 11.3 percent. The majority of imports under chapter 71 were those of precious metal jewelry (HTS provision 7113.19.50). Imports of precious metal jewelry under CBERA increased 42.5 percent during the period 2000-2002 to $227.5 million, including a 16.0 percent increase in 2001 and another 22.9 percent increase in 2002. Precious metal jewelry accounted for 94.5 percent of chapter 71 imports under CBERA in 2002.

Organic chemicals (HTS chapter 29) ranked as the eighth largest import category under CBERA in 2002. U.S. imports of organic chemicals under CBERA represented 0.6 percent of all U.S. imports of organic chemicals from the world in 2002. In the period 2000-2002, U.S. imports under CBERA decreased 10.3 percent, while total U.S. imports from the world increased 2.7 percent. Methanol (HTS provision 2905.11.20) from Trinidad and Tobago, the sole CBERA-country supplier of methanol, accounted for 99.4 percent of chapter 29 imports under CBERA in 2002. Imports of methanol under CBERA increased 26.9 percent in 2001 but decreased 22.0 percent the following year, leaving a 2-year decrease of 1.1 percent during 2000-2002.

[16] The full description of HTS chapter 71 is "Natural or cultured pearls, precious or semiprecious stones, precious metals, metals clad with precious metals, and articles thereof; imitation jewelry, coin."

Textiles and Apparel

This section summarizes major developments that occurred during 2002 in U.S. textile and apparel trade with CBERA countries. This trade historically involved production sharing, whereby U.S. firms sent cut garment parts to the region for assembly and reimported the finished garments under HTS heading 9802.00.80. The pattern of such trade has begun to change since implementation of CBTPA in October 2000. Before October 2000, for imports of most apparel articles made in CBERA countries to qualify for both reduced duties under HTS heading 9802.00.80 and preferential quotas under the special access program, the fabrics used in the production of the garments had to be made and cut into garment parts in the United States. Following implementation of the CBTPA, uncut U.S. fabrics may now be shipped to CBERA countries for both cutting and assembly. As such, uncut fabrics are replacing cut garment parts in trade with CBERA countries.

Trade Developments

Two-way trade between the United States and CBERA countries in the textile and apparel sector declined 4 percent to $13.9 billion between 2001 and 2002. However, the textile and apparel sector was the largest source of bilateral trade, with 33 percent of the total value of two-way trade in 2002. U.S. imports of textiles and apparel[17] from the CBERA countries rose 15 percent during 1998-2002 (see table 2-9), led by Honduras, the Dominican Republic, El Salvador, and Guatemala. During this period, the CBERA countries' share of U.S. sector imports remained unchanged at 13 percent. U.S. apparel imports from CBERA countries continued to be concentrated in high-volume commodity garments that have reasonably predictable consumer demand, such as basic tops, pants, undergarments, and nightwear. The production of these garments involves large and standardized runs, low-skilled operations, and few styling changes.

The pattern of U.S.-CBERA trade in sector goods has changed significantly since the implementation of the CBTPA. As mentioned above, in past years, a major share of U.S. sector imports from these countries entered under the production-sharing provision of HTS heading 9802.00.80.[18] In 2002, however, only 15 percent of U.S. sector imports from the CBERA countries entered at reduced duties under that HTS heading. The majority of U.S. sector imports, 63 percent, entered free of duty under the CBTPA (table 2-10), including entries under HTS 9820 (36 percent) and provision 9802.00.8044 (27 percent).

U.S. imports of sector goods from CBERA countries in 2002 remained relatively unchanged from the 2001 level at $9.7 billion, and accounted for 45 percent of total U.S. imports from the CBERA region. The lack of growth in total U.S. imports of sector

[17] Apparel accounted for almost all (99 percent) of total sector imports from the CBERA region by value in 2002.

Table 2-9
U.S. imports of textiles and apparel from CBERA countries, 1998-2002

(1,000 dollars)

Country	1998	1999	2000	2001	2002
Honduras	1,907,748	2,202,519	2,421,702	2,442,361	2,508,461
Dominican Republic	2,349,750	2,339,605	2,417,722	2,280,724	2,198,572
El Salvador	1,200,664	1,360,416	1,631,937	1,666,118	1,707,095
Guatemala	1,150,091	1,246,387	1,497,260	1,628,206	1,673,113
Costa Rica	837,551	839,318	840,678	779,712	732.653
Nicaragua	232,286	277,698	338,241	380,733	433,400
Haiti	228,805	261,218	261,690	234,292	223,271
Jamaica	421,619	344,027	267,646	187,717	124,181
Other	59,667	57,584	50,932	43,137	36,851
Total	8,388,179	8,928,771	9,727,807	9,642,999	9,637,597

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

Table 2-10
Textiles and apparel: U.S. general imports from CBERA countries, 2002

(Million dollars)

	Duty-free under the CBTPA Assembled from–					
Country	U.S. fabrics	Regional knit fabrics	Total[1]	Under HTS heading 9802.00.80[2]	At NTR duty rates	Grand total
Costa Rica	466.8	3.4	473.1	205.4	51.3	729.8
Dominican Republic	1,710.7	38.9	1,761.6	272.7	139.0	2,173.3
El Salvador	901.5	136.0	1,052.7	368.9	287.8	1,709.4
Guatemala	432.9	111.5	551.6	261.5	856.6	1,669.7
Haiti	157.7	2.2	160.0	30.7	26.1	216.7
Honduras	1,546.8	225.1	1,773.6	310.3	359.7	2,443.6
Jamaica	109.9	0.0	109.9	5.5	9.2	124.6
Nicaragua	127.6	0.1	127.7	11.2	294.1	433.1
Other	20.7	0.0	20.7	8.2	9.8	38.8
Total	5,474.6	517.2	6,030.9	1,473.7	2,033.6	9,538.2

[1] Also includes imports of apparel made in CBERA countries from yarns or fabrics that are not produced in the United States in commercial quantities. Imports of such apparel from CBERA countries enter free of duty under the CBTPA.

[2] Under heading 9802.00.80 of the Harmonized Tariff Schedule of the United States, U.S. importers receive a partial duty exemption for articles assembled abroad in whole or in part of U.S. components. In general, the duty is assessed only on the value added abroad (mainly the cost of sewing the garment parts together). The fabric for making the garment parts can be of either U.S. or foreign origin as long as the fabric is cut to shape in the United States, exported ready for assembly, and not advanced in value abroad except by assembly and incidental operations.

Note.—Because of rounding, figures may not add to totals shown (except as noted in footnote 1).

Source: Compiled from official statistics of the U.S. Department of Commerce, found at *http://otexa.ita.doc.gov*.

goods from the CBERA countries in 2002 can likely be attributed to the continued slow growth of the U.S. economy as well as increased competition from China, which became eligible for benefits under the Agreement on Textiles and Clothing, such as the elimination of certain quotas and the expansion of other quotas, upon its accession to the WTO on December 11, 2001. U.S. sector imports entering under the CBTPA rose 18 percent from $5.1 billion in 2001 to $6.0 billion in 2002 (see table 2-11), and the CBTPA share of total U.S. sector imports from CBERA countries rose 10 percentage points from 53 percent to 63 percent. Without the trade preferences provided by the CBTPA, it is likely that U.S. sector imports from the CBERA countries would have decreased rather than remained stable.

Table 2-11
U.S. imports of textiles and apparel under CBTPA,[1] 2001 and 2002

(1,000 dollars)

Country	2001	2002
Dominican Republic	1,532,232	1,758,510
El Salvador	935,311	1,052,755
Guatemala	422,865	552,478
Costa Rica	409,301	475,067
Haiti	143,755	159,941
Nicaragua	81,063	127,742
Jamaica	110,470	109,638
Belize	10,418	12,093
Other	7,658	8,303
Total	5,113,075	6,027,877

[1] CBTPA trade includes imports entering under the newly created HTS provisions 9802.00.8044 and 9802.00.8046.

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

U.S. exports of sector goods to CBERA countries fell 9 percent during 1998-2002 to $4.2 billion (table 2-12) and accounted for 21 percent of total U.S. exports to the region. While exports of sector goods have fallen slightly, the composition has changed markedly in response to provisions in CBTPA allowing apparel assembly from U.S. fabric cut in the region. In 2000, apparel exports (mostly cut garment parts) were 80.5 percent of sector exports at $4.1 billion (table 2-13).

[18] Before CBTPA, most apparel production-sharing operations (in which U.S. firms would ship garment parts to the region for sewing and re-import the assembled apparel articles) involved the use of HTS heading 9802.00.80. This heading provides a duty exemption for U.S. components that are returned to the United States as parts of goods assembled abroad. In general, duty is assessed only on the value added abroad (essentially the cost of sewing the garment parts together). The U.S. component can be made of either U.S. or foreign fabric as long as the fabric is cut to shape in the United States and exported ready for assembly. In addition to this program, the United States also has had a "special access program" that allowed certain garments assembled in participating CBERA countries from fabrics wholly formed and cut in the United States to enter under preferential quotas know as guaranteed access levels (GALs). GALs are in place for Costa Rica, Dominican Republic, El Salvador, Guatemala, and Jamaica.

Table 2-12
U.S. exports of textiles and apparel to CBERA countries, 1998-2002

(1,000 dollars)

Country	1998	1999	2000	2001	2002
Honduras	1,209,182	1,277,401	1,470,127	1,400,812	1,280,860
Dominican Republic	1,320,705	1,241,934	1,388,778	1,284,566	1,213,424
El Salvador	638,710	570,611	823,792	804,929	584,913
Costa Rica	536,187	505,019	562,311	476,004	399,573
Guatemala	394,318	270,560	337,926	359,328	357,353
Haiti	129,987	142,537	177,749	154,986	160,124
Jamaica	280,545	224,997	192,036	133,024	90,086
Nicaragua	43,974	48,763	60,620	59,519	74,652
Other	131,980	113,181	109,534	96,339	84,243
Total	4,685,587	4,345,003	5,122,873	4,769,508	4,245,227

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

Table 2-13
U.S. textile and apparel sector exports to CBERA beneficiary countries, 2000-02

	2000	2001	2002
		1,000 dollars	
Apparel	4,127,377	3,051,810	2,418,176
Textiles	997,476	1,730,879	2,343,132
Total sector	5,124,853	4,782,689	4,761,308
		Percent of sector total	
Apparel	80.5	63.8	50.8
Textiles	19.5	36.2	49.2

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

In 2002, apparel exports were 50.8 percent of sector exports at $2.4 billion. U.S. exports of certain woven cotton fabrics (HTS heading 5208), became the second leading U.S. sector export in 2002, having tripled from $94 million in 2000 to $398 million in 2002. Since the implementation of the CBTPA in 2000, U.S. firms have been shipping to the CBERA countries greater quantities of uncut fabric, which is then cut and assembled into finished garments eligible for preferential treatment. Under the CBTPA, preferential treatment for imports of textiles and apparel is contingent on the use of fabrics that are formed in the United States of U.S. yarns and exported to the CBERA countries.

Recent Developments in the textile and apparel sectors of CBERA countries

To take maximum advantage of the trade preferences granted by the CBTPA and expanded by the Trade Act of 2002, textile and apparel sector representatives in CBERA countries have recognized the importance of increasing their manufacturing capacity and offering "full package" services to U.S. apparel companies and retailers in order to compete with Asian suppliers that have provided these programs for years.[19] The following discussion highlights key developments and strategies being implemented by the textile and apparel sectors in many CBERA countries.

As a result of the CBTPA provisions that grant duty-free and quota-free access to the U.S. market for specified quantities of garments made in CBERA countries from "regional knit fabrics," investors in Honduras, for example, have established or are expanding knitting operations to make outerwear t-shirts, underwear, and other knitwear for export to the United States. A few Honduran firms offer full package knitwear programs in which the firms knit, dye, and finish the fabrics, cut and sew the fabrics, and package the finished garments for sale at retail. In addition, companies based in Canada, Korea, and Taiwan have built textile mills in Honduras, enhancing efforts by apparel producers in Honduras to become full package suppliers.

Rising labor costs in many of the CBERA countries have prompted their apparel sectors to expand from basic apparel assembly operations to providing more comprehensive manufacturing services. In the foreign trade zones (FTZs) in the Dominican Republic, certain apparel companies are now involved in design, automated cutting of fabric, embroidery, knitting, dyeing, finishing, and laundering of the product and the production of all types of supplies, from packing boxes to labels or sewing thread.[20] In Guatemala, the apparel industry has been shifting production from price-sensitive, commodity garments such as t-shirts and underwear, to higher value-added garments in order to take advantage of their workers' sewing expertise.[21] Guatemala has the advantage of already having a relatively developed textile industry that produces cotton and manmade-fiber yarns and sewing thread, as well as cotton, cotton-blend, and manmade-fiber knit and woven fabrics.[22]

[19] Full- package programs in the CBERA region typically refer to services ranging from procurement of materials to cutting and sewing, and to finishing and packaging of the final products. In many Asian countries, an established infrastructure exists to provide full package imports to U.S. buyers, including product development, fabric sourcing and cutting, garment sewing, packaging, quality control, trade financing, and logistics arrangements. However, in some CBERA countries, such as Guatemala, full-package development has also led to the use of price-competitive, third-country fabrics that do not qualify for duty-free entry under CBTPA.

[20] National Council of Export Free Zones and the Association of Free Zones of the Dominican Republic, written submission to the Commission, Jan. 22, 2003, p. 2.

[21] U.S. Department of State telegram 1151, "Guatemala's Textile Industry Without Quotas," prepared by U.S. Embassy, Guatemala City, Apr. 30, 2002.

[22] U.S. Department of State telegram 1151, "Guatemala's Textile Industry Without Quotas," prepared by U.S. Embassy, Guatemala City, Apr. 30, 2002.

Guatemala's development of its full-package capabilities differs, however, from that of its CBERA neighbors. Although much of the growth of Guatemala's apparel industry historically has been attributed to the production-sharing programs of U.S. apparel companies,[23] Korean-based investors have accounted for a significant share of foreign direct investment in Guatemala's textile and apparel sector in recent years. Many of the Korean (as well as some Guatemalan) investors are using mostly less expensive Asian yarns and fabrics, and they pay duties on goods sent to the United States.[24] Furthermore, when the Trade Act of 2002 amended the CBTPA to require that the dyeing, printing, and finishing of U.S. knit or woven fabrics used in apparel from CBERA countries be performed in the United States in order for the garments to qualify for CBTPA duty-free treatment, Guatemala's textile and apparel sector reportedly began switching to less expensive Asian yarns and fabric and foregoing CBTPA tariff preferences.[25] Like Guatemala, Nicaragua's textile and apparel sector has also attracted investment by Korean firms as well as Taiwanese firms. Taiwanese firms have invested in both garment factories and, most recently, in integrated textile plants that produce both denim and jeans.[26]

Footwear and Footwear Parts

The CBTPA granted NAFTA-equivalent tariff treatment to footwear and certain other articles that are ineligible for duty-free treatment under the original CBERA. Under the CBTPA, imports of CBERA footwear meeting NAFTA rules of origin are eligible to enter the United States on the same NAFTA terms as goods from Mexico.[27] Under NAFTA, most U.S. tariffs on footwear are being phased out over either 10 or 15 years or by 2003 or 2008, respectively. U.S. imports of footwear, except zoris (thonged sandals), disposable footwear, and most footwear uppers and parts, were not eligible for duty-free treatment under the 1983 CBERA. However, they have been able to benefit from reduced duties under HTS heading 9802.00.80[28] and from duty-free treatment under section 222 of the 1990 Caribbean Basin Economic Recovery Expansion Act (the 1990 Act), provided the finished footwear is assembled in CBERA countries entirely

[23] Representatives of a Guatemalan apparel manufacturer, interview by USITC staff, Guatemala, June 18, 2001.

[24] U.S. Department of State telegram 1151, "Guatemala's Textile Industry Without Quotas," prepared by U.S. Embassy, Guatemala City, Apr. 30, 2002.

[25] U.S. Department of State telegram 2829, "Textiles-Life After Quotas," prepared by U.S. Embassy, Guatemala City, Oct. 31, 2002.

[26] "Taiwanese Groups to Expand Central American Facilities," *Emerging Textiles.com, Textile and Clothing Trade Information,* July 2, 2002, found at *http://www.emergingtextiles.com*, retrieved Nov. 21, 2002.

[27] The rules of origin set forth in general note 12(t) of the HTS for most footwear require that the uppers and parts thereof be produced in a beneficiary country and assembled there into footwear, as well as a local value content of not less than 55 percent. Other footwear parts need only be made in a beneficiary country from materials from any source.

[28] Heading 9802.00.80 provides a partial duty exemption for imported products assembled from U.S.-fabricated components. In general, duty is assessed only on the value added abroad (essentially the cost of stitching the footwear parts together).

from U.S. components.[29] U.S. imports of footwear (except footwear uppers and parts) from CBERA countries are small, and accounted for slightly less than 1 percent of the total import quantity and value of U.S. footwear imports in 2002. CBERA shipments of these goods decreased in 2002 by 9 percent in quantity to 8.3 million pairs, and decreased 15 percent in value to $75 million. U.S. imports of footwear from the world in 2002 increased by 7 percent in quantity to 1.9 million pairs and 1 percent in value to $15.1 billion. Imports from China, the leading U.S. supplier with 80 percent of the import quantity in 2002, rose by 9 percent in quantity to 1.5 billion pairs, and by 5 percent in value to $10.1 billion.

U.S. imports of footwear from CBERA countries entering free of duty under section 222, which requires that the footwear articles be assembled entirely from U.S.-made components, decreased from $59 million in 1998 to $42 million in 2002. Footwear imports under section 222 in 2002, which came almost entirely from the Dominican Republic, accounted for 68 percent of the quantity (5.6 million pairs) and 57 percent of the value ($42 million) of total U.S. footwear imports from CBERA countries in 2002. The decline in section 222 imports in recent years likely reflected the contraction of footwear manufacturing operations by U.S. shoe companies in the Dominican Republic that began shortly before the CBTPA[30] as well as a shift in the distribution of trade by importers to take advantage of the trade benefits under CBTPA.

U.S. imports of footwear uppers and parts from CBERA countries decreased by 38 percent in 2002 from 2001 to $73.3 million. Those from all other countries declined by 14 percent to $307 million. The CBERA share of total imports of footwear uppers and parts fell by 9 percentage points to 24 percent. The overall decline in U.S. imports of footwear uppers and parts likely reflected the contraction of the U.S. footwear industry and the decline in U.S. footwear production in recent years. From 1998 to 2002, U.S. footwear production fell 64 percent by quantity to 59.2 million pairs.[31] Virtually all of the imports from CBERA countries in 2002 entered free of duty under NTR or CBERA and came from the Dominican Republic. Most of these CBERA shipments consisted of stitched-shoe uppers of leather.

[29] Section 222 was codified in note 2(b) to subchapter II of chapter 98 of the HTS. The 1990 Caribbean Basin Economic Recovery Expansion Act also permitted Puerto Rican inputs to be used in CBERA exports so that these exports could be considered in qualifying such exports for preferential duty treatment. The Act stipulates that articles produced in Puerto Rico that are "by any means advanced in value or improved in condition by a beneficiary CBERA country" are eligible for duty-free entry into the United States. The law also requires that any materials added to such Puerto Rican articles must be of U.S. or CBERA-country origin, and the final product must be imported directly into the customs territory of the United States from the CBERA country.

[30] Mitchell T. Cooper, Counsel for the Plastic & Rubber Footwear manufacturers Association, telephone conversation by USITC staff, July 31, 2003.

[31] U.S. Census Bureau, "Footwear Production: 2002," *Current Industrial Reports MA316A(02)-1*, 2003.

Imports by Country

Imports under CBERA shifted significantly in favor of those countries that produce apparel, and mineral fuels. While total imports of apparel did not change significantly, the CBTPA provisions implemented in 2000 resulted in a much greater percentage of apparel imports being entered under CBERA. Four countries–Honduras, the Dominican Republic, El Salvador, and Guatemala–accounted for 63.7 percent of the apparel imports entering under CBERA in 2002. Similarly, while total imports of mineral fuels actually decreased since the implementation of CBTPA, imports under CBERA increased substantially. One country–Trinidad and Tobago–accounted for 85.0 percent of all mineral fuel imports entered under the new CBTPA provisions.

Table 2-14 presents imports under CBERA by beneficiary country. Four countries–the Dominican Republic, Honduras, Trinidad and Tobago, and Costa Rica–accounted for 69.9 percent of all imports entering under CBERA in 2002, slightly less than the 73.4 percent share for these countries in 2000 (figure 2-4). U.S. imports under CBERA from the Dominican Republic increased 214.4 percent over the 2-year period under review, including a 177.3 percent increase in 2001 and a 13.4 percent increase in 2002. Imports under CBERA from Honduras increased 562.6 percent in 2001 and 19.1 percent in 2002; while imports under CBERA from Trinidad and Tobago increased 127.1 percent in 2001 and 56.8 percent in 2002. Imports under CBERA from Costa Rica increased 63.9 percent in 2001 and 14.2 percent in 2002.

Countries that were more dependent on apparel exports to the United States before CBTPA ranked higher in 2002 than in 2000. Honduras rose from fifth to second, and El Salvador rose from eighth to fifth. Likewise, countries that were more dependent on exports of traditional CBERA exports were ranked lower. Costa Rica fell from second to fourth and Guatemala fell from fourth to sixth. Trinidad and Tobago maintained its number-three ranking by being a strong petroleum exporter instead of being a major apparel exporter.

The Dominican Republic has been the single largest supplier of U.S. imports under CBERA from the beginning of the program. The Dominican Republic continued as the number-one supplier in 2002 with $2.68 billion in shipments under CBERA to the United States, although its share of total imports under CBERA decreased to 26.8 percent from 30.5 percent in 2000. The Dominican Republic was the leading supplier of 7 of the leading 20 items shown in table 2-8. Of the 5 leading import items under CBERA from the Dominican Republic, 3 were apparel items (table D-1 in appendix D). Higher priced cigars and precious metal jewelry were the other 2, both of which have been major items imported under the original CBERA.

Honduras was the second leading source of U.S. imports under CBERA in 2002, mainly on its strength as an apparel supplier. Imports under CBERA from Honduras totaled $1.99 billion in 2002 as its share of total imports under CBERA increased from just 9.0 percent in 2000 to 19.9 percent in 2002.

Table 2-14
U.S. imports for consumption under CBERA, by source, 1984, 1988, 1992, 1996, 2000, and 2002

Source	1984	1988	1992	1996	2000	2002
			Value *(1,000 dollars)*			
Dominican Republic	222,462	248,819	567,738	932,413	852,294	2,679,273
Honduras	60,198	57,608	112,512	207,289	252,149	1,989,774
Trinidad & Tobago	6,422	42,228	44,695	184,895	327,917	1,167,358
Costa Rica	65,756	153,417	294,937	657,127	617,075	1,154,499
El Salvador	71,986	22,485	27,249	91,254	71,565	1,144,089
Guatemala	43,442	85,326	192,955	279,768	264,630	1,044,159
Nicaragua[1]	-	-	40,018	116,007	57,555	212,827
Jamaica	44,737	42,215	48,156	95,965	89,459	194,036
Haiti	21,856	83,933	19,151	30,223	25,160	176,509
Bahamas[2]	-	12,013	93,324	20,765	74,451	70,881
Belize	4,621	19,180	23,733	24,760	32,360	42,834
Panama[3]	11,787	18,241	23,753	51,352	42,639	41,551
St. Kitts-Nevis	6,757	9,417	14,172	19,241	27,613	27,305
Guyana[4]	-	131	1,202	32,285	17,143	21,828
Barbados	13,376	19,125	15,478	23,089	10,441	12,357
St. Lucia	1,413	3,007	3,957	7,129	7,471	7,980
St.Vincent & Grenadines	55	9,990	165	3,580	1,947	5,514
Netherlands Antilles[5]	2,504	2,917	2,964	4,357	3,624	3,089
Dominica	9	358	1,008	2,204	196	374
British Virgin Islands	207	56	68	631	31	66
Antigua and Barbuda	114	255	324	1,615	4	43
Grenada	2	120	1,081	1,007	16,702	37
Aruba[5]	-	0	10	138	128	23
Montserrat	0	118	41	3,962	0	0
Total	577,704	830,958	1,528,690	2,791,055	2,792,553	9,996,406
			Percent			
Dominican Republic	38.51	29.94	37.14	33.41	30.52	26.80
Honduras	10.42	6.93	7.36	7.43	9.03	19.90
Trinidad & Tobago	1.11	5.08	2.92	6.62	11.74	11.68
Costa Rica	11.38	18.46	19.29	23.54	22.10	11.55
El Salvador	12.46	2.71	1.78	3.27	2.56	11.45
Guatemala	7.52	10.27	12.62	10.02	9.48	10.45
Nicaragua	-	-	2.62	4.16	2.06	2.13
Jamaica	7.74	5.08	3.15	3.44	3.20	1.94
Haiti	3.78	10.10	1.25	1.08	0.90	1.77
Bahamas[2]	-	1.45	6.10	0.74	2.67	0.71
Belize	0.80	2.31	1.55	0.89	1.16	0.43
Panama[3]	2.04	2.20	1.55	1.84	1.53	0.42
St. Kitts-Nevis	1.17	1.13	.93	0.69	0.99	0.27
Guyana[4]	-	.02	.08	1.16	0.61	0.22
Barbados	2.32	2.30	1.01	0.83	0.37	0.12
St. Lucia	0.24	.36	.26	0.26	0.27	0.08
St. Vincent & Grenadines	0.01	1.20	.01	0.13	0.07	0.06
Netherlands Antilles[5]	0.43	0.35	.19	0.16	0.13	0.03
Dominica	([6])	0.04	.07	0.08	0.01	([6])
British Virgin Islands	0.04	0.01	([6])	0.02	([6])	([6])
Antigua and Barbuda	0.02	0.03	.02	0.06	([6])	([6])
Grenada	([6])	0.01	.07	0.04	0.60	([6])
Aruba[5]	-	0.00	([6])	([6])	([6])	([6])
Montserrat	0.00	0.01	([6])	0.14	0.00	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00

Table 2-14—*Continued*

U.S. imports for consumption under CBERA, by source, 1984, 1988, 1992, 1996, 2000, and 2002

[1] Nicaragua was designated as a CBERA beneficiary effective Nov. 13, 1990 (Presidential Proclamation 6223, Nov. 8, 1990).

[2] The Bahamas became a CBERA beneficiary effective Mar. 14, 1985 (Presidential Proclamation 5308, Mar. 14, 1985).

[3] Panama was suspended as a CBERA beneficiary on Apr. 9, 1988 (Presidential Proclamation 5779, Mar. 23,1988). It was reinstated on Mar.17, 1990 (Presidential Proclamation 6103, Feb. 28, 1990).

[4] Guyana was added to the list of CBERA beneficiaries on Nov. 24, 1988 (Presidential Proclamation 5909, Nov. 18, 1988).

[5] Upon becoming independent of the Netherlands Antilles, Aruba was designated as a CBERA beneficiary, effective Jan. 1, 1986 (Presidential Proclamation 5458, Apr. 11, 1986).

[6] Less than 0.005.

Note.—Because of rounding, figures may not add to totals shown.

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

Honduras was the leading supplier of 5 of the leading 20 items. All of the 5 leading items entered under CBERA from Honduras were apparel items.

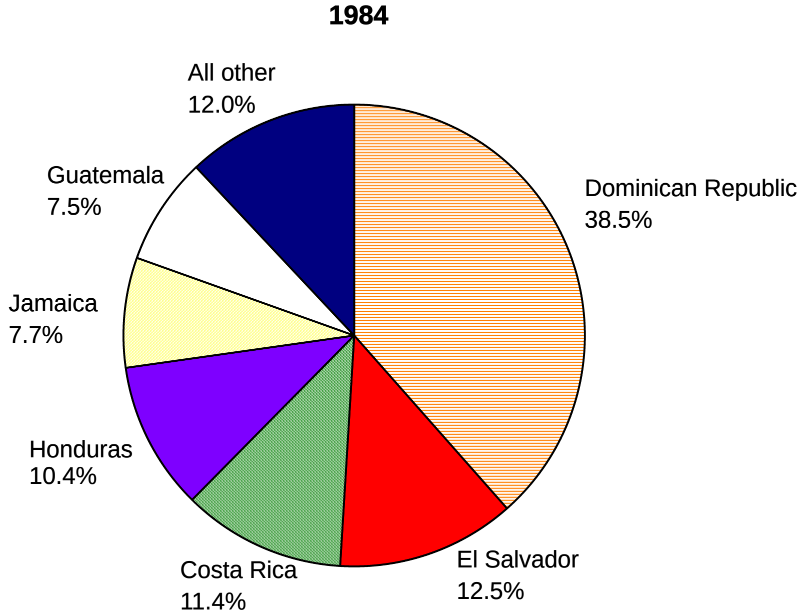
Trinidad and Tobago was the third leading source of U.S. imports under CBERA in 2002, mainly stemming from its abundant petroleum and natural gas resources. Imports under CBERA from Trinidad and Tobago totaled $1.2 billion in 2002 as its share of total imports under CBERA remained stable at 11.7 percent. Trinidad and Tobago was the leading supplier of 3 of the leading 20 items. Heavy crude oil and methanol accounted for 69.8 percent of U.S. imports under CBERA in 2002. Heavy crude oil became eligible for preferential treatment under CBTPA, while methanol has been a major import under the original CBERA for a number of years.

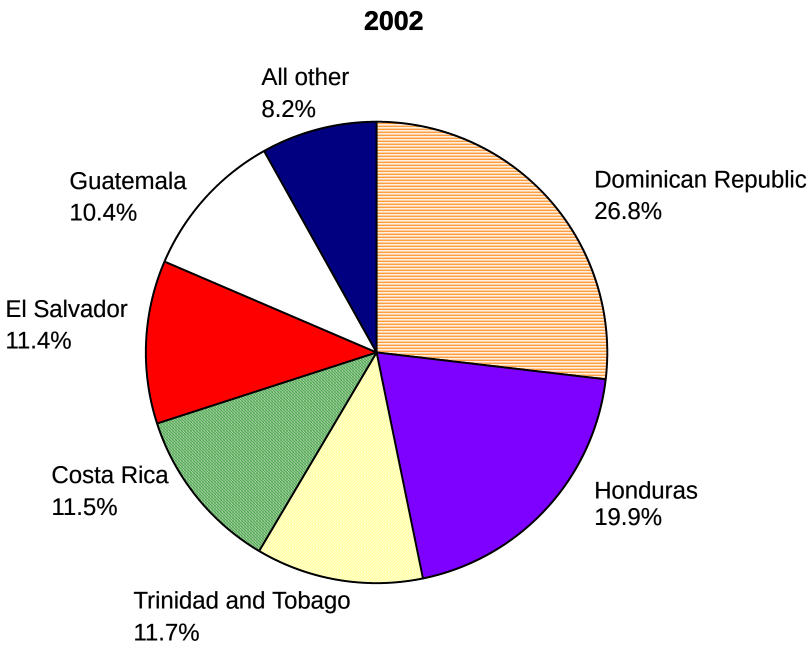
Costa Rica was the fourth leading source of U.S. imports under CBERA in 2002. Costa Rica has not concentrated in apparel as much as some of its Central American neighbors and was a strong exporter of products under the original CBERA. Imports under CBERA from Costa Rica totaled $1.2 billion in 2002 as its share of total imports under CBERA decreased from 22.1 percent in 2000 to 11.6 percent in 2002. Costa Rica was the leading supplier of 2 of the leading 20 items. Of the 5 leading import items under CBERA from Costa Rica, 3 were apparel items. Fresh pineapples and seasonal cantaloupes were the other 2, both of which have been major items imported under the original CBERA.

El Salvador was the fifth leading source of U.S. imports under CBERA in 2002 on the strength of its apparel industry. Imports under CBERA from El Salvador totaled $1.1 billion in 2002 as its share of total imports under CBERA increased from 2.6 percent in 2000 to 11.5 percent in 2002. El Salvador was not a leading supplier of any of the leading 20 items. All of the leading import items under CBERA from El Salvador were apparel items.

Guatemala was the sixth leading source of U.S. imports under CBERA in 2002. While Guatemala has a strong apparel industry, it produces a higher portion of its apparel

Figure 2-4
U.S. imports under CBERA, by source, 1984 and 2002





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

exports with domestic fabrics that do not qualify for CBERA preferences. Imports under CBERA from Guatemala totaled $1.04 billion in 2002 as its share of total imports under CBERA increased from 9.5 percent in 2000 to 10.5 percent in 2002. Guatemala was the leading supplier of 3 of the leading 20 items. Of the 5 leading import items under CBERA from Guatemala, 3 were apparel items. Light crude oil and seasonal cantaloupes were the other two. Light crude oil became eligible for preferential treatment under CBTPA, while seasonal cantaloupes have been growing as a major import under the original CBERA for a number of years.

Total Exports

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 making 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. The result is that 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 in decrease 2001 and another 20.8 percent decrease in 2002).

The value of total 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 (table 2-15). Collectively, CBERA countries rank seventh among U.S. market export destinations, behind Canada, Mexico, Japan, the United Kingdom, and South Korea, but ahead of China, Taiwan, France, Singapore, and the Netherlands. Factors affecting U.S. exports to CBERA countries included increasing GDP growth in CBERA countries, rising living standards, reconstruction following devastating hurricanes and earthquakes, continued construction following civil unrest, and U.S.-based family remittances.

As in recent years, the Dominican Republic, Costa Rica, Honduras, Guatemala, and El Salvador remained the principal Caribbean markets for the United States, collectively responsible for 63.3 percent of all U.S. exports to CBERA countries in 2002. The eight largest Caribbean export markets represent 80.9 percent of U.S. exports to CBERA countries.

The largest absolute increases in U.S. exports to CBERA countries in 2002 were for Costa Rica ($523.4 million increase from 2000, or 22.1 percent), Aruba ($173.0 million increase from 2000, or 64.2 percent), Guatemala ($140.6 million increase, or 7.7 percent), and Nicaragua ($62.3 million increase, or 17.3 percent). The increase in U.S. exports to Costa Rica was driven by a 124.7 percent increase in shipments of

Table 2-15
U.S. exports to CBERA beneficiaries, by markets, 1984, 1988, 1992, 1996, 2000, and 2002

Market	1984	1988	1992	1996	2000	2002
			Value *(1,000 dollars)*			
Dominican Republic	630,599	1,340,582	2,062,919	3,099,153	4,351,913	4,109,077
Costa Rica	417,641	683,716	1,317,645	1,777,727	2,368,026	2,891,380
Honduras	304,083	445,656	790,027	1,595,535	2,544,821	2,524,397
Guatemala	369,794	568,544	1,167,411	1,487,329	1,835,476	1,976,029
El Salvador	380,331	450,577	727,188	1,052,321	1,741,095	1,607,638
Jamaica	488,463	741,286	914,200	1,460,748	1,339,061	1,357,752
Panama	730,382	588,213	998,417	1,307,017	1,501,429	1,298,957
Trinidad and Tobago	587,917	323,005	438,640	644,774	1,072,883	984,448
Bahamas	546,320	725,328	691,320	699,339	1,026,584	936,655
Netherlands Antilles	607,814	411,569	450,123	497,717	614,701	664,855
Haiti	405,890	464,519	213,050	468,307	562,520	571,124
Aruba	(1)	95,636	282,289	215,946	269,566	442,579
Nicaragua	109,794	5,995	180,420	252,138	360,830	423,116
Barbados	232,852	154,276	122,780	214,248	282,195	248,164
Belize	49,462	89,585	111,363	104,039	204,320	129,930
Guyana	48,641	66,763	114,210	132,000	154,090	125,704
St. Lucia Island	(2)	67,316	79,528	78,173	97,864	91,501
Antigua and Barbuda	(2)	65,579	65,549	78,792	130,911	75,025
British Virgin Islands	(2)	36,878	42,263	50,995	58,837	60,505
Grenada Island	(2)	24,360	22,983	34,946	76,443	54,325
St. Kitts-Nevis	(2)	35,387	30,111	38,036	53,295	47,755
St. Vincent & Grenadines	(2)	34,655	33,832	44,425	35,808	38,961
Dominica	(2)	2,962	32,515	33,407	35,470	37,777
Montserrat	(2)	5,446	12,911	7,606	9,807	4,844
Leeward and Windward Islands	201,336	(2)	(2)	(2)	(2)	(2)
Total	6,111,319	7,427,835	10,901,693	15,374,717	20,727,945	20,702,497
			Percent			
Dominican Republic	10.32	18.09	18.92	20.16	21.00	19.85
Costa Rica	6.83	9.16	12.09	11.56	11.42	13.97
Honduras	4.98	5.74	7.25	10.38	12.28	12.19
Guatemala	6.05	7.70	10.71	9.67	8.86	9.54
El Salvador	6.22	5.80	6.67	6.84	8.40	7.77
Jamaica	7.99	10.42	8.39	9.50	6.46	6.56
Panama	11.95	7.97	9.16	8.50	7.24	6.27
Trinidad and Tobago	9.62	4.33	4.02	4.19	5.18	4.76
Bahamas	8.94	9.27	6.34	4.55	4.95	4.52
Netherlands Antilles	9.95	5.57	4.13	3.24	2.97	3.21
Haiti	6.64	6.20	1.95	3.05	2.71	2.76
Aruba	(1)	147	2.59	1.40	1.30	2.14
Nicaragua	1.80	0.10	1.66	1.64	1.74	2.04
Barbados	3.81	2.21	1.13	1.39	1.36	1.20
Belize	0.81	0.01	1.02	0.68	0.99	0.63
Guyana	0.80	0.01	1.05	0.86	0.74	0.61
St. Lucia	(2)	0.01	0.73	0.51	0.47	0.44

Table 2-15-*Continued*
U.S. exports to CBERA beneficiaries, by markets, 1984, 1988, 1992, 1996, 2000, and 2002

Market	1984	1988	1992	1996	2000	2002
	Percent					
Antigua and Barbuda	([2])	0.01	0.60	0.51	0.63	0.36
British Virgin Islands	([2])	0.01	0.39	0.33	0.28	0.29
Grenada Island	([2])	([2])	0.21	0.23	0.37	0.26
St. Kitts-Nevis	([2])	0.01	0.28	0.25	0.26	0.23
St. Vincent & Grenadines	([2])	0.01	0.31	0.29	0.17	0.19
Dominica	([2])	([2])	0.30	0.22	0.17	0.18
Montserrat	([2])	([2])	0.12	0.05	0.05	0.02
Leeward and Windward Islands	3.29	([2])	([2])	([2])	([2])	([2])
Total	100.00	100.00	100.00	100.00	100.00	100.00

[1] U.S. exports to Aruba not reported separately until January 1, 1988. Prior to that date, these exports were combined with the Netherlands Antilles.

[2] U.S. exports to the British Virgin Islands, St. Kitts-Nevis, Antigua Barbuda, Montserrat, Dominica, St. Lucia, St. Vincent and the Grenadines, and Grenada not reported separately until January 1, 1988. Prior to that date, these exports were combined in the Leeward and Windward Islands.

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

electronic machinery (HS chapter 85) from $396.9 million in 2000 to $891.7 million in 2002. Much of these exports consisted of components used in the assembly of integrated circuits, printed circuit boards, and other products in the information technology sector. The increase in exports to Aruba was significantly driven by major shipments of parts of oil and gas field machinery and used or rebuilt aircraft. The increased U.S. exports to Guatemala were substantially due to a 175.2 percent increase in shipments of woven cotton fabric and cotton yarn (HS chapter 52) to $167.5 million in 2002.

The shift from U.S. exports of apparel to textiles can be analyzed by looking at U.S. exports by 2-digit SITC classification. U.S. domestic exports of textiles to CBERA countries (SITC chapter 65) increased 78.2 percent in 2001 to $1.7 billion, and increased another 34.0 percent in 2002 to $2.2 billion. At the same time, U.S. exports of apparel (SITC chapter 84) to CBERA countries decreased 26.1 percent in 2001 and another 20.8 percent in 2002 to $2.4 billion. As a share of U.S. exports of both textiles and apparel to CBERA countries, in 2000, textiles accounted for only 18.4 percent while the remaining 81.6 percent was apparel. However, by 2002, apparel accounted for 48.0 percent and textiles accounted for 52.0 percent. The trend toward more textiles exports is continuing in 2003.

The largest U.S. export market in the region was Honduras, for which U.S. textile exports increased 66.1 percent in 2001 and 66.7 percent in 2002 for a total of $726 million. The Dominican Republic ranked second with annual increases of 84.4 percent in 2001 and 28.5 percent in 2002 to $630 million. U.S. textile exports to El Salvador increased 188.0 percent in 2001 and 16.9 percent to $361 million in 2002, while U.S. exports to Guatemala increased 114.2 percent in 2001 and 26.2 percent to $274 million in 2002. Other CBERA countries to which the United States exported significantly more textiles included Costa Rica, Haiti, and Nicaragua. U.S. apparel export markets with the largest decreases included Honduras (19.7 percent in 2001, 19.0 percent in 2002), the Dominican Republic (29.3 percent in 2001, 20.1 percent in 2002), El Salvador (32.4 percent in 2001, 25.7 percent in 2002), and Costa Rica (18.4 percent in 2001, 16.7 percent in 2002).

As shown in table 2-16, by 2-digit HS classification, the largest U.S. exports to CBERA countries in 2002 were electrical machinery (HS chapter 85), nonelectrical machinery (HS chapter 84), knit apparel (HS chapter 61), and mineral fuels (HS chapter 27). The largest absolute increases in U.S. exports during the period were measured for raw cotton, cotton yarn, and woven cotton fabric (HS chapter 52), which increased 163.1 percent or $483.7 million; knitted fabrics (HS chapter 60), which increased 404.3 percent, or $421.2 million; and electrical machinery (HS chapter 85), which increased 17.1 percent, or $323.6 million. U.S. exports of manmade staple fibers to CBERA countries increased 241.9 percent, or $174.7 million, in the 2-year period.

Table 2-16

Leading U. S. exports to CEBRA countries, by major product categories, 1984, 1988, 1992, 1996, 2000, and 2002

HTS chapter	Description	1984[1]	1988	1992	1996	2000	2002
		Value *(1,000 dollars)*					
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	498,655	530,639	723,160	1,072,859	1,887,258	2,210,833
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	710,222	792,797	1,175,543	1,637,213	2,280,835	2,137,970
61	Articles of apparel and clothing accessories, knitted or crocheted	63,535	141,834	470,398	1,099,039	2,412,428	1,452,878
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	596,459	483,471	794,230	855,674	1,117,410	1,174,436
39	Plastics and articles thereof	208,980	333,290	402,557	546,375	809,443	965,107
62	Articles of apparel and clothing accessories, not knitted or crocheted	196,188	476,264	992,032	1,797,792	1,667,697	923,612
10	Cereals	326,309	370,136	434,910	867,141	704,069	824,121
52	Cotton, including yarns and woven fabrics thereof	0	0	96,759	252,244	296,474	780,151
48	Paper and paperboard; articles of paper pulp, paper or paperboard	234,165	299,122	416,921	609,764	674,999	654,018
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	170,727	271,301	462,741	680,163	700,762	564,952
	Total of above	2,295,018	3,698,854	5,969,252	9,418,264	12,551,377	11,688,078
	All other	3,614,965	3,728,981	4,932,441	5,956,453	8,176,569	9,014,419
	Total all commodities	5,909,983	7,427,835	10,901,693	15,374,717	20,727,945	20,702,497
		Percent of total					
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	8.44	7.14	6.63	6.98	9.10	10.68
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	12.02	10.67	10.78	10.65	11.00	10.33
61	Articles of apparel and clothing accessories, knitted or crocheted	12.02	10.67	4.31	7.15	11.64	7.02
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	10.09	6.51	7.29	5.57	5.39	5.67
39	Plastics and articles thereof	3.54	4.49	3.69	3.55	3.91	4.66
62	Articles of apparel and clothing accessories, not knitted or crocheted	3.32	6.41	9.10	11.69	8.05	4.46
10	Cereals	5.52	4.98	3.99	5.64	3.40	3.98
52	Cotton, including yarns and woven fabrics thereof	0.00	0.00	0.89	1.64	1.43	3.77
48	Paper and paperboard; articles of paper pulp, paper or paperboard	3.96	4.03	3.82	3.97	3.26	3.16
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	2.89	3.65	4.24	4.42	3.38	2.73
	Total of above	38.83	49.80	54.76	61.26	60.55	56.46
	All other	61.17	50.20	45.24	38.74	39.45	43.54
	Total all commodities	100.00	100.00	100.00	100.00	100.00	100.00

[1] Leeward and Windward Islands not included.

Note.—Because of rounding, figures may not add to totals shown.

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

CHAPTER 3:
Impact of CBERA on the United States

This chapter addresses the impact of the CBERA preference program on the economy of the United States in 2002 and the probable future effects of the program. Current items most affected by CBERA preferences were identified in an impact analysis. Information on CBERA-related investment in the beneficiary countries was the main basis for the analysis of probable future effects. Most of this information on investment was collected during field visits to Honduras, El Salvador, and Guatemala, and from U.S. embassies in the countries of the region.

Impact of CBERA on the United States in 2002

Since its implementation in 1984, CBERA has had a minimal effect on the overall economy of the United States. In each year from 1984 through 2000, the value of U.S. imports entered under CBERA remained less than 0.04 percent of U.S. gross domestic product (GDP). In 2001 and 2002, as CBERA country producers took advantage of expanded opportunities under CBTPA, imports under CBERA rose to 0.08 percent and 0.10 percent of U.S. GDP, respectively. As pointed out in chapter 2, the total value of U.S. imports from CBERA countries remained small in 2002, amounting to 1.8 percent of total U.S. imports. The impact of CBERA on U.S. industries and consumers was also minimal in 2002 as it has been in the recent past.

In addition, the value of the original CBERA program to beneficiary countries and its potential for affecting the U.S. economy, consumers, and industries declined since implementation through 2000 because the margin of preference for many products has eroded.[1] Sources of erosion include the final (through 1987) phased tariff cuts under the Tokyo Round of tariff reductions, phased tariff cuts under the Uruguay Round of trade concessions, tariff cuts and eliminations under sectoral trade negotiations, the extension of preferential trading arrangements such as NAFTA, and the erosion of the ad valorem equivalent of specific duties because of inflation.[2] Several leading items once entered under CBERA have dropped from the under-CBERA and CBERA-exclusive lists because NTR rates have fallen to zero in recent years. These include medical instruments (free of duty in 1999), leather

[1] The higher the NTR duty rate for any given product, the greater is the benefit to CBERA beneficiaries–the higher the margin of preference. CBERA beneficiaries also benefit more if the NTR rate is more extensively applied, that is, if fewer non-CBERA countries enjoy preferential rates under GSP or other programs.

[2] For a more detailed analysis of the erosion of the margin of preference, see USITC, *CBERA, Thirteenth Report, 1997*, pp. 53-56.

footwear uppers (1999), and electrical variable resistors (2000).[3] CBTPA has sharply increased the number of products and value of imports benefiting from CBERA, especially apparel. However, the erosions noted above will continue, and the margin of preference that CBERA-country apparel producers receive because of U.S. apparel quotas that apply to other countries will fall significantly starting in 2005, when most U.S. textile and apparel quotas end.

To evaluate the impact of CBERA, it is appropriate to consider only the portion of imports that can receive preferential treatment only under CBERA. A portion of CBERA-eligible products are also eligible for duty-free entry under GSP and need to be eliminated from the analysis. Many apparel articles that became eligible for CBERA duty-free entry as a result of CBTPA contain U.S. cut parts that are not dutiable under production sharing arrangements (under HTS heading 9802.00.80). The value of U.S. cut parts incorporated in such articles therefore does not benefit exclusively from CBERA.

It should be noted that since tariff preferences under CBERA legislation are permanent, the presence of CBERA makes it more certain that GSP-eligible products from CBERA beneficiary countries can enter the United States free of duty, making investment in such products more attractive than would be the case in the absence of CBERA. Investment that depends solely on GSP for duty-free preferences is riskier because of the recent uncertainties about the periodic renewals of GSP and because certain products from particular countries may exceed competitive-need limits and may therefore lose GSP eligibility, as discussed in chapter 1. Quantifying these effects is beyond the scope of this study.

This section defines products that benefit exclusively from CBERA; presents quantitative estimates of the impact of CBERA on U.S. consumers, the U.S. Treasury, and U.S. industries whose goods compete with CBERA imports; and describes the U.S. imports that benefited exclusively from CBERA in 2002 and had the largest potential impact on competing U.S. industries.

Products That Benefited Exclusively from CBERA in 2002

U.S. imports of products benefiting exclusively from CBERA are defined as those that enter under either CBERA duty-free or CBERA reduced-duty provisions and are not eligible to enter free of duty under NTR rates or under other programs, such as GSP.[4] Consistent with this definition, GSP-eligible items imported from CBERA countries that entered under CBERA preferences are considered to benefit exclusively from CBERA

[3] For more details, see Walker Pollard, "Impact of Caribbean Basin Economic Recovery Act Declines," *International Economic Review*, USITC publication 3298, April/May 2000, pp. 15-20.

[4] Since CBTPA amended CBERA, imports under CBERA and imports benefiting exclusively from CBERA include imports made eligible for preferential treatment by CBTPA.

only if they originated in a country that is not currently a designated GSP beneficiary or if imports of the item from a certain country exceeded GSP competitive-need limits.[5]

From the implementation of CBERA in 1984 until 2000, U.S. imports that benefited exclusively from CBERA accounted for a relatively small portion of total U.S. imports from CBERA countries. This portion rose steadily through 1993, mainly through growth in imports of products that exceeded GSP competitive-need limits. From 1993 onward, with the exception of 1995 and 1996, the portion was roughly stable between 8.4 percent and 10.1 percent before dropping significantly in 1999 to less than 7.0 percent (table 3-1).[6] Starting in 2001, the first full year that CBTPA was in effect, the share of U.S. imports benefiting exclusively from CBERA rose significantly and rose yet again in 2002 as CBERA-country textile and apparel producers adjusted production patterns and petroleum importers took greater advantage of CBERA provisions.

The value of U.S. imports that benefited exclusively from CBERA increased from $4.7 billion in 2001 to $6.7 billion in 2002, or by 41.4 percent (table 3-1). Such imports accounted for 31.5 percent of total U.S. imports from CBERA countries in 2002, compared with 22.9 percent in 2001.

The 20 leading items that benefited exclusively from CBERA are shown in table 3-2. The most notable change in the value of such imports was for two petroleum items–light fuel oil (HTS provision 2710.19.05) and heavy crude oil (HTS provision 2709.00.20); imports of these items increased by 191 percent and 131 percent, respectively, from 2001 to 2002.[7] Other notable changes occurred with respect to men's or boys' woven

---

[5] In 2002, the Netherlands Antilles, Aruba, Nicaragua, and The Bahamas were the only CBERA countries that were not designated GSP-beneficiary countries.

A beneficiary developing country loses GSP benefits for an eligible product when U.S. imports of the product exceed either a specific annually adjusted value or 50 percent of the value of total U.S. imports of the product in the preceding calendar year–the so-called competitive-need limit (section 503(c))(2) of the Trade Act of 1974, as amended). CBERA has no competitive-need limits. Thus, eligible products that are excluded from duty-free entry under GSP because their competitive-need limits have been exceeded can still receive duty-free entry under CBERA. Statistics reported for the customs value of U.S. imports generally include the U.S. value of items imported under production-sharing provisions (HTS heading 9802.00.80). Such U.S. value is generally free of duty. As such it is excluded from the value of imports that benefit exclusively from CBERA in 2002. In addition, items that are free of duty under NTR rates are sometimes recorded as entering under CBERA provisions. Such items have been excluded from the total value of imports benefiting exclusively from CBERA in tab. 3-1 in 1999 through 2002.

[6] The "exclusively benefiting" shares were markedly higher in 1995 and 1996, mainly because of the lapse in the GSP program from August 1, 1995 through September 30, 1996, and subsequent increased use of CBERA provisions to ensure duty-free entry. See USITC, *CBERA, Twelfth Report, 1996*, pp. 35-36, for further explanation of the assumptions and analysis used to deal with the lapse in GSP. Because of the assumptions about GSP made in the 1995 and 1996 CBERA reports, the findings derived from the analysis in those reports are not strictly comparable to the findings in subsequent reports in this series or in reports previous to the 1995 report, despite the similar analytical approach used.

[7] The leading imports benefiting exclusively from CBERA in 2001 are reported in tab. E-1 in appendix E. The large changes in exclusively benefiting imports of petroleum and petroleum products reflect a greater use by importers of CBERA provisions, not any great change in total imports of petroleum and petroleum products. Exclusively benefiting imports of apparel articles can change sharply due to a number of reasons. The simplest is similar to the case of petroleum–greater use of CBERA provisions instead of not claiming a preferential program. Another major reason is shifting from use of partially dutiable production sharing provisions under HTS heading 9802.00.80 to use of fully duty-free entry of apparel assembled from U.S. fabric cut in the region. Other scenarios also exist that could lead to large changes in exclusively benefiting apparel imports.

Table 3-1
Total imports from CBERA beneficiaries, imports entered under CBERA provisions, and imports that benefited exclusively from CBERA provisions, 1998-2002

Item	1998	1999	2000	2001	2002
Total imports from CBERA beneficiaries:					
Value (*million dollars*[1])	17,124	19,365	22,161	20,679	21,255
Imports entered under CBERA provisions:[2]					
Value (*million dollars*[1])	3,225	2,637	2,793	8,299	9,996
Percent of total	18.8	13.6	12.6	40.1	47.0
Imports that benefited exclusively from CBERA provisions:					
Value (*million dollars*[1])	1,614	1,174	1,497	4,734	6,695
Percent of total	9.4	6.1	6.8	22.9	31.5

[1] Customs value.

[2] Includes articles entered free of duty or at reduced duties under CBERA provisions.

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

cotton shirts (HTS provision 6205.20.20) up by 128 percent; knit cotton tops (HTS provision 6110.20.20), up by 107 percent; brassieres (HTS provisions 6212.10.90), up by 99 percent; men's or boys' knit cotton underpants (HTS provision 6107.11.00), up by 99 percent; light crude oil (HTS provision 2709.00.10), up by 74 percent; and methanol (HTS provision 2905.11.20), down by 22 percent.

Two items were added to the list in 2002, and one item was renumbered. Knit manmade fiber tops (HTS provision 6110.30.30) and men's or boys' woven cotton shirts both experienced large increases in exclusively benefiting imports, displacing steel wire rod (HTS provision 7213.91.30) and nonwoven disposable apparel (HTS provision 6210.10.50) from the list of 20 leading items benefiting exclusively from CBERA. Light fuel oil had its HTS classification changed from HTS provision 2710.00.05 to 2710.19.05.

Because CBTPA elevated so many previously excluded products to the list of leading items benefiting exclusively from CBERA, only one leading import that was identified in previous annual CBERA reports as benefiting exclusively from CBERA between 1984 and 2000 continued to rank among the 20 leading U.S. imports in 2002. That item was fresh pineapples (HTS provision 0804.30.40).[8] Items that have appeared consistently among the leading imports benefiting exclusively from CBERA in the last 5 years include higher priced cigars (HTS provision 2402.10.80), methanol, raw cane sugar subject to TRQ (HTS provision 1701.11.10[9]), and jewelry articles and parts (HTS provision 7113.19.50).

[8] Fresh pineapples were also a leading import benefiting exclusively in 2001. See tab. F-1 in appendix F.

[9] The full HTS description for provision 1701.11.10 includes "Described in additional U.S. note 5 to this chapter and entered pursuant to its provisions." The referenced note sets out rules for the tariff-rate quota for U.S. sugar imports. Within-quota imports are subject to relatively low tariff rates and are eligible for

Table 3-2
Value of leading imports that benefited exclusively from CBERA, 2002

(*1,000 dollars*)

HTS number	Description	Customs value	C.i.f. value
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	731,086	754,377
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	704,426	715,836
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	609,776	626,652
6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70% by wt of silk or silk waste, whether or not knitted or crocheted	385,496	389,467
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	344,377	356,713
2905.11.20[1]	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	219,876	252,164
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	245,511	250,524
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	244,323	249,235
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	215,416	224,735
6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15% wt down etc, cont under 36% wt wool, n/water resist, not k/c	199,134	203,279
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	168,287	202,848
2402.10.80[2]	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	190,504	193,318
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesi	160,470	160,744
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	130,900	137,437
6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of manmade fibers	108,902	112,072
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	99,248	102,169
1701.11.10[3]	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	78,566	86,075
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	78,579	80,516
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi	76,549	80,017
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton, nesi	73,436	75,497

[1] Includes only imports from Trinidad and Tobago. Item is GSP-eligible, but imports from Trinidad and Tobago exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA.

[2] Includes only imports from the Dominican Republic, The Bahamas, Nicaragua, and the Netherlands Antilles. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA. Imports from The Bahamas, Nicaragua, and the Netherlands Antilles, other suppliers of this item, were included because those countries were not designated GSP beneficiaries in 2002.

[3] Includes only imports from the Dominican Republic and Nicaragua. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 2002.

Note.—The abbreviation, nesi, stands for "not elsewhere specified or included."

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Welfare and Displacement Effects of CBERA on U.S. Industries and Consumers in 2002

The analytical approach for estimating the welfare and displacement effects of CBERA is described in the introduction to this report and is discussed in more detail in appendix C. A range of estimates is reported, reflecting those made assuming higher substitution elasticities (upper estimate), and those made assuming lower substitution elasticities (lower estimate).

The analysis was conducted on the 20 leading items that benefited exclusively from CBERA (table 3-2).[10] Estimates of welfare effects and potential effects on U.S. industry were made. Estimates of potential U.S. industry displacement effects were small, with no industry having an upper estimate of displacement of more than 5.0 percent, the cutoff traditionally used in this series for selecting industries for further analysis. A number of U.S. producers benefited from CBERA preferences because they supplied inputs to apparel assembled in CBERA countries. Those U.S. producers supplying cut apparel parts are included in the welfare and industry effects analysis. Those supplying fabric are not explicitly analyzed because of data limitations,[11] but U.S. exports of textiles (SITC classification 65) to CBERA countries have risen from $934 million in 2000 to $2.2 billion in 2002 as exports have shifted to fabric and away from apparel parts.

Items Analyzed

Although a large number of products are eligible for duty-free or reduced-duty entry under CBERA, a relatively small group of products accounts for most of the imports that benefit exclusively from CBERA. Table 3-2 presents the 20 leading items that benefited exclusively from CBERA in 2002; they are ranked on the basis of their c.i.f. (customs value plus insurance and freight charges) import values that benefited exclusively.[12]

---

[9]—*Continued*
preferences under GSP, CBERA, ATPA, NAFTA, the U.S.-Israel Free Trade Agreement, and the U.S.-Jordan Free Trade Agreement. Over quota imports are subject to much higher tariffs and are not eligible for these preferences, except for a slight reduction from the over-quota column 1-special rate for over quota imports from Mexico.

[10] USITC industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefited exclusively from CBERA, as well as evaluations of the substitutability of CBERA-exclusive imports and competing U.S. products.

[11] To make estimates of the impact of CBERA on U.S. textile producers, it would be necessary to separate imports of apparel made with U.S. fabric from imports made from regional fabric. Data available to the Commission do not allow this distinction to be made.

[12] In the analysis, U.S. market expenditure shares were used to compute estimates of welfare and domestic production displacement effects. Because U.S. expenditures on imports necessarily include freight and insurance charges and duties, when applicable, the analysis, where indicated in the text and supporting tables, used c.i.f. values for duty-free items and landed, duty-paid values for reduced-duty items benefiting exclusively from CBERA, and landed, duty-paid values for the remaining imports. Technically, landed, duty-paid values are equal to c.i.f. values for items entering free of duty.

Since no duty is assessed on the U.S. value of imports entered under the production-sharing provisions of HTS heading 9802.00.80, such value is excluded from the value benefiting exclusively in table 3-2. To compute the market expenditure shares reported in table 3-3 and used in the analysis, the U.S. value was included.

Those products represented 75.6 percent of the $6.7 billion in imports that benefited exclusively from CBERA during 2002.[13] The five leading CBERA-exclusive imports in 2002 were (1) knit cotton t-shirts (HTS provision 6109.10.00); (2) men's or boys' woven cotton trousers and shorts (HTS provision 6203.42.40); (3) heavy crude oil; (4) brassieres; and (5) knit cotton tops.[14] Knit cotton t-shirts and men's or boys' woven cotton trousers and shorts ranked second and first, respectively, in 2001.

For any particular item, the size of the U.S. market share accounted for by CBERA-exclusive imports (value of imports benefiting exclusively from CBERA relative to apparent consumption) was a major factor in determining the estimated impact on competing domestic producers;[15] market shares varied considerably in 2002 (table 3-3). For instance, the market share of CBERA-exclusive imports of fresh pineapples was approximately 65 percent, whereas the market share of CBERA-exclusive imports of the three petroleum items was less than 1 percent.

Estimated Effects on Consumers and Producers

Tables 3-4 and 3-5 present the estimated impact of CBERA tariff preferences on the U.S. economy in 2002.[16] Estimates of the gains in consumer surplus and the losses in tariff revenue, as well as measures of the potential displacement of U.S. production, are discussed below.

Effects on U.S. consumers

Knit cotton t-shirts provided the largest gain in consumer surplus ($107 million to $116 million) resulting exclusively from CBERA tariff preferences in 2002 (table 3-4). The price U.S. consumers would have paid for imports of such t-shirts from CBERA countries would have been 11 percent higher (the ad valorem duty rate adjusted for freight and insurance charges) without CBERA. Brassieres provided the second-largest gain in consumer surplus ($53.1 million to $58.4 million). Without CBERA, the price of brassieres from CBERA countries would have been 14 percent higher. In general, items providing the largest gains in consumer surplus also have either the highest NTR tariff rates or the largest volumes of imports from CBERA countries, or both.

CBERA preferences also reduced U.S. tariff revenues, offsetting much of the gain in consumer surplus. For example, for knit manmade fiber tops, lower tariff revenues offset 73 percent to 85 percent of the gain in consumer surplus; for knit manmade-fiber t-shirts, the offset was 75 percent to 85 percent. For many of the other items listed in table 3-4, especially those items with low NTR duty rates, lower tariff revenues offset nearly all of the gain in consumer surplus.

---

[13] The import values reported in tables 3-2 and 3-3 do not include imports under each HTS provision on which full duties were paid. Even though all these items were eligible for CBERA tariff preferences, full duties were paid on a certain portion of imports under each HTS provision for a variety of reasons, such as failure to claim preferences, insufficient documentation, or because CBTPA requirements were not met.

[14] Leading CBERA suppliers are shown in table 2-8.

[15] Other factors include the ad valorem equivalent tariff rate; the substitutability among beneficiary imports, nonbeneficiary imports, and domestic production; and the overall demand elasticity for the product category.

[16] The methodology used is described in appendix C.

Table 3-3
Value of leading imports that benefited exclusively from CBERA, apparent U.S. consumption, and CBERA-exclusive market share, 2002

HTS number	Description	Imports from CBERA countries (c.i.f. value) (A)[1]	Apparent U.S. consumption (B)[2]	Market share (A/B)
		1,000 dollars		*Percent*
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	1,116,346	4,320,163	25.84
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	875,160	([3])	([3])
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	626,652	119,080,962	0.53
6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70% by wt of silk or silk waste, whether or not knitted or crocheted	389,489	2,517,420	15.47
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	497,770	7,394,966	6.73
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	252,164	1,389,074	18.15
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	295,421	8,118,459	3.64
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	443,522	749,879	59.15
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	224,735	79,180,742	0.28
6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15% wt down etc, cont under 36% wt wool, n/water resist, not k/c	293,610	([3])	([3])
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	202,848	311,546	65.11
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	193,318	1,442,204	13.40
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesi	160,744	6,873,476	2.34
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	137,437	42,066,962	0.33
6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of manmade fibers	176,919	542,390	32.62
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	264,048	1,085,255	24.33
1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	86,075	3,750,639	2.29
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	134,891	1,885,987	7.15
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi	142,211	([3])	([3])
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton, nesi	98,899	2,633,946	3.75

[1] Includes value of U.S. components incorporated in imports entered under HTS heading 9802.00.80

[2] Apparent U.S. consumption defined as U.S. production plus total imports (landed, duty-paid basis) minus exports.

[3] U.S. production data not available.

Note.–The abbreviation, nesi, stands for "not elsewhere specified or included."

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Table 3-4
Estimated welfare effects on the United States of leading imports that benefited exclusively from CBERA, 2002

(1,000 dollars)

HTS number	Description	Gain in consumer surplus (A)		Loss in tariff revenue (B)		Net welfare effect (A-B)	
		Upper estimate	Lower estimate	Upper estimate	Lower estimate	Upper estimate	Lower estimate
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	107,241	115,515	90,495	105,147	16,747	10,368
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	(1)	(1)	(1)	(1)	(1)	(1)
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	2,416	2,425	2,392	2,411	23	14
6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70% by wt of silk or silk waste, whether or not knitted or crocheted	53,087	58,446	42,924	52,311	10,163	6,134
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	48,649	53,582	39,669	48,295	8,980	5,287
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	15,687	16,561	13,965	15,594	1,723	967
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	33,495	37,039	27,122	33,322	6,373	3,717
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	17,415	17,708	16,561	17,121	854	587
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	429	430	427	428	2	1
6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15% wt down etc, cont under 36% wt wool, n/water resist, not k/c	(1)	(1)	(1)	(1)	(1)	(1)
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	4,484	4,518	4,424	4,493	59	25
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	4,075	4,151	3,961	4,111	113	40
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	7,750	8,154	6,781	7,528	968	626
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	390	391	387	389	3	2
6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of manmade fibers	26,476	29,788	19,958	25,340	6,518	4,449
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	7,310	7,456	6,996	7,277	314	179
1701.11.10[2]	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	0	0	2,300	2,442	-2,300	-2,442
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	12,714	14,055	10,302	12,611	2,412	1,444
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi	(1)	(1)	(1)	(1)	(1)	(1)
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton, nesi	11,773	13,094	9,421	11,705	2,352	1,390

[1] Welfare and displacement effects were not calculated because of the unavailability of U.S. production data.

[2] Raw sugar imports of this category are subject to U.S. tariff-rate quotas; therefore, the net welfare effect from a tariff elimination on these imports is composed solely of a transfer of tariff revenue for the U.S. Treasury to sugar exporters. Because the quotas set maximum U.S. import levels, no U.S. production is displaced following a tariff reduction.

Note.—The abbreviation, nesi, stands for "not elsewhere specified or included."

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Table 3-5
Estimated effects on the production of U. S. industries of leading imports that benefited exclusively from CBERA, 2002

HTS number	Description	U.S. production	Change in U.S. production: Value, Upper estimate	Value, Lower estimate	Share, Upper estimate	Share, Lower estimate
			1,000 dollars		*Percent*	
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	1,930,670	-31,614	4,834	-1.64	0.25
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	(1)	(1)	(1)	(1)	(1)
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	46,837,480	-3,995	-2,083	-0.01	(2)
6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70% by wt of silk or silk waste, whether or not knitted or crocheted	1,492,000	-54,861	-12,108	-3.68	-0.81
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	300,000	11,191	6,059	3.73	2.02
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	634,500	-25,172	-9,226	-3.97	-1.45
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	2,747,000	-17,556	-2,152	-0.64	-0.08
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	163,130	6,809	4,898	4.17	3.00
2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	62,067,089	-1,369	-714	(2)	(2)
6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15% wt down etc, cont under 36% wt wool, n/water resist, not k/c	(1)	(1)	(1)	(1)	(1)
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	100,616	-3,764	-1,022	-3.74	-1.02
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	1,200,000	-9,533	-2,667	-0.79	-0.22
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	3,350,000	-9,299	-3,096	-0.28	-0.09
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	955,865	-37	-19	(2)	(2)
6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of manmade fibers	144,000	6,715	4,370	4.66	3.03
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	503,700	4,207	4,131	0.84	0.82
1701.11.10[3]	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	3,300,000	0	0	0	0
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	345,000	2,470	2,466	0.72	0.71
6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesi	(1)	(1)	(1)	(1)	(1)
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton, nesi	317,000	2,319	2,098	0.73	0.66

[1] Welfare and displacement effects were not calculated because of the unavailability of U.S. production data.

[2] Absolute value less than 0.005 percent.

[3] Raw sugar imports of this category are subject to U.S. tariff-rate quotas. Because the quotas set maximum U.S. import levels, no U.S. production is displaced following a tariff reduction.

Note.–The abbreviation, nesi, stands for "not elsewhere specified or included."

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

Overall, the estimated net welfare effects of CBERA were small. The gain in consumer surplus (column A of table 3-4) was greater than the corresponding decline in tariff revenue (column B) for all of the products analyzed for which data were available except for raw cane sugar, which did not provide a gain in consumer surplus because it was subject to a binding tariff-rate quota.[17] Of the resulting net welfare gains, the largest were for knit cotton t-shirts ($10.4 million to $16.7 million) and brassieres ($6.1 million to $10.2 million). Frozen concentrated orange juice (HTS provision 2009.11.00) and fuel-grade ethyl alcohol (HTS provision 2207.10.60) had the largest net welfare gains in 2000.[18]

Effects on U.S. producers

Estimates of the potential effects of CBERA on domestic production are shown in table 3-5. Some industries experienced displacement of domestic production as a result of CBERA preferences and there was a positive net effect on others.[19] The positive net effect occurs for industries that include firms that produce cut apparel parts that are assembled in beneficiary countries–they experience a negative effect (displacement) from competition with imports from beneficiary countries and a positive effect from their exports of apparel parts to the beneficiary countries.

Estimates of the potential displacement of domestic production were small for most of the individual sectors.[20] The analysis indicates that the largest potential displacement effects were for methanol (1.5 percent to 4.0 percent displaced, valued at $9.2 million to $25.2 million); fresh pineapples (1.0 percent to 3.7 percent displaced, valued at $1.0 million to $3.8 million); and brassieres (0.8 percent to 3.7 percent displaced,

---

[17] Tariff-rate quotas (TRQs) that apply to HTS provision 1701.11.10 set maximum sugar import levels at lower tariff rates both globally and for imports from individual countries. Over-quota imports are charged much higher tariffs, which tend to be prohibitive. When in-quota import quantities are filled , a TRQ is binding, and imports subject to the TRQ are constrained. Because the TRQ for sugar is binding, import volumes and the price of sugar did not change, and the net welfare change associated with duty elimination is composed solely of a transfer of tariff revenue from the U.S. Treasury to CBERA country sugar exporters (who benefit from a quota allocation system that appropriates quota rents for exporters); thus, there was no consequent gain in consumer surplus, even after CBERA tariff reductions on sugar were implemented.

[18] See USITC, *CBERA, Fifteenth Report, 2000*, tab. 3-4, p. 68.

[19] CBERA requires the Commission to assess the effect of CBERA on the "domestic industries which produce articles that are like, or directly competitive with, articles being imported into the United States from beneficiary countries." Defining these industries is not always clear cut, especially in the apparel sector. Resources used in the apparel sector, such as sewing machines, fabric cutters, and operators of these machines, can, for the most part, be easily reallocated from one type of apparel to another. This is due both to the nature of the machinery and operators and to the fickle nature of the fashion industry, which requires flexibility. For analytical purposes, industries have been defined in terms of estimated production of particular types of apparel, but the number of apparel "industries" is actually much smaller than this analysis implies.

[20] U.S. market share, ad valorem equivalent tariff rate, and elasticity of substitution between beneficiary imports and competing U.S. production are the main factors that affect the estimated displacement of U.S. domestic shipments. In general, the larger the CBERA share of the U.S. market, ad valorem equivalent tariff rate, and substitution elasticity, the larger the displacement of domestic shipments.

valued at $12 million to $55 million). However, the estimated displacement share for other products experiencing net displacement was around 1.0 percent or less, even in the upper range of estimates.

Most of the apparel products experienced positive net effects because U.S. domestic producers supplied cut apparel parts for assembly in beneficiary countries as well as finished apparel for domestic sales. The analysis indicates that the largest positive net effects were for knit manmade-fiber t-shirts (positive net effects of 3.0 percent to 4.7 percent, valued at $4.4 million to $6.7 million); men's or boys' knit cotton underpants (3.0 percent to 4.2 percent, valued at $4.9 million to $6.8 million); and knit cotton tops (2.0 percent to 3.7 percent, valued at $6.1 million to $11.2 million).[21] Positive net effects were around 1.0 percent or less for other products.

In addition, the U.S. textile industry benefits from supplying fabric directly to beneficiary country apparel producers, as well as to the U.S. producers of exported cut fabric parts. Data limitations have prevented making estimates of the impact of CBERA on U.S. textile producers.

Overall, the above estimates suggest that the impact of CBERA in 2002 on the U.S. economy, industries, and consumers was minimal, mainly because of the very small portion of U.S. imports that come from CBERA countries. Similarly, none of the items that benefit exclusively from CBERA had any significant displacement impact on U.S. production. On the other hand, some U.S. producers benefit from CBERA preferences, most notably producers of yarn, fabric, and cut apparel parts, although estimates of the impact of CBERA on U.S. production have only been possible for production of apparel parts.

Investment and Future Effects of CBERA

The following discussion describes the probable future effects of CBERA on the U.S. economy, providing an overview of overall investment activity and trends in specific CBERA countries during 2002. Information was obtained from various published sources and field interviews conducted during February 2002 in Honduras, El Salvador, and Guatemala.[22] Additional investment data were obtained from U.S. embassies in several of the relevant countries. The effect that CBERA-related investments[23] may have on U.S. imports in the near term is discussed.

---

[21] Production in industries for which estimates of positive effects were large is small relative to U.S. consumption and a large portion of output of these industries is exported, presumably as apparel parts.

[22] Field work for this report was accomplished in connection with the field work undertaken for USITC investigation No. 332-448, *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market*, June 2003. The investigation was conducted at the request of the Office of the U.S. Trade Representative; it is classified and has not been publicly released.

[23] The term is meant to refer to investment expenditures motivated by the preferences extended under CBERA.

Previous reports in this series found that most of the effects on the U.S. economy and consumers of the one-time elimination of import duties under CBERA occurred within 2 years of the program's inception in 1984.[24] Other effects were expected to occur over time as a result of an increase in export-oriented investment in the region. Such an investment increase may occur in response to diminution of tariffs for certain CBERA products.[25] Because CBERA-related investment expenditures are assumed to be a barometer for future trade flows under the program, increased investment in a certain CBERA sector could lead to increased exports to the United States from that sector. Therefore, the report continues to monitor CBERA-related investment, assuming that investment expenditures are a proxy for future trade effects on the United States.

Summary of Investment Activities and Trends

CBERA was designed to encourage an expansion in investment activity in nontraditional sectors. A significant amount of new, export-oriented investment in CBERA countries continues to be directed toward the production of goods covered by U.S. trade provisions in addition to CBERA. Many of these investment projects are in free-trade zones (FTZs),[26] where U.S.-origin components are assembled for return to the United States under HTS heading 9802.00.80 (production-sharing provisions). Other investment occurring in nonexport industries, such as tourism, is still consistent with CBERA goals.[27]

Despite progress by some CBERA countries in attracting and expanding foreign direct investment (FDI), a few have experienced difficulty in achieving desired investment goals. Political instability, insufficient investment incentives, restrictions on foreign exchange and profit repatriation, inadequate infrastructure, and lack of intellectual

---

[24] Similar reasoning would apply to the enhancement of benefits under CBERA, as amended by the U.S.-Caribbean Basin Trade Partnership Act, part of Public Law 106-200, title II of the Trade and Development Act of 2000, which was passed in May 2000 and implemented on Oct. 1, 2000.

[25] USITC, *Caribbean Basin Economic Recovery Act, Tenth Report, 1994*, USITC publication 2927, September 1995, p. 37.

[26] Each country typically has its own rules governing manufacturing or assembly activities in FTZs, also called export processing zones or industrial free zones. The FTZs are restricted-access areas for industrial, commercial, and service facilities that operate independent of commercial regulations otherwise applicable in the host country. In-bond operations in these zones are allowed to import duty-free inputs used as components for further transformation or assembly within the zone. Duty-free admission is temporary, enabling inputs to be further processed and subsequently reexported for final sale. Apparel and electronics assembly operations are the principal sectors involved in Caribbean Basin FTZs.

[27] As originally enacted, section 936 granted a tax credit equal to the Federal tax liability on certain income earned in U.S. possessions. A 1986 modification enabled 936 funds to qualify as tax-exempt funds on deposit with Puerto Rican financial institutions available to finance projects in CBERA countries. The 1986 amendment provided a major incentive for investing in the Caribbean Basin because Puerto Rican financial institutions were able to lend the tax-exempt section 936 funds at below-market interest rates. For more detail, see USTIC, Caribbean Basin Economic Recovery Act, *Ninth Report 1993*, USITC publication No. 2813, pp. 38-40. Previous reports also contain project types eligible for section 936 financing. See USITC, Caribbean Basin Economic Recovery Act, *Seventh Report 1991*, USITC publication No. 2553, pp. 1-9 to 1-10.

property rights enforcement may all contribute to lower investment levels. The smaller Eastern Caribbean islands have been particularly slow to diversify their economies, mainly due to the lack of natural resources. The smaller countries are dependent on a limited variety of exports, such as sugar and bananas, and are adversely affected when there is a fall in either domestic production or world prices.

Methodology

A number of sources were used by the USITC to research and gather information for this section. The sources included cables prepared by the U.S. Department of State, statistical information published by U.S. and international organizations, and interviews with various officials in Honduras, El Salvador, and Guatemala during travel to these countries.

Investment in Specific CBERA Beneficiary Countries

Worldwide FDI flows in 2001 decreased by half from 2000 figures. Among the developing countries, the drop was less dramatic–a drop of nearly 14 percent. Annual FDI flows to Latin America and the Caribbean peaked in 1999 at $109 billion, falling consecutively to $95 billion in 2000 and to $85 billion in 2001.[28] The drop continued as estimated flows to the region amounted to just over $56 billion in 2002, representing a 34 percent decline compared with 2001 flows (table 3-6).

In 2001, FDI inflows to CBERA beneficiaries were 2.8 percent of FDI to all developing countries. During the period 1998 through 2002, FDI to CBERA countries decreased from $7.4 billion to $4.2 billion, or by 43 percent. Among beneficiary countries, FDI increased between 2000 and 2001 by 10.5 percent and decreased between 2001 and 2002 by 26.5 percent. In 2002, the Dominican Republic accounted for the largest share of FDI in the region (20 percent or $850 million), followed by Trinidad and Tobago ($713 million), Costa Rica ($642 million), Jamaica ($535 million), and Panama ($350 million)[29] (see table 3-6).

Competition for FDI has led to a proliferation of agreements aimed at promoting and providing guarantees for investment flows. These agreements include bilateral treaties, free trade agreements, regional negotiations, and multilateral arrangements.[30]

[28] United Nations, Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean, 2002*, found at Internet address *http://www.eclac.org/*, retrieved July 9, 2003.

[29] The 2002 FDI figure for Panama of $350 million reported by the Economic Commission of Latin American and the Caribbean is considerably different from the $56.9 million reported in the cable from the embassy.

[30] United Nations, Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean, 2002*, found at Internet address *http://www.eclac.org/*, retrieved July 9, 2003.

Table 3-6
Foreign direct investment inflows for Latin America and the Caribbean, 1998-2002

Host region/economy	1998	1999	2000	2001	2002	Change, 2000-02
	Million dollars					*Percent*
World	694,457	1,088,263	1,491,934	735,146	[1]534,000	-64
Developing countries	187,611	225,140	237,894	204,801	[1]158,000	-34
Latin America and the Caribbean	82,203	109,311	95,405	85,373	[1]56,000	-41
CBERA:						
Antigua and Barbuda	27	37	33	54	41	24
Aruba	84	392	-226	-324	-53	-399
Bahamas	235	145	250	101	n.a.	n.a.
Barbados	16	17	19	18	18	-5
Belize	19	56	28	34	33	18
Costa Rica	612	620	409	448	642	56
Dominica	7	18	11	14	14	27
Dominican Republic	700	1,338	953	1,198	850	-11
El Salvador	1,104	216	173	277	278	61
Grenada	49	42	36	34	38	6
Guatemala	673	155	230	456	110	52
Guyana	47	48	67	56	57	-15
Haiti	11	30	13	3	8	-38
Honduras	99	237	282	195	179	-36
Jamaica	369	524	371	722	535	44
Montserrat	3	8	4	4	5	25
Netherlands Antilles	892	532	777	734	n.a.	n.a
Nicaragua	184	300	265	132	170	-89
Panama	1,296	652	603	513	350	-42
Saint Kitts and Nevis	32	58	96	83	79	-18
Saint Lucia	83	83	49	51	61	25
Saint Vincent and the Grenadines	89	56	28	36	40	43
Trinidad and Tobago	732	643	662	835	713	8
Total	7,363	6,207	5,133	5,674	4,168	-19

[1] Estimated information from the Economic Commission of Latin America and the Caribbean, available at www.eclac.org, retrieved Aug. 26, 2003.

Source: United Nations Conference on Trade and Development, *World Investment Report 2002.* Net inward foreign direct investment country figures (estimates for 2002) taken from the Economic Commission of Latin America and the Caribbean, , *Foreign Direct Investment in Latin America and Caribbean 2002*,"Regional Overview," available at www.eclac.org, retrieved Aug. 26, 2003.

According to a recent report by the Economic Commission for Latin America and the Caribbean, the sluggish U.S. economy was the chief reason for the 13 percent decline in net FDI in Central America and the Caribbean in 2002 (table 3-7). The continued reduction in the U.S. manufacturing base[31] left fewer U.S. companies in a position to invest in CBERA assembly operations. The region benefited from the strong Mexican peso in 2001, which led U.S. apparel customers to shift some of their sourcing from Mexico to CBERA countries. However, superior supply chain flexibility in China and the

[31] U.S. manufacturers' shipments for all manufacturing industries peaked at $4.03 trillion in 2000 and dropped by 7.6 percent to $3.89 trillion in 2002. U.S. Census Bureau, *Manufacturers' Shipments, Inventories, and Orders: 1992-2002*, issued August 2003, p. 1.

Table 3-7
Net inward foreign direct investment in leading CBERA countries, 1999-2002

Country	1999	2000	2001	2002	Change, 2000-02
	Million dollars				Percent
Dominican Republic	1,338	953	1,198	850	-11
Costa Rica	620	408	454	642	57
Jamaica	524	468	614	535	14
Panama	652	603	513	350	-42
El Salvador	216	173	268	278	61
Honduras	237	282	195	179	-37
Nicaragua	300	265	132	170	-36
Guatemala	155	230	456	110	-52
Haiti	30	13	3	8	-38
Other	1,434	676	883	1,005	-49
Total Central America and Caribbean	5,506	4,071	4,716	4,127	1.3

Source: Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean, 2002*, table 1.2, p. 25, available at www.eclac.org, retrieved Aug. 26, 2003.

elimination of U.S. quotas on certain categories of apparel products led some customers to shift their sourcing from CBERA countries to China.[32] Investment in tourism in the region also declined following the September 11, 2001 terrorist attacks.

FDI growth in Costa Rica in 2002 reflected a doubling of investment into the manufacturing sector (from $231 million in 2001 to $484 million in 2002) as the country received startup investments for the production of tires and components and assembly of telecommunications equipment. El Salvador's FDI growth in 2002 reflected new apparel assembly plants.[33] In the energy sector, projects announced in 2001 are carrying over into 2002, with Union Fenosa of Spain building a $500 million power plant in the Dominican Republic and AES Corporation, a global power company based in New Jersey, building a $650 million power plant in Honduras.[34] Investment in Guatemala plummeted by 76 percent, in part because potential investors delayed committing funds. Investors balked because of concerns that the United States might discontinue preferential access to the U.S. market following reports that Guatemala would be decertified as a partner in the U.S. war on drugs.[35]An

[32] Erich Sterkel, Caribbean vice president, Salant Corporation, Guatemala City, Guatemala, interview with Commission staff, Feb. 27, 2003.

[33] Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean*, 2002, p. 27.

[34] Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean, 2001*, p. 36. There have been some delays in breaking ground on the AES project in Honduras.

[35] See separate discussion on decertification in the Guatemala section of this chapter.

overvalued currency also made labor costs in Guatemala increasingly uncompetitive relative to labor costs in Honduras. Concern over the upcoming presidential election in Guatemala also made potential investors cautious.[36]

The entry into force of the Caribbean Basin Trade Partnership Act in October 2000 had a positive effect on investment in the CBERA region as U.S. and Asian textile companies built knitting mills to take advantage of the provision allowing duty-free entry of certain knit apparel made from regional fabric. The legislation's exclusion of comparable duty-free treatment for apparel made from locally woven fabric had the effect, however, of skewing growth in the apparel assembly sector toward lower-value-added knit apparel. One industry official indicated that companies that had been producing higher value woven dress shirts shifted their production to Asia.[37]

As the price difference between U.S. and Asian sources of woven fabric has widened, regional apparel producers that continue to provide U.S. customers with higher quality garments made from woven fabrics have shifted from U.S.-origin fabric to woven fabric from Korea and other Asian sources. Although the restrictions in CBTPA were designed to protect U.S. producers from competition with existing regional (especially Guatemalan) producers of woven fabric and to discourage investment in textile mills that might compete with U.S. producers of woven fabric, the effect reportedly has been to encourage producers of woven garments to shift assembly to Asia to be in closer proximity to lower cost suppliers of woven fabric or to import the woven fabric from Asia.[38] Most U.S. importers of woven garments from CBERA sources reportedly pay full duty on such apparel, no longer benefiting from either HTS 9802.00.80 or CBTPA.[39]

Before passage of CBTPA, many companies in the apparel assembly industry in the CBERA region invested in dyeing and finishing operations in anticipation that the enhanced CBERA would offer NAFTA parity, which permits such operations. The Trade Act of 2002 denied duty-free treatment under the CBTPA for apparel made from U.S. fabric that was dyed and finished regionally instead of in the United States, which led to the closure of many such facilities in the region.[40] However, a significant portion of the companies with dyeing and finishing operations, having to pay full duty on garments shipped to the United States, shifted from using U.S. fabric to importing their fabric needs from Asia. Again, the added restrictions under CBTPA appear to have resulted in less U.S. fabric being used, not more.[41] This is because apparel made from Asian fabric that has been dyed and finished in the CBERA region can be sold to a U.S. customer at a lower price than apparel sewn in the CBERA region from U.S. fabric that

---

[36] U.S. Embassy staff, Guatemala City, Guatemala, interview with Commission staff, Feb. 26, 2003.

[37] Erich Sterkel, Caribbean Vice President, Salant Corporation, Guatemala City, Guatemala, interview with Commission staff, Feb. 27, 2003.

[38] Ibid.

[39] Severino Mata, general manager, Estamix, Guatemala City, Guatemala, interview with Commission staff, Feb. 27, 2003.

[40] Alfredo Milian Jerez, Executive Coordinator, Central American and Caribbean Textiles and Apparel Council, San Salvador, El Salvador, interview with Commission staff, Feb. 24, 2003.

[41] Conversation with U.S. Embassy staff, Guatemala City, Guatemala, Feb. 26, 2003.

has been dyed and finished in the United States, even though the former is fully dutiable and the latter is free of duty. The restrictions have also made apparel sewn regionally less price competitive with garments sourced in Asia.[42] The requirement that U.S.-origin fabric used in CBERA sewing operations be dyed and finished in the United States drives up the price of apparel using U.S. fabric. Also, CBERA producers of apparel made from woven fabric could reduce their costs if they could use locally-woven fabric or fabric from Mexico and qualify for duty-free entry under the CBTPA.

An overview of direct investment in selected CBERA countries follows. The three countries visited in connection with this report–El Salvador, Honduras, and Guatemala–are highlighted and are presented first. The treatment includes discussions of investment in the textile/apparel sector, an increasingly significant industry under the CBERA preference program. Other CBERA beneficiary countries that reported FDI in the period under review conclude the discussion of specific beneficiaries.

Honduras

In 2002, Honduras ranked as the third-largest supplier of textiles and apparel to the U.S. market. Honduras ranks first among Central American and Caribbean Basin Initiative countries in textile exports to the United States. Total exports from the Honduran maquila industry totaled $2.44 billion in 2002, a slight increase over previous figures of $2.34 billion in 2001 and $2.36 billion in 2000.[43]

With excellent port facilities in Puerto Cortes, a good highway system connecting assembly plants with the port, and labor costs lower than those in the Dominican Republic, Costa Rica, El Salvador, or Guatemala, Honduras has become the leading recipient of investment in both textile mills and apparel assembly plants in 2001 and 2002. The textile and apparel sector is the largest source of export earnings and employment in Honduras, accounting for one-half ($2.6 billion) of total exports in 2001 and 26 percent (107,000 workers) of all employees in 2002.[44] Honduras was the third-largest supplier of U.S. apparel imports in terms of square meter equivalents (SMEs) after Mexico and China in 2002.

Textile/apparel industry structure

The Honduran textile and apparel sector traditionally has processed U.S. materials into apparel for export to the United States. U.S. apparel firms shipped cut garment parts to Honduras for assembly and imported the finished garments under HTS

[42] Ibid.

[43] U.S. Department of State telegram, "Honduran Textile Industry Downturn Highlights USITC Caribbean Basin Investment Survey," message reference no. 01686, prepared by U.S. Embassy, Tegucigalpa, July 16, 2003.

[44] Mario Canahuati, *Written Testimony of the Embassy of Honduras Before the U.S. International Trade Commission*, Feb. 4, 2003, p. 1.

9802.00.80 without duty on the U.S. content. The pattern of U.S. production-sharing activity in Honduras began to change with implementation of CBTPA. 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.[45] A few Honduran firms now offer full-package programs, which include not only the traditional sewing operations, but also global sourcing of required inputs, cutting imported fabrics, knitting fabric in local textile mills, dyeing, finishing, washing, and packaging of the garments, ready for point of sale.[46]

Employment in the Honduran textile and apparel sector grew from 50,000 workers in 1994 to 126,000 in 2000, and then fell to 110,000 in 2001, when 36 maquila plants closed as a result of a weak export market, investments by more efficient producers in Honduras, and decreased availability of fabric from the United States.[47] Although several of the maquilas continued to down-size in 2002, leading to a reduction in employment to 107,000 workers, 20 new companies were registered in the industry that year, creating 3,000 jobs. Industry production grew by 7 percent in square meter equivalents (SMEs) in 2002 and by 3 percent in value to $2.43 billion.[48]

Apparel producers in Honduras have an advantage over assembly plants in Nicaragua and El Salvador in terms of quick response and transportation costs. Most apparel produced in Nicaragua reportedly is transported by truck to Puerto Cortes in Honduras, then shipped to the United States,[49] while most apparel produced in El Salvador is transported by truck to either Puerto Cortes or to Santo Tomas de Castillo in Guatemala.[50]

---

[45] Alina Morales, Woong Chun Honduras, Naco, Santa Barbara, Honduras, interview with Commission staff, Feb. 21, 2003.

[46] In order to supply the customer with the precise type of garment required on a timely basis, the apparel producer often must use Asian fabric or perform dyeing or finishing operations on U.S. fabric that disqualify the garment from CBTPA preferences.

[47] Although a State Department cable attributes the reduction in the number of maquiladora assembly plants and their employment in 2001 to weakness in the U.S. market, a representative of a textile manufacturer in Honduras, in an interview with Commission staff in San Pedro Sula, Honduras, Feb. 21, 2003, offered a differing view, attributing much of the reduction in plants and employment to investment by Montreal-based Gildan. Some of the smaller and fiscally weaker U.S.-based t-shirt manufacturers in Honduras could not compete with the scale and productivity of the new Gildan plants, one of which makes fabric from cotton spun in the United States and the other three of which manufacture t-shirts. While employment in the Honduran apparel industry decreased by 13 percent in 2001, U.S. imports of apparel from Honduras actually grew by 1 percent. Some Honduran apparel producers reportedly went out of business in 2001 because the failure of numerous U.S. textile firms reduced the availability of fabric from the United States, leading customers of the Honduran companies to switch to Asian suppliers. See Jesus Canahuati, "Message from the President," Honduran Apparel Manufacturers Association, *2002 Annual Report* .

[48] Henry Fransen, "Message from the Executive Director," in Honduran Apparel Manufacturers Association, *2002 Annual Report*.

[49] It takes one day to ship apparel by truck from assembly plants in Managua, Nicaragua, to Puerto Cortes. Most apparel produced in El Salvador is transported by truck to Puerto Cortes. Representative of a Honduran textiles manufacturer, interview with Commission staff, Feb. 21, 2003.

[50] The newer port at Santo Tomas is supplanting the older facilities at nearby Puerto Barrios.

Investment in the textile/apparel sector

The cumulative investment position in the Honduran textile and apparel sector in 2001 totaled $1.4 billion, of which $751 million was FDI and $670 million was local investment. The United States was the leading foreign investor, accounting for 26 percent ($370.2 million) of the 2001 FDI total, followed by Korea with 10 percent ($145.5 million). Honduras has attracted FDI to its 24 industrial parks during the past 10 years because of its low labor costs, proximity to its export market, modern infrastructure, U.S. tariff and quota preferences, and various financial incentives.[51] The industrial parks typically employ more than 5,000 workers each and provide a wide range of services to tenants.[52]

The largest textile mill in Honduras is a U.S.-Honduran joint venture. Companies based in Canada, Korea, and Taiwan have also built textile mills in Honduras, enhancing efforts by apparel producers in Honduras to become full package suppliers. In addition to making textiles for the regional apparel producers, Taiwan-based Yangtex is manufacturing plastic articles and plans to make cardboard packaging material to reduce costs and turnaround times for its customers.[53] In October 2002, the China Institute of Taiwan and the Honduran Apparel Manufacturers' Association signed a cooperation agreement to set up a textile research institute in Honduras.[54]

The United States supplies most of the cotton fabric used by Honduran apparel manufacturers and almost all of the processed cotton and cotton yarn employed by Honduran textile mills. Asian suppliers are used primarily for woven fabric of man-made fibers.

Honduras supplies the U.S. market with low-cost cotton and manmade fiber garments for which other major foreign suppliers generally are constrained by quotas but which will be eligible for quota-free access to the U.S. market beginning in 2005. Honduras is the leading supplier of outerwear t-shirts to the U.S. market. Quick turnaround times for t-shirts with time-sensitive designs is an important competitive advantage for Honduras. Honduras also is the leading world supplier to the U.S. market of cotton underwear and the leading CBERA country supplier of brassieres and men's and boys' knit shirts of man-made fibers, such as mesh football jerseys.

All seven of the textile mills in Honduras, which were established because of the regional fabric provisions of the CBTPA, produce knit fabric; none produces woven fabric. Representatives of Yangtex and Woong Chun indicated that if provisions of the

---

[51] "Honduras Losing Shares on U.S. Apparel Market," Emerging Textiles, found at *http://www.emergingtextiles.com*, retrieved on June 5, 2002.

[52] U.S. Department of Commerce, "Honduras: Industry Sector Analysis, Textile Machinery and Fabrics," found at *http://usatrade.gov/website/MRD.nsf/MRDurl/ISA_HONDURAS_TXF_TEXTILE-MACHINERY-&_00128BC*, retrieved Feb. 26, 2002.

[53] Commission staff interview with a representative of Yangtex in Cofradia, Honduras, Feb. 21, 2003.

[54] "A Hand to Honduras," *Textile Asia*, Oct. 2002, p. 78.

proposed Central American Free Trade Agreement allow duty free entry of garments made from locally woven fabric, parent companies would likely invest in weaving mills in Honduras.[55]

The Central Bank reports that new FDI in Honduras in 2002 totaled $219 million, of which $76 million (35 percent) was in the maquila industry. This was down from $296 million of FDI in 2001, of which $101 million (34 percent) was in the maquila industry. A total of 13 maquilas closed in 2002, though 11 new maquilas opened during the same period. Of the 13 closings, eight were U.S. companies, while only three of the new ventures were U.S. in origin.[56]

The Honduran Maquila Association represents 90 percent of the apparel assembly operations in Honduras. The Association is the primary source of statistical information for the industry. Through the U.S. Embassy in Tegucigalpa, the Honduran Maquila Association reported that in 2002 U.S. companies owned 40 percent of the maquilas in Honduras. This share was followed by Honduran companies (31 percent), and companies from Korea (15 percent), Hong Kong (4 percent), and Taiwan (2 percent). The Honduran Maquila Association reported that in response to the CBTPA enhancements in the U.S. preference program, four knitting operations and several investments in full-package apparel operations were initiated during 2002.[57]

El Salvador

El Salvador's economy has been driven since the early 1990's by high levels of investment that have coincided with the end of the 12-year civil war. The maquila industry has accounted for a substantial proportion of GDP and exports, as a result of the establishment of free zones under the Free Trade Zones Law and the Export Reactivation Law.[58] In 2001, the maquila industry, in particular apparel, accounted for $1.65 billion of revenue collected, with 64.1 percent of total exports destined for the United States.[59]

Investment from the Japanese government includes a joint $241 million loan in conjunction with the El Salvador government and the Central American Bank for Economic Integration that will allow for the development of more accessible roads, additional bridges and greater access to urban centers.[60] Currently much of El Salvador's imports of consumer and intermediate goods, which were valued at $1.65 billion in 2001 and $1.37 billion in 2001, are trucked in from Honduras and Guatemala.

---

[55] Commission staff interviews with representatives of Yangtex and Woong Chun, Naco, Santa Barbara, Honduras, and San Pedro Sula, Honduras, Feb. 21, 2003.

[56] U.S. Department of State telegram, "Honduran Textile Industry Downturn Highlights USITC Caribbean Basin Investment Survey," message reference no. 01686, prepared by U.S. Embassy, Tegucigalpa, July 16, 2003.

[57] Ibid.

[58] U.S. Department of State telegram "2002 Investment Climate Statement for El Salvador" message reference no. 88106, prepared by U.S. Embassy, San Salvador, June 21, 2002.

[59] *Economist Intelligence Unit*, Viewswire, "Economic Structure."

[60] Country Commercial Guide: El Salvador: Economic Outlook and Trends.

The U.S. Embassy in San Salvador reports that CBTPA has encouraged the production of shoes and artisan goods. Several call centers and distribution centers have been developed in El Salvador, but they cannot solely be attributed to CBERA or to CBTPA. Important investments have taken place in a tuna processing plant and a greenhouse tomato facility, with the former encouraged by the CBTPA. The future of diversification is more dependent on CAFTA and the elimination of nontariff barriers.[61]

The number of free trade zones (FTZs) in El Salvador has increased from 8 in 2000, to 15 in 2001, and increased again to 16 in 2002. A new one has opened since early 2003. Over the same period the number of companies located within FTZs has increased from 220 in 2000 to 252 in 2003. Employment in these zones dropped from 82,517 in 2000 to 81,220 in 2001, then rose to 84,267 in 2002 and increased again to 87,665 in March 2003. This increase in employment appears to be directly related to the increased operations resulting from CBTPA.[62]

Investment in the textile/apparel sector

Before liberalization of CBERA with the CBTPA enhancements, FDI in the region had been declining (see table 3-6). FDI in El Salvador has never matched the level of the $1.1 billion attained in 1998.

The textile and apparel sector employs nearly 10 percent of El Salvador's workforce. There were 34 new participants in El Salvador's FTZs in 2001, with most of the investments related to the CBTPA.[63] Most investments in El Salvador following the entry into force of the CBTPA have come from companies based in Taiwan. Taiwanese companies have built textile mills, laundry facilities, and other support services with the goal of making the apparel sector in El Salvador quick response, full-package suppliers to the U.S. market.[64]

Several U.S., Honduran, and Taiwanese companies established dyeing and finishing operations in El Salvador in anticipation that the expansion of the CBERA would provide NAFTA parity for apparel. As noted earlier, the Trade Act of 2002 made apparel assembled from U.S. fabric ineligible for duty-free treatment under the CBTPA unless the fabric was dyed and finished in the United States. This led several apparel companies to shift from U.S. fabric to Asian fabric, allowing them to use their investments in dyeing and finishing to be more responsive to their U.S. customers, even though such garments are fully dutiable.[65]

---

[61] U.S. Department of State telegram, "Caribbean Basin Investment Survey–El Salvador," message reference no. 01791, prepared by U.S. Embassy, San Salvador, July 2, 2003.

[62] Ibid.

[63] Commission staff interview with Yolanda Mayora de Gavidia, special advisor to the Minister of the Economy, San Salvador, El Salvador, Feb. 24, 2003.

[64] Commission staff interview with Maria Teresa O. De Rendon, Executive Director, El Pedregal Free Zone, La Paz, El Salvador, Feb. 25, 2003.

[65] Commission staff interview with Roberto Bonila Morales, Miramar Free Zone, Olpcuilta, La Paz, El Salvador, Feb. 25, 2003.

With the expiration of CBTPA scheduled for 2008, some potential investors are waiting to see the rules of origin under the Central American Free Trade Agreement and the Free Trade Area of the Americas before constructing new knitting mills in El Salvador. In order to qualify for duty-free treatment under the CBTPA, some knitting mills have shifted from regionally spun cotton to importing yarn from the United States. As a result, local yarn spinners in El Salvador and Guatemala have been adversely affected by the CBTPA.[66]

There are 16 fabric producers in El Salvador and 240 apparel manufacturers.[67] These companies accounted for 66 percent of the value of El Salvador's total manufacturing output in 2002. Ownership of the sewing operations is fairly evenly mixed between U.S., Taiwanese, and Salvadoran companies. The Taiwan-owned operations tend to have greater supply chain depth and are in a better position to be full-package suppliers to U.S. customers. Two of the textile mills are owned by Taiwanese companies; the rest are Salvadoran.[68] The Canadian cotton t-shirt company, Gildan, contracts out production to sewing operations in El Salvador because its four plants in Honduras are operating at full capacity.

The maquila industry in El Salvador employs 80,000 workers, which represent 8 to 10 percent of the country's total work force. About 90 percent of these workers are involved in apparel production. Another 10,000 workers are employed by the 16 textile mills. Since October 2000, with the entry into force of the CBTPA, El Salvador has added 34 companies in the maquila sector and doubled the number of FTZs from 8 to 16.[69]

Asian companies making t-shirts provided most new investments in the apparel sector in 2001 and 2002.[70] At one foreign trade zone visited by Commission staff in February 2003, all six companies that invested in the FTZ in 2001 and 2002 did so because of the CBTPA. Three companies were based in Taiwan, two in Korea, and one in Mexico.[71] Nine of the 10 companies in the FTZ were in the apparel sector; three had contracts with Sara Lee and one with Levi Strauss.

---

[66] Commission staff interview with Alfredo Milian Jerez, executive coordinator, Central American and Caribbean Textiles and Apparel Council. Interview with Commission staff, San Salvador, El Salvador, Feb. 24, 2003.

[67] Ibid.

[68] Commission staff interview with Edwin Zamora, president, UNITEX, San Salvador, El Salvador, Feb. 24, 2003.

[69] Commission staff interview with Yolanda Mayora de Gavidia, special advisor to the Minister of the Economy, San Salvador, El Salvador, Feb. 24, 2003.

[70] Commission staff interview with Emma Arauz M., director, Trade & Investment Center, Salvadoran Foundation for Economic and Social Development, Antiguo Cuscatlan, La Libertad, El Salvador, Feb. 24, 2003.

[71] Commission staff interview with Maria Teresa O. De Rendon, executive director, El Pedregal Free Zone, La Paz, El Salvador, Feb. 25, 2003.

The most significant nonapparel maquiladora operation is a printed circuit board assembly plant owned by AVX Corporation, a worldwide manufacturer and supplier of electronic components. The plant has been in operation for several years. The most recent nonapparel investment is a jewelry box plant built in 2002 in rural El Salvador by a former Peace Corps volunteer who wanted to bring jobs to the country. A German company recently built a factory to make teeth for demonstrations in dentists' offices. CBERA has been instrumental in the development of the watermelon industry in El Salvador. Other recent nonapparel investments include power plants constructed by Duke Energy and El Paso Energy. El Salvador's free-trade agreements with other countries in the region have led to a boost in exports of fruit and fruit drinks, plastic brooms, cardboard boxes, and children's wear to Mexico and pharmaceuticals to the Dominican Republic.[72]

Guatemala

Guatemala has the largest population in Central America, and hence the largest local market. As a result, it has been the favored location for investors, including apparel producers, seeking to manufacture for the regional market. Duty-free access to the U.S. market under CBERA has been an important incentive for the development of Guatemalan agricultural products for export to the United States. Products that have received investments in the last 2 years include berries, tobacco, melons, cantaloupes, and Chinese peapods. Several other agricultural development projects are in the concept stage awaiting financial backing.[73]

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 Korea-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 waiting for rules of origin under the Central American Free Trade Agreement before committing funds.

Relatively high energy costs have been a factor that has discouraged additional Korean companies from building textile mills in Guatemala and elsewhere in Central America. Electricity reportedly accounts for 29 percent of the total costs of producing textiles in Guatemala; labor accounts for 24 percent. Electricity costs are roughly twice as high in Guatemala as they are in China.[74]

---

[72] Commission staff interview with Erich Sterkel, Caribbean vice president, Salant Corporation, Guatemala City, Feb. 27, 2003.

[73] Commission staff interview with James Arthur Schwartz, Director of Economic Analysis, Ministry of the Economy, Guatemala City, Guatemala, Feb. 28. 2003.

[74] Commission staff interview with Myung Youn Kim, President, Korean Maquila Association, Guatemala City, Guatemala, Feb. 27, 2003.

The energy sector was the leading recipient of U.S. FDI in Guatemala during 2000-2002. The creation of an integrated electrical grid in Central America made the region much more attractive for U.S. companies that are building power plants and have negotiated power purchase agreements with the Government of Guatemala.[75] The Government of Mexico has announced plans to construct a pipeline from the State of Campeche to Guatemala to supply natural gas to the new cogeneration power plants that are being built in Central America. When completed, these projects should reduce the cost of producing textiles in Central America and make apparel from the region more competitive.

The new Guatemalan government elected in 2000 was committed to reform, and decided to privatize much of the public utility sector, such as telecommunications, water, and the transport industries.[76] Much of this was a result of a foreign investment law. This liberalization led to a surge in revenue for the Guatemalan government. The World Bank approved a $155 million loan to support the reform of the financial system, concentrating on banking framework, supervision of transactions and loans, along with the introduction of new procedures to meet higher international standards. The Mexican-owned telecommunications firms have increased the number of households with a fixed telephone line to 40 percent, with the potential to continue growing because of low fixed costs.

Investment in the textile/apparel sector

U.S. investors play a less significant role in Guatemala than in most other CBERA countries. Factories owned by Korean investors accounted for between 65 percent and 70 percent of apparel production in Guatemala in 2002. The textile and apparel industry is the second leading generator of foreign currency for Guatemala, and it provided direct employment for 122,000 people in 2002.[77] Added value by the textile and clothing industry totaled $308 million in 1998, or about 2 percent of GDP.[78]

Guatemala is the third largest regional supplier of textile fabrics, with a 17 percent market share, following Mexico (27 percent) and El Salvador (20 percent).[79] Among the leading export products of the sector are polo-type cotton knit shirts, tailored and sports shirts, cotton trousers and shorts, ladies' dresses and suits, and sleepwear.[80]

[75] Commission staff interview with Daniel Thompson, Commercial Counselor, U.S. Embassy, Guatemala City, Guatemala, Feb. 26, 2003.

[76] Country Commercial Guide: Guatemala Investment Climate Statement FY 2002.

[77] Commission staff interview with a representative of the Guatemala Textile and Apparel Commission, Guatemala City, Guatemala, Feb. 26, 2003.

[78] See Textiles Intelligence Limited, *Textile Outlook International*, September 1999, No. 83, DeCoster, Jozef, "Profile of the Guatemalan Clothing Export Industry," p. 85.

[79] Bharat Textile.com, "Guatemala: Textile Industry and Market, A Report," Nov. 26, 2001, retrieved March 18, 2003.

[80] AGEXPRONT, VESTEX, Guatemala Apparel and Textile Commission, retrieved from *http://www.agexpront.com/apparel.gl.htm*, Nov. 8, 2002.

Among the key determinants of Guatemalan competitiveness are proximity and quick turn-around time. The ability to provide full-package services is increasing, while Guatemala's eligibility for U.S. preferential rates of duty is becoming less important. 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.[81]

About 95 percent of Guatemala's apparel shipments are exported to the United States. Unlike the top three CBERA region suppliers, less than one-half of U.S. apparel imports from Guatemala qualified for preferential tariff treatment in 2002, indicating the strong linkage between Korean-based apparel manufacturers in Guatemala and Asian fabric producers.[82] By contrast, 88 percent of U.S. imports of apparel from Honduras, the Dominican Republic, and El Salvador were made from U.S. yarn or fabric and entered under CBTPA and/or production-sharing tariff provisions in 2002.

Textile/apparel industry structure

Textiles—As of February 2003, there were 36 textile companies in Guatemala, up from 27 in 2000, employing approximately 18,500 people (table 3-8). Two of these textiles mills are owned by Korean companies that are vertically integrated, full-package suppliers of apparel to major U.S. retailers. Three knitting mills are owned by U.S. apparel producers Calvin Klein, Tommy Hilfiger, and Jockey. Each makes higher value-added garments in Guatemala.[83] Most of the remaining textile mills are Guatemalan-owned, and many make their own yarns by purchasing cotton, polyester, and rayon fiber mainly from the United States. Local production of yarns and sewing thread totaled $43 million in 2000. There are approximately 20 yarn and sewing thread manufacturers in Guatemala specializing mainly in the production of cotton and cotton blends. Mexico is the leading foreign supplier of fabric to the Guatemalan market, followed by El Salvador, the United States, Taiwan, and Korea.

Apparel—As of February 2003, there were 230 apparel producers in Guatemala, employing approximately 104,000 people (table 3-8). In June 2001, there were 313 plants in total in Guatemala (44 textile plants and 269 apparel plants), with 160 of these plants owned by Korean-based companies. The reduction in the number of textile and apparel factories to 266 plants by December 2002 represents a consolidation in the industry rather than declining competitiveness as U.S. imports of

[81] Commission staff interview with a representative of the Guatemala Textile and Apparel Commission, Guatemala City, Guatemala, Feb. 26, 2003.

[82] Although Korean apparel companies originally invested in Guatemala to take advantage of proximity to the U.S. market and reduced tariffs afforded apparel sewn from U.S.-cut fabric under HTS provision 9802.00.80, many Korean companies responded to rising U.S. fabric prices by shifting to lower-cost fabric from Korea and other Asian sources. Commission staff interview with Myung Youn Kim, president, Korean Maquila Association, Guatemala City, Guatemala, Feb. 27, 2003.

[83] Commission staff interview with a representative of a major brand-name marketer, Guatemala City, Guatemala, Feb. 27, 2003.

Table 3-8
Textile and apparel producers in Guatemala: Number of plants and employment, 1998 and 2002

	1998	2002
Textile operations (number of plants)	24	36
Apparel production (number of plants)	244	230
Accessory/support firms (number of plants)	205	260
Number of sewing machines	53,058	66,753
Employment in the textile sector (number of workers)	n.a.	18,500
Employment in the apparel sector (number of workers)	n.a.	104,071
Employment in the support sector (number of workers)	n.a.	15,500
Total textile and apparel employment (number of workers)	77,107	137,571

Source: 1998 data from *Textile Asia*, "America Suffers," July 2001, p. 118; 2002 data from the Guatemalan Apparel and Textile Commission (VESTEX) during interview with Commission staff, Guatemala City, Guatemala, Feb. 27, 2003.

apparel from Guatemala rose by 3 percent in 2002. During 1999-2001, several Korean enterprises, three Chinese firms, and one Hong Kong firm opened facilities, although it was reported that following the downturn in the U.S. economy in early 2001, three apparel manufacturing operations in Guatemala were closed, with a loss of 1,200 jobs.[84]

The key to continued competitiveness in this sector is through vertical integration and/or development of complementary manufacturing clusters, as well as the ability to deliver apparel products and services that meet the requirements of U.S. retailers and brand-name marketers.[85] The CBTPA was viewed as a step in this direction, but denying duty-free treatment for apparel of U.S.-origin fabric that had been dyed or finished in the CBERA region reportedly undermined efforts by Guatemalan companies to become full-package suppliers. Their officials stated that their hopes for full achievement of this goal rest on the rules of origin under a Central American Free Trade Agreement. They hope these rules will be crafted in a way that corrects restrictions placed on apparel producers in the CBERA region by the Trade Act of 2002.[86]

Monetary policies aimed at keeping a strong national currency have reduced the cost competitiveness of Guatemalan labor. However, because Guatemala is dependent on imported petroleum, these same monetary policies have reduced the country's petroleum import bill. With higher labor costs than some other countries in the CBERA region, Guatemala is not well positioned to compete in the most price-sensitive products—underwear and t-shirts. Instead, the Guatemalan apparel industry has concentrated on higher end garments like shirts, blouses, and pants where producers can take advantage of the sewing skill of the local labor force.

---

[84] Textile Asia, "America suffers," July 2001 p. 118.

[85] Commission staff interviews with representatives of apparel manufacturers and textile mills, Guatemala City, Guatemala, Feb. 26, 2003.

[86] Commission staff interview with economic and commercial affairs officer, U.S. Embassy, Guatemala City, Guatemala, Feb. 26, 2003.

The Guatemalan Apparel and Textile Industry Commission (VESTEX) reported that 60 percent of the fabric produced by Guatemala's textile industry in 2001 consisted of woven fabric, and 40 percent of knit. Apparel exported to the United States was split evenly between woven and knit garments.[87] The greater emphasis on apparel made from woven fabric compared with other CBERA countries may have contributed to the relatively low portion of U.S. imports of apparel from Guatemala that qualified for duty-free treatment under the CBTPA.

Decertification

With the January 2003 release of the President's Narcotics Certification Determinations for Fiscal Year 2003, Guatemala was officially decertified by the U.S. Department of State. Guatemala was one of three countries found to have failed to make substantial efforts during the previous 12 months to meet international counter-narcotics requirements. The finding was the result of a determination that "the Guatemalan Government's counter-narcotics performance deteriorated substantially in 2002."[88] Among the cited threats were cocaine transshipment, corruption of government officials, and growing domestic drug abuse.[89] Although the decertification was waived in the national interest of the United States, the decertification process reportedly has had a chilling effect on new investments in textile mills in Guatemala, which require a substantially greater financial commitment than investments in sewing operations.[90]

CBERA and CBTPA investments

Guatemala was an original beneficiary under the CBERA preferences implemented in 1984. The nation also received enhanced CBERA privileges in 1990 and CBTPA eligibility in 2001. A number of companies made substantial investments at their facilities in Guatemala to prepare for finishing operations (such as stonewashing, bleaching, dyeing) that were eventually disallowed under the final language of the legislation pursuant to the 2002 amendments to the Trade and Development Act of 2000. Because of this false start, several companies received no payback from their investments and actually had to down-size after the CBTPA entered into force. Restrictions against dyeing and finishing and use of locally-woven or Mexican-produced fabric have significantly impaired the ability of Guatemalan firms

[87] Guatemalan Apparel and Textile Industry Commission (VESTEX), "Quick Response: Our Competitive Advantage," CD ROM provided to Commission staff, Guatemala City, Guatemala, Feb. 26, 2003.

[88] U.S. Department of State, "Briefing on the President's FY 2003 Narcotics Certification Determinations," Jan. 31, 2003, retrieved from *http://www.state.gov/g/inl/rls/rm/17110.htm* on April 23, 2003.

[89] U.S. Department of State, Bureau for International Narcotics and Law Enforcement Affairs, "Fact Sheet–Country Programs-Guatemala," March 11, 2003, retrieved from *http://www.state.gov/g/inl/rls/fs/18532.htm* on April 23, 2003.

[90] Commission staff interview with representative of a U.S. brand-name marketer, Guatemala City, Guatemala, Feb. 26, 2003.

to offer full-package services.[91] Industry sources indicated that Perry Ellis, Van Huesen, and other companies shifted their sourcing of men's high-quality dress shirts of cotton from Guatemala and Honduras to Asia after the CBTPA excluded apparel of locally-woven fabric from duty-free treatment under the preference program.[92] Some companies opted out of using the CBTPA preferences and are importing fabric from Asia instead.[93] Some companies do offer full-package services, but in doing so, the apparel produced in their facilities is disqualified from entry under the CBTPA and is subject to NTR rates.[94]

Competitive Impacts of a Central American Free Trade Agreement

In a submission to the USITC,[95] the Government of Guatemala, through its Executive Office of Textiles and Apparel Quotas, said negotiations for a Central American Free Trade Agreement will have a direct impact on the competitiveness of the textile and apparel industry in Guatemala. The Executive Office and VESTEX outlined the goals of these negotiations. These included expanded trade for textiles and apparel; and enhanced competitiveness for the region through expanded rules of origin, particularly for the use of inputs from other Central American countries, Mexico, and Canada. Guatemala also places priority on provisions permitting the dyeing, finishing, and printing of fabrics in the region without loss of duty-free entry to the United States; the inclusion of apparel made from woven fabric as well as apparel made from knit fabric; and an integrated customs compliance procedure and security program, similar to the one for goods from Asia and Europe. The submission stated that the Guatemalan industry believes that its future rests on the negotiation of both CAFTA and the Free Trade Area of the Americas (FTAA). It states that these agreements should include expanded access for textiles and apparel so that the region can attain the economies of scale that will assure an ongoing competitive advantage to the textile and apparel sector.

---

[91] Commission staff interviews with representatives of apparel manufacturers, Guatemala City, Guatemala, June 2001. One Guatemalan textile plant relocated to south Florida so that its output would be considered U.S. fabric. Following the elimination of dyeing and finishing, the textile plant returned to Guatemala to produce fabric from south Asian yarns. U.S. Department of State telegram, "Textiles - Life After Quotas," message reference no. 02829, prepared by the U.S. Embassy, Guatemala City, Guatemala, Oct. 31, 2002.

[92] Commission staff interview with representative of a U.S. brand-name marketer, Guatemala City, Guatemala, Feb. 26, 2003.

[93] Commission staff interviews with representatives of apparel manufacturers, Guatemala City, Guatemala, June 2001.

[94] According to a Korea-based textile and apparel producer in Guatemala, the Guatemalan textile industry produces a limited variety of fabrics and no specialty fabrics. To be full package suppliers, the Guatemalan apparel industry needs to be able to use Mexican fabrics, which are available in the quantities and varieties that the customers require. If provisions of a Central American Free Trade Agreement permit the use of Mexican fabrics, many Korea-based apparel producers in Guatemala reportedly would shift from using Korean and other Asian fabrics to using Mexican fabrics instead.

[95] Government of Guatemala, Executive Office of Textiles and Apparel Quotas, brief submitted to the U.S. International Trade Commission in connection with investigation No. 332-448, Feb. 5, 2003.

A U.S. citizen and former president of the American Chamber of Commerce in Guatemala City has observed that major U.S. retail brands want new, simplified rules in CAFTA. She maintained that "a smart rule should be something that can fit on one page, rather than taking eleven pages as in current rules," and that those same customers also want access to fabric from Mexico and the Andean region for use in Central American production. The bottom line, according to this informant, is that in order for Central American countries to compete with China and India after 2005, they will have to be able to use yarn, fabric and fiber from anywhere in the region, from Peru to Canada, and, ideally, should be able to ship back finished garments from the region duty and quota free, without restriction.[96]

Barbados and St. Vincent and the Grenadines

According to the U.S. Embassy in Bridgetown, Barbados has a diverse economy with a strong services sector. The government encourages the establishment of manufacturing outposts by offering investors numerous benefits, but tourism and financial services remain Barbados' most important sectors. Among the top products exported to the United States under CBERA in 2002 are electronics, rum, measuring/control instruments, fish, fuel oil, and typewriters. Although most companies already exporting under the CBERA reported few problems, Barbados' investment promotion authority cited rules of origin requirements as an impediment to the expansion of exports to the United States. The Government of St. Vincent and the Grenadines (SVG) had no data on foreign direct investment for 2002 and reported that no new companies began exporting under the CBERA last year.[97]

Costa Rica

As reported by the U.S. Embassy in San Jose, FDI in Costa Rica in 2002 totaled $397 million, down from $448 million in 2001.[98] This is the lowest level of FDI in Costa Rica since prior to 1998. The industrial sector represents 57 percent of total FDI in 2002, while tourism accounts for 26 percent. The United States is Costa Rica's primary trade partner and also its main source of FDI.[99] The United States is also the largest commercial and agriculture investor in Costa Rica.

Costa Rica has a highly qualified and educated labor force, attracting a wide range of companies from computer parts manufacturing, such as Intel, to consumer drug companies, such as Procter and Gamble. The benefits of CBERA, which encourages the

[96] As reported by the U.S. Embassy, Guatemala City, e-mail to USITC, Office of Economics, Sept. 7, 2003.

[97] U.S. Department of State telegram, "Annual Caribbean Basin Survey - Barbados and St. Vincent," message reference no. 01794, prepared by U.S. Embassy, Bridgetown, July 10, 2003. The embassy contacted investment agencies of the islands of Antigua and Barbuda, Barbados, Domenica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines (SVG) in regard to the ITC cable request. Responses from Barbados and SVG have been received to date.

[98] This number conflicts with the reported figure in table 3-6 ($642 million.)

[99] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference no. 01765, prepared by the U.S. Embassy, San Jose, Costa Rica, July 2, 2003.

establishment of free trade zones in the textile industry, have led to growth in these exports, as well as expansion in tourism and a move away from traditional agricultural exports. In 2001 the industrial sector, which includes the textile and garment sectors, received $231 million of FDI. Tourism was a distant second receiving $121 million in FDI in 2001.[100] Potential growth areas include these FTZs, tourism, and business services such as the internet, and financial services. In particular the government is looking to diversify exports in the agricultural sector, which in 2000 generated 10.6 percent of GDP, and further, to change the focus to a manufacturing-based economy.

Microprocessor exports, such as medical equipment and software, are an attractive area for government promotion of investment. These enjoy duty-free entry of imported inputs through the inauguration of 8 FTZs. In these FTZ's, products that can enhance the export or re-export process of a firm may be entered free of duty. The government is also encouraging investors to improve the infrastructure as a means of reducing costs and remaining competitive through improving the existing road network and ports.

Dominican Republic

Foreign direct investment in the Dominican Republic grew from $953 million in 2000 to $850 million in 2002.[101] Along with tourism, the Dominican Republic has targeted service sectors such as financial, e-commerce, mining, and electricity for future growth.

The retail and manufacturing sectors have burgeoned as a consequence of the tourism encouraged by the government. The export free-zones, which concentrate primarily on garments and other textiles, and also include the production of electrical items and leather goods, were established with a variety of income tax incentives.

Total investment in the free trade zones amounted to $72.6 million in 2001.[102] In 2001, the principal goods traded were shipped from the export-zones, and were valued at $4,538 million; 87.1 percent of Dominican exports were destined for the United States. That share was attributable to substantial input from U.S. firms into the $201.6 million invested in the economy. In 2000 there were 481 companies located in the export-zones; in 2001 the number had grown to 513; and in 2002, reached 520.[103] The Dominican Republic is one of the leading CBERA beneficiaries in supplying clothing to the United States.

---

[100] U.S. Department of State telegram, "Investment Climate Statement for Costa Rica," message reference no. 01903, prepared by the U.S. Embassy, San Jose, Costa Rica, July 16, 2003.

[101] United Nations Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America, 2002*, found at Internet address *http://www.eclac.org*, retrieved June 30, 2003.

[102] US Department of State telegram "Investment Climate Statement 2004 Dominican Republic," message reference no. 03556, Kingston, Jamaica, July 11, 2003.

[103] *Economist Intelligence Unit*, Viewswire, "Country Background: Economic Structure"

Jamaica

As reported by the U.S. Embassy in Kingston, between 1984 and 2002 Jamaican exports to the United States grew on average by 5 percent per annum. Expansion was particularly strong between 1986 and 1995, when exports grew by 12 percent per annum. Since the mid-1990s, there has been an observable decline (-4.5 percent per year) in non-traditional exports and in particular, apparel and tobacco, due to intense global competition, including from neighboring Caribbean Basin countries.

The downturn of the apparel sub-sector in Jamaica has led to little or no new export activity taking place in the free zones, especially since 1995. The decline in exports has occurred in spite of CBERA/CBTPA preferences, although a vast number of exporters surveyed were unaware of the details of these preferences. However, even when preferences were explained to exporters and they were asked if they would have launched the project in the absence of these preferences, the overwhelming response was no.[104]

The embassy supplied information on 31 CBERA-related investment projects during 2002 in response to the ITC cable request. This information has been incorporated into table 3-9.

Panama

According to the U.S. Embassy in Panama City, Panama experienced a continued decline in FDI concurrent with the drop in exports over the last three years. Since the buoyant days of privatization and Canal turnover in the late 1990's, FDI in Panama has fallen from a high of $1.3 billion in 1997 to just $56.9 million in 2002. FDI fell off drastically in 2002. Panamanian authorities have pointed to massive losses sustained by Banco Latinoamericano de Exportaciones, S.A as the reason for the loss of international interest in Panama as a locus for investment in 2002. The embassy reported a weak response to its survey of CBERA-related FDI in 2002. Only 2 companies out of 65 eligible responded to the post's inquiry.[105]

Nicaragua

The U.S. Embassy in Managua reports that the Nicaraguan government does not maintain statistics on overall FDI.[106] The Commission received information on companies operating in FTZs in Nicaragua. The data distinguishes between new investment in 2002 and existing companies, previously reported, that had expanded in the last two years. The former information is included in table 3-9. Of the 56 total projects reported, 1 is in the textile sector, while 34 are in the apparel sector.

---

[104] U.S. Department of State telegram, "Jamaica USITC Annual Caribbean Basin Investment Survey," message reference no. 01810, prepared by the U.S. Embassy, Kingston, Jamaica, June 30, 2003.

[105] U.S. Department of State telegram, "Panama's Submission for USITC Annual Caribbean Basin Investment Survey," message reference no. 01781, prepared by the U.S. Embassy, Panama City, Panama, July 10, 2003.

[106] E-mail and attachment received from U.S. Embassy in Managua, Nicaragua, " RE: Caribbean Basin Investment Survey," Sep. 4, 2003.

Table 3-9
Reported investments in CBERA countries, 2002

Country	Number of projects in mnfg/ag	Value of investment in mnfg/ag	Number of projects in apparel	Value of investment in apparel
		Millions of dollars		*Millions of dollars*
Jamaica	31	18.0	([1])	([1])
Costa Rica	21	16.2	3	.6
Nicaragua	14	41.8	3	30.3
Guatemala	10	17.5	10	17.5
Panama	2	17.0	([1])	([1])
Total	78	110.5	16	48.4

[1] No apparel projects were reported.

Source: Cables from U.S. embassies in selected CBERA countries.

According to the U.S. Embassy, sixty percent of the companies that operate in Nicaraguan FTZs are engaged in apparel manufacture. Most of these companies are of Taiwanese, Korean, or Hong Kong ownership. A small sample of these companies indicated that they typically export nearly all of their product to the United States. Most of the Asian companies are not using CBERA/CBTPA benefits; rather, they use Nicaragua as a platform for Asian fabric. In contrast, the U.S. and Nicaraguan companies are more likely to be importing U.S. fabric in order to take advantage of CBERA benefits.[107]

CBERA-Related Investment in 2002

As a result of a USITC cable request that countries specify the new projects of 2002, investment data were received from eight embassies representing nine CBERA beneficiaries.[108] The information obtained from U.S. diplomatic posts in CBERA countries identify 64 investment projects in CBERA-related goods in the year 2002. Table 3-9 identifies how many projects were undertaken in each country, with a break-out for the apparel sector.[109]

The projects listed in table 3-9 represent only a fraction of the investment that occurred in the Caribbean Basin region as a direct result of the expansion of the CBERA through the CBTPA (see examples of such investment below). Although restrictions placed on the type of apparel that would benefit from CBTPA preferences caused the legislation to fall well short of "NAFTA parity" for Caribbean Basin countries, the liberalized market access that did occur was sufficient to help apparel producers in the region

[107] Ibid.

[108] Beneficiary countries were Costa Rica, Jamaica, Panama, Honduras, Guatemala, El Salvador, Nicaragua, Barbados, and St. Vincent and the Grenadines.

[109] Only four of the reporting embassies were able to provide USITC with data specific enough to allow for identification of industry, products, and dollar amounts.

maintain their share of the U.S. market in 2001 and 2002. Whereas China's share of the U.S. import market for apparel grew from 13.2 percent to 15.0 percent during 2000-2002, chiefly at the expense of Mexico whose share dropped from 13.6 percent to 12.1 percent, the share held by CBERA-eligible countries was fairly stable, edging downward from 15.1 percent to 15.0 percent.[110]

The CBTPA became effective (October 2000) just as the U.S. apparel market slumped by 3.9 percent ($4.5 billion) in 2001 and remained at that level in 2002. As a result, there was little demand for expanded production capacity in the apparel sector in the Caribbean Basin in 2001 and 2002. Instead, there was a consolidation as better-capitalized companies were able to take advantage of the CBTPA to expand their operations with value-adding processes. Several manufacturers lacking access to capital went out of business.[111] Nevertheless, the quantity and value of apparel produced in the Caribbean Basin expanded in 2002, as did employment.

The most visible manifestation of investment opportunities afforded by the CBTPA was the construction of textile mills in Central America. Seven textile knitting mills (employing over 4,000 workers) were established in Honduras in 2001 and 2002, and one was set up in Nicaragua. Two textile mills are in the planning stage for El Salvador, pending the outcome of the CAFTA negotiations. Two knitting mill managers in Honduras indicated that their parent companies would invest in weaving mills in Honduras if the CAFTA permits duty-free treatment for apparel made from regionally woven fabric (which is now prohibited under the CBTPA).[112] The industry also anticipates a growth in investment if the textile and apparel producers in the region are allowed to use regionally-spun yarn under the CAFTA instead of being required to use U.S.-spun yarn (CBTPA).

Probable Future Effects

As previously reported in this series, most effects of the one-time elimination of import duties under CBERA on the U.S. economy and consumers occurred within 2 years of the program's implementation in 1984. As a result of an increase in export-oriented investment in the region, other effects were expected to occur over time. Owing to CBERA tariff preferences, such investment in new production facilities or the expansion of existing facilities could rise, but as a result of multilateral tariff reductions in recent years, the margin of preference afforded by CBERA continues to shrink.

[110] Based on official statistics of the U.S. Department of Commerce.

[111] Alina Morales, Woong Chun Honduras, Naco, Santa Barbara, Honduras, interview with Commission staff, Feb. 21, 2003.

[112] Ibid., and Arnaldo Morales, Sales Manager, Yangtex, S.A., San Pedro Sula, Honduras, interview with Commission staff, Feb. 21, 2003.

The most recent FDI statistics show that investment in the region declined significantly during 2002. However, it is difficult to distinguish trends in investment in CBERA-eligible products alone. To supplement the aggregate FDI statistics with more specific information on CBERA-related investment trends, fieldwork was conducted in Honduras, El Salvador, and Guatemala. U.S. embassies in the Caribbean and published sources provided additional information.

The CBERA program, as it existed prior to October 2000, will likely continue to have minimal future effects on the U.S. economy in general. As described in chapter 2 of this report, the share of total U.S. imports composed of imports from CBERA countries in 2002 was small (1.8 percent). However, as stated above, the expected impact of the introduction of new preferences granted under the CBTPA, while initially believed to be potentially significant,[113] in fact has not been borne out by subsequent developments. The Congressional action to modify the CBTPA criteria and remove what had been initially allowed as to textile dyeing and finishing operations mitigated the positive effects of the CBTPA enhancements and hindered the capability of CBERA beneficiaries to continue efforts toward "full package" apparel operations. As a result, a number of apparel manufacturers in the region have opted to forego the CBTPA preferences in order to avail themselves of cheaper cloth, available domestically or in Asia.

[113] See USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000,* USITC Publication No. 3447, September 2001, pp. 91-2, 120.

CHAPTER 4:
Impact of CBERA on Beneficiary Countries

This chapter addresses a new element of the Commission's reporting requirement under the CBTPA—to evaluate the impact of CBERA on beneficiary countries' economies. This element was first addressed in the Commission's 15th report in this series, published in September 2000.[1] The CBTPA was passed in May 2000 and became effective in October 2000. The 15th report did not address the impact of the CBTPA because it had only been in operation for three months of the reporting period and imports under CBTPA entered in only one month of 2000.

The Commission's 15th report did undertake an econometric analysis of the original CBERA preference program. This analysis statistically tested 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 influential policy reforms, such as trade liberalization undertaken by beneficiary countries themselves, and preferential trade programs other than CBERA, such as GSP and production-sharing arrangements. Results suggested that CBERA may have had an overall impact on income growth in the region, but that effect was small, and significant only when combined with trade and foreign exchange reforms on the part of the beneficiary countries themselves.

Investment in the region appeared to be unaffected by CBERA. Instead, results showed that the production-sharing program, the beneficiary countries' unilateral and regional reforms, and U.S. trade reforms had the strongest impact on growth and investment in the region. NAFTA appeared to have significantly reduced the beneficial effects of the production-sharing program on both investment and growth in the region, and directly reduced Caribbean investment, as much trade, especially in apparel, was diverted to Mexico.

More than 2 years later, the provisions of CBTPA constitute a major change to the program that was the subject of the econometric analysis. CBTPA was an important revision and a significant liberalization of the CBERA program, particularly in the apparel sector. The statistical analysis of the previous report confirmed that another preferential program that focused on apparel (the production-sharing program) did spur growth and investment in CBERA beneficiary countries. Given this analysis, CBTPA could be expected to have a similar positive impact. In fact, the beneficial impact of CBTPA might be even larger because of the duty-free, quota-free access it provides in contrast to the production-sharing program. Because sufficient time has not yet elapsed, an econometric analysis of the impact of the CBTPA enhancement is precluded.

---

[1] See USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000*, USITC publication 3447, September 2001, chapter 4, pp. 93-120.

In order to assess the impact of CBTPA on beneficiary countries, information was gathered from field trips undertaken to three Central American beneficiary countries—Honduras, El Salvador, and Guatemala. To provide a perspective of the impact of the CBERA and CBTPA provisions on the CBERA beneficiary countries, economic profiles for these countries as well as their CBERA trade with the United States are presented.

For this report, the Commission also gathered information from the U.S. embassies in CBERA countries, who provided an assessment of the CBERA program's impact on beneficiary countries during the reporting period, 2001–2002. A summary of the information reported to the Commission is contained in a separate section.

Country Profiles

The three countries that were the focus of the field work for this study are highlighted in this section of the report. Country profiles are presented for these three CBERA beneficiary countries. Each profile contains information on basic economic indicators and trade statistics, such as major trading partners, principal products of trade, and the main sectors of GDP in each economy.[2] Each profile concludes with a discussion of the economy of the country in general, and the trade and investment climate as well.

CBERA Imports from El Salvador, Guatemala and Honduras

In chapter 2, table 2-14 presented U.S. imports for consumption entered under CBERA by beneficiary countries. The trade data indicate that imports under CBERA have increased over the reporting period for this report. Overall imports under CBERA increased by 259 percent between 2000 and 2002. Imports under CBERA from El Salvador increased more than 14 times, while similar imports from Guatemala nearly tripled, and those from Honduras were up nearly 7-fold. Imports from the three countries as a group increased by 710 percent from 2000 to 2002, and the three accounted for 49.7 percent of the increase in overall imports under the program in the same time period.

[2] Information for the country profiles was obtained from the following sources: data and data points are from *The Economist Intelligence Unit*, Viewswire Country Profiles; economic, trade, and investment profile information from the U.S. Department of Commerce, U.S. Commercial Service, "Country Commercial Guide Series 2002/2003," available at internet website *www.usatrade.gov/website/ccg.nsf/ccghomepage?openform*, as well as reporting cables. Impact profiles were drawn from responses to the USITC cable request to CBERA beneficiary countries as well as from reporting cables of the respective U.S. Embassy in each capital.

The CBTPA program's first complete year was 2001. By 2002, the effects of the program could easily be distinguished. More than 60 percent of overall imports under CBERA in 2002 were articles of apparel (table 2-7.)[3] Honduras, El Salvador, and Guatemala are three of the leading four beneficiary countries under the CBTPA (table 2-10.) They are thus representative of the impact of the enhanced preferential benefits of the program that was introduced in 2000. In 2002, textiles and apparel under CBTPA accounted for 89.0 percent of overall CBERA imports from Honduras. The comparable share for El Salvador is 92.0 percent, and for Guatemala it is 52.9 percent. The enhanced preferences are responsible for this dramatic shift in the composition of imports from these countries.

The economic profiles for the selected countries of Central America show the significance of the CBERA program. Honduras ranked second in terms of the value of total U.S. imports from CBERA beneficiary countries, Guatemala ranked fourth, and El Salvador ranked sixth. All three countries have consistent bilateral trade surpluses with the United States, in large part stemming from the value added to U.S. fabric in the assembly of apparel. While the recent investment experience of the selected countries has varied, country profile data show that FDI increased in two of the three beneficiaries in 2001, the year after implementation of CBTPA. In 2002, FDI declined in two of the three countries and was relatively unchanged in the third. GDP growth in Honduras and Guatemala decreased steadily over the period 2000-2002, while in El Salvador the growth rate fell between 2000 and 2001 and rose between 2001 and 2002. The average rate of GDP growth (percent) for the three selected Central American countries was 3.6 in 2000, 2.2 in 2001, and 2.2 in 2002. The comparable rates of GDP growth (percent) in the United States over the same period were: 3.8 in 2000, 0.3 in 2001, and 2.4 in 2002.[4]

---

[3] Knitted apparel and clothing accessories constituted 34.6 percent of CBERA imports, and nonknitted articles accounted for 26.4 percent of the total.

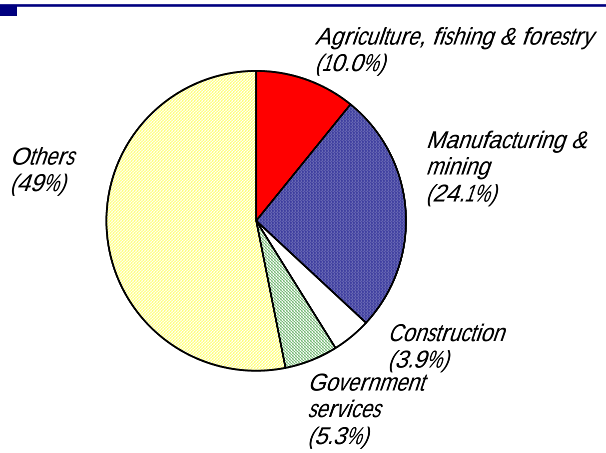
[4] Bureau of Economic Analysis, U.S. Department of Commerce, *Gross Domestic Product: Second Quarter 2003 (Preliminary), BEA 03-32, Aug. 28, 2003*.

EL SALVADOR

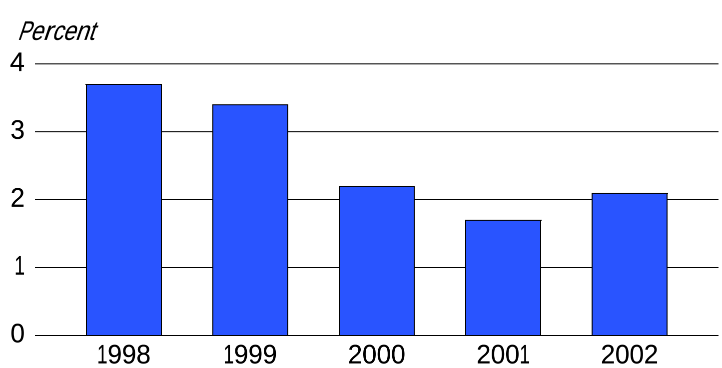
Economic Overview

Economic Indicators	2001	2002
GDP (Nominal Colones bn)	128.9	131.6
GDP (US$mn)	14,730	15,036
GDP Growth (%)	1.9	2.1
CPI Inflation (%)	3.75	1.86
Goods Exports (US$mn)	2.90	2.99
Goods Imports (US$bn)	5.19	4.90
Trade Balance (US$bn)	-2.29	-1.91
Current Account Balance (US$bn)	-0.177	-0.384
Foreign Exchange Reserves (US$bn)	1.71	15.89
Total External Debt (US$bn)	-4.3	-5.5
Debt Service Ratio, paid %	8.9	10
Exchange Rate Colones per US$	8.75	8.75

Origins of GDP



Real GDP Growth Rate



Economic Profile

While El Salvador's economy had been driven since the early 1990's by high levels of investment that followed the end of the 12-year civil war, the GDP growth of the late 90s has not continued into the new century.

The 'maquila' industry, or offshore assembly for re-export has accounted for a substantial proportion of GDP and exports. The construction industry in 2001 into 2002 experienced tremendous growth, primarily owing to rebuilding efforts as a result of powerful earthquakes that hit the country in September 2001.

The services industry, particularly banking, insurance, telecommunications, and electricity has experienced major growth since the decision to privatize these industries was made in the late nineties. There is also continuing support to privatize the remaining shares in the telecom sector, as well as the ports and airports.

Government policies have changed dramatically, beginning with the introduction of the U.S. dollar as legal tender and the gradual phasing out of the colon. This has contributed to low inflation rates as well as falling interest rates. The focus is also moving toward privatization of the remaining telecom sectors, as well as spending to improve infrastructure and social programs on education and healthcare.

Investment Profile

El Salvador's 'maquila' industry, or offshore assembly for re-export has accounted for a substantial proportion of GDP and exports, thanks to the establishment of free zones. In 2001, the maquila industry, in particular textiles, accounted for $1.65 billion of revenue collected, with 64.1 percent of total exports destined for the United States. However, many manufacturers have stated that the switch to the US Dollar as the principal currency has hurt exports by making then less competitive. Foreign direct investment in recent years is down significantly from the 1998 level; however, an uptick occurred in 2001, the first complete year of CBTPA preferences.

The regional integration movement led to the signing and continued implementation of a common market area between the Central American countries that will lead to customs standardization, a common external tariff and coordination of financial policies.

EL SALVADOR

Main Trade Partners, country and share as a share of GDP in 2001 exports/imports (percent)

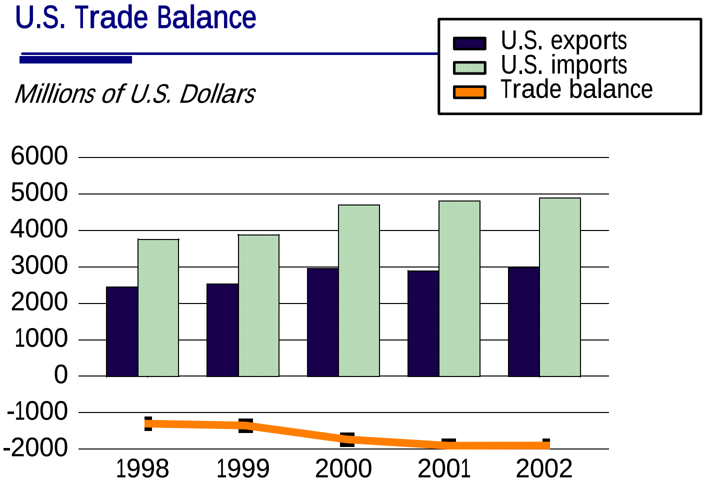
Markets		*Sources*	
USA	65.3	USA	49.0
Guatemala	11.3	Guatemala	8.7
Costa Rica	6.4	Mexico	6.2
Germany	3.3	Germany	2.5
Other	18.1	Other	33.6

Principal products of trade US$ Mn in 2002

Exports		*Imports*	
Maquila	1,758	Intermediate Goods	1,651
Coffee	107	Consumer Goods	1,373
Sugar	44	Maquila Inputs	1,283
Shrimp	10	Capital goods	883
Other	1,073		

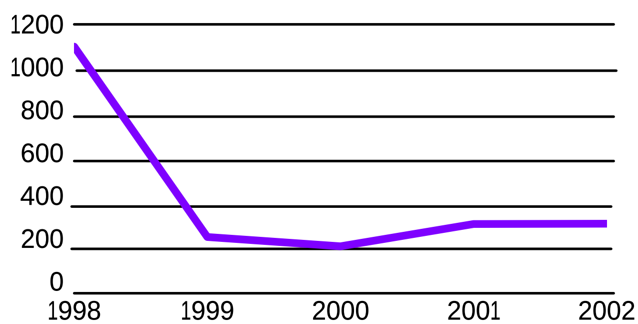
U.S. Trade Balance

Millions of U.S. Dollars



Net Foreign Direct Investment

Millions of U.S. Dollars



Trade Profile

El Salvador has only one port to facilitate trade, and combined with limited access from rural to urban centers, only limited quantities can be brought in or shipped out. Many of the consumer and intermediate goods that are imported are trucked from Honduras and Guatemala. With the continuing development of a second port to facilitate greater access for the export market, El Salvador has signed numerous multilateral trade agreements with other Central and South American governments (e.g. the Central American Common Market.) In particular, the country is involved in talks to complete the Central American Free Trade Agreement, the Free Trade Area of the Americas and free trade agreements with Canada, Chile, the Dominican Republic, and Panama.

Exports are primarily destined for the United States, with 65 percent of total exports originating from the maquila industry. The United States is also the principal partner for imports to El Salvador, as it is the source of 49 percent of Salvadoran total imports. The country has continued to maintain a trade surplus with the United States, owing to continued high U.S. demand for consumer goods as well as Salvadoran imports of raw materials destined for the manufacturing and maquila industries. Nearly 58 percent of U.S. imports from El Salvador in 2002 entered under CBERA preferences.

Impact of CBERA

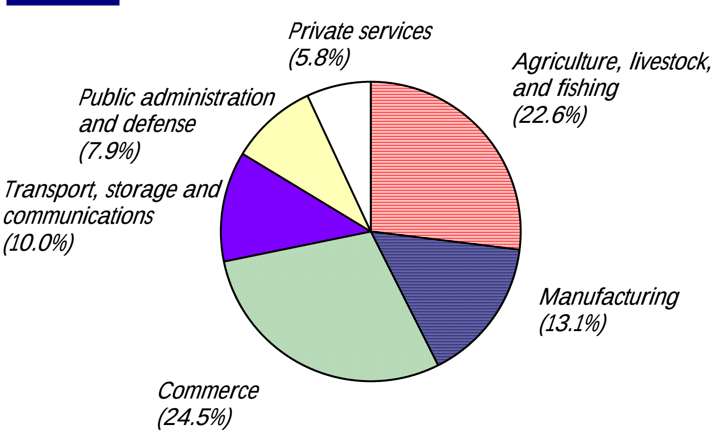
While CBTPA benefits have been crucial to El Salvador employment numbers, particularly with a declining coffee industry, El Salvador has used the measure to develop free trade zones and encourage a light manufacturing industry. The high hopes of CBTPA have not yet been fully realized. Reasons include the weakness of the U.S. economy and the expanding apparel investment in China and other parts of Asia. The Government of El Salvador has placed its hopes in a CAFTA to attract new foreign investment and to diversify its employment base.

GUATEMALA

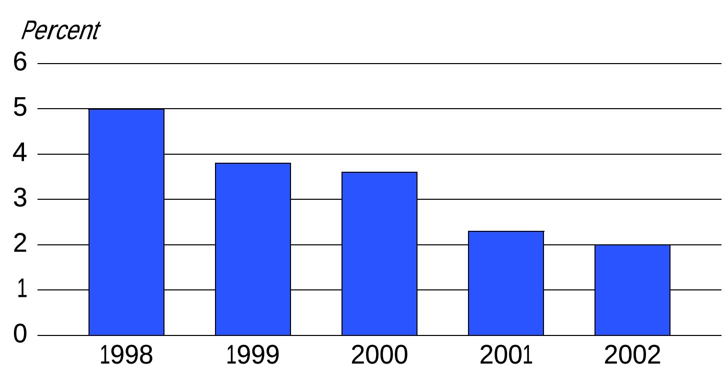
Economic Overview

Economic Indicators	2001	2002
GDP (Nominal Quetzals Currency Bn)	165	182
GDP (US$ Mn)	20,496	23,252
GDP Growth (%)	2.3	2.0
CPI Inflation (%)	7.6	8.1
Goods Exports (US$ Mn)	2,860	2,628
Goods Imports (US$Mn)	5,142	5,578
Trade Balance (US$Mn)	-2,282	-2,950
Current Account Balance (US$ Mn)	-1,238	-1,100
Foreign Exchange Reserves (US$ Mn)	2,292	2,299
Total External Debt (Us$ Mn)	3,567	n.a.
Debt Service Ratio , paid %	9	n.a.
Exchange Rate Quetzal per US $	7.82	7.86

Origins of GDP



Real GDP Growth Rate



Economic Profile

The 30-year civil war that plagued Guatemala ended in 1996. The country has since attempted to overcome the losses of that period. A new government, committed to reform, was elected in 2000. As part of the 1996 Peace Accord, the government committed to increasing taxes across the board to meet basic infrastructure and development needs. The new government also faces many internal challenges to meet the goals of worker's rights, security, and the protection of intellectual property.

The focus has been moved to maintain a strict monetary and fiscal stance, in part to offset and help control the growing inflation level, which rose to 8.1 percent in 2002 from 7.6 percent in 2001. A tight fiscal stance, through stricter lending practices, is also required to maintain the large inflows needed to eliminate the current account deficit, currently running at US$1.1billion. The government, which previously had a minor role, is now committed to a stricter role in policy decisions. Future commitments include raising tax revenues to meet the needed infrastructure investment, and redesigning existing investment procedures and rules.

Guatemalan GDP growth has declined steadily since 1998. Agriculture is still a primary source of GDP in exports, particularly sugar exports. However, a new focus has been placed on more non- traditional products through diversification to new products such as cut flowers. Much production is focused on labor intensive products, due to the great supply of relatively inexpensive labor widely available. GDP growth in the public utilities sector is due to the privatization of the electricity, water, transport, and municipal services. Tourism has also seen a boom, and is expected to continue to be instrumental in GDP growth.

Investment Profile

Many foreign investors entering Guatemala are subject to national treatment. This is a result of much reform in the banking sector, and the 1998 Foreign Investment Law, with its removal of many time-consuming regulations.

Guatemala and the United States are tied together by a bilateral trade and investment council. Concern of the U.S. Government for the protection of intellectual property rights in Guatemala has delayed the completion of negotiations on a formal bilateral investment treaty. There is still some worry among investors that the government elected in 2001 will seek to undo all the privatization that occurred under the previous administration.

Recent foreign direct investment levels are down from a high in 1998. However, a dramatic increase occurred in 2001, the first full year of CBTPA implementation. FDI plummeted in 2002, as potential investors were affected by political uncertainty in the country.

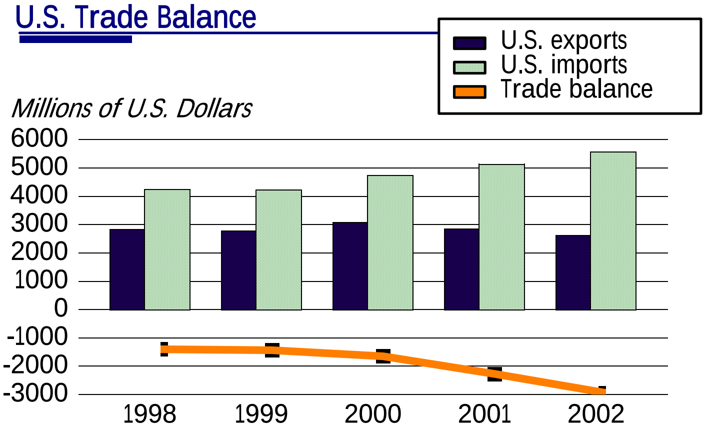
Main Trade Partners, country and share as a share of 2001 exports/imports (percent)

Markets		*Sources*	
USA	55.3	USA	32.8
El Salvador	9.4	Mexico	9.3
Costa Rica	3.9	South Korea	8.2
Nicaragua	3.1	El Salvador	6.6
Germany	3.0	Venezuela	4.1
Other	25.3	Other	39.0

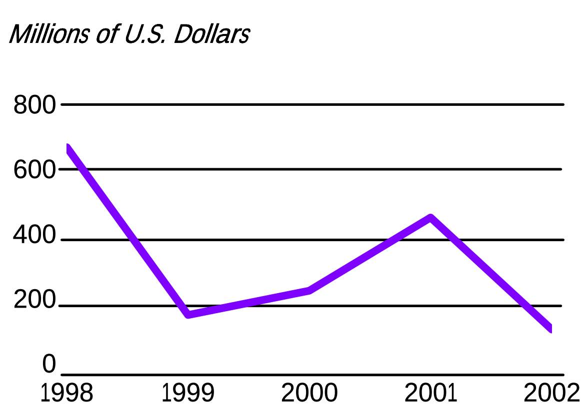
Principal products of trade US$ Mn in 2002

Exports		*Imports*	
Coffee	269	Consumer Goods	1,975
Sugar	208	Raw Materials	1,908
Bananas	233	Capital Goods	1,396
Oil	155	Fuels and Lubricants	647
Cardamom	93	Construction Materials	151

U.S. Trade Balance



Net Foreign Direct Investment



Trade Profile

The main export base for Guatemala is in agricultural commodities, specifically sugar, coffee, and bananas. Owing to falling commodity prices, in particular from weakening demand by Guatemala's main trading partner, the United States, export levels have fallen and there has been a gradual switch to diversify the product base. This is despite exports from Guatemala enjoying greater access to the US agricultural and textile markets through the Caribbean Basin Trade Partnership Act, as well as the potential for greater access through the Central American Free Trade Agreement (CAFTA) that is currently being negotiated.

U.S. exports to Guatemala peaked in 2000 and have decreased in 2001 and 2002. U.S. imports have increased nearly 18 percent since the inception of the CBTPA enhancements in late 2000. CBERA preferences accounted for nearly 38 percent of overall U.S. imports from Guatemala in 2002.

With Honduras and El Salvador, Guatemala is a player in the northern area of Central America, where it gains key materials for manufacturing in the maquila industry.

Impact of CBERA

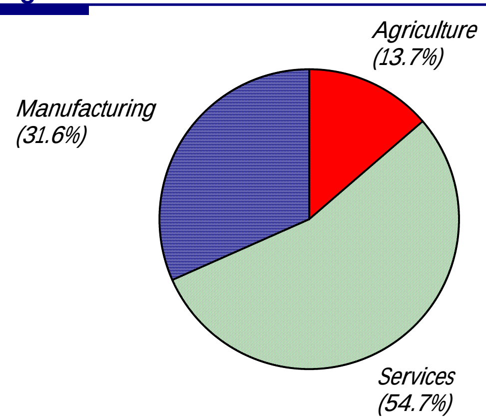
In Guatemala, CBERA has been the motor for creating the export-oriented apparel assembly industry on top of what was a vertically integrated clothing industry for the protected regional (CACM) market. CBTPA further shifted the balance against local yarn and woven fabric production, with one mill physically transfering to South Florida to qualify its product as U.S. origin for inclusion in apparel exported back to the United States. A significant portion of apparel producers have found that high prices and lack of quick availability of U.S. inputs more than offset incentives available under CBERA/CBTPA and therefore choose not to participate in the program and pay the applicable duties. Unfortunately, the complexity and the inflexible provisions of CBTPA have not led to the big increases in apparel import market share that were hoped for. Many leading U.S. retail brands choose to pay duties rather than risk being penalized over complex paperwork. Many can't place orders in regions subject to caps, tariff preference levels, and other restrictions, and these factors create uncertainty and undermine predictability of supply for U.S. customers. However, had CPTPA not passed, apparel imports from the Central American region would most likely be dropping sharply. CBTPA has kept the region slightly more competitive in some aspects, especially water-borne shipping time, but in others, such as complex needlework and execution of "value-added" business, CBTPA does not appear to be keeping pace with Asian competitors. Nevertheless, the CBTPA countries, and Guatemala specifically, are still competitive, as can be seen in the apparel/textile sector, which currently comprises the largest productive sector in Guatemala, employing, directly and indirectly, over 200,000 workers.

HONDURAS

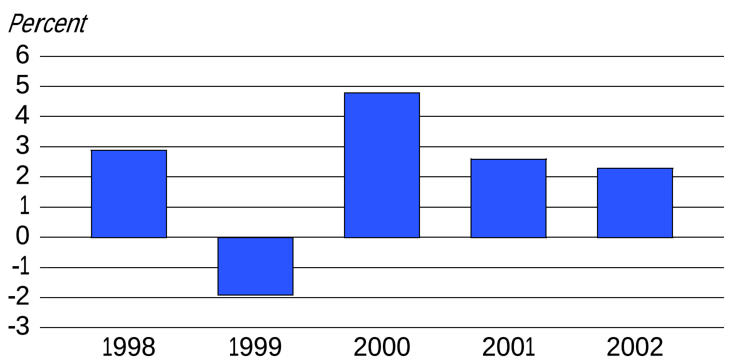
Economic Overview

Economic Indicators	2001	2002
GDP (Nominal National Currency Bn)	99	108
GDP (US$ Mn)	6,385	6,700
GDP Growth (%)	2.6	2.3
CPI Inflation (%)	9.67	7.7
Goods Exports (US$ Mn)	1,930	1,280
Goods Imports (US$Mn)	2,807	2,752
Trade Balance (US$ Mn) **	-877	-1,472
Current Account Balance (US$ Mn)	-669	-352
Foreign Exchange Reserves (US$ Mn)	1,416	1,542
Total External Debt (US$ Mn)	5,121	5,400
Debt Service Ratio, paid %	11	n.a
Exhange Rate Lempira per US $	15.47	16.43

Origins of GDP



Real GDP Growth Rate



Economic Profile

Honduras is one of the poorest and least developed countries in Latin America. The economy was traditionally based on agriculture, which accounted for 12 percent of GDP in 2001 and employed more than 40 percent of the work force. Hit by plummeting world prices, coffee accounted for only 12 percent of all Honduran exports in 2001, down from almost 25 percent in 2000. Coffee revenues in 2001 were down to $161 million from $340 million in 2000. The coffee industry was further hurt in 2002 by cold weather and torrential rains that caused a decreased harvest for 2002-03. Bananas, formerly the country's second-largest export until being virtually wiped out by 1998's Hurricane Mitch, recovered in 2001 to 60 percent of earlier levels and generated $197 million in export revenues. Cultivated shrimp are another important export generating $125 million in 2001. Honduras has extensive forest, marine and mineral resources, although widespread slash-and-burn agricultural methods continue to destroy Honduran forests. The gross family remittances from Hondurans living abroad (mostly in the United States) rose 27 percent to $700 million in 2002. The currency (lempira) in 2002 was exchanged to the U.S. dollar at 16.92, which showed a nominal depreciation of 6.3 percent for the year.

The Honduran economy grew 2.0 percent in 2002, which was lower than economic growth rates of 2.7 percent in 2001 and 4.7 percent in 2000. The Honduran maquila (garment assembly) sector, the third-largest in the world, continued its strong performance in the first month of 2003 with the announcement of 8,000 new jobs. The industry provides employment to more than 110,000 workers and generated more than $600 million in foreign exchange for Honduras in 2001. The economic slowdown in the United States caused Honduras' maquila sector growth to stagnate in 2001 and employment in the sector to decline from 125,000 in 2000 to 110,000 in 2001.

Investment Profile

In 1999, the United States and Honduras signed a bilateral agreement concerning intellectual property rights that will benefit firms in the telecom and financial sectors.

The government has plans to privatize much of the public sector, including the electricity distribution system as well as water and waste management systems. The four international airports have had management transferred over to U.S. control, an advantage for the main trading partner for Honduras.

However, even with these new and favorable regulations, there is much bureaucracy faced by potential investors. Foreign direct investment in Honduras peaked in 2000 and has declined over the period 2001- 02.

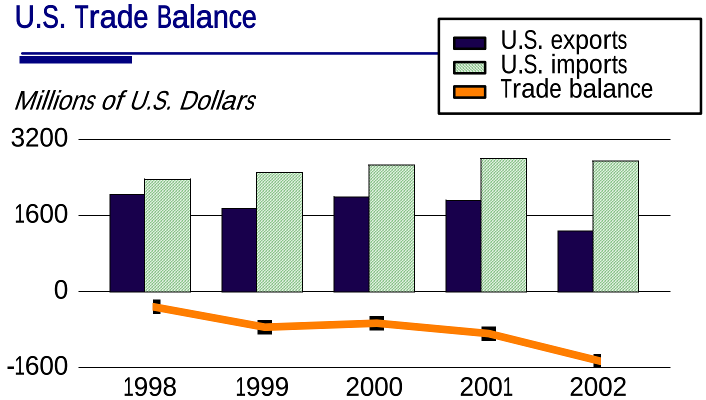
Main Trade Partners, country and share as a share of total exports/imports in 2001 (percent)

Markets		*Sources*	
USA	50.0	USA	40.8
El Salvador	11.8	Guatemala	7.9
Guatemala	6.3	El Salvador	5.9
Germany	6.3	Mexico	5.6
Belgium	3.1	Costa Rica	3.5
Other	22.5	Other	36.3

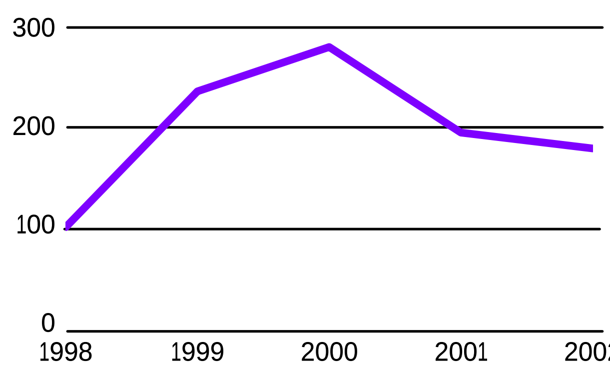
Principal products of trade US$ Mn in 2002

Exports		Imports	
Bananas	184.7	Manufactures/ Raw Materials	1279.5
Coffee	182.5	Machinery/ Transport Equipment	753.9
Shrimp/Lobster	172.4	Food/Animal Products	522.6
Tobacco	80.5	Minerals/Fuels	420.3

U.S. Trade Balance



Net Foreign Direct Investment



Trade Profile

Honduras' main exports continue to be based in the textile and apparel sector (maquila sector). Despite the negative effects of the U.S. economy's sluggish performance 2001-2003, the maquila sector did manage to grow throughout this period, although at a much slower rate. Currently, Honduras is ranked as the third largest textile exporter to the United States. The growth in textile and apparel exports has been fueled by a combination of U.S. unilateral trade preference agreements including GSP, CBI and CBTPA and domestic legislation which has created incentives for investment using free trade zones and duty drawback programs.

Honduras is the second largest user/beneficiary of the CBERA preference program; in 2002, 61 percent of Honduran exports to the United States were under CBERA; in 2001, 46 percent of total exports went to the United States, and 47 percent of imports originated in the United States. Thus, these duty-free imports destined for the growing maquila sector can help support export and ultimately GDP growth.

U.S. exports to Honduras have declined steadily since 2000, while imports are up slightly over the period. The increase in imports was registered since the inauguration of CBTPA preferences.

Honduras is a member of the Central American Common Market which includes Costa Rica, El Salvador, Guatemala and Nicaragua. The CACM facilitates trade with reduced tariffs for almost all products between the five countries. Members are currently negotiating to introduce a common external tariff. Honduras, along with the other CACM countries, are currently engaged in ongoing negotiations with the United States to conclude the Central American Free Trade Agreement (CAFTA). The CAFTA negotiations were launched in January 2003 and are scheduled for conclusion by December 2003. If concluded, the FTA would be a boost for the Honduran maquila sector and would increase the prospects of the sector being competitive after the elimination of world textile quotas in December 2004.

Impact of CBERA

While CBTPA benefits have been crucial to the establishment of the maquila industry in Honduras, the industry is now hoping for improved market access and rules of origin under CAFTA to provide opportunity for future growth.

According to the Honduran Maquila Association, CBERA makes the country more attractive to drawback factory investment, construction and expansion of industrial parks, and importation of tax free textile machinery, equipment, and accessories. However, the slowdown of the U.S. economy impacts significantly the Honduran textile and apparel sector by reducing purchase orders and lowering revenues.

The future effects of the CBERA program will undoubtedly be influenced by the results of the ongoing negotiations for a CAFTA. A key point in the CBERA program, rules of origin, is an essential component of the CAFTA negotiations for the maquila industry. Under the current terms of the preferential arrangement, some maquilas cannot obtain the U.S. components necessary to meet U.S. standard requirements. Thus, the maquilas hope for a more flexible rules of origin regime under the CAFTA.

This section summarizes the responses that the Commission received from U.S. embassies in CBERA beneficiary countries that were asked to analyze the program's impact. It should be noted that since the CBTPA has been in place for only 2 years, the impact of the provisions might not yet be fully realized.

Barbados and St. Vincent

The U.S. Embassy in Bridgetown, Barbados reported that CBTPA is still relevant to the Barbadian economy, especially for FTZ enterprises, but local companies are also seeking opportunities from trade agreements on the horizon, such as the Caribbean single market economy, and Africa-Caribbean-Pacific-European Union agreements. High-level Barbados Investment Development Corporation officials singled out rum, specialty food products, electronics, and other wholly produced items as products that have benefited from the CBERA program. The Development Corporation sees growth opportunities for these items as Barbados moves ahead with trade liberalization.

Several companies that export under the CBTPA were contacted as part of the Commission inquiry. None reported any difficulties with the Act or the processes involved in taking advantage of its provisions. Two firms, Doyle Offshore Sails, an exporter of sails, and the Pine Hill Dairy companies, an exporter of juice products, commented on the ease of doing business, finding that operating under the provisions of CBTPA has been efficient and problem-free.

While the large CBTPA exporters contacted did not express any complaints, Barbados embassy personnel noted that the garment industry has expressed concerns about CBERA. In May 2003, representatives from the U.S. firm of Ann Gish, Inc. met with embassy officials, inquiring whether staff anticipated any changes to the CBTPA that would enable the company to take advantage of CBERA. Representatives of Ann Gish, a bed-linen manufacturing company, expressed interest in establishing a small factory in Barbados, using high-quality fabric and silk inputs. There are no benefits under the Act for bedding, only for clothing, so Ann Gish is unable to gain duty-free access to the United States. As a result, the company's Barbados expansion plans have been put on hold.[5]

The embassy reported that Caribbean Basin Initiative programs have helped Barbados diversify its product base and to develop nontraditional, export-oriented products for all export destinations. With its well-educated population, good

[5] The embassy passed contact information for Washington agencies on to Ann Gish, Inc., and the company is also working with their lobbyist to explore options.

governance and excellent infrastructure, Barbados enjoys a significant advantage in high-end, technology intensive industries, hence the top export commodities are electronic items and control instruments. Export values are somewhat low, because manufacturing accounted for only 20 percent of GDP in 2002. It is important to note that tourism and financial services, not manufacturing, provide the mainstays of the Barbadian economy.[6]

Costa Rica

CBERA continues to be Costa Rica's main export incentive, according to a report from the U.S. Embassy in San Jose, Costa Rica. Exports of agricultural and industrial products have replaced garments and textiles as the main exports to the United States because of Costa Rica's higher labor cost, compared with similar costs of other Caribbean Basin Initiative countries. The United States is Costa Rica's primary trade partner, as well as the predominant source of FDI for the country.[7]

El Salvador

The U.S. Embassy in San Salvador reported that El Salvador has maintained an important maquila sector under CBTPA provisions, but this sector has not met its ambitious goals of expanding employment and diversifying its economy.[8] El Salvador had very high hopes for the CBTPA, which was predicted by a Salvadoran economic vice minister to result in 50,000 direct and 100,000 indirect jobs, and to increase the number of free trade zones from 8 to 17 from 2000 to 2002. The head of the maquila association predicted that CBTPA would cause a 25 percent growth in the maquila sector. The Government planned under the CBTPA to move beyond simple cutting and sewing, which represent only 30 percent value-added, to a step closer to full-package production. None of these expectations have yet been met, due to the weakness of the U.S. economy, the terrorist attacks of Sept. 11, 2001, and apparel investments in Asia influenced by the 2005 elimination of textile quotas.[9]

---

[6] U.S. Department of State telegram, " Annual Caribbean Basin Survey–Barbados and St. Vincent," message reference no. 01794, prepared by the U.S. Embassy, Bridgetown, Barbados, July 10, 2003.

[7] U.S. Department of State telegram, "USITC Annual Caribbean Basin Investment Survey," message reference no. 01765, prepared by the U.S. Embassy, San Jose, Costa Rica, July 2, 2003.

[8] U.S. Department of State telegram, "Caribbean Basin Investment Survey–El Salvador," message reference no. 01791, prepared by the U.S. Embassy, San Salvador, El Salvador, July 2, 2003.

[9] A statement on the impact of the CBERA program on El Salvador is included in the separate country profile.

Maquilas in El Salvador account for 87,665 jobs, a figure virtually unchanged from September 2001. The textile industry employs approximately 10,000 people, the same as in prior years. The embassy reports that CBTPA has not had any apparent positive impact on the textile industry. This has resulted from the exclusion of dyeing and finishing, contrary to the original expectations of the legislation. El Salvador has begun to diversify its economy, but any success in this regard is not related to CBTPA.[10]

Honduras

The U.S. Embassy in Tegucigalpa, Honduras reported that the slowdown and sluggish recovery of the U.S. economy during 2001 and 2002 continue to have a depressing effect on the Honduran maquila sector, and the future is clouded by fears of being unable to compete with China and other Asian producers after textile and apparel quotas are removed in 2005.[11]

The embassy reports that the maquila sector's poor performance during the period covered by this report period (2001 and 2002) plainly demonstrates the sector's dependence on the U.S. economy. No matter how beneficial the preferences under CBERA, the sector cannot maintain 1990s-style growth when the U.S. economy is stagnating. Without immediate duty-free treatment, maquila owners are concerned about their competitiveness in a nonquota driven market. One industry official considered the flight of factories from Honduras to Asia as a given. He said one prominent client commented that the client company would transfer at least 30 percent of its business to Asia if the proposed Central American Free Trade Agreement does not provide sufficiently attractive incremental market access, allowing the industry in Honduras to compete with Asia.[12] Proximity to the United States is important, but it is not enough, he said.[13]

Jamaica

The Jamaican Trade Board reported to the U.S. Embassy in Kingston that there is little doubt that CBERA and CBTPA have encouraged development of nontraditional, export-oriented products and diversification of the export base. There are currently no

[10] Ibid.

[11] The Commission completed a study in June 2003 at the request of the United States Trade Representative. That study was USITC, *Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market*, investigation No. 332-448. The study is classified and has not been publicly released. Among the countries considered in the investigation were those of Central America and the Caribbean that are CBERA beneficiaries.

[12] A statement on the impact of the CBERA program on Honduras is included in the separate country profile.

[13] U.S. Department of State telegram, "Honduran Textile Industry Downturn Highlights USITC Caribbean Basin Investment Survey," message reference no. 01686, prepared by the U.S. Embassy, Tegucigalpa, Honduras, July 16, 2003.

major problems associated with eligibility, application, or administration of the CBERA and CBTPA preferences. The Trade Board expressed concern about the downward trend in exports, and it attributed the underutilization of the program in Jamaica to the "general uncompetitiveness of a number of firms."[14] Some of the contributing factors included barriers to exports, contamination with narcotics, diseases, and high costs of production. Preferences have become less important for Jamaican apparel and textiles, given the intense competition with other CBERA beneficiaries, such as Costa Rica, Haiti, and the Dominican Republic. Preferences remain significant for beverages, fresh produce, processed foods, and light manufactures.[15]

Panama

The U.S. Embassy in Panama City, Panama reported that even though Panamanian exports to the United States increased by 4 percent from 2001 to 2002, Panamanian companies' utilization of the CBERA program as an export vehicle remained fairly steady. In 2002, CBERA-related export activity in Panama declined slightly as compared with the previous year. The drop was from $127.3 million in 2001 to $124.3 million in 2002.[16]

Conclusion

The econometric analysis of the previous report in this series provided a reasonable indication of the effect of CBERA on investment and growth in beneficiary countries.[17] Although the model's results may not fully explain the growth and investment trends for some countries in the region, the results do provide clear insights regarding factors that have contributed to economic growth and investment in the region as a while. According to the previous econometric analysis, CBERA may have had a small, positive effect on growth in the beneficiary countries. It is expected that the CBTPA will further enhance these effects. However, the countries of Central America see the ongoing negotiations with the United States for a Central American Free Trade Agreement as the locus for determining their future in the one area of bilateral trade that has become the major sector of CBERA and CBTPA. More than any unilateral preference scheme, the definition of future preferences in terms of rules of origin and market access under a Central American Free Trade Agreement, particularly as it relates to the textile and apparel sector, is viewed as much more significant to the future economic well being of a number of the present beneficiary countries of the CBERA program.

[14] U.S. Department of State telegram, "Jamaica USITC Annual Caribbean Basin Investment Survey," message reference no. 01810, prepared by the U.S. Embassy, Kingston, Jamaica, June 30, 2003.

[15] Ibid.

[16] U.S. Department of State telegram, "Panama's Submission for USITC Annual Caribbean Basin Investment Survey," message reference no. 01781, prepared by the U.S. Embassy, Panama City, Panama, July 10, 2003.

[17] For a discussion of the model's limitations, see p. 119 of the USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Fifteenth Report 1999-2000*, USITC publication 3447, September 2001.

APPENDIX A
Federal Register Notice

DATES: All nominations must be postmarked within 30 days of the date of publication in the **Federal Register**. Final selections will be made by and served at the discretion of the Deputy Commissioner for Indian Affairs and the special Trustee for American Indians.

FOR FURTHER INFORMATION CONTACT: You can obtain information and a copy of the Call for Nominations at the following offices: ATTN: Terry Virden, Deputy Commissioner for Indian Affairs, Bureau of Indian Affairs, Room 4160, 1849 C Street, NW., Washington, DC 20240; or ATTN: Donna Erwin, Acting Special Trustee, Office of the Special Trustee for American Indians, Room 5140, 1849 C Street, NW., Washington, DC 20240.

SUPPLEMENTARY INFORMATION: The Electronic Data Systems (EDS) Corporation, in its January 2002 Trust Reform Report, recommended that the Department develop an accurate, current state model to include business processes, internal controls, and associated information technology. The Department has been working extensively on documenting the business processes currently employed in managing the Indian fiduciary trust. Through this process, the Department established a comprehensive understanding of current trust business operations, identified needs and opportunities for improvement, and was able to understand the variances among geographic regions, and their causes.

After completing the ''As-Is'' phase review, detailed recommendations will be developed for adjusting business processes, where appropriate. The Department will integrate the final ''To-Be'' model porcesses with universal support and operational functions, and these reengineered business processes will be documented with appropriate policies, procedures, guidelines and handbooks.

The Department, through the BIA and OST, is now establishing a working group that will consist of Tribal officials and Departmental personnel to discuss the re-engineered processes. The working group will provide input and comment on potential alternatives on how the fiduciary trust process could be improved and administered. Participants should be prepared to engage in serious dialogue on all matters relating to the fiduciary trust management process. Nominees should be committed to spending a significant amount of time reviewing existing statutes and programs, discussing the issues within a diverse working group, and exploring creative solutions to the problems discussed. Participants should plan to meet approximately once per month from June through August 2003. Travel and per diem expenses will be provided.

Tribal officials who have been nominated to serve to this working group must complete and submit the following information to the BIA or OST at the address listed above in the section titled **FOR FURTHER INFORMATION CONTACT** within 30 days of publication of this Notice in the **Federal Register:**

A. Nominee's Full Name:
B. Business Address:
C. Business Phone:
D. Home Address:
E. Home Phone:
F. Title/Position in Tribe:
G. Qualifications (*e.g.,* education, experience, or whether you are an individual or tribal account holder):
H. Nominated by: Include Nominator's name, address and telephone number(s).
I. Date of nomination:
J. Two or three Letters of Reference:
K. A brief summary or explanation of areas of expertise that you or your nominee will be prepared to discuss with the working group regarding fiduciary trust improvement efforts.

Groups may nominate more than one person. If nominating more than one nominee, please indicate your preferred order of appointment selection.

Dated: April 11, 2003.

Richard V. Fitzgerald,

Trust Policy Manager.

Dated: April 15, 2003.

Aurene M. Martin,

Acting Assistant Secretary—Indian Affairs.

[FR Doc. 03–9839 Filed 4–21–03; 8:45 am]

BILLING CODE 4310–02–M

INTERNATIONAL TRADE COMMISSION

[Investigation No. 332–227]

Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers and Beneficiary Countries

AGENCY: International Trade Commission.

ACTION: Notice of opportunity to submit comments in connection with the 2002 biennial report.

EFFECTIVE DATE: April 10, 2003.

FOR FURTHER INFORMATION CONTACT: Walker Pollard (202–205–3228), Country and Regional Analysis Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

Background: Section 215(a) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2704(a)), as amended, requires that the Commission submit biennial reports to the Congress and the President regarding the economic impact of the Act on U.S. industries and consumers, and on beneficiary countries. Section 215(b)(1) requires that the reports include, but not be limited to, an assessment regarding:

(1) The actual effect of CBERA on the U.S. economy generally as well as on specific domestic industries which produce articles that are like, or directly competitive with, articles being imported from beneficiary countries under the Act; and

(2) The probable future effect of CBERA on the U.S. economy generally and on such domestic industries.

Notice of institution of the investigation and the schedule for such reports was published in the **Federal Register** of May 14, 1986 (51 FR 17678). The 16th report, covering calendar year 2002, is to be submitted by September 30, 2003.

Written Submissions: The Commission does not plan to hold a public hearing in connection with the preparation of this 16th report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked ''Confidential Business Information'' at the top. All submissions requesting confidential treatment must conform with the requirements of section 201.6 of the Commission's *Rules of Practice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available in the Office of the Secretary to the Commission for inspection by interested parties. To be assured of consideration by the Commission, written statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than the close of business on June 30, 2003. All submissions should be addressed to the Secretary, United States International Trade Commission, 500 E St., SW., Washington, DC 20436. The Commission's rules do not authorize filing submissions with the Secretary by facsimile or electronic means, except to the extent permitted by section 201.8 of the Commission's rules, as amended, 67 FR 68036 (Nov. 8, 2002).

Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202)

205–1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202–205–2000. General information concerning the Commission may be obtained by accessing its Internet server (*http://www.usitc.gov*). The public record for this investigation may be viewed on the Commission's electronic docket (EDIS) at *http://edis.usitc.gov.*

Issued: April 16, 2003.

By order of the Commission.

Marilyn R. Abbott,

Secretary to the Commission.

[FR Doc. 03–9851 Filed 4–21–03; 8:45 am]

BILLING CODE 7020–02–P

INTERNATIONAL TRADE COMMISSION

[Inv. No. 337–TA–482]

Certain Compact Disc and DVD Holders; Notice of Commission Decision Not To Review an Initial Determination Finding the Two Remaining Respondents in Default, and Request for Submissions on Remedy, the Public Interest, and Bonding

AGENCY: International Trade Commission.

ACTION: Notice.

SUMMARY: Notice is hereby given that the U.S. International Trade Commission (''the Commission'') has determined not to review the presiding administrative law judge's (''ALJ's'') initial determination (''ID'') finding respondents Wah-De Electron Co., Ltd (''Wah-De'') and Dragon Star Magnetics, Inc. (''Dragon Star'') in default. In connection with final disposition of the investigation, the Commission is requesting briefing on remedy, the public interest, and the appropriate bond during the period of Presidential review.

FOR FURTHER INFORMATION CONTACT: Andrea C. Casson, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436, telephone (202) 205–3105. Copies of the ALJ's ID and all other nonconfidential documents filed in connection with this investigation are or will be available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436, telephone (202) 205–2000. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205–1810. General information concerning the Commission may also be obtained by accessing its Internet server (*http://www.usitc.gov*). The public record for this investigation may be viewed on the Commission's electronic docket (EDIS–ON–LINE) at *http://edis.usitc.gov.*

SUPPLEMENTARY INFORMATION: The Commission instituted this investigation on October 22, 2002, based on a complaint filed by DuBois Limited of the United Kingdom (''DuBois'') against eight respondents, including Wah-De and Dragon Star. The complaint alleged violations of section 337 of the Tariff Act of 1930 in the importation, sale for importation, or sale within the United States after importation of certain compact discs and DVD holders by reason of infringement of U.S. Design Patent No. D441,212. In previously-issued IDs (Orders Nos. 10 and 11), which the Commission determined not to review, the ALJ terminated the investigation as to the other six respondents in the investigation.

Neither Wah-De nor Dragon Star filed responses to the complaint, the notice of investigation, the ALJ's discovery order or the discovery requests from DuBois and the Commission investigative attorney (IA). On February 12, 2003, DuBois moved pursuant to section 337(g) and Commission rule 210.16(b) for issuance of an order directing those respondents to show cause why they should not be found in default. DuBois' motion also requested that, upon their failure to show cause, an ID be issued finding Wah-De and Dragon Star in default, and that a limited exclusion order be entered immediately against those respondents. On March 7, 2003, the IA filed a response supporting the request for a show cause order, and the entry of default findings if Wah-De and Dragon Star failed to respond to an order to show cause. On March 7, 2003, the ALJ issued Order No. 12, which ordered Wah-De and Dragon Star to show cause by March 18, 2003, why they should not be found in default. Wah-De and Dragon Star did not respond to the order to show cause. On March 21, 2003, the ALJ issued the subject ID finding Wah-De and Dragon Star in default. No petitions for review of the ID were filed.

Under Commission rule 210.16(b)(3), 19 CFR 210.16(b)(3), Wah-De and Dragon Star are deemed to have waived their right to appear, to be served with documents, and to contest the allegations at issue in this investigation. Section 337(g)(1), 19 U.S.C. 1337(g)(1) and Commission rule 210.16(c), 19 CFR 210.16(c), authorize the Commission to order limited relief against a respondent found in default unless, after consideration of public interest factors, it finds that such relief should not issue. In this investigation, Wah-De and Dragon Star have been found in default and DuBois has requested issuance of a limited exclusion order that would deny entry to certain compact disc and DVD holders imported by Wah-De and Dragon Star. If the Commission decides to issue a limited exclusion order against Wah-De and Dragon Star, it must consider what the amount of the bond should be during the Presidential review period.

In connection with the final disposition of this investigation, the only potential remedy is the issuance of a limited exclusion order that could result in the exclusion from entry into the United States of certain compact disc and DVD holders imported by Wah-De and Dragon Star. Accordingly, the Commission is interested in receiving written submissions that address whether such an order should be issued against either or both respondents. If a party seeks exclusion of an article from entry into the United States for purposes other than entry for consumption, it should so indicate and provide information establishing that activities involving other types of entry either are adversely affecting it or likely to do so. For background, *see* Certain Devices for Connecting Computers via Telephone Lines, Inv. No. 337–TA–360, USITC Pub. No. 2843 (December 1994) (Commission Opinion).

If the Commission contemplates a remedy, it must consider the effects of that remedy upon the public interest. The factors the Commission will consider include the effect that a remedial order would have on (1) the public health and welfare, (2) competitive conditions in the U.S. economy, (3) U.S. production of articles that are like or directly competitive with those that are subject to investigation, and (4) U.S. consumers. The Commission is therefore interested in receiving written submissions that address the aforementioned public interest factors in the context of this investigation.

If the Commission issues a limited exclusion order against Wah-De and/or Dragon Star, the President has 60 days to approve or disapprove the Commission's action. During this period, the subject articles would be entitled to enter the United States under bonds in an amount determined by the Commission and prescribed by the Secretary of the Treasury. The

APPENDIX B
Summary Submissions In Response to *Federal Register* Notice

Submission for the Record Investigation No. 332-227, CBERA

International Intellectual Property Alliance (IIPA)[1]

This submission asserted that modern copyright laws, together with effective enforcement, are the twin pillars necessary for copyright industries (companies producing and distributing materials protected by copyright laws, including: computer software, theatrical films, television programs, home videos, music, records, CDs, textbooks, professional publications and journals) to flourish.

The IIPA acknowledged that "some positive economic impact" has occurred over the last two decades as a result of the CBERA program. At the same time, the organization maintained that it was unable to identify specific attributes connecting the strength of U.S. copyright-based industries to the implementation of the CBERA.

The submission identified the economic costs of copyright piracy in the Central American and Caribbean region. The IIPA believes that the most immediate problem in the CBERA region is the failure of beneficiary countries to adequately enforce their existing copyright laws. Among examples offered were: the unauthorized reception and retransmission of U.S. domestic satellite signals; end-user piracy affecting business software; piracy of sound recordings and music; commercial and photocopying piracy of books, and inadequate enforcement in the entertainment software industry that results in the counterfeiting of cartridges, personal computer CD-ROMs, and multimedia products.

The IIPA, in its 2003 submission to the U.S. Trade Representative, provided estimates of trade losses amounting to $54.1 million due to copyright piracy in 2002 in three CBERA countries: Costa Rica ($17.3 million), the Dominican Republic ($14.3 million), and Guatemala ($22.5 million). The submission to the USITC included specific descriptions of the copyright problems in the aforementioned countries, and also in The Bahamas.

Acknowledging the new enhancements provided under the CBTPA, the IIPA maintained that many of the CBTPA-eligible countries fail to meet the higher intellectual property rights (IPR) standards set forth by the CBTPA, as amended.

---

[1] Submission to the Commission by Maria Strong, Vice President and General Counsel, International Intellectual Property Alliance, received June 30, 2003.

APPENDIX C
Technical Notes to Chapter 3

Technical Notes to Chapter 3

This section presents the methodology used to estimate the impact of CBERA on the U.S. economy in 2002. The economic effects of CBERA duty reductions[1] were evaluated with a comparative static analysis. Since CBERA tariff preferences were already in effect in 2002, the impact of the program was measured by comparing the current market conditions (duty-free entry, or 20 percent reduced-duty entry, for eligible products entered under CBERA provisions) with the conditions that might have existed under full tariffs (i.e., no CBERA tariff preferences). Thus, the analysis provides an estimate of the potential costs and benefits to the U.S. economy that would have occurred if CBERA had not been in place during 2002. However, the material on welfare and displacement effects, in the section titled "Analytical Approach" in the Introduction and in this appendix, discusses the impact of CBERA in terms of duty reductions, rather than the "removal" of duty eliminations already in place.[2] The effects of a duty reduction and a duty imposition are symmetrical and lead to results that are equivalent in magnitude but opposite in sign.[3] Thus, the discussion is framed with respect to the implementation of duty reductions simply for clarity.

A partial equilibrium framework was used to model three different markets in the United States, namely, the markets for CBERA products, competing non-CBERA (foreign) products, and competing domestic products. These three markets are depicted in panels a, b, and c of figure C-1. In the model, imports from CBERA beneficiaries, imports from non-CBERA countries, and competing domestic output are assumed to be imperfect substitutes for each other, and each is characterized by a separate market where different equilibrium prices exist.

The CBERA and non-CBERA import demand curves, D_c and D_n, and the demand curve for domestic output, D_d, are all assumed to be downward sloping with a constant elasticity of demand.[4] It is assumed that the CBERA import supply curve to the U.S. market, the non-CBERA import supply curve, and the domestic industry supply curve, S_c, S_n, and S_d, are all horizontal, that is, perfectly elastic. The assumption of perfectly

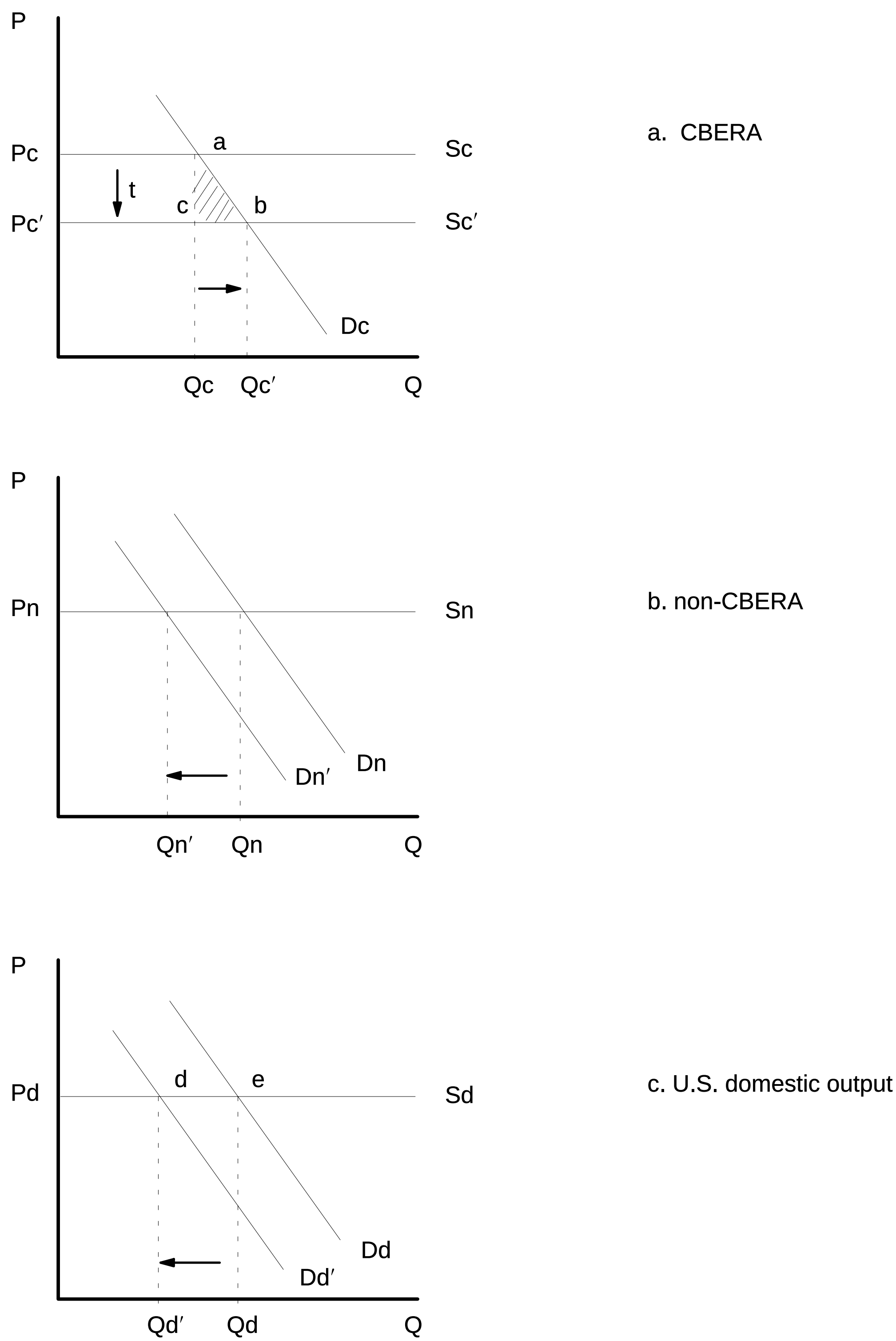
[1] Although the term *duty reduction* is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

[2] Most comparative static analyses are used to evaluate the effects of an event that has not already happened— such as a proposed tariff elimination. This comparative analysis evaluates the effects of an event that has already happened—CBERA duty elimination has been in effect since 1984 in the case of products eligible under the original CBERA, and since October 2000 in the case of products that became eligible under CBTPA. The method described in this section can be used in either situation.

[3] This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from CBERA countries, income effects are likely to be negligible for the products under consideration. See R. Willig, "Consumer's Surplus Without Apology," *American Economic Review*, 66, pp. 589-597.

[4] The subscripts c, n, and d refer to CBERA imports, non-CBERA imports, and U.S. domestic output, respectively.

Figure C-1
Partial equilibrium analysis of the effects of CBERA duty provisions on U.S. imports



elastic supply curves greatly simplifies computation although it leads to an upward bias in the estimates of the welfare and domestic displacement effects on the U.S. economy.[5]

The change from full tariffs to duty-free treatment for CBERA imports causes the import supply curve, S_c, in panel a to shift down to S_c' by the amount of the ad valorem tariff, t. Thus, the equilibrium price in the U.S. market for CBERA imports decreases from P_c to P_c', whereas the quantity imported increases from Q_c to Q_c'. The relationship between the price with the tariff (P_c) and the tariff-free price (P_c') is $P_c = P_c'(1+t)$.

The decrease in the price of CBERA imports leads to a decrease in demand for similar goods from other countries and domestic U.S. producers. Thus, the demand curves for both non-CBERA imports and domestic output, D_n and D_d, shift back to D_n' and D_d', respectively. Since the supply curves in both of these markets are assumed to be perfectly elastic, the equilibrium prices do not change. The equilibrium quantity supplied in each market decreases from Q_n and Q_d to Q_n' and Q_d', respectively.

The impact of CBERA on the U.S. economy was measured by examining the welfare effects of the tariff reduction in the market for CBERA imports and the domestic displacement effects of a decrease in demand in the competing U.S. market. The displacement of non-CBERA country imports because of CBERA tariff preferences was not estimated because the focus of the analysis was on the direct effects of CBERA provisions on the United States.

The decrease in the tariff for CBERA imports leads to an increase in consumer surplus for these products, which is measured by the trapezoid $P_c abP_c'$ in panel a. There is also an accompanying decrease in the tariff revenue collected from CBERA imports, which is measured by the area of the rectangle $P_c acP_c'$ in panel a.

The net welfare effect of CBERA is equal to the increase in consumer surplus plus the decrease in tariff revenue—the trapezoid $P_c abP_c'$ minus the rectangle $P_c acP_c'$ in panel a, that is, triangle abc.[6] The dollar amount by which CBERA imports displace U.S. output is measured by the rectangle $Q_d 4deQ_d$ in panel c.

---

[5] Since imports under CBERA account for a very small share of U.S. domestic consumption in most sectors, even the upper range estimates were very small. Assuming upward-sloping supply curves would have resulted in even lower estimates.

[6] Welfare effects typically include a measure of the change in producer surplus. There is no change in producer surplus for CBERA producers because of the assumption of perfectly elastic supply cuves.

Given the above assumptions and the additional assumption of constant elasticity demand curves, the markets for the three goods are described by the following three equations:

(1) $(Q_c / Q'_c) = (P_c / P'_c)^{\varepsilon cc}$

(2) $(Q_n / Q'_n) = (P_c / P'_c)^{\varepsilon nc}$

(3) $(Q_d / Q'_d) = (P_c / P'_c)^{\varepsilon dc}$

Given that $P_c = P_c'(1+t)$, these can be restated as

(1)′ $(Q_c / Q'_c) = (1+t)^{\varepsilon cc}$

(2)′ $(Q_n / Q'_n) = (1+t)^{\varepsilon nc}$

(3)′ $(Q_d / Q'_d) = (1+t)^{\varepsilon dc}$

where ε_{ij} is the uncompensated elasticity of demand for good i with respect to price j. The values for the elasticities ε_{cc}, ε_{nc}, and ε_{dc} are derived from the following relations:

(4) $\varepsilon_{cc} = V_c\eta - V_n\sigma_{cn} - V_d\sigma_{cd}$

(5) $\varepsilon_{nc} = V_c (\sigma_{nc} + \eta)$

(6) $\varepsilon_{dc} = V_c (\sigma_{dc} + \eta)$

where the V_i's are market shares for CBERA imports, non-CBERA imports, and domestic output, respectively, η is the aggregate demand elasticity, and the σ_{ij}'s are the elasticities of substitution between the ith and jth products.[7] Estimates of the aggregate demand elasticities were taken from the literature.[8] Ranges of potential net welfare and industry displacement estimates are reported. The reported estimates reflect a range of assumed substitutabilities between CBERA products and competing U.S. output. The upper estimates reflect the assumption of high substitution elasticities. The lower estimates reflect the assumption of low substitution elasticities.[9]

---

[7] Equations (4) through (6) are derived from P.R.G. Layard and A.A. Walters, *Microeconomic Theory* (New York: McGraw-Hill, 1978).

[8] The aggregate elasticities were taken from sources referenced in USITC, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free-Trade Agreement*, USITC publication 2596, January 1993.

[9] Commission industry analysts provided evaluations of the substitutability of CBERA products and competing U.S. products, which were translated into a range of substitution elasticities–3 to 5 for high substitutability, 2 to 4 for medium, and 1 to 3 for low. Although there is no theoretical upper limit to elasticities of substitution, a substitution elasticity of 5 is consistent with the upper range of estimates in the economics literature. Estimates in the literature tend to be predominantly lower. See, for example, Clinton R. Shiells, Robert M. Stern, and Alan V. Deardorff, "Estimates of the Elasticities of Substitution Between Imports and Home Goods for the United States," *Weltwirtschaftliches Archiv*, 122 (1986), pp. 497-519; and Michael P. Gallaway, Christine A. McDaniel, and Sandra A. Rivera, "Short-Run and Long-Run Estimates of U.S. Armington Elasticities," *North American Journal of Economics and Finance*, 14 (2003), pp. 49-68.

Since the implementation of CBTPA in October 2000, apparel assembled in CBERA countries from U.S.-made fabric and components has come to dominate the list of leading imports benefiting exclusively from CBERA. U.S. producers of such fabric and components benefit from CBERA duty preferences. Where the U.S. value of components can be identified (for example, the U.S. value of components assembled abroad under HTS heading 9802.00.80 is recorded and data are readily available), it is possible to estimate the effect of CBERA tariff preferences on U.S. producers of the components. In the case of cut apparel parts used in the assembly of apparel in CBERA countries, the U.S.-produced cut parts are recorded as apparel production in the United States and the effect of CBERA tariff preferences can be added to the (negative) displacement effects for that industry.

Given equations (1)′ through (4)′, one can derive the following equations for calculating the changes in consumer surplus, tariff revenue, and domestic output:

Consumer surplus (where k is a constant)

area of

$$\text{trapezoid } P_c abP'_c = \int_{P'_c}^{P_c} kP_c^{\varepsilon_{cc}} \, dP_c$$

$$= [1/(1+\varepsilon_{cc})]\,[(1+t)^{(1+\varepsilon_{cc})} - 1\,]P'_c Q'_c \qquad \text{if } \varepsilon_{cc} \neq -1$$

$$= k \ln(1+t) \qquad \text{if } \varepsilon_{cc} = -1$$

Tariff revenue from U.S. imports from CBERA partners

area of

$$\text{rectangle } P_c acP'_c = (P_c - P'_c)Q_c$$

$$= P'_c tQ_c \qquad \text{given } P_c = P'_c(1+t)$$

$$= tP'_c Q'_c (1+t)^{\varepsilon_{cc}} \qquad \text{given } Q_c = Q'_c(1+t)^{\varepsilon_{cc}}$$

Domestic output

area of

$$\text{rectangle } Q'_d deQ_d = P_d(Q_d - Q'_d)$$

$$= P_d Q'_d\,[(1+t)^{\varepsilon_{dc}} - 1]$$

The change in the value of U.S. cut apparel parts = $uP_c'Q_c'[(1+t')^{\varepsilon_{cc}} - 1]$, where u is the ratio of the value of U.S. cut apparel parts to total imports under CBERA, and t′ is the ad valorem equivalent of duties paid on imports under HTS heading 9802.00.80 under CBERA. It is opposite in sign to the displacement effect shown above. The net effect of CBERA tariff preferences on domestic output is estimated as

$$P_dQ_d' [(1+t)^{\varepsilon_{dc}} - 1] + uP_c'Q_c'[(1+t')^{\varepsilon_{cc}} - 1].$$

APPENDIX D
Statistical Tables

Table D-1
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
				1,000 dollars			*Percent*	
Antigua and Barbuda	0807.19.50	Ogen and Galia melons, fresh, if entered during the period from December 1, in any year, to the following May 31, inclusive	-	-	19	-	-	-
	0807.19.20	Cantaloupes, fresh, if entered during the periods from January 1 through July 31 or September 16 to December 31, inclusive	-	45	7	-	-85.40	-
	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereo, whether or not plated or clad with precious metal,nesoi	-	-	7	-	-	-
Total			-	45	33	-	-28.17	-
Aruba	9405.60.60	Illuminated signs, illuminated name plates and the like, not of base metal	-	-	13	-	-	-
	9007.20.40	Cinematographic projectors for film of less than 16 mm, nesoi	-	-	4	-	-	-
Total			-	-	16	-	-	-
Bahamas	3903.11.00	Polystyrene, expandable, in primary forms	51,123	65,015	61,744	27.17	-5.03	20.78
Total			51,123	65,015	61,744	27.17	-5.03	20.78
Barbados	2208.40.80	Rum and tafia, in containers each holding over 4 liters, valued over $0.69/proof liter	1,923	3,846	3,734	99.99	-2.91	94.16
	2207.10.30	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for beverage purposes	452	1,454	2,016	221.34	38.70	345.70
	9032.89.60	Automatic regulating or controlling instruments and apparatus, nesi	3,510	2,800	1,524	-20.24	-45.57	-56.58
	9028.30.00	Electricity supply or production meters, including calibrating meters thereof	189	669	954	254.26	42.46	404.68
	2208.40.40	Rum and tafia, in containers each holding not over 4 liters, valued over $3/proof liter	356	574	873	60.92	52.27	145.03
Total			6,432	9,343	9,102	45.27	-2.58	41.52

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
Belize	2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	18,313	20,721	11,747	13.15	-43.31	-35.85
	0807.20.00	Papayas (papaws), fresh	5,889	4,710	7,796	-20.02	65.52	32.39
	6211.33.00	Men's or boys' track suits or other garments nesoi, not knitted or crocheted, of man-made fibers	0	6,846	6,989	-	2.09	-
	1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	0	6,148	5,083	-	-17.33	-
Total			24,202	38,425	31,615	58.77	-17.72	30.63
British Virgin Islands	4202.31.60	Articles of a kind normally carried in the pocket or handbag, with outer surface of leather, composition or patent leather, nesi	0	0	32	-	-	-
	6217.90.90	Parts of garments or of clothing accessories(excl those of heading 6212), containing under 70 by weight of silk or silk waste, n/knit/croc	0	0	28	-	-	-
Total			0	0	60	-	-	-
Costa Rica	0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	105,383	126,519	161,951	20.06	28.01	53.68
	6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	0	66,593	91,399	-	37.25	-
	6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15 or more by weight of down, etc	8,847	115,212	80,356	1202.24	-30.25	808.26
	0807.19.20	Cantaloupes, fresh, if entered during the periods from January 1 through July 31 or September 16 to December 31, inclusive	32,209	50,130	43,322	55.64	-13.58	34.50
	6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi	1,518	33,329	40,374	2095.35	21.14	2559.40
	6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	1,466	28,084	38,580	1816.32	37.38	2532.55

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
Costa Rica—Cont.	2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	39,898	33,718	36,360	-15.49	7.84	-8.87
	4016.93.50	Gaskets, washers and other seals, of noncellular vulcanized rubber other than hard rubber	17,096	12,216	35,316	-28.54	189.08	106.58
	8516.31.00	Electrothermic hair dryers	44,365	42,456	31,930	-4.30	-24.79	-28.03
	6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70 by wt of silk or silk waste, whether or not knitted or crocheted	1,936	25,474	28,793	1215.73	13.03	1387.18
	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereo, whether or not plated or clad with precious metal,nesoi	23,373	20,175	26,363	-13.68	30.67	12.79
	6108.22.90	Women's or girls' briefs and panties (other than disposable), of man-made fibers, knitted or crocheted	7	10,394	26,060	147035.49	150.73	368819.04
	6212.20.00	Girdles and panty-girdles	0	1,160	23,312	-	1909.16	-
	6212.10.50	Brassieres containing lace, net or embroidery, containing under 70 by weight of silk or silk waste, whether or not knitted or crocheted	237	9,964	19,008	4111.83	90.77	7935.04
	6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15 wt down etc, cont under 36 wt wool, n/water resist, not k/c	245	9,422	18,937	3749.88	100.99	7637.88
	2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	27,436	14,202	15,212	-48.24	7.11	-44.55
	0602.10.00	Unrooted cuttings and slips of live plants	10,125	13,550	14,932	33.82	10.20	47.48
	4202.21.90	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over $20 ea.	14,892	17,344	14,383	16.47	-17.07	-3.42
	0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	10,547	12,751	12,892	20.89	1.10	22.23

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
				1,000 dollars			*Percent*	
Costa Rica—Cont.	0807.19.70	Other melons nesoi, fresh, if entered during the period from December 1, in any year, to the following May 31, inclusive	7,172	7,808	12,300	8.87	57.54	71.51
	4011.10.10	New pneumatic radial tires, of rubber, of a kind used on motor cars (including station wagons and racing cars)	12,739	6,872	11,687	-46.05	70.08	-8.25
	0202.30.50	Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	13,769	13,028	11,623	-5.38	-10.78	-15.58
	0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, nesi	13,254	10,313	11,171	-22.19	8.32	-15.72
Total			386,510	680,713	806,263	76.12	18.44	108.60
Dominica	6910.90.00	Ceramic (o/than porcelain or china) sinks, washbasins, baths, bidets, water closet bowls, urinals & siml. sanitary fixtures	0	0	272	-	-	-
Total			0	0	272	-	-	-
Dominican Republic	6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15 or more by weight of down, etc	16,073	375,278	460,495	2234.88	22.71	2765.07
	6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	7	88,811	192,707	1237336.78	116.99	2684965.33
	6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15 wt down etc, cont under 36 wt wool, n/water resist, not k/c	6,401	172,919	177,708	2601.54	2.77	2676.36
	2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	169,834	163,588	169,354	-3.68	3.52	-0.28
	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereo, whether or not plated or clad with precious metal, nesoi	123,394	143,092	160,386	15.96	12.09	29.98

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
Dominican Republic—Cont.	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	3,347	120,255	157,036	3493.13	30.59	4592.12
	6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi	8,447	172,217	152,933	1938.86	-11.20	1710.55
	6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70 by wt of silk or silk waste, whether or not knitted or crocheted	874	66,902	145,227	7557.39	117.08	16522.31
	8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 V	74,016	70,315	77,062	-5.00	9.60	4.12
	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	77,871	65,493	69,461	-15.89	6.06	-10.80
	6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	1,230	44,514	49,670	3518.95	11.58	3938.10
	6112.41.00	Women's or girls' knitted or crocheted swimwear of synthetic fibers	1,193	40,429	44,633	3287.58	10.40	3639.81
	6202.11.00	Women's or girls' overcoats, carcoats, capes, cloaks and similar coats, not knitted or crocheted, of wool or fine animal hair	103	29,964	26,159	29052.73	-12.70	25350.81
Total			482,789	1,553,778	1,882,830	221.83	21.18	289.99
El Salvador	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	7,524	241,501	281,973	3109.64	16.76	3647.52
	6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	3,373	133,121	149,618	3846.98	12.39	4336.11
	6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	1,975	72,695	87,122	3580.33	19.85	4310.73
	6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	851	61,444	84,994	7119.94	38.33	9887.14
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	1,080	57,483	50,850	5222.92	-11.54	4608.70

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
El Salvador—Cont;	6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesoi	535	26,913	41,247	4926.68	53.26	7603.97
	6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70 by wt of silk or silk waste, whether or not knitted or crocheted	1,605	28,285	38,279	1662.47	35.34	2285.27
	6104.62.20	Women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	315	28,123	36,524	8824.51	29.87	11490.37
	6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of man-made fibers	3,112	70,030	35,780	2150.59	-48.91	1049.86
Total			20,370	719,595	806,387	3432.60	12.06	3858.67
Grenada	2208.40.40	Rum and tafia, in containers each holding not over 4 liters, valued over $3/proof liter	21	39	37	84.88	-4.23	77.06
Total			21	39	37	84.88	-4.23	77.06
Guatemala	6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15 or more by weight of down, etc	7,164	124,789	162,971	1641.82	30.60	2174.76
	2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	0	75,180	130,900	-	74.11	-
	6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	184	23,716	61,448	12769.42	159.10	33244.04
	6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesoi	1,365	30,403	54,385	2127.25	78.88	3884.07
	0807.19.20	Cantaloupes, fresh, if entered during the periods from January 1 through July 31 or September 16 to December 31, inclusive	41,026	35,858	52,782	-12.60	47.20	28.66

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
				1,000 dollars			*Percent*	
Guatemala	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	10,712	18,682	37,795	74.40	102.31	252.83
	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	163	17,106	27,290	10393.19	59.53	16640.30
	0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	20,387	17,027	22,628	-16.48	32.89	10.99
	6204.63.35	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of synthetic fibers, nesoi	866	33,388	22,177	3753.52	-33.58	2459.58
	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	15,078	11,795	21,429	-21.77	81.68	42.12
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	557	12,732	19,429	2184.70	52.59	3386.29
	2401.20.85	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf , described in addl US note 5 to chap 24	11,804	5,759	15,616	-51.21	171.15	32.29
	1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	14,141	11,604	15,582	-17.94	34.28	10.19
	2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	0	0	14,544	-	-	-
	6104.62.20	Women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	53	9,803	13,875	18417.32	41.55	26111.24
	6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesoi	238	10,987	13,864	4522.70	26.18	5733.14
	0602.10.00	Unrooted cuttings and slips of live plants	9,075	11,859	12,731	30.68	7.35	40.29
	6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15 wt down etc, cont under 36 wt wool, n/water resist, not k/c	252	8,989	12,370	3464.28	37.62	4805.12

See footnotes at end table.

Table D-1—*Continued*

Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
Guatemala	0807.19.70	Other melons nesoi, fresh, if entered during the period from December 1, in any year, to the following May 31, inclusive	12,225	8,974	11,972	-26.59	33.41	-2.07
	4203.30.00	Belts and bandoliers with or without buckles, of leather or of composition leather	8,047	11,649	11,827	44.77	1.53	46.99
Total			153,338	480,301	735,613	213.23	53.16	379.73
Guyana	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	8,821	4,952	5,064	-43.86	2.26	-42.59
	4412.22.31	Plywood nesoi, least one hardwood outer ply, w/tropical wood ply, not surface-covered beyond clear/ transparent, not w/face ply of birch	-	-	3,754	-	-	-
	4412.14.31	Plywood sheet n/o 6 mm thick, at least one outer ply of nonconiferous wood, with face ply nesoi, not surface covered beyond clear/transparent	-	-	1,754	-	-	-
	6211.43.00	Women's or girls' track suits or other garments nesoi, not knitted or crocheted, of man-made fibers	-	908	1,124	-	23.84	-
	6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70 by wt of silk or silk waste, whether or not knitted or crocheted	358	964	1,123	169.29	16.51	213.76
	6208.92.00	Women's or girls' singlets & other undershirts, briefs, panties, bathrobes & similar articles, not knitted or crocheted, of man-made fibers	100	830	1,000	733.26	20.51	904.15
	6208.22.00	Women's or girls' nightdresses and pajamas, not knitted or crocheted, of man-made fibers	189	744	974	293.61	30.92	415.33

See footnotes at end table.

Table D-1—*Continued*

Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
Guyana	2208.40.60	Rum and tafia, in containers each holding over 4 liters, valued not over $0.69/proof liter	219	1,351	683	516.79	-49.47	211.65
Total			9,686	9,748	15,475	0.64	58.75	59.77
Haiti	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	775	70,945	48,082	9056.55	-32.23	6105.72
	6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	31	8,402	32,596	27167.91	287.95	105686.85
	6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of man-made fibers	47	777	10,245	1552.64	1217.92	21680.49
	6104.62.20	Women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	811	11,737	10,154	1346.87	-13.49	1151.72
	6104.63.20	Women's or girls' trousers, breeches and shorts, knitted or crocheted, of synthetic fibers, nesoi	47	333	6,656	607.65	1897.01	14031.78
	6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15 wt down etc, cont under 36 wt wool, n/water resist, not k/c	128	6,541	5,747	5026.47	-12.13	4404.61
	6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15 or more by weight of down, etc	21	3,811	4,682	17804.88	22.87	21900.41
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	396	7,722	4,586	1848.98	-40.62	1057.37
	6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesoi	16	1,489	4,152	9378.36	178.94	26338.56
Total			2,272	111,756	126,900	4819.49	13.55	5486.12

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
				1,000 dollars			*Percent*	
Honduras	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	14,164	426,385	511,185	2910.39	19.89	3509.10
	6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	5,852	150,476	182,748	2471.55	21.45	3023.06
	6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70 by wt of silk or silk waste, whether or not knitted or crocheted	1,735	98,436	169,361	5574.61	72.05	9663.29
	6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	3,954	110,645	111,614	2698.46	0.88	2722.98
	6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of man-made fibers	4,097	119,270	108,296	2810.97	-9.20	2543.14
	6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15 or more by weight of down, etc	2,258	102,354	93,923	4433.19	-8.24	4059.77
	6210.10.50	Nonwoven dispos apparel designed for hosps, clinics, labs or cont area use, made up of fab of 5602/5603, n/formed or lined w paper, not k/c	54,590	64,911	63,359	18.91	-2.39	16.06
	6110.30.30	Sweaters, pullovers and similar articles, knitted or crocheted, of manmade fibers, nesoi	1,247	43,714	60,238	3406.71	37.80	4732.24
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	1,652	56,067	45,897	3293.85	-18.14	2678.26
	6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	1,350	31,805	44,689	2255.59	40.51	3209.77

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
				1,000 dollars			*Percent*	
Honduras—Cont.	6205.30.20	Men's or boys' shirts, not knitted or crocheted, of manmade fibers, nesoi	456	20,768	43,397	4449.93	108.96	9407.41
Total			91,354	1,224,831	1,434,707	1240.75	17.14	1470.49
Jamaica	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	833	50,887	50,052	6011.13	-1.64	5910.81
	2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	29,045	36,326	32,045	25.07	-11.78	10.33
	6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	1,224	21,484	27,219	1655.49	26.70	2124.14
	0714.90.20	Fresh or chilled yams, whether or not sliced or in the form of pellets	7,648	9,926	10,130	29.77	2.06	32.45
	2208.40.80	Rum and tafia, in containers each holding over 4 liters, valued over $0.69/proof liter	7,445	5,819	8,757	-21.84	50.49	17.62
	6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	156	4,442	8,423	2753.87	89.64	5312.07
Total			46,350	128,883	136,625	178.06	6.01	194.77
Montserrat			-	-	-	-	-	-
Total			-	-	-	-	-	-
Netherlands Antilles	8544.20.00	Insulated (including enameled or anodized) coaxial cable and other coaxial conductors	1,040	2,010	763	93.23	-62.02	-26.61
	8544.60.20	Insulated electric conductors nesi, for a voltage exceeding 1,000 V, fitted with connectors	669	1,244	718	85.83	-42.32	7.18
	8504.32.00	Electrical transformers other than liquid dielectric, having a power handling capacity exceeding 1 kVA but not exceeding 16 kVA	946	1,112	578	17.59	-47.99	-47.99

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
Netherlands Antilles—Cont.	8504.31.40	Electrical transformers other than liquid dielectric, having a power handling capacity less than 1 kVA	323	561	409	73.97	-27.06	-27.06
Total			2,978	4,927	2,469	65.46	-49.90	-17.10
Nicaragua	6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15 or more by weight of down, etc	-	23,526	30,637	-	30.23	-
	6212.20.00	Girdles and panty-girdles	-	14,270	20,228	-	41.76	-
	0202.30.50	Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	15,178	17,126	20,139	12.84	17.59	32.69
	2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	8,539	12,421	19,734	45.46	58.88	131.10
	6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15 wt down etc, cont under 36 wt wool, n/water resist, not k/c	50	4,475	14,849	8892.89	231.79	29737.83
	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	0	1,678	13,182	-	685.42	-
	6205.30.20	Men's or boys' shirts, not knitted or crocheted, of manmade fibers, nesoi	139	15,261	13,108	10868.65	-14.11	9321.38
	0201.30.50	Bovine meat cuts, boneless, not processed, fresh or chld., descr in add. US note 3 to Ch. 2	6,163	11,593	12,046	88.11	3.90	95.46
	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	8,549	1,701	9,105	-80.10	435.10	6.49
Total			38,618	102,052	153,027	164.26	49.95	296.26

See footnotes at end of table.

Table D-1—*Continued*
Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
Panama	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	14,544	14,318	13,733	-1.55	-4.09	-5.58
	0807.19.70	Other melons nesoi, fresh, if entered during the period from December 1, in any year, to the following May 31, inclusive	4,044	1,846	4,459	-54.35	141.51	10.24
	9603.90.80	Brooms & brushes nesoi, mops, hand-operated mechanical floor sweepers, squeegees and similar articles, nesoi	4,065	3,398	3,704	-16.42	9.02	-8.88
	2710.19.05	Distillate and residual fuel oil (including blends) derived from petroleum or oils from bituminous minerals, testing under 25 degrees A.P.I.	-	-	3,704	-	-	-
	0709.90.05	Jicamas, pumpkins and breadfruit, fresh or chilled	1,863	1,930	1,727	3.62	-10.52	-7.29
	7604.21.00	Aluminum alloy, hollow profiles	2,229	1,144	1,722	-48.68	50.50	-22.76
Total			26,745	22,636	29,048	-15.36	28.33	8.61
St. Kitts-Nevis	8536.50.90	Switches nesoi, for switching or making connections to or in electrical circuits, for a voltage not exceeding 1,000 V	15,372	16,399	19,067	6.68	16.27	24.04
Total			15,372	16,399	19,067	6.68	16.27	24.04
St. Lucia	8529.10.20	Television antennas and antenna reflectors, and parts suitable for use therewith	3,964	2,724	4,347	-31.28	59.57	9.66
	8525.10.30	Transmission apparatus for television, nesoi	554	1,002	1,826	80.84	82.22	229.54
Total			4,518	3,726	6,173	-17.53	65.66	36.63

See footnotes at end of table.

Table D-1—*Continued*

Leading U.S. imports for consumption entered under CBERA, by sources, 2000-02

Source	HTS Item	Description	2000	2001	2002	Change 2000-2001	Change 2001-2002	Change 2000-2002
			1,000 dollars			*Percent*		
St. Vincent and the Grenadines	1604.14.40	Tunas and skipjack, not in airtight containers, not in oil, in bulk or in immediate containers weighing with contents over 6.8 kg each	-	-	2,941	-	-	-
	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	1,227	2,163	2,470	76.33	14.21	101.38
Total			1,227	2,163	5,411	76.33	150.15	341.09
Trinidad and Tobago	2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	-	263,518	595,232	-	125.88	-
	2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	222,229	281,988	219,876	26.89	-22.03	-1.06
Total			222,229	545,506	815,108	145.47	49.42	266.79

Note.— Percent based on actual (unrounded) data. The abbreviation “nesi” stands for “not elsewhere specified or included.” The abbreviation “nesoi” stands for ”not elsewhere specified or otherwise included.”

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

APPENDIX E
Leading Imports That Benefited Exclusively From CBERA in 2001

Table E-1
Leading imports that benefited exclusively from CBERA, 2001

(*1,000 dollars*)

HTS number	Description	Customs value	C.i.f-. value
6203.42.40	Men's or boys' trousers and shorts, not bibs, not knitted or crocheted, of cotton, not containing 15% or more by weight of down, etc	544,526	553,789
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	448,404	469,408
2905.11.20[1]	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	281,988	315,347
2709.00.20	Petroleum oils and oils from bituminous minerals, crude, testing 25 degrees A.P.I. or more	263,518	266,960
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	208,382	212,771
6212.10.90	Brassieres, not containing lace, net or embroidery, containing under 70% by wt of silk or silk waste, whether or not knitted or crocheted	193,929	197,580
2402.10.80[2]	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	176,013	178,290
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	166,610	174,671
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	133,608	163,185
7113.19.50[3]	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	143,644	143,903
6203.43.40	Men's or boys' trousers, breeches & shorts, of synthetic fibers, con under 15% wt down etc, cont under 36% wt wool, n/water resist, not k/c	140,284	143,468
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	123,082	127,830
6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of man-made fibers	90,855	95,011
2710.00.05	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing under 25 degrees A.P.I.	73,924	75,833
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	72,939	75,468
2709.00.10	Petroleum oils and oils from bituminous minerals, crude, testing under 25 degrees A.P.I.	75,180	75,180
1701.11.10[4]	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	67,195	72,473
7213.91.30	Iron/nonalloy steel, nesi, hot-rolled bars & rods in irregularly wound coils, w/cir. x-sect. diam. <14mm, n/tempered/treated/partly mfd	64,726	70,593
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	66,739	68,935
6210.10.50	Nonwoven dispos apparel designed for hosps, clinics, labs or cont area use, made up of fab of 5602/5603, n/formed or lined w paper, not k/c	66,531	68,053

[1] Includes only imports from Trinidad and Tobago. Item is GSP-eligible, but imports from Trinidad and Tobago exceeded the competitive-need limit and thus were eligible for duty-free entry only under CBERA.

[2] Includes only imports from the Dominican Republic, Nicaragua, and the Netherlands Antilles. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua and the Netherlands Antilles, other suppliers of this item, were included because those countries were not designated GSP beneficiaries in 2001.

[3] Includes only imports from the Dominican Republic, The Bahamas, Nicaragua, the Netherlands Antilles, and Aruba. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA. Imports from The Bahamas, Nicaragua, the Netherlands Antilles, and Aruba, other suppliers of this item, were included because those countries were not designated GSP beneficiaries in 2001.

[4] Includes only imports from the Dominican Republic and Nicaragua. Item is GSP-eligible, but imports from the Dominican Republic exceeded the competitive need limit and thus were eligible for duty-free entry only under CBERA. Imports from Nicaragua, another supplier of this item, were included because that country was not a designated GSP beneficiary in 2001.

Note.—The abbreviation, nesi, stands for "not elsewhere specified or included."

Source: Estimated by the U.S. International Trade Commission from official statistics of the U.S. Department of Commerce.

APPENDIX F
List of Frequently Used Abbreviations and Acronyms

List of Frequently Used Abbreviations and Acronyms

ATPA	Andean Trade Preference Act
CACM	Central American Common Market
CBERA	Caribbean Basin Economic Recovery Act
CBEREA	Caribbean Basin Economic Recovery Expansion Act
CBTPA	Caribbean Basin Trade Partnership Act
EU	European Union
FAA	Foreign Assistance Act
FDI	foreign direct investment
FTAA	Free-Trade Area of the Americas
FTZs	Free-Trade Zones (also, Foreign-Trade Zones)
GALs	guaranteed access levels
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GSP	Generalized System of Preferences
HTS	Harmonized Tariff Schedule
IPR	intellectual property rights
LAC	Latin America and the Caribbean
MFN	most-favored-nation
NAFTA	North American Free Trade Agreement
NTR	normal trade relations
PSP	production-sharing provisions
ROW	rest of the world
TPSC	Trade Policy Staff Committee
TRQs	Tariff-Rate Quotas
USAID	United Nations Agency for International Development
USITC	U.S. International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization