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THE IMPACT OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT

Fifteenth Report 1999-2000

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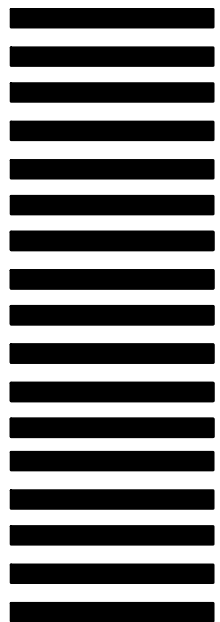
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ABSTRACT

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 new law, the Commission is to submit reports on CBERA biennially in odd-numbered years, with the first such report being due "not later than September 30, 2001." The CBTPA mandates that in all future reports under the statute, the Commission report the impact of the CBERA program on beneficiary countries. This fifteenth report is the first report to be submitted under the new law.

The current study fulfills the Commission's reporting requirement under the statute for calendar year 2000. The overall effect of CBERA-exclusive imports on the U.S. economy and consumers continued to be negligible in 2000. Based on the upper range 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. imports of the 20 leading CBERA-exclusive items, except two sugar subheadings, 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 not to be insignificant, following the CBTPA inclusion of certain apparel articles as eligible for preferential treatment. Since these preferences became effective in the last quarter of 2000, there are insufficient data from which to draw quantitative conclusions. However, USITC field work in the region in June 2001 and trade data for January-June 2001 point to the conclusion that CBTPA is likely to have a marked effect on increasing textile and apparel trade within the CBERA preference program.

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.

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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 2000. Section 215 of the CBERA requires the Commission 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 beneficiary countries.

The Commission used partial-equilibrium analysis to estimate the impact of CBERA on the United States. The probable future effect of CBERA on the United States was estimated by an examination of export-oriented investment in the beneficiary countries. This year's report also provides an assessment of the effectiveness of CBERA in promoting export-led growth and export diversification in the beneficiary countries. The impact of the preference program was examined by means of an econometric analysis. Data sources for the report included field interviews, direct observation, interviews with other government agencies, U.S. Department of Commerce data, reported data from multilateral banks and international agencies, and reports from U.S. embassies.

The CBERA entered into effect on January 1, 1984, and became permanent as of August 20, 1990. It eliminates or, in some cases, 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 many of the same tariff categories covered by the U.S. Generalized System of Preferences (GSP), but it is less restrictive than the GSP in that CBERA's benefits apply to additional products and the product-qualifying rules are more liberal.

Impact of CBERA on the United States

- Of the \$2.8 billion in U.S. imports that entered under CBERA in 2000, imports amounting to \$1.5 billion could not have received tariff preferences under any other program. The five leading items benefiting exclusively from CBERA in 2000 were methanol, higher-priced cigars, pineapples, jewelry articles, and raw cane sugar.
- The overall effect of CBERA-exclusive imports on the U.S. economy and on consumers continued to be negligible in 2000. In 2000, the value of U.S. imports under CBERA preferences was less than 0.03 percent of U.S. gross domestic product (GDP). The value of total U.S. imports from CBERA countries was 1.8 percent of total U.S. imports.

- Fuel-grade ethyl alcohol provided the largest gain in consumer surplus (\$19.3 million to \$27.7 million) resulting exclusively from CBERA tariff preferences in 2000. Methanol provided the second-largest gain in consumer surplus (\$19.0 million to \$20.6 million). U.S. imports of the 20 leading CBERA-exclusive items, except for two sugar subheadings, produced net welfare gains for U.S. consumers in 2000. Frozen concentrated orange juice yielded the largest net gain, valued at \$4.2 million to \$5.2 million, followed by fuel-grade ethyl alcohol and methanol.
- No U.S. industries were identified as potentially experiencing displacement of more than 5 percent of the value of U.S. production, based on an upper range estimate.
- After decreasing by nearly 19 percent to \$5.8 billion from 1998 to 1999, foreign direct investment decreased by 7 percent in 2000. Estimated investment flows to the CBERA region amounted to \$5.4 billion in 2000.
- 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.
- The largest future effect of CBERA on the United States is likely to result from the enhanced preferences granted under CBTPA in 2000. Imports of textiles and apparel will likely expand significantly in the year 2001 and beyond.
- In the Dominican Republic, as of 2000, there were 46 free trade zones with 481 companies operating in them. Of these, 275 companies (57 percent of the total) were producing apparel. Total exports from the free trade zones accounted for an estimated \$4.7 million, with revenues of \$1.0 million.
- Foreign direct investment in Guatemala has been heavily influenced by the development of export-processing zones during the 1990's. As of 2000, there were 80 companies operating in such zones, with investments totaling \$102 million. There were 41 investments in clothing, 11 in industrial products, 13 in farm products, 4 in thread and textile manufacturing, 3 in textiles, 4 in chemicals, 2 in mineral extraction, and 2 in construction.
- The majority of foreign investment in Trinidad and Tobago is in the energy-based sectors. Economic reform and trade and investment liberalization have led to substantial foreign investment inflows. Direct investment increased from \$372.6 million in 1993 to \$643.3 million in 1999.

Impact of CBERA on Beneficiary Countries

- CBERA appears to have had no significant effect on overall investment in the beneficiary countries. CBERA appears to have had a small but positive effect on income growth in the beneficiary countries, but only during the years when

these countries were undertaking their own trade and foreign exchange reforms. As expected, the impact of CBERA on growth has diminished as the U.S. trade regime has become more open over time.

- In contrast to CBERA, production-sharing has had a strong, positive, significant effect on both investment and income growth in the beneficiary countries. As expected, this impact has diminished as the U.S. market has become more open over time. NAFTA diminished the positive effects of the production-sharing program in the region, and directly diminished investment in the Caribbean beneficiary countries.
- Unilateral trade reforms undertaken by the beneficiary countries resulted in increased investment in the CBERA region and increased income growth in the Caribbean. U.S. trade reform had a significant positive effect on investment in Central American beneficiary countries and on income growth in Caribbean beneficiary countries.

Trade-related activities

- Total U.S. imports from CBERA beneficiary countries in 2000 amounted to \$22.2 billion, of which \$2.8 billion or 11.9 percent entered under CBERA preferences. An additional \$157 million, or 0.7 percent of the total, entered under the CBTPA program, which became effective only during the last quarter of 2000 for some countries eligible for CBERA. The leading items afforded duty-free entry under CBERA in 2000 were cigars and other tobacco products; methanol (methyl alcohol); gold and platinum jewelry; sugar; and pineapples. Four countries—the Dominican Republic, Costa Rica, Trinidad and Tobago, and Guatemala—accounted for more than 75 percent of all U.S. imports under CBERA.
- The share of U.S. imports from CBERA countries that entered under CBERA in 2000 decreased from 13.6 percent in 1999 and 18.8 percent in 1998. The decline in the relative significance of CBERA can be attributed principally to three factors: (1) the elimination of general duty rates on some CBERA-eligible products that made the use of a preferential program unnecessary, (2) smaller U.S. quota and allocations on sugar (a CBERA-eligible product) from most countries, including CBERA beneficiaries, and (3) a surge in the price of petroleum products that increased the value of that portion of overall imports that entered outside CBERA.
- The United States registered a collective trade deficit with CBERA countries in both 1999 and 2000—the first U.S. deficits in this trade since 1986. The 1999 deficit was \$335.2 million; the 2000 deficit \$1.4 billion. They resulted largely from price increases and the higher import value of petroleum and natural gas products imported from CBERA countries.
- Apparel products continued to dominate U.S. imports from CBERA countries. However, the share of apparel products by value in total imports from CBERA

countries dipped from 48 percent in 1998 to 43 percent in 2000, due to competition in the U.S. market from Mexican apparel. By contrast, the share of mineral fuel imports increased from 5.6 percent of the total in 1998 to 14.2 percent in 2000, reflecting surging energy prices.

- During 1999 and 2000, imports under CBERA from most CBERA countries contracted. Increasing imports of methyl alcohol from Trinidad and Tobago, of expandable polystyrene from the Bahamas, and of frozen orange juice from Belize boosted overall imports under CBERA from these three countries, making them major exceptions to the overall contraction.
- The product composition of U.S. imports under CBERA has changed markedly since 1998 because of the lowering of tariffs following multilateral trade negotiations. Beginning in 1999, most instruments (HTS chapter 90) and footwear uppers (HTS chapter 64) that had been leading import categories in 1998 no longer entered under CBERA. As of 2000, many electrical machinery items no longer entered under CBERA. All of these items achieved duty-free normal trade relations status.
- Leading import categories under CBERA that lost some of their relative share included electrical machinery (HTS chapter 85), tobacco (HTS chapter 08), and sugar (HTS chapter 17). Conversely, edible fruits (HTS chapter 08), prepared fruits and vegetables (HTS chapter 20), and organic chemicals (HTS chapter 29) gained importance.
- U.S. exports to CBERA countries totaled \$20.7 billion in 2000, an 8.9 percent increase over 1999. CBERA countries' relative export market importance dipped slightly, from sixth in 1998 to ninth in 2000.
- The Dominican Republic, Honduras, Costa Rica, and Guatemala remained the principal U.S. markets, collectively accounting for 53.6 percent of U.S. exports to the region. The leading eight countries (top one third) have in recent years accounted for more than eighty percent of U.S. exports to CBERA countries.
- Goods provided for in HTS chapters for apparel, mineral fuels, vehicles (not railway), and cereals continued to dominate U.S. exports to the region. Six of the leading 20 export items were textiles, or apparel, or apparel parts, driven primarily by production sharing opportunities. Another four of the leading 20 export items consisted of mineral fuels and oil.

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. The program 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 for 14 years.

The current publication, covering calendar year 2000, assesses CBERA's effects. Table 1-1 compares the major provisions of CBERA.

Organization

Chapter 1 summarizes the CBERA program. Chapter 2 analyzes U.S. trade with CBERA beneficiaries during 2000. Chapter 3 addresses the estimated effects of CBERA in 2000 on the U.S. economy generally, as well as on U.S. industries and consumers. This chapter also examines the probable future effects of CBERA. Chapter 4 addresses the CBERA program's effects on beneficiary countries.

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 provides technical notes to the econometric analysis utilized to determine the impact of the CBERA program on beneficiary countries. Appendix E includes tabular presentations of the data underlying some of the analysis of trade trends in chapter 2. Finally, appendix F contains a list of frequently used abbreviations.

Summary of the CBERA Program

CBERA authorizes the President to grant unilateral preferential trade benefits to Caribbean Basin countries and territories. The program permits shippers from

¹ CBERA was enacted August 5, 1983, as Public Law 98-67, title II; 97 Stat. 384, 19 U.S.C. 2701 et seq. and became effective January 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. CBERA beneficiary countries are listed in table 1-1, below.

**Table 1-1
Summary of CBERA preferential provisions, yearend 2000**

Inception	Enacted 8/5/83 - CBERA Expanded 8/20/90 - CBEREA ¹ Enhanced 5/18/00-CBTPA ²
Benefits	Duty-free entry and reduced duty entry granted on a non-reciprocal, non-MFN basis
Exclusions ³	Textiles/apparel, leather, canned tuna, petroleum and derivatives, certain footwear, certain watches/parts; over-TRQ-trigger agricultural goods
Duration	Originally: 10 years, until 9/30/95 CBEREA: indefinite CBTPA: until 9/30/08 ⁴
Beneficiaries ⁵	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) ⁶	Approximately 5,925
Value of imports under the program (million dollars)	\$2,636
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	12.6%

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 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 subch. XX of Ch. 98 of the HTS). No other CBTPA benefits apply to excluded agricultural and textile/apparel products (that is, NAFTA parity is not accorded).

⁴ The CBTPA expires on either September 8, 2008, or the date on which the FTAA or comparable agreement enters into force, whichever is earlier.

⁵ Asterisk [*] indicates beneficiary countries under the CBTPA.

⁶ 8-digit HTS items.

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 formerly known as most-favored-nation (MFN) rates). CBERA was initially given statutory effect through September 30, 1995; the Caribbean Basin Economic Recovery Expansion Act

(CBEREA) of 1990² repealed that termination date, made the program permanent, and expanded CBERA benefits in several respects.³ 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.⁴

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, 1995.⁵ A WTO waiver was sought because CBERA tariff preferences were extended on a nonreciprocal basis to a limited number of countries, rather than to all WTO members.

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 newly enacted CBTPA concludes this chapter.

Beneficiaries

Eligible imports from 24 countries received CBERA tariff preferences during 2000.⁶ Four other countries—Anguilla, Cayman Islands, Suriname, and Turks and Caicos Islands—are potentially eligible for CBERA benefits but have not requested that status.⁷ The President can terminate beneficiary status or suspend or limit a country's CBERA benefits at any time.⁸

CBERA beneficiaries are required to afford internationally recognized worker rights under the definition used in the GSP program⁹ and to provide effective protection of

² The Caribbean Basin Economic Recovery Expansion Act of 1990 was signed into law on August 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).

³ 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, Sept. 1991, pp. 1-1 to 1-5.

⁴ A description of the CBTPA and the enhancement of the preference program is contained in a separate section of this chapter.

⁵ Decision of the WTO General Council of Nov. 15, 1995 (WT/L/104).

⁶ 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.

⁷ The Caribbean, Central American, and South American countries and territories potentially eligible for CBERA benefits are listed in 19 U.S.C. 2702(b). During 1999, both Anguilla and Suriname expressed interest in beneficiary status under the CBERA program. USITC staff interview with U.S. Department of State staff, July 19, 1999.

⁸ 19 U.S.C. 2702(e).

⁹ 19 U.S.C. 2462.

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.¹⁰ To date, the United States has withdrawn CBERA benefits from only one country on the basis of worker rights or U.S. intellectual property rights violations.¹¹

In April 1999, the USTR conducted a review of country practices pertaining to IPR protection under the so-called Special 301 provisions of the Trade Act of 1974, placing 37 countries on the "Watch List", including Costa Rica and Jamaica, and an additional 16 trading partners on the Special 301 "Priority Watch List." Of the CBERA beneficiaries, the Dominican Republic and Guatemala were the only ones placed on the Priority Watch List.¹² In May 2000, the Dominican Republic and Guatemala remained on the Priority Watch List.¹³

Trade Benefits Under CBERA

Under CBERA, preferential rates of duty below the column 1-general rates¹⁴ can be accorded to most products of Caribbean Basin countries; the general tariff rate is reduced either to free or, for a small group of products, to a rate equal to 80 percent of the column 1-general rate except that the reduction may not exceed 2.5 percent ad valorem.¹⁵ In addition to basic preference-eligibility rules, certain conditions apply to CBERA duty-free entries of sugar, beef,¹⁶ and ethyl alcohol.¹⁷ Imports of sugar and

¹⁰ 19 U.S.C. 2702(b).

¹¹ See USTR, "USTR Barshefsky Announces Action to Address Honduran Failure to Protect Intellectual Property Rights," press release 97-94, Nov. 4, 1997; 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.

¹² USTR, "USTR Announces Results of Special 301 Annual Review," press release 99-41, Apr. 30, 1999.

¹³ USTR, "USTR Releases Super 301, Special 301 and Title VII Reports," press release 00-30, May 1, 2000. In April 2001, the Dominican Republic remained on the Priority Watch List because of an insufficient term of patent protection. Progress was made in resolving patent protection in Guatemala. USTR, "USTR Releases Reports Emphasizing Enforcement Priorities," press release 01-25, Apr. 30, 2001.

¹⁴ For some products, the general or normal trade relations rate is free.

¹⁵ General note 3(c) to the Harmonized Tariff Schedule (HTS) lists the special tariff treatment programs for eligible products of designated countries under various U.S. laws, including CBERA. General note 7 covers CBERA in detail.

¹⁶ 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. 19 U.S.C. 2703(c)(1)(B).

¹⁷ 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. 19 U.S.C. 2703(a)(1). See also 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).

beef, like those of some other agricultural products, remain subject to any applicable and generally imposed U.S. quotas and food-safety requirements.¹⁸

Although not eligible for duty-free entry, certain leather handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel from CBERA countries are eligible to enter at reduced rates of duty, as noted above.¹⁹ Prior to the enhancement of CBERA preferences under the CBTPA, CBERA excluded from preferential duty treatment most textiles and apparel, certain footwear, canned tuna, petroleum and petroleum derivatives, and certain watches and watch parts.²⁰ As an exception to the textiles exclusion, eligible CBERA countries shipping apparel assembled therein entirely from fabric formed and cut in the United States could qualify for liberal import quotas. The CBTPA, discussed below, formalized the admission of such apparel and removed import quotas on such shipments, effective October 1, 2000.

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.²¹ The cost or value of the local (CBERA region) materials and 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

¹⁸ 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 abolished former absolute quotas on imports of agricultural products of WTO members; U.S. quotas had been created under section 22 of the Agricultural Adjustment Act of 1933 (7 U.S.C. 624) and under the Meat Import Act of 1979 (Public Law 88-482). 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. 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.

¹⁹ Applies to articles that were not designated for GSP duty-free entry as of August 5, 1983. Under CBERA, beginning in 1992, duties on these goods were reduced slightly in five equal annual stages. 19 U.S.C. 2703(h).

²⁰ 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, Sept. 1994, pp. 2-9, and *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Tenth Report 1994*, USITC publication 2927, Sept. 1995, pp. 3-4.

²¹ Products undergoing the following operations do not qualify: simple combining or packaging operations, dilution with water, or dilution with another substance that does not materially alter the characteristics of the article. 19 U.S.C. 2703(a)(2). Articles, other than textiles and apparel or 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, Sept. 1992, p. 1-4.

local-value-content requirement on an aggregated basis;²² 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.²³ 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.²⁴

CBERA and GSP

Most CBERA beneficiaries (except Aruba, The Bahamas, Netherlands Antilles, and Nicaragua)²⁵ are also GSP beneficiaries.²⁶ 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 (ST) requirement for any foreign inputs (in the GSP program, a “double ST” test is used),²⁷ and (3) contain a minimum of 35 percent local-value content. The documentary requirements necessary to claim either CBERA or GSP duty-free entry 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.²⁸

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 GSP does; unless specifically excluded, all products eligible to enter the United

²² The Commission is not aware of any articles imported under the CBERA preference program that take advantage of the aggregated local-content requirement.

²³ 19 U.S.C. 2703(a)(1).

²⁴ 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. 19 U.S.C. 2703(a)(5).

²⁵ On January 1, 1998, two CBERA countries—Aruba and the Netherlands Antilles—became ineligible for preferential treatment because of a Presidential determination in 1996 that these beneficiary developing countries had become “high income” countries, as defined by the official statistics of the International Bank for Reconstruction and Development (World Bank). The Cayman Islands, Cyprus, Greenland, and Macau also became ineligible. 61 F.R. 54719.

²⁶ 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 and following) 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 and following), as amended (19 U.S.C. 2461 and following). Since that time, the GSP program has expired and been renewed several times. GSP expiration and renewal issues are discussed later in this section.

²⁷ “Double substantial transformation” 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.

²⁸ The CBTPA requires a unique certificate of origin form. The requirements for enhanced preferences are not unlike those of the NAFTA program.

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; 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,²⁹ 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,³⁰ whereas CBERA allows regional aggregation within CBERA plus U.S. content.

The U.S. GSP program has not been in continuous effect in recent years. It expired at midnight on July 31, 1995; the provisions of the program were renewed October 1, 1996, retroactive to August 1, 1995 through May 31, 1997.³¹ The U.S. GSP program expired again on May 31, 1997, but was renewed August 5, 1997, retroactive to June 1, 1997 through June 30, 1998.³² On June 30, 1998, the program expired again but was renewed October 21, 1998, retroactive to July 1, 1998 through June 30, 1999.³³ The GSP program again expired on June 30, 1999 but was extended retroactively through September 30, 2001, by legislation signed by the President on December 18, 1999.³⁴ All imports claiming the GSP tariff preference that entered during periods when GSP was not in effect were subject to ordinary column 1-general 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. Because of the lapses in GSP, suppliers in the Caribbean Basin could be sure only that the preferential tariff provisions of the CBERA were in force. As a result, there was a marked shift away from using GSP to CBERA, particularly in 1995 and 1996. 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 enhancement of the CBERA program.³⁵ CBTPA became effective on October 1, 2000, and is scheduled to expire on September 30, 2008,

²⁹ 19 U.S.C. 2464(c)-(f).

³⁰ 19 U.S.C. 2463(b)(1)(B).

³¹ On August 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). Also, U.S. Department of State telegram, "GSP Reauthorized Through May 31, 1997," message reference No. 166692, Washington, DC, Aug. 12, 1996; and 61 F.R. 52078.

³² 62 F.R. 46549-46550.

³³ 63 F.R. 67169-67170.

³⁴ Public Law 106-170.

³⁵ Trade and Development Act of 2000 (Public Law 106-200, title II).

unless the Free Trade Area of the Americas (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 certain textiles and apparel from CBERA countries.

CBTPA is principally aimed at eliminating 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 on a basis essentially equivalent to the trade preferences provided under NAFTA for similar goods from Mexico. For the most part, these apparel goods must be made wholly of U.S. inputs and assembled in an eligible CBTPA country listed in chapter 98 of the HTS, whereas apparel from Mexico can be imported free of duty under NAFTA as long as the fabric used to make the apparel is of North American origin. The CBTPA also extended NAFTA-equivalent treatment (rates of duty equivalent to those accorded to goods of Mexico, under the same rules of origin applicable under NAFTA) to a number of other products previously excluded from CBERA, including certain tuna, petroleum products, certain footwear, and some watches and watch parts. CBTPA also provided duty-free treatment for luggage made from parts of U.S. origin.³⁶

However, CBERA beneficiaries are not automatically eligible for CBTPA preferences. In considering the eligibility of these countries for CBTPA beneficiary country status, the CBTPA required the President to take into account certain eligibility criteria, including the extent to which the country has implemented its WTO commitments, participated in the 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, the Office of the U.S. Trade Representative 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. As of the end of 2000, 11 countries had been found to satisfy customs-related requirements established in the CBTPA as well, thereby becoming fully eligible for benefits under the new legislation.³⁷ These countries were: Belize, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, and Panama.³⁸

³⁶ See HTS item 9802.00.804b and U.S. note 7(b) to Chapter 98, subchapter II.

³⁷ These other countries, while designated as eligible, await certification of their eligibility by the President.

³⁸ Trinidad and Tobago became fully eligible as of Feb. 6, 2001. See HTS general note 17 and legal notes in subchapters II and XX of chapter 98 of the HTS. Countries can be added to the general note list, dealing with nontextile goods, without qualifying for the textile articles benefits of chapter 98.

CBTPA authorizes unlimited preferential treatment 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 for assembly in CBTPA countries rather than the United States, the apparel must also be sewn together with U.S. thread. CBTPA countries are also eligible to receive unlimited preferential treatment 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.

CBTPA provides for preferential treatment for limited amounts of knit apparel, except socks, made in CBTPA countries from fabrics knitted in those countries provided that the fabrics are produced of U.S. yarns (regional knit fabrics).³⁹ This preferential treatment is 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 caps are to be increased by 16 percent in each succeeding 1-year period through September 30, 2004, and remain at those levels through September 30, 2008.

Preferential 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 6 succeeding 1-year periods, preferential 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 U.S. International Trade 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.⁴⁰ As requested by the USTR, the Commission is to provide advice regarding the probable economic effect of providing preferential treatment for apparel made in African Growth and Opportunity Act (AGOA) 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 will be provided as to the probable economic effect of such action on affected segments of the U.S. textile and apparel industries, workers in these industries, and consumers of affected goods.⁴¹

³⁹ 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 (sweaters). On April 25, 2001, H.R. 1589 was introduced to amend CBERA to grant duty-free and quota-free treatment to socks and hosiery that are sewn assembled, or cut in a CBTPA beneficiary country from components knit-to-shape in the United States. See H.R. 1589, 107th Congress, 1st session, found at Internet address <http://thomas.loc.gov>, retrieved on May 14, 2001.

⁴⁰ 66 F.R. 15886.

⁴¹ For a detailed discussion of the CBTPA, including recent trade in affected apparel items, see Rodriguez-Archila, Laura, "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.

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 heading 9802.00.80 and related legal notes of the Harmonized Tariff Schedule of the United States (HTS), commonly referred to by its former Tariff Schedule 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).⁴² 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 (up until October 1, 2000).⁴³

Analytical Approach

The core of 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.⁴⁴ 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

⁴² 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.

⁴³ 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.

⁴⁴ A number of previously excluded products were added for reduced-duty treatment under the Caribbean Basin Economic Recovery Expansion Act of 1990.

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 CBERA program, which has been in effect since 1984. 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 U.S. industries competing with the leading U.S. imports that benefitted exclusively from the CBERA program in 2000;⁴⁵ 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.⁴⁶

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 2000. Actual 2000 market conditions are compared with a hypothetical case in which column 1-general duties, formerly known as most-favored-nation (MFN) duties, were imposed for the year. The effects of CBERA duty reductions for 2000 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.⁴⁷ Previous analyses in this series have shown that since CBERA has been in effect, U.S. consumers have benefitted 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.⁴⁸

⁴⁵ That is, those that are not excluded or do not receive unconditional column 1-general duty-free treatment or duty-free treatment under other preference programs such as GSP.

⁴⁶ A copy of the notice is contained in appendix A. Summaries of comments received are included in appendix B.

⁴⁷ A more detailed explanation of the approach can be found in appendix C.

⁴⁸ 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.

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 were not captured in this analysis. The effects of CBERA duty reductions on most U.S. industries are expected to be small.

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 range estimates reflect the assumption of high substitution elasticities.⁴⁹ The lower range estimates reflect the assumption of low substitution elasticities. Upper range estimates are used to identify items that could be most affected by CBERA.

The analysis was conducted on the 20 leading product categories that benefitted exclusively from CBERA tariff preferences (table 3-2).⁵⁰ Estimates of welfare and potential U.S. industry displacement were made, and had there been industries for which estimated upper range potential displacement was over 5 percent of the value of U.S. production, they would have been selected for further analysis.

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.

As a result of the Caribbean Basin Trade Partnership Act (CBTPA), the Commission has a new statutory requirement. This year's report includes examination of the impact of the CBERA preference program on beneficiary countries. Beneficiary country impact is assessed quantitatively by means of an econometric analysis and qualitatively through State Department cables and USITC field work.

⁴⁸—Continued

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 over and 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.

⁴⁹ 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.

⁵⁰ Commission industry analysts provided estimates of U.S. production and exports for the 20 leading items that benefitted exclusively from CBERA, as well as evaluations of the substitutability of CBERA-exclusive imports and competing U.S. products.

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 two-year span encompassing 1999 and 2000 are examined. However, because U.S. imports under CBERA constitute a comparatively small portion of U.S. imports from the region (12.6 percent of total imports), and because they are affected by other programs, such as the staged reduction of U.S. duties under the Uruguay Round Agreements (URA), production sharing, and GSP, imports under CBERA are analyzed in the context of overall bilateral trade between the United States and CBERA countries.

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 was not feasible, individual beneficiary countries as sources of and destinations for this trade are also covered.

Since October 1, 2000, i.e. during the last quarter of the year under review, the CBTPA has also been in effect, adding to the trade benefits enjoyed under CBERA for the 11 CBTPA-eligible countries² and products. Because this period was only the last of the eight quarters covered in this report, and CBTPA was still a new and relatively unfamiliar program, its effect on the trade data analyzed in this chapter was minor.

Imports entered under CBERA preferences have accounted for a declining share of total U.S. imports from CBERA countries in recent years. Such imports constituted 19.3 percent of the total in 1997, 18.8 percent in 1998, 13.6 percent in 1999, and 12.6 percent in 2000.³ Major factors that affected U. S. imports from CBERA countries during this period included: a continued reduction of U.S. sugar quotas overall and the allocations to individual CBERA beneficiaries; the resurgence of petroleum and natural gas prices, especially during 2000;⁴ and the staged duty reductions under the

¹ For a list of these countries, see chapter 1.

² For the list of CBTPA-eligible countries, see chapter 1.

³ These percentages include a small amount of reduced-duty items under CBERA and imports under CBTPA, which began during the last quarter of the two-year period. Percentages are based on data unadjusted for imports entered inappropriately under CBERA.

⁴ This section will cite changes in terms of volume as well as value during the period under review for goods or product categories where price fluctuations had been a major factor.

Uruguay Round, which made some major CBERA products free of duties on a normal trade relations (NTR) basis in 1999 and 2000. Hurricanes Georges and Mitch, which struck the region in 1998, also had some lingering adverse effects on the economies and trade of certain Caribbean countries during the period under review.

Methodological Note

The data and discussion concentrate on the time span of 1999-2000, although in certain instances long-term trends from 1984, the first year of CBERA's implementation, are also shown. Otherwise, 1998 is the base year for showing developments during the period under review. 1999 is generally not discussed separately unless specifically called for. "Status-quo" (or snap-shot) presentations are always based on the year 2000, and data are always sorted on the basis of that year.

Two-Way Trade

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, in 1999 and in 2000, the collective U.S. trade balance with CBERA countries reverted into the deficit position recorded in 1986 and prior years. This deficit was \$335.2 million in 1999 and \$1.4 billion in 2000 (table 2-1 and figure 2-1).

The U.S. deficit of the past two years, as well as those deficits that preceded the year 1987, resulted in large measure from the comparatively large import value of petroleum and natural gas products from CBERA countries. Beginning with 1987, the decline of 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 declined somewhat in 2000 as a percentage of U.S. trade with the world. The share of CBERA countries in U.S. exports, which rose in 1998 and 1999 to a record 3.0 percent of the total, dropped to 2.9 percent in 2000. Similarly, the collective share of CBERA countries in total U.S. imports—1.9 percent in both 1998 and 1999—dropped to 1.8 percent in 2000, despite the high value of oil product imports.

Table 2-1
U.S. trade with CBERA countries, 1980-2000

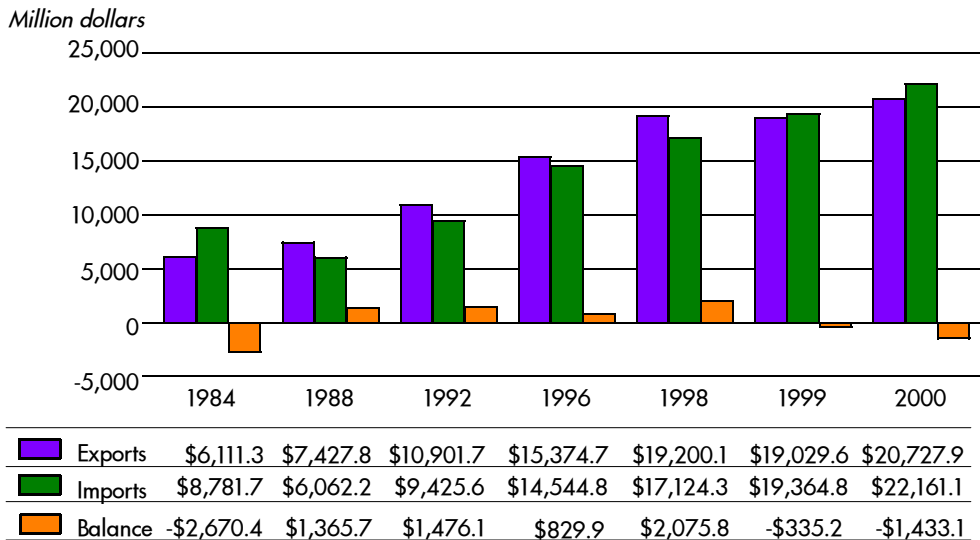
Year	U.S. exports ¹	Share of U.S. exports to the world	U.S. imports ²	Share of U.S. imports from the world	U.S. Trade balance
	Million dollars	Percent	Million dollars	Percent	Million dollars
1980	5,930.2	2.7	10,193.9	4.2	-4,263.8
1981	6,293.3	2.7	9,711.5	3.7	-3,418.1
1982	6,131.9	2.9	7,029.0	3.3	-1,797.2
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	-1,433.1

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 countries, 1984, 1988, 1992, 1996, 1998, 1999, and 2000



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

Production-sharing operations are intended to raise U.S. competitiveness in response to intensified global competition. Such operations contribute importantly to increasing U.S. trade with Caribbean countries in both directions. Although production sharing as a U.S. program predates CBERA, it was expanded in recent years, in particular with respect to CBERA countries. 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, and returned U.S. content in shared production accounted for 22.5 percent. The Dominican Republic and Honduras are the leading CBERA sources of imports under PSP. Apparel, most of which does not benefit from CBERA preferences, constitutes the principal sector in which production sharing takes place, followed by medical instruments.

Total Imports

Total U.S. imports from CBERA countries (including imports affected and unaffected by CBERA preferences) were \$19.4 billion in 1999 and \$22.2 billion in 2000, increasing 13.1 and 14.4 percent respectively.⁵ CBERA countries combined constituted the twelfth-largest U.S. supplier during 2000—ahead of Singapore but behind Italy.

U.S. imports from the CBERA region as a share of total U.S. imports is detailed in figure 2-2, depicting the share of eligible CBERA imports (27.5 percent), the annual amount of CBERA imports utilizing the preference program (46 percent), and the share of imports that are eligible for CBERA preferences and no other duty-free or reduced duty treatment (almost 60 percent).

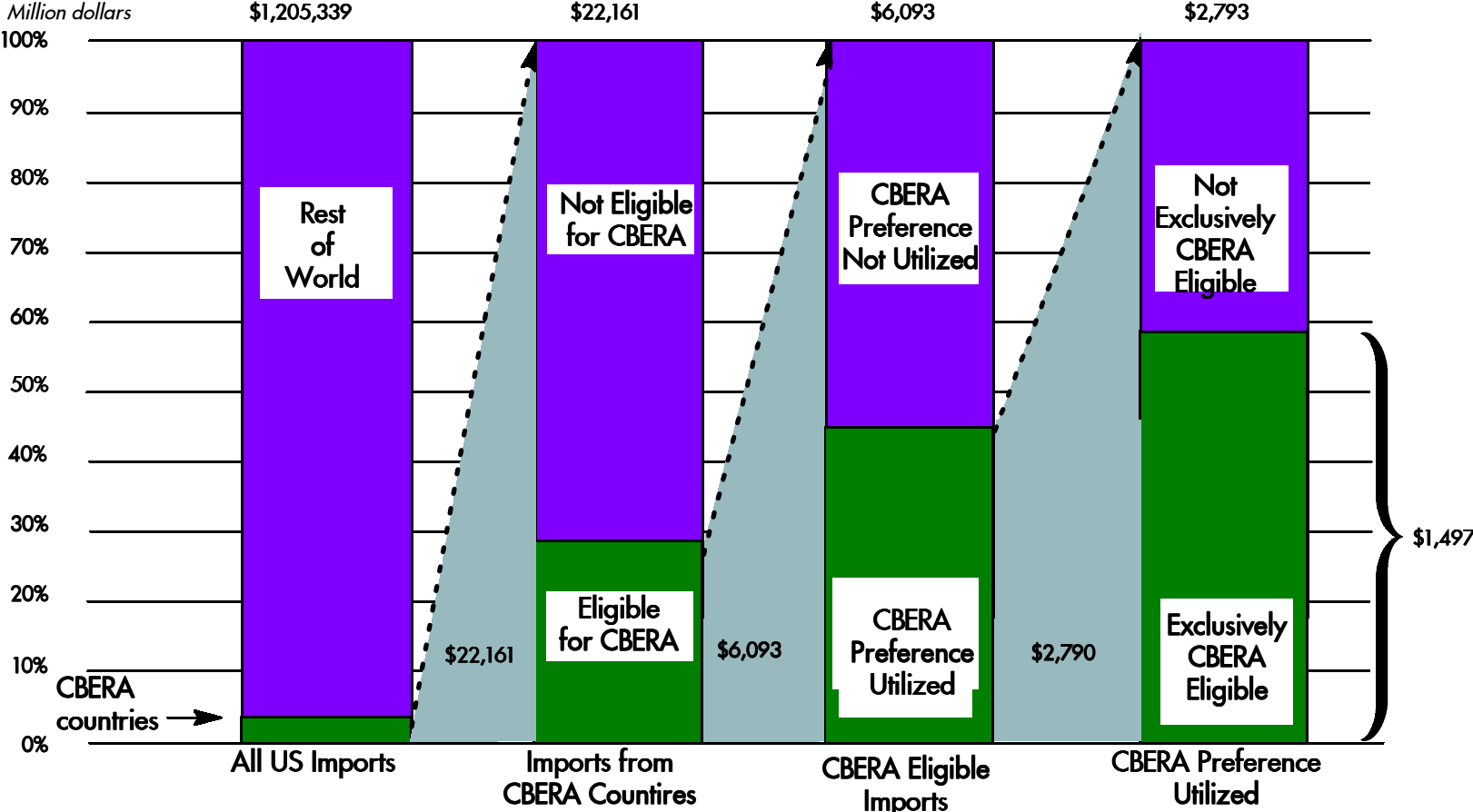
Product Composition and Leading Items

Table 2-2 and figure 2-3 show the changes of total U.S. imports from CBERA countries in major product categories between 1984, the first year of CBERA, and 2000, in multi-year intervals. The table and figure show the replacement of mineral fuel products by apparel as the dominant category and the renewed importance of mineral fuel products in U.S. imports from CBERA countries in 2000. Table 2-3 shows the 20 leading items in this trade during 1998, 1999, and 2000 on an 8-digit HTS subheading basis, ranked by their 2000 import value.

In 2000, the three petroleum and ten apparel goods on the list of leading items from CBERA countries (table 2-3) had been dutiable at column 1, general or NTR rates,

⁵The analysis of U.S. imports throughout this chapter is based on tables 2-1 through 2-5, tables 2-7 through 2-9, and table E-1. These tables were processed from entries as reported. An exception is table 2-6, which is based on entries adjusted for misreporting, i.e. for making entries in inappropriate duty categories. According to table 2-6, 11.7 percent of total U.S. imports in 2000 should have been reported as entries under CBERA.

Figure 2-2
Breakdown of U.S. imports from CBERA countries, 2000



Note.—"CBERA" refers to CBERA and CBTPA programs, including CBTPA eligibility under 9802 provision. CBTPA data for first three months of program only (Oct.-Dec. 2000).
Source: Compiled from official statistics of the U.S. Department of Commerce.

Table 2-2

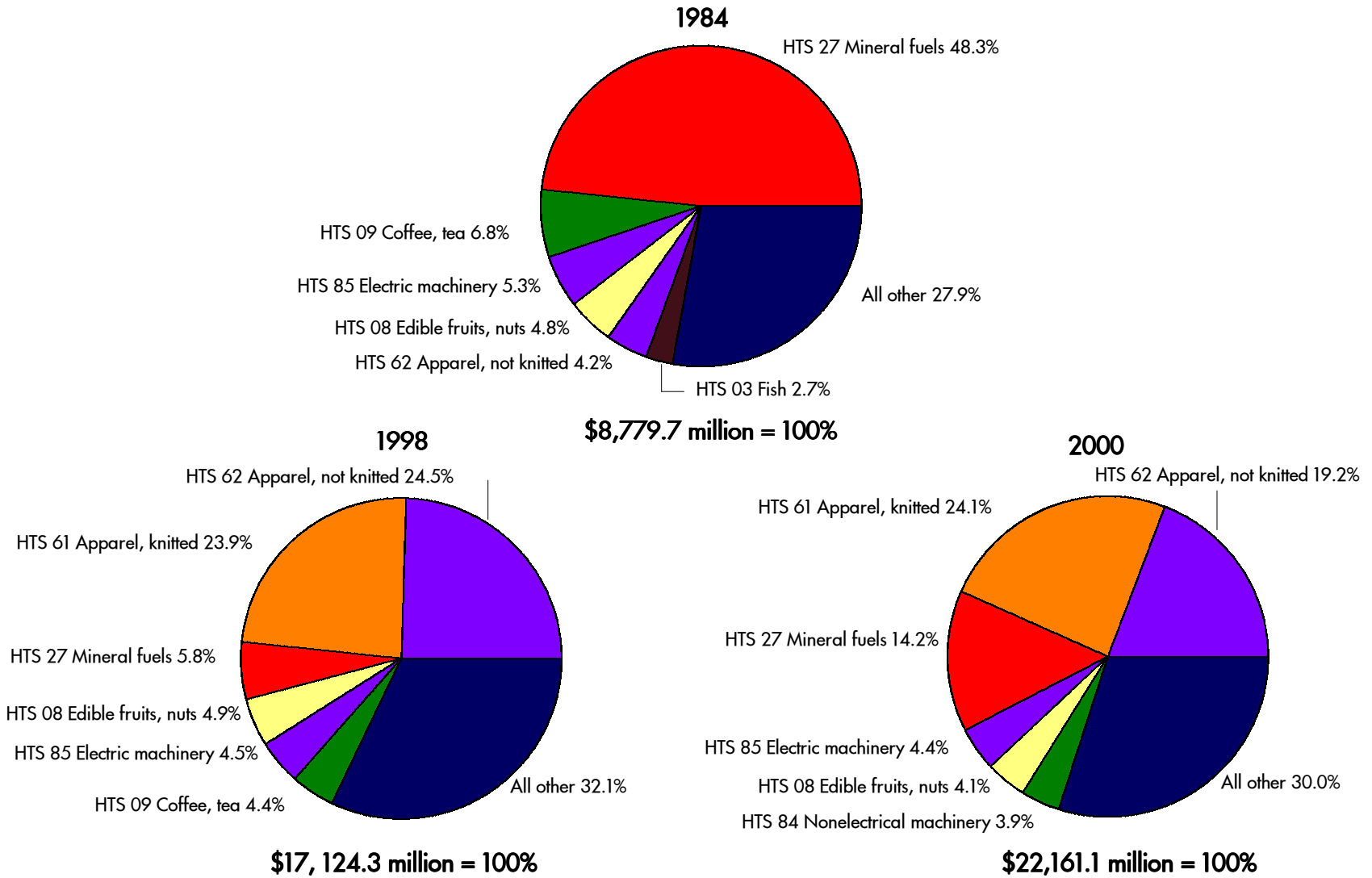
Leading U.S. imports for consumption from CBERA countries, by major product category, 1984, 1988, 1992, 1994, 1998, and 2000

HTS Chapter	Description	1984	1988	1992	1994	1998	2000
<i>Value (1,000 dollars)</i>							
61	Articles of apparel and clothing accessories, knitted or crocheted	99,213	388,642	1,090,669	1,559,858	4,087,322	5,351,980
62	Articles of apparel and clothing accessories, not knitted or crocheted	365,798	1,020,191	2,105,963	2,892,429	4,188,142	4,266,139
27	Mineral fuels, mineral oils and products of their distillations; bituminous substances; mineral waxes	4,242,235	1,075,310	1,474,451	1,241,830	988,446	3,140,624
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	406,238	771,378	982,360
08	Edible fruit and nuts; peel of citrus fruit or melons	423,869	544,052	654,267	698,613	837,643	909,693
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	20,319	16,202	19,606	25,897	371,470	861,989
09	Coffee, tea, mate and spices	600,635	390,412	384,725	429,243	759,141	758,410
03	Fish and crustaceans, molluscs and other aquatic invertebrates	235,131	279,182	319,978	422,515	563,572	646,526
90	Optical, photographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	11,288	47,869	142,271	215,118	411,152	562,277
29	Organic chemicals	80,066	254,272	415,766	171,354	179,268	479,461
	Total of above	6,542,588	4,262,767	6,920,469	8,063,094	13,157,535	17,959,459
	All other	2,239,128	1,799,408	2,505,148	3,137,186	3,966,747	4,201,616
	Total all commodities	8,781,716	6,062,175	9,425,616	11,200,280	17,124,281	22,161,075
<i>Percent of total</i>							
61	Articles of apparel and clothing accessories, knitted or crocheted	4.17	16.83	22.34	25.82	23.87	24.15
62	Articles of apparel and clothing accessories, not knitted or crocheted	1.13	6.41	11.57	13.93	24.46	19.25
27	Mineral fuels, mineral oils and products of their distillations; bituminous substances; mineral waxes	48.31	17.74	15.64	11.09	5.77	14.17
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television recorders and reproducers, parts and accessories	4.83	8.97	6.94	6.24	4.50	4.43
08	Edible fruit and nuts; peel of citrus fruit or melons	5.26	4.04	3.32	3.63	4.89	4.10
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	0.23	0.27	0.21	0.23	2.17	3.89
09	Coffee, tea, mate and spices	2.68	4.61	4.08	3.83	4.43	3.42
03	Fish and crustaceans, molluscs and other aquatic invertebrates	6.84	6.44	3.39	3.77	3.29	2.92
90	Optical, photographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	0.13	0.79	1.51	1.92	2.40	2.54
29	Organic Chemicals	0.19	4.19	4.41	1.53	1.05	2.16
	Total of above	74.50	70.32	73.42	71.99	76.84	81.04
	All other	25.50	29.68	26.58	28.01	23.16	18.96
	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 2-3
U.S. imports from CBERA countries, by major product categories, 1984, 1998, and 2000



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, 1998-2000

HTS Item	Description	1998	1999	Change 1998-1999	2000	Change 1999-2000	Change 1998-2000
		Value (1,000 dollars)		Percent	Value	Percent	
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	1,101,146	1,233,736	12.0	1,242,870	0.7	12.9
6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesi	514,424	844,845	64.2	1,212,444	43.5	135.7
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	991,589	1,025,045	3.4	1,063,228	3.7	7.2
2710.00.05	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing under 25 degrees A.P.I.	442,167	410,458	-7.2	943,734	129.9	113.4
8473.30.10	Certain parts of automatic data processing machines	347,291	1,465,993	322.1	828,986	-43.5	138.7
0901.11.00	Coffee, not roasted, not decaffeinated	717,453	559,410	-22.0	701,873	25.5	-2.2
2710.00.10	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing 25 degrees A.P.I. or more	100,409	324,729	223.4	627,922	93.4	525.4
6204.62.40	Women's or girls' trousers, breeches and shorts, not knitted or crocheted, of cotton, nesi	536,714	519,981	-3.1	595,107	14.4	10.9
0803.00.20	Bananas, fresh or dried	599,821	557,368	-7.1	588,172	5.5	-1.9
9801.00.10	U.S. goods returned without having been advanced in value or improved in condition while abroad	434,192	563,768	29.8	560,306	-0.6	29.0
9018.90.80	Instruments and appliances used in medical, surgical, dental or veterinary sciences, nesi, and parts and accessories thereof	374,180	418,893	11.9	512,102	22.3	36.9
6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	268,404	344,022	28.2	376,416	9.4	40.2
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	384,719	342,390	-11.0	337,115	-1.5	-12.4
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	354,909	370,798	4.5	333,419	-10.1	-6.1
2814.10.00	Anhydrous ammonia	223,901	225,339	0.6	331,972	47.3	48.3
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton, nesi	435,714	385,831	-11.4	329,663	-14.6	-24.3
2711.11.00	Natural gas, liquefied	-	105,248	-	326,988	210.7	-
6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	271,094	321,102	18.4	307,727	-4.2	13.5
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, dried, salted or in brine, frozen	289,766	275,830	-4.8	292,545	6.1	1.0
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	230,147	225,910	-1.8	265,247	17.4	15.3
	Total of items shown	8,618,041	10,520,697	22.1	11,777,836	11.9	36.7
	Total all commodities	17,124,281	19,364,762	13.1	22,161,075	14.4	29.4

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

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

formerly known as MFN duties. None of these products is CBERA-eligible; however, several became free of duty for eligible countries under CBTPA in the last quarter of the period. Other goods in table 2-3 had been already free of duty on an NTR basis before the period covered, including coffee, bananas, and shrimp and prawns. Still other goods on the list became free of duty on an NTR basis only during the period under review, such as medical instruments, which in earlier years could enter the United States free of duty only because they were eligible under CBERA.

In 1999 and especially in 2000, oil and natural gas prices surged, enlarging the share of mineral fuel products from CBERA countries in total U.S. imports from 5.8 percent in 1998 to 7.6 percent in 1999 and 14.2 percent in 2000 (table 2-2 and figure 2-3). Meanwhile, growth of apparel imports from CBERA countries slowed, as the adverse effects of competition from Mexico, and that country's easier access to the U.S. market under NAFTA, began to be felt.⁶ The combined share of apparel goods classified in HTS chapters 62 (apparel not knitted) and 61 (knitted apparel) dipped from 48 percent in 1998 to 45.5 percent in 1999 and 43.4 percent in 2000.⁷ Even so, apparel assembly remains the dominant industry of CBERA countries, and apparel products still surpassed mineral fuel products as a portion of total imports by far during the period under review (figure 2-3).⁸

Although the volume of petroleum and natural gas products imports from CBERA countries did increase during the years covered, higher petroleum prices were mainly responsible for boosting the import value of these products, especially during 2000. CBERA countries shipped 130 percent more of the leading fuel oil product to the United States by value in 2000 than in 1999 (table 2-3), but only 25 percent more by volume. Trinidad and Tobago shipped 211 percent more liquified natural gas by value in 2000 than in 1999, but only 144 percent more by volume.

Trinidad and Tobago, Aruba, and the Netherlands Antilles were the principal Caribbean suppliers of oil and natural gas products in 1999 and 2000. Among these CBERA countries, only Trinidad and Tobago has economically recoverable reserves of crude petroleum and natural gas, as well as petroleum refineries, small blending operations, and liquified gas producing facilities.

T-shirts continued to be the top item from CBERA countries in 1999 and 2000 (table 2-3). Sweaters and pullovers, the imports of which increased markedly during this

⁶ For 11 eligible CBERA countries, effective Oct. 1, 2000, "NAFTA tariff treatment" accorded under CBTPA for products previously excluded under CBERA reduced or eliminated Mexico's advantages of access to the U.S. market.

⁷ The aggregation of data under HTS chapter 61 and 62 imports indicates total apparel imports in this section, and is used to compare U.S. import trends of apparel with imports of other manufacturing categories from the region on a HTS 2-digit manufacturing basis. For more detailed analysis of U.S. apparel imports from CBERA countries, see a separate section on "Textiles and Apparel" later in this chapter.

⁸ The reverse process had taken place in 1984-1998, with the ascendancy of the apparel sector and the shrinking of the petroleum-based sector. See USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Fourteenth Report, 1998*, USITC publication 3234, Sept. 1999, pp. 7-12.

two-year period, were a close second. Men's or boys' trousers and shorts were the third leading import item.

Distillate and residual fuel oils testing under 25 degrees A.P.I. were the fourth-leading import item from CBERA countries in 2000, and distillate and residual fuel oils testing over 25 degrees API ranked seventh. Liquefied natural gas was imported in 1999 for the first time from CBERA countries, specifically from Trinidad and Tobago.⁹ In 2000, the product appeared on the list of leading imports in 17th place. Liquefied gas production required considerable recent investment flows to Trinidad and Tobago by U.S. and other investors, who were attracted by the twin-island nation's abundant oil and gas supplies in its waters, off the coast of Venezuela.¹⁰ Trinidad and Tobago was ranked as the leading U.S. source of this item among all countries in the world in 2000, providing more than one-half of all U.S. imports by value. The capacity of liquefied gas plants in Trinidad and Tobago is expected to expand over the coming years.¹¹

Coffee was the sixth-leading import item in 2000. Coffee from CBERA countries originates principally in Central America, and continues to be a major source of revenue for Central American providers. Revenues from coffee shipped to the United States by CBERA countries dropped 22.0 percent in 1999 as low prices combined with the stagnant volume of production and exports; however, they rose 25.5 percent in 2000. Shipments in 1999 were restricted by the lingering effects on coffee production of Hurricane Mitch, which ravaged the area in late 1998.

The region was the largest U.S. supplier of coffee in 2000, followed by Mexico and Colombia. Guatemala by itself was the third-leading U.S. supplier, after Mexico and Colombia. However, coffee imports from Guatemala were virtually unchanged from their 1998 level in 1999 and 2000, while coffee imports from El Salvador and Honduras more than doubled. Even so, Guatemala provided twice the quantity and value imported from El Salvador, the second-leading Central American supplier.

Bananas were the ninth-leading item from CBERA countries in 2000. During 1999, U.S. banana imports from CBERA countries increased 8.3 percent by volume, but fell 7 percent in dollar terms. In 2000, a small dip in the quantity of imports was accompanied by an increase of 5.5 percent in value. Costa Rica was the largest U.S. banana supplier among CBERA countries as well as among all countries of the world; Guatemala was second among CBERA countries and third among all countries (after Ecuador), and Honduras was third among CBERA countries and fifth among all countries (after Colombia). Honduras lost nearly half of its banana crop to Hurricane Mitch and in 1999 shipped to the United States only about one-fifth of the volume of the previous year. In 2000, imports from Honduras surged, yet have not fully attained the level of prior years' peak imports. Banana imports from Nicaragua, another hurricane victim, also dropped sharply in 1999 and virtually ceased in 2000.

⁹ Liquefied gas is natural gas frozen into a liquid, which is only a small fraction of its normal gaseous volume and is, therefore, transportable in special container ships.

¹⁰ Doreen Hemlock, "Trinidad and Tobago Becomes Role Model for Economic Growth," *Florida Sun-Sentinel*, Feb. 23, 2001.

¹¹ Interviews by the U.S. International Trade Commission staff with government and private industry officials in Trinidad and Tobago, June 11-13, 2001.

Fresh bananas are a major traditional export item from the Caribbean Basin, with longstanding U.S. investment in production and distribution companies in Central America. In 1996, Honduras and Guatemala were among the countries that requested a WTO dispute-settlement panel to examine the European Union's regime for the importation, sale, and distribution of bananas, which they believed to be contrary to their interests.¹² These countries claimed that, by imposing import quotas and distribution restrictions, the European Union (EU) favors bananas from domestic producers and former European colonies in Africa, the Pacific, and the Caribbean, over cheaper, so-called dollar bananas from Latin America.¹³ The long-standing trade dispute over bananas was resolved on April 11, 2001, when the U.S. Government and the European Commission reached an agreement.¹⁴ The implications of the agreement for various banana growers of the region are continuing to evolve.

Non-electrical machinery (HTS chapter 84) and instruments (HTS chapter 90) are also leading import groups shown in table 2-2. Imports in both categories increased, and they augmented their share in U.S. imports from CBERA countries during the period.¹⁵

Fish (HTS chapter 03), including predominantly shrimp and rock lobster, remained a leading U.S. import category from CBERA countries. Although imports were up in 1999 and 2000 by value, they constituted a declining portion of all U.S. imports from CBERA countries.

Electrical machinery (HTS 85), edible fruits (HTS 08), and organic chemicals (HTS 29) are leading product categories not only in total imports from CBERA countries, but also in that portion of imports that enter under CBERA. These categories and the leading items classified under them will be discussed in the "Imports under CBERA," section later in this chapter.

Imports by Country

U.S. imports from each CBERA country in selected years since 1984 are presented in table 2-4. The Dominican Republic, Costa Rica, Honduras, and Guatemala remained the top four U.S. suppliers in 2000. However, the relative significance of these countries as a source of U.S. imports declined in favor of that group of CBERA countries that ship to the United States products processed from petroleum or natural gas. The

¹² The others were the United States, Mexico, and Ecuador.

¹³ Belize, Jamaica, St. Lucia, St. Vincent and the Grenadines, Dominica, and Grenada are those CBERA countries that benefitted from the banana regime of the EU. For more detail, see USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Thirteenth Report, 1997*, USITC publication 3132, Sept. 1998, pp. 16-18.

¹⁴ USTR, "U.S. Government and European Commission Reach Agreement to Resolve Long-Standing Banana Dispute," Press Release 01-23, April 11, 2001.

¹⁵ Before 1999, instruments (mostly medical) were a major group of goods entered duty-free under CBERA (table 2-7). When most such imports became free of duty in the NTR column in 1999, the category lost its importance under CBERA. See also section on "Imports under CBERA" later in this chapter.

Table 2-4

U.S. imports for consumption, by source, 1984, 1988, 1992, 1994, 1998, and 2000

Source	1984	1988	1992	1994	1998	2000
	<i>Value (1,000 dollars)</i>					
Dominican Republic	994,427	1,425,371	2,366,509	3,076,519	4,444,617	4,378,235
Costa Rica	468,633	777,797	1,402,042	1,645,382	2,741,991	3,555,153
Honduras	393,769	439,504	780,638	1,091,688	2,543,882	3,090,922
Guatemala	446,267	436,979	1,072,697	1,283,596	2,071,441	2,603,452
Trinidad and Tobago	1,360,106	701,738	839,788	1,085,781	974,118	2,179,039
El Salvador	381,391	282,584	383,245	607,541	1,436,028	1,925,054
Aruba ¹	-	-	189,657	318,941	402,410	1,222,018
Netherlands Antilles	2,024,367	408,100	569,689	412,652	299,931	720,950
Jamaica	396,949	440,934	593,361	739,552	735,613	631,452
Nicaragua	58,064	1,121	68,609	167,397	452,702	596,931
Panama	311,627	256,046	218,232	252,465	299,552	296,917
Haiti	377,413	382,466	107,170	58,764	271,669	296,713
The Bahamas	1,154,282	268,328	580,700	192,890	143,905	272,794
Guyana	74,417	50,432	87,064	94,555	117,854	126,700
Belize	42,843	52,049	58,510	49,392	66,402	91,073
Barbados	252,598	51,413	30,528	34,250	35,098	38,451
St. Kitts and Nevis	23,135	20,822	22,857	21,716	31,868	36,808
British Virgin Islands	1,335	684	3,235	14,604	7,481	30,943
Grenada	766	7,349	7,476	7,247	12,076	27,072
St. Lucia	7,397	26,044	28,065	26,497	22,381	22,208
St. Vincent and the Grenadines	2,958	13,950	4,530	5,430	4,773	8,800
Dominica	86	8,530	4,506	6,957	6,391	6,938
Antigua and Barbuda	7,898	6,893	5,414	5,435	1,933	2,286
Montserrat	989	2,393	1,095	1,032	164	167
Total	8,781,716	6,062,175	9,425,616	11,200,280	17,124,281	22,161,075

See footnotes at end of table.

Table 2-4—Continued

U.S. imports for consumption, by source, 1984, 1988, 1992, 1994, 1998, and 2000

Source	1984	1988	1992	1994	1998	2000
	Percent of total					
Dominican Republic	11.32	23.51	25.11	27.47	25.96	19.76
Costa Rica	5.34	12.83	14.87	14.69	16.01	16.04
Honduras	4.48	7.25	8.28	9.75	14.86	13.95
Guatemala	5.08	7.21	11.38	11.46	12.10	11.75
Trinidad and Tobago	15.49	11.58	8.91	9.69	5.69	9.83
El Salvador	4.34	4.66	4.07	5.42	8.39	8.69
Aruba ¹	-	-	2.01	2.85	2.35	5.51
Netherlands Antilles	23.05	6.73	6.04	3.68	1.75	3.25
Jamaica	4.52	7.27	6.30	6.60	4.30	2.85
Nicaragua	0.66	0.02	0.73	1.49	2.64	2.69
Panama	3.55	4.22	2.32	2.25	1.75	1.34
Haiti	4.30	6.31	1.14	0.52	1.59	1.34
The Bahamas	13.14	4.43	6.16	1.72	0.84	1.23
Guyana	0.85	0.83	0.92	0.84	0.69	0.57
Belize	0.49	0.86	0.62	.044	0.39	0.41
Barbados	2.88	0.85	0.32	0.31	0.20	0.17
St. Kitts and Nevis	0.26	0.34	0.24	0.19	0.19	0.17
British Virgin Islands	0.02	0.01	0.03	0.13	0.04	0.14
Grenada .....	.01	0.12	0.08	0.06	0.07	0.12
St. Lucia	0.08	0.43	0.30	0.24	0.13	0.10
St. Vincent and the Grenadines	0.03	0.23	0.05	0.05	0.03	0.04
Dominica	-	0.14	0.05	0.06	0.04	0.03
Antigua and Barbuda	0.09	0.11	0.06	0.05	0.01	0.01
Montserrat	0.01	0.04	0.01	0.01	0.00	0.00
Total	100.00	100.00	100.00	100.00	100.00	100.00

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

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

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. Conversely, the combined share of imports from the three oil product-exporting countries—Trinidad and Tobago, Aruba, and The Netherlands Antilles—increased from 9.8 percent in 1998 to 11.3 percent in 1999, and rose more steeply to 18.6 percent in 2000.

Dutiability

In 1998, 31.4 percent of U.S. imports from CBERA countries, encompassing principally apparel and petroleum-based imports, was dutiable (table 2-5). The dutiable portion of total imports increased to 36.2 percent in 2000, reflecting the increase in the share accounted for by energy products, which are dutiable.¹⁶

U.S. tariff revenues derived from imports from CBERA countries, as indicated by “calculated duties,” increased from \$715.6 million in 1998 and \$766.9 million in 1999 to \$915.4 million in 2000, also largely because of the surge in value of imported energy products. Notably, however, average duties began to decline after 1998, because the relative share of apparel in the dutiable portion of imports from CBERA countries dropped in favor of energy products.¹⁷ Duty rates for energy products are significantly lower than for apparel products.

Duty-Free Imports

Duty-free imports entered in 2000 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 chapter 98; (4) conditionally free under CBERA;¹⁸ 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 2-9, which are unadjusted, i.e. based on entries as reported. For example, adjusted imports under CBERA and CBTPA combined in table 2-6 amounted to \$2,790 million in 2000, whereas tables 2-7, 2-8, and 2-9 show imports under CBERA with CBTPA included at \$2,793 million.¹⁹

According to table 2-6, in 1999 and 2000, the share of imports under production sharing provisions (both the dutiable and duty-free portion), as well as under CBERA,

¹⁶ Throughout this chapter, goods processed from petroleum or natural gas or used entirely or in part as energy are referred to as “energy products.”

¹⁷ Average duties are calculated duties/dutiable value*100

¹⁸ Including CBTA.

¹⁹ See also footnote 5, in this chapter.

Table 2-5

U.S. imports for consumption from CBERA countries: Dutiable value, calculated duties, and average duty, 1984, 1988, 1992, 1994, and 1998-2000

Item	1984	1988	1992	1994	1998	1999	2000
Dutiable value (<i>1,000 dollars</i>) ¹	4,567,416	1,975,850	3,269,148	3,730,777	5,384,147	6,028,702	8,022,472
Dutiable as a share of total imports (<i>percent</i>)	52.8	32.6	34.7	33.3	31.4	31.1	36.2
Calculated duties (<i>1,000 dollars</i>) ¹	75,293	157,605	322,434	429,491	715,572	766,920	915,368
Average duty (<i>percent</i>) ²	1.6	8.0	9.9	11.5	13.3	12.7	11.4

¹ Dutiable value and calculated duty exclude the U.S. content entering under HTS subheading 9802.00.80 and subheading 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.

Table 2-6
U.S. imports for consumption from CBERA countries, by duty treatment, 1984, 1992, and 1998-2000

Item	1984	1992	1998	1999	2000
<i>Value (1,000 dollars, customs value)</i>					
Total imports	8,649,235 ¹	9,425,616	17,124,281	19,269,025	22,057,117
Dutiable value ²	4,567,416	3,269,148	5,384,147	5,744,455	7,789,235
Production sharing ³	(⁴)	863,225	2,670,309	2,727,583	2,820,910
CBERA reduced duty ⁵	(⁵)	29,418	63,930	71,511	54,511
Other dutiable	4,567,416	2,376,505	2,649,908	2,945,362	4,912,155
Duty-free value ⁶	4,081,819	6,156,467	11,740,134	13,524,570	14,279,541
Col. 1-general ⁷	2,170,537	2,097,079	3,864,752	5,948,811	6,640,928
Production sharing ⁸	587,560	1,777,260	4,525,187	4,849,533	4,633,704
CBERA ⁹	575,994	1,498,556	3,096,758	2,562,986	2,578,707
CBTPA ¹⁰	(¹⁰)	(¹⁰)	(¹⁰)	(¹⁰)	157,004
GSP ¹¹	592,249	340,666	195,407	94,903	202,062
Other duty free ¹²	155,479	442,904	58,031	68,337	67,137
<i>Percent of total</i>					
Total imports	100.0	100.0	100.0	100.00	100.00
Dutiable value ²	52.8	34.7	31.4	29.8	35.3
Production sharing ³	(⁴)	9.2	15.6	14.2	12.7
CBERA reduced duty ⁵	(⁵)	0.3	0.4	0.4	0.2
Other dutiable	52.8	25.2	15.5	15.3	22.3
Duty-free value ⁶	47.2	65.3	68.6	70.2	64.7
Col. 1-general ⁷	25.1	22.2	22.6	30.9	30.1
Production sharing ⁸	6.8	18.9	26.4	25.2	21.0
CBERA ⁹	6.7	15.9	18.1	13.3	11.7
CBTPA ¹⁰	(¹⁰)	(¹⁰)	(¹⁰)	(¹⁰)	0.7
GSP ¹¹	6.8	3.6	1.1	0.5	0.9
Other duty free ¹²	1.8	4.7	0.3	0.4	0.3

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 subheading 9802.00.80 and subheading 9802.00.60, and misreported imports.

³ Value of Caribbean Basin-origin value added, under HTS subheading 9802.00.80 and subheading 9802.00.60, excluding items entered under CBERA 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 subheading 9802.00.80 and subheading 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 Oct. 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. U.S. Virgin Islands data have been excluded from this table. Because of rounding, figures may not add to the totals shown.

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

Table 2-7

Leading U.S. imports for consumption under CBERA, by major product category, 1984, 1988, 1992, 1994, 1998, and 2000

HTS Chapter	Description	1984	1988	1992	1994	1998	2000
<i>Value (1,000 dollars)</i>							
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	218,336	485,597	343,536
08	Edible fruit and nuts; peel of citrus fruit or melons	15,183	74,935	113,539	130,887	208,371	300,942
24	Tobacco and manufactured tobacco substitutes	74,488	43,823	84,490	88,248	350,200	268,435
29	Organic chemicals	37	39,453	94,699	95,893	91,871	246,629
17	Sugars and sugar confectionery	209,456	120,920	213,325	133,229	285,487	189,189
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	2,978	32,136	75,632	170,785	185,904	171,056
62	Articles of apparel and clothing accessories, not knitted or crocheted	895	767	13,568	33,744	41,050	150,932
07	Edible vegetables and certain roots and tubers	17,749	37,081	81,266	96,063	137,902	125,811
39	Plastics and articles thereof	243	7,968	22,176	38,055	88,710	123,435
20	Preparations of vegetables, fruit, nuts, or other parts of plants	13,853	30,373	55,186	47,806	90,429	116,355
	Total of above	432,924	500,164	927,760	1,053,045	1,965,521	2,036,320
	All other	124,780	347,078	600,930	997,113	1,259,043	756,233
	Total all commodities	557,704	847,242	1,528,690	2,050,158	3,224,564	2,792,553
<i>Percent of total</i>							
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	10.65	15.06	12.30
08	Edible fruit and nuts; peel of citrus fruit or melons	2.63	8.84	7.43	6.38	6.46	10.78
24	Tobacco and manufactured tobacco substitutes	12.89	5.17	5.53	4.30	10.86	9.61
29	Organic chemicals	0.01	4.66	6.19	4.68	2.85	8.83
17	Sugars and sugar confectionery	36.26	14.27	13.95	6.50	8.85	6.77
71	Natural or cultured pearls, precious or semiprecious stones, precious metals; precious metal clad metals, articles thereof; imitation jewelry; coin	0.52	3.79	4.95	8.33	5.77	6.13
62	Articles of apparel and clothing accessories, not knitted or crocheted	0.16	0.09	0.89	1.65	1.27	5.40
07	Edible vegetables and certain roots and tubers	3.07	4.32	5.32	4.69	4.28	4.51
39	Plastics and articles thereof	0.04	0.94	1.45	1.86	2.75	4.42
20	Preparations of vegetables, fruit, nuts, or other parts of plants	2.40	3.58	3.61	2.33	2.80	4.17
	Total of above	74.94	58.98	60.69	51.36	60.95	72.92
	All other	25.06	41.02	39.31	48.64	39.05	27.08
	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. 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, 1998-2000

HTS item	Description	1998	1999	2000	Change 1998-1999	Change 1999-2000	Change 1998-2000	Leading CBERA source
		<i>1,000 dollars</i>			<i>Percent</i>			
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	307,542	231,678	223,464	-24.7	-3.5	-27.3	Dominican Republic
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	57,779	92,456	222,229	60.0	140.4	284.6	Trinidad and Tobago
7113.19.50	Precious metal (o/ than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	170,422	173,217	159,702	1.6	-7.8	-6.3	Dominican Republic
1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	213,234	156,758	134,009	-26.5	-14.5	-37.2	Dominican Republic
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	68,510	106,092	113,822	54.9	7.3	66.1	Costa Rica
0807.19.20	Cantaloupes, fresh, if entered during the periods from January 1 through July 31 or September 16 to December 31, inclusive	55,710	77,027	97,547	38.3	26.6	75.1	Guatemala
8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 V	57,202	75,099	74,016	31.3	-1.4	29.4	Dominican Republic
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	39,742	30,560	64,025	-23.1	109.5	61.1	Costa Rica
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	33,659	45,115	63,994	34.0	41.8	90.1	Jamaica
7213.91.30	Iron/nonalloy steel, nesoi, hot-rolled bars & rods in irregularly wound coils, w/cir. x-sect. diam. <14mm, n/tempered/treated/partly mfd	59,430	77,229	62,228	29.9	-19.4	4.7	Trinidad and Tobago
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	25,203	32,249	55,844	28.0	73.2	121.6	Honduras
3903.11.00	Polystyrene, expandable, in primary forms	15,197	33,992	51,123	123.7	50.4	236.4	Bahamas
8516.31.00	Electrothermic hair dryers	39,296	47,722	44,365	21.4	-7.0	12.9	Costa Rica
8504.31.40	Electrical transformers other than liquid dielectric, having a power handling capacity less than 1 kVA	8,027	10,105	36,588	25.9	262.1	355.8	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	-	-	34,445	-	-	-	Dominican Republic
1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	47,981	78,813	32,224	64.3	-59.1	-32.8	Guatemala
0202.30.50	Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	18,659	24,091	29,344	29.1	21.8	57.3	Nicaragua
0807.19.70	Other melons nesoi, fresh, if entered during the period from December 1, in any year, to the following May 31, inclusive	30,189	25,298	28,799	-16.2	13.8	-4.6	Costa Rica
2203.00.00	Beer made from malt	20,314	20,356	27,650	0.2	35.8	36.1	Dominican Republic
6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	-	-	26,813	-	-	-	Honduras
	Total of above	1,268,096	1,337,857	1,582,231	5.5	18.3	24.8	
	All other	1,956,467	1,299,343	1,210,322	-33.6	-6.9	-38.1	
	Total all commodities	3,224,564	2,637,200	2,792,553	-18.2	-5.9	-13.4	

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

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

Table 2-9

U.S. imports for consumption under CBERA, by source, 1984, 1988, 1992, 1994, 1998, and 2000

Source	1984	1988	1992	1994	1998	2000
	<i>Value (1,000 dollars)</i>					
Dominican Republic	222,462	248,819	567,738	751,028	1,294,533	852,294
Costa Rica	65,756	153,417	294,937	478,109	756,579	617,075
Trinidad and Tobago	6,422	42,228	44,695	142,901	186,219	327,917
Guatemala	43,442	85,326	192,955	171,381	268,869	264,630
Honduras	60,198	57,608	112,512	139,838	236,073	252,149
Jamaica	44,737	42,215	48,156	69,316	102,178	89,459
The Bahamas ¹	-	12,013	93,324	45,062	34,914	74,451
El Salvador	71,986	22,485	27,249	41,126	50,206	71,565
Nicaragua ²	-	-	40,018	80,554	72,694	57,555
Panama ³	11,787	18,241	23,753	35,141	77,453	42,639
Belize	4,621	19,180	23,733	13,112	19,706	32,360
St. Kitts and Nevis	6,757	9,417	14,172	17,220	25,428	27,613
Haiti	21,856	83,933	19,151	15,770	28,167	25,160
Guyana ⁴	-	131	1,202	13,100	24,617	17,143
Grenada	2	120	1,081	768	8,242	16,702
Barbados	13,376	19,125	15,478	21,313	20,392	10,441
St. Lucia	1,413	3,007	3,957	6,077	7,802	7,471
Netherlands Antilles	2,504	2,917	2,964	3,214	2,775	3,624
St. Vincent and the Grenadines	55	9,990	165	1,299	3,532	1,947
Dominica	9	358	1,008	2,112	1,858	196
Aruba ⁵	-	-	10	12	1,779	128
British Virgin Islands	207	56	68	11	333	31
Antigua and Barbuda	114	255	324	809	214	4
Montserrat	-	118	41	886	-	-
Total	577,704	830,958	1,528,690	2,050,158	3,224,564	2,792,553

See footnotes at end of table.

Table 2-9—Continued

U.S. imports for consumption under CBERA, by source, 1984, 1988, 1992, 1994, 1998, and 2000

Source	1984	1988	1992	1994	1998	2000
	Percent of total					
Dominican Republic	38.51	29.94	37.14	36.63	40.15	30.52
Costa Rica	11.38	18.46	19.29	23.32	23.46	22.10
Trinidad and Tobago	1.11	5.08	2.92	6.97	5.78	11.74
Guatemala	7.52	10.27	12.62	8.36	8.34	9.48
Honduras	10.42	6.93	7.36	6.82	7.32	9.03
Jamaica	7.74	5.08	3.15	3.38	3.17	3.20
The Bahamas ¹	-	1.45	6.10	2.20	1.08	2.67
El Salvador	12.46	2.71	1.78	2.01	1.56	2.56
Nicaragua ²	-	-	2.62	3.93	2.25	2.06
Panama ³	2.04	2.20	1.55	1.71	2.40	1.53
Belize	0.80	2.31	1.55	0.64	0.61	1.16
St. Kitts and Nevis	1.17	1.13	0.93	0.84	0.79	0.99
Haiti	3.78	10.10	1.25	0.77	0.87	0.90
Guyana ⁴	-	0.02	0.08	0.64	0.76	0.61
Grenada	-	0.01	.07	0.04	0.26	0.60
Barbados	2.32	2.30	1.01	1.04	0.63	0.37
St. Lucia	0.24	0.36	0.26	0.30	0.24	0.27
Netherlands Antilles	0.43	0.35	0.19	0.16	0.09	0.13
St. Vincent and the Grenadines	0.01	1.20	0.01	0.06	0.11	0.07
Dominica	-	0.04	0.07	0.10	0.06	0.01
Aruba ⁵	-	0.00	-	-	0.06	-
British Virgin Islands	0.04	0.01	-	-	0.01	-
Antigua and Barbuda	0.02	0.03	0.02	0.04	0.01	-
Montserrat	-	0.01	-	0.04	-	-
Total	100.00	100.00	100.00	100.00	100.00	100.00

¹ The Bahamas became a CBERA beneficiary effective Mar. 14, 1985 (Presidential Proclamation 5308, Mar. 14, 1985).

² Nicaragua was designated as a CBERA beneficiary effective Nov. 13, 1990 (Presidential Proclamation 6223, Nov. 8, 1990).

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).

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

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

declined. The reentering duty-free U.S. content of shared production (as also the dutiable, value-added portion of shared production) tended to be curtailed by Mexican competition, which increased as a result of the North American Free Trade Agreement (NAFTA). The returning duty-free content accounted for 26.4 percent of the total in 1998, 25.2 percent in 1999, and 21.0 percent in 2000.

Data for duty-free imports under CBERA also declined from 18.1 percent of the total in 1998 to 13.3 percent in 1999, and even with CBTPA included, to 12.4 percent of the total in 2000,²⁰ because certain leading CBERA products (instruments, footwear uppers, some electronics) became unconditionally free of duty under the Uruguay Round.

By contrast, the portion of imports from CBERA countries entering unconditionally free of duty surged from 22.6 percent of the total in 1998 to 30.9 percent in 1999. Even though the staged reduction of NTR duties continued in 2000, this portion of imports dipped slightly to 30.1 percent, because of the growing share of dutiable energy products in total imports that year.

Imports under CBERA

U.S. imports entering under CBERA began to decline slightly in 1998; they fell sharply in 1999, and dropped somewhat again in 2000 (table 2-8). Between 1998 and 2000, U.S. imports under CBERA contracted 13.4 percent from \$3.2 billion to \$2.8 billion.²¹ Imports under CBERA declined in large measure because in 1999 major items became free of duty on an NTR basis—items that in prior years had been free of duty only because of their eligibility under CBERA.²²

Product Composition and Leading Items

The product composition of U.S. imports under CBERA changed markedly between 1988 and 2000. Some product categories and some specific goods that had been dominant in 1998 ranked lower or disappeared altogether from the year 2000 list of leading import categories or leading import items under CBERA. Other product categories and items ranked higher or emerged newly on the respective lists (see table 2-7, figure 2-4, and table 2-8).

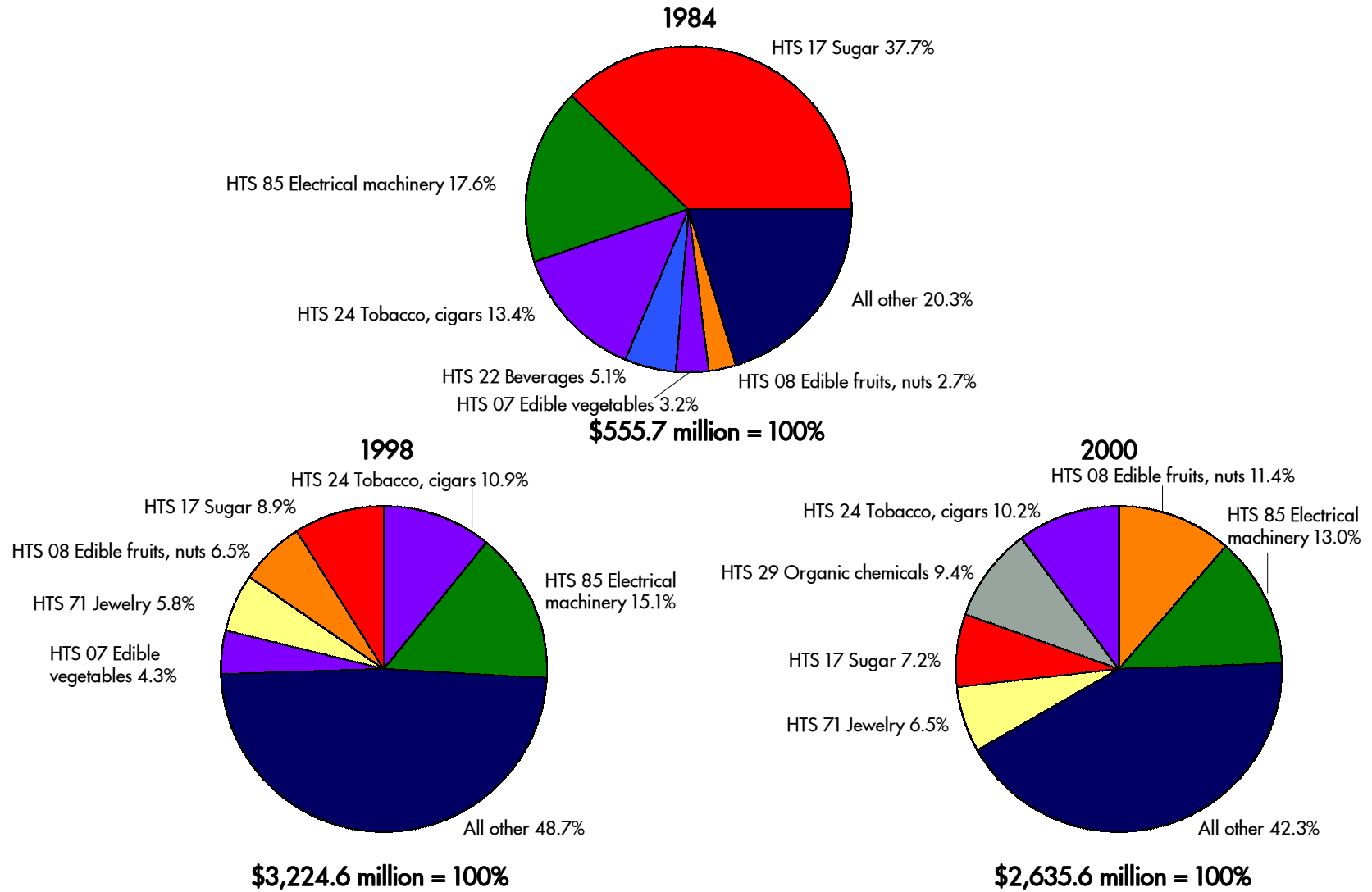
Leading import categories under CBERA that lost some of their relative importance included electrical machinery (HTS chapter 85), tobacco (HTS chapter 08), and sugar

²⁰ Imports under CBERA will be discussed in the following sections.

²¹ Numbers cited hereinafter as imports under CBERA, although predominantly free of duty, may include a minimal amount of imports that are dutiable under CBERA at reduced rates.

²² Regarding the impact on the CBERA program of certain items becoming free of NTR duty in 1999, see also Walker Pollard, "Impact of Caribbean Basin Economic Recovery Act Declines," *International Economic Review*, April/May 2000, p. 15.

Figure 2-4
U.S. imports under CBERA, by major product categories, 1984, 1998, and 2000



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

(HTS chapter 17). Instruments (HTS chapter 90) and footwear (HTS chapter 64) that had been on the list of leading import categories under CBERA in 1998 disappeared from the 2000 CBERA list. Conversely, edible fruits (HTS chapter 08), organic chemicals (HTS chapter 29), and prepared fruits and vegetables (HTS chapter 20), gained importance under the program during the period under review, and plastics (HTS chapter 39) surfaced as a new leading group on the 2000 list (table 2-7).²³ Apparel articles (not knitted) appear for the first time as a leading import category under CBERA, because entries under CBTPA during the last quarter of 2000 are included in the annual figure. The ten leading HTS chapters in U.S. imports under CBERA in 1999-2000 will be discussed below, in conjunction with the top tariff items classified under each.

Electrical machinery (HTS chapter 85) remained the number one import category under CBERA both in 1999 and 2000 (table 2-7 and figure 2-4); it was also a leading category in the context of overall U.S. imports from CBERA countries (table 2-3). The relative importance of electrical machinery under CBERA diminished in recent years; however, the category accounted for 17.0 percent of all imports under the program in 1984, 15.1 percent in 1998, and 13.0 percent of the total in 2000.

The value of electrical machinery imports under CBERA dropped by 29.8 percent between 1998 and 2000, in part because several products classified in this group became unconditionally free of duty on an NTR basis during 2000. Such items included electrical variable resistors, and parts of telephone sets, mostly from Costa Rica, and optical fiber cables from the Dominican Republic. The list of leading imports under CBERA included five items in the electrical category in 1998, four items in 1999 and three items in 2000 (table 2-8).

Imports of automatic circuit breakers (HTS subheading 8536.20.00) and electrothermic hair dryers remained steady during the period under review. Electrical transformers (HTS subheading 8504.31.40) appeared on the 2000 list as a new leading item. Imports of this article under CBERA surged 255.8 percent during the period under review. Electrical transformers were supplied principally by the Dominican Republic and Grenada.

Edible fruits and nuts (HTS chapter 08) became the second-largest category of imports under CBERA in 2000 (table 2-7 and figure 2-4). Pineapples, cantaloupes, and other melons classified in the group were all leading imports; imports of pineapples increased 66.1 percent, while imports of cantaloupes increased 75.1 percent between 1998 and 2000 (table 2-8).

CBERA countries are the principal U.S. source of pineapples. Costa Rica, which produces the so-called gold pineapple, a popular yellow variety, supplied more than four-fifths of U.S. imports of pineapples from all countries of the world in 2000, both by value and volume. Honduras, the number two U.S. supplier, provided some 10 percent of total U.S. pineapple imports by value and 7 percent by volume.

²³ For comparisons with 1998, see also USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Fourteenth Report, 1998*, USITC publication 3234, Sep. 1999.

Virtually all imports of pineapples and cantaloupes (HTS subheading 0804.30.40) imported from CBERA countries enter under CBERA provisions. Between 1988 and 2000, imports of cantaloupes surged 75.1 percent. After Mexico, four CBERA countries—Guatemala, Costa Rica, Honduras, and the Dominican Republic—were the principal U.S. suppliers of cantaloupes in 2000, collectively accounting for 65.6 percent by value of U.S. imports from all countries (Mexico accounted for some 27 percent of the total). More than half of melons other than cantaloupes (HTS subheading 0807.19.70) imported by the United States in 2000 also originated in CBERA countries; most of the rest came from Mexico.

Tobacco and manufactured tobacco (HTS chapter 24) was the third-leading import category under CBERA in 2000. More than four-fifths of chapter 24 imports from CBERA countries were entered under CBERA provisions. The tobacco group accounted for 12.9 percent of all imports under CBERA in 1984, dropped sharply to 4.3 percent of the total by 1994 and rose again thereafter, reaching 11.5 percent in 1997. The marked increase in imports of tobacco products in 1995-97 reflected principally a rise in U.S. demand for premium hand-rolled cigars (higher priced cigars; HTS subheading 2402.10.80).²⁴ Thereafter imports of higher priced cigars, began a new trend of slow decline, dropping somewhat each subsequent year. In 1998, tobacco products accounted for 10.9 percent of total U.S. imports from CBERA countries, and in 2000 for 9.6 percent.

Higher priced cigars have been responsible for most chapter 24 imports; their share constituted more than four-fifths of all tobacco group imports in 2000, with tobacco leaf accounting for the remainder. Although imports of higher priced cigars declined between 1998 and 2000, these cigars continued to be the leading item imported under CBERA (table 2-8) and the second CBERA product benefitting exclusively from the program (table 3-2). In 2000, 91 percent of all U.S. imports of such cigars originated in CBERA countries; the Dominican Republic alone was the source of 70 percent and Honduras of 19 percent. Notably, Jamaica, the third-largest U.S. supplier, was responsible for the entire decline of U.S. cigar imports under CBERA; imports increased slightly from both the Dominican Republic and Honduras.

Leaf tobacco—an input in the manufacture of cigarettes—also enters the United States under CBERA. Guatemala is the number one CBERA country providing it and was the fifth-largest U.S. supplier of this item among all countries of the world in 2000. Imports, which are consistently below their tariff rate quota (TRQ) levels, were significantly lower in 1999 and 2000 than in 1998.²⁵

Organic chemicals (HTS chapter 29) ranked as the fourth-largest chapter imported under the program, compared with ninth as recently as 1998 (table 2-7). Methyl alcohol (methanol) accounted for 90 percent of all imports in this category. Methanol was the second-leading import item under CBERA after cigars (table 2-8), and the

²⁴ U.S. cigars are machine-made and therefore not directly substitutable by imported hand-made cigars.

²⁵ Leaf tobacco from Guatemala is imported under a TRQ system. Guatemala is the only CBERA country that has an allocation.

leading item on the list of those goods that benefitted exclusively from the program (table 3-2). Imports increased by both volume and value in 1999. In 2000, the value of methanol imports soared by 140.4 percent, reflecting in large measure the near doubling of the product's unit values. Caribbean methanol is made from natural gas and used as a gasoline additive.

Virtually all methanol from CBERA countries originates in Trinidad and Tobago, and virtually all enters under CBERA. Trinidad and Tobago, accounting for 39.9 percent of U.S. imports of methanol from all countries, has been the number one U.S. supplier since 1998. Venezuela, Chile, and Canada were second, third, and fourth suppliers in 2000.²⁶ While methanol production itself is not labor intensive, a network of services is developing around the production site, which creates jobs and benefits the economy of Trinidad and Tobago in many ways. Significant further expansion of methanol production capacity is expected in that country.²⁷

Sugar and sugar confectionary (HTS chapter 17) was the fifth-largest import category under CBERA in 2000. More than four-fifths of all U.S. sugar product imports from CBERA countries entered under CBERA, and 15.2 percent of the total under GSP. Imports, however, have been declining since 1996. Smaller tariff-rate quota (TRQ) levels on the demand side,²⁸ and ongoing diversification in the production and export profile of CBERA countries on the supply side, tended to reduce the significance of this category as a portion of all U.S. imports (table 2-7 and figure 2-4). Whereas in 1984 the sugar category accounted for more than one-third of U.S. imports under CBERA and was the leading import category by far, the group represented only 8.9 percent of the total in 1998, and 7.2 percent in 2000. Between 1998 and 2000, Caribbean sugar production was also depressed by weather conditions, low world market prices, and competition from Brazilian sugar.²⁹

In 2000, 87 percent of sugar imports under CBERA were raw cane sugar imports under HTS subheadings 1701.11.10 and 1701.11.20. Sugar entered under HTS subheading 1701.11.10 is subject to the TRQ for raw cane sugar found in additional note 5(a) of chapter 17 of the HTS. Most of this cane sugar imported from CBERA countries falls under TRQ. Raw cane sugar imported under HTS subheading 1701.11.20 is, however, not subject to TRQs. This provision covers cane sugar imported for refining and re-export in accordance with the refined sugar re-export program administered by Foreign Agricultural Services (FAS) of the U.S. Department of Agriculture. It also covers a small quantity (approximately 4 percent) used in the production of polyhydric alcohol in the United States.³⁰

²⁶ Trinidad and Tobago also began to supply liquified natural gas (LNG) to the United States in 1998, and it was the number one source of U.S. imports of this product in 2000. LNG is free of duty on an NTR basis, thus not a CBERA import item.

²⁷ Interviews by the U.S. ITC staff with government and private industry officials in Trinidad and Tobago, June 12, 2001.

²⁸ The United States had an absolute quota system in place during the first CBERA years until 1990, when it was replaced by a TRQ system.

²⁹ USDA, Foreign Agricultural Services, "Guatemala Sugar, 2000," GAIN Report #GT0010, Apr. 18, 2000, p.2.

³⁰ For more detail, see USITC, *Industry & Trade Summary: Sugar*, USITC publication 3405, March 2001.

The Dominican Republic is the leading U.S. supplier of raw sugar under the TRQ and the largest U.S. supplier of raw cane sugar in general. Although the Dominican Republic shipped over one-third less raw cane sugar during 2000 than during 1998, it still provided nearly one-fifth of U.S. imports by value of raw sugar from all countries that year. Brazil and the Philippines ranked as the second and third U.S. suppliers.

Guatemala is the leading provider to the United States of raw cane sugar for re-export (HTS subheading 1701.11.20). Imports soared in 1999 but dropped sharply in 2000.

HTS chapter 71 was the sixth-leading HTS chapter covering goods entering under CBERA in 2000, and some 90 percent of such imports consisted of precious metal jewelry. Imports of jewelry and parts made of gold and platinum, except necklaces (HTS subheading 7113.19.50) dipped by 6.3 percent between 1998 and 2000. Costa Rica, the second-largest Caribbean supplier, was responsible for the decline. The Dominican Republic, the number one CBERA supplier, was the sixth-largest U.S. provider of this item among all countries in 2000, contributing 3.6 percent of U.S. imports from all countries. U.S. and Italian jewelry manufacturers have established assembly facilities in the Caribbean Basin to reduce costs associated with the labor intensive attachment of clasps and pins to jewelry.

Even though most articles of apparel, not knitted, entered under CBERA as enhanced by CBTPA only during the last quarter of the two-year period under review, during 2000, apparel became the seventh leading HTS chapter under the program. Two apparel items not knitted, and one knitted apparel good appeared for the first time on the list of leading items for 2000 (table 2-8).³¹

Edible vegetables (HTS chapter 07) constituted the eighth-leading category of imports under CBERA in 2000. Virtually all imports in this group entered under the program. Imports, which contained various fresh or chilled vegetables, including dasheens, yams, cassava, chayote, sweet potatoes, peas, cucumbers, and brussels sprouts, declined in both 1999 and 2000.

Because imports of plastics (HTS chapter 39) increased 39.1 percent under CBERA in 1998-2000, this group newly appeared on the list of leading import categories in 2000, ranking ninth (table 2-7). More than four-fifths of plastic imports from CBERA countries enter under the program each year. Expandable polystyrene (HTS subheading 3903.11.00), a new item on the list of leading imports under CBERA (table 2-8), accounted in 2000 for more than half of imports classified in chapter 39. The remainder consisted of a variety of plastic goods.

Polystyrene imports which more than tripled under CBERA between 1988 and 2000, were largely responsible for the growing importance of plastics in the CBERA trade. The Bahamas are the only CBERA country that exports polystyrene, i.e. cup-grade styrofoam beads for processing into cups. Rapid production growth in the Bahamas,

³¹ For details about imports of apparel under CBERA and CBTPA combined, see later in this chapter.

which began as recently as 1998, made this country the leading provider of U.S. polystyrene imports in 1999 and 2000. In 2000, the Bahamas already provided more than half of all U.S. imports.

Prepared fruits and vegetables (HTS chapter 20), the tenth-leading product group on table 2-7, constitute a relatively small portion of imports under CBERA, but the group has gained importance in recent years. In 1998, prepared fruits and vegetables contributed 2.8 percent of all imports under the program, in 1999, 3.5 percent, and in 2000, 4.2 percent. In 2000, over 90 percent of total imports from the region in the prepared fruit and vegetables category entered under CBERA.

Frozen orange juice accounts for more than half of these imports. The rest consists of various preparations from tropical fruits—coconuts, bananas, pineapples, grapefruit—and some prepared vegetables. The value of imports of frozen orange juice dropped in 1999, then more than doubled in 2000. Between 1998 and 2000, imports of frozen orange juice under CBERA increased 61.1 percent. Costa Rica was principally responsible for the decline in 1999, when the country felt the effects of crop damage caused by Hurricane Mitch. Costa Rica accounted for the surge of imports in 2000 as its production recovered. Imports of orange juice from Belize and Honduras, the other major CBERA suppliers, increased in 2000, as well. Notably, Costa Rica was the second-ranking U.S. supplier of frozen orange juice among all countries of the world, after Brazil, and Honduras was fourth, after Mexico.

It should also be noted that imports under CBERA of beverages, spirits, etc. (HTS chapter 22) increased sharply in both 1999 and 2000. Fuel-grade ethyl alcohol (ethanol), the ninth-leading import under CBERA, accounted in 2000 for more than half of U.S. imports of this group, malt beer for nearly a quarter, and rum for 8.7 percent of the total. Since 1996, over 90 percent of imports in the beverage category have entered under CBERA.

Although classified as miscellaneous beverage, ethanol (HTS subheading 2207.10.60) from CBERA countries is fuel-grade ethanol, thus not imported for use as beverage, but mostly as an additive to gasoline to reduce carbon monoxide exhaust emissions. Sugarcane is the major indigenous feedstock in local ethanol production.³² All Caribbean ethanol enters the United States under CBERA. In 1998, the Caribbean share of all imports was only 27.5 percent, but imports under CBERA almost doubled by value and volume between 1998 and 2000. Jamaica, Costa Rica, and El Salvador combined were the source of 42.9 percent of U.S. ethanol imports from all countries in 2000.

Since 1993, Jamaica has been the second-leading ethanol supplier among all countries of the world after Saudi Arabia, and Costa Rica has generally been the third-largest. El Salvador ranked fifth in 2000. Imports from all three Caribbean countries increased between 1998 and 2000.

³² For more information on Caribbean ethanol imports, see "Ethyl Alcohol" in Chapter 3 of USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Ninth Report, 1993*, USITC publication 2813, Sep. 1994., p. 50.

Imports of beer (HTS subheading 2203.00.00)—also one of the leading import items under the program in 2000—increased 36.1 percent in the two-year period (table 2-8). Over 90 percent of beer imports from CBERA countries entered under the program. The Dominican Republic, Jamaica, and El Salvador have been the largest Caribbean beer suppliers, in that order.

The Caribbean region, the traditional major source of U.S. consumption of rum (HTS heading 2208.40), continued to provide most U.S. imports (four-fifths of the total in 2000). Jamaica remained the principal rum supplier, providing 44.5 percent of the total. Barbados and the Bahamas were second and third. Imports from CBERA countries almost doubled in the two-year period; the major increase occurred in 1999.

Instruments (HTS chapter 90) used to be a major category under CBERA trade, and medical- surgical- or dental instruments (HTS subheading 9018.90.80) were the second-ranking import item under the program in 1998. In 1999, however, medical instruments ceased to be leading CBERA items because their NTR duties were reduced to free. The cessation reduced overall imports under the program by hundreds of millions of dollars, involving mostly CBERA imports from the Dominican Republic and Costa Rica.³³

Similarly, leather footwear uppers (HTS subheading 6406.10.65), also from the Dominican Republic, became free of duty in the NTR column in 1999. In 1998, leather footwear uppers were still fourth on the list of leading imports under CBERA. However, footwear uppers stopped entering under the program in 1999, further depressing overall imports under CBERA during the period under review. Likewise, certain fish (HTS subheading 0302.69.40), principally from Costa Rica and Panama, which also dropped from the list of leading items in table 2-8 because they became free of duty on an NTR basis.

Textiles and Apparel

Two-way trade between the United States and CBERA countries in the textile and apparel sector grew 12 percent to \$14.9 billion between 1999 and 2000, enabling the sector to remain the largest source of bilateral trade with 35 percent of the total. U.S. sector trade continued to involve primarily apparel production sharing, in which U.S. firms ship garment parts to the region for sewing and re-import the assembled apparel articles. This trade will likely expand significantly as a result of the newly enacted CBTPA that extends, for the first time, duty-free treatment under CBERA to certain textile and apparel articles from eligible CBERA countries (discussed later in this section). Although most textile and apparel articles were ineligible for duty-free entry under the 1983 CBERA,³⁴ imports of apparel and other made-up articles assembled in CBERA

³³ In 1998, imports of HTS subheading 9018.90.80 under CBERA were \$222.2 million.

³⁴ Textiles and apparel subject to textile agreements (i.e., articles covered by the former Multifiber Arrangement as in effect on August 6, 1983) are excluded by law from duty-free treatment under CBERA; they include articles of cotton, wool, and manmade fibers.

countries from U.S. components were eligible for reduced duties under HTS heading 9802.00.80.³⁵ According to a Guatemalan apparel supplier, HTS 9802.00.80 was a major impetus in the growth of Guatemala's apparel industry.³⁶ Sources in the Dominican Republic have stated that all investment in the country's textile and apparel industry was targeted for production-sharing operations under 9802.³⁷ In 2001, more than half of the Dominican Republic's free trade zones were dedicated to textiles and apparel manufacturing.³⁸ In addition to being eligible for reduced duties under HTS 9802.00.80, certain garments assembled in participating CBERA countries from fabrics wholly formed and cut in the United States enter under preferential quotas known as guaranteed access levels (GALs).³⁹

U.S. sector exports to CBERA countries, which consist mostly of garment parts for assembly, grew 17 percent to \$5.1 billion in 2000, or one-fourth of total U.S. exports to the region. U.S. sector imports from CBERA countries, which consist almost entirely of apparel, rose by 9 percent to \$9.8 billion in 2000, and accounted for almost one-half of total U.S. imports from the region. Growth in sector imports from CBERA countries in 2000, which exceeded the 6 percent annual increase in 1999, reflected not only increased shipments of U.S. apparel firms, but also efforts by foreign investors to start establishing a foothold in CBERA countries in anticipation of the enactment of the CBTPA.⁴⁰ Nevertheless, the gain in sector imports from CBERA countries in 2000 was lower than the double-digit annual gains that occurred earlier in the decade.⁴¹ The growth rate slowed because of increased competition from Mexico as a result of NAFTA preferences,⁴² and more recently from Asian suppliers following the Asian

³⁵ HTS heading 9802.00.80 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. components 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.

³⁶ Representatives of a Guatemalan apparel manufacturer, USITC staff interview, Guatemala, June 18, 2001.

³⁷ Representatives of a Dominican apparel manufacturer, USITC staff interview, Santiago, June 6, 2001.

³⁸ See table 3-8 below.

³⁹ For further information on the GAL program, see USITC, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers, Thirteenth Report*, 1997, USITC publication 3132, Sept. 1998, p. 13.

⁴⁰ Eva Martinez Fornos, "The Dominican Triumph: The Sector Faces the Future with Optimism Following the Approval of Textile Parity and the Election of a New Government," *Apparel Industry Internacional*, July 2000, found at Internet address: <http://www.aiimag.com>, retrieved Sept. 11, 2000. Another industry source reports that in anticipation of the CBTPA, some textile manufacturers began to "make small strategic equity investments in apparel manufacturing in the CBERA region to create a captive outlet for their piece goods and to ensure future business." See "Mexico Reviews its Options," *Textile Asia*, Feb. 2001, p. 45.

⁴¹ For further information on the growth rates of sector imports from CBERA countries in the mid-1990s, see USITC, *Caribbean Basin Economic Recovery Act: Impact on the United States, Fourteenth Report*, 1998, USITC publication 3234, Sept. 1999, p. 12.

⁴² Sources in the Dominican Republic have stated they lost some investment to Mexico after NAFTA was implemented, but that investment is returning as a result of the CBTPA, representatives of Dominican apparel manufacturers, Santiago, June 6, 2001; and official of the Ministry of Industry and Commerce, Santo Domingo, June 7, 2001.

financial crisis and subsequent currency devaluations, which made their products more competitive in the U.S. market.

The highly competitive retail market in the United States has motivated many U.S. apparel firms to begin or expand assembly operations in CBERA countries and Mexico to cut production costs. Both CBERA countries and Mexico offer competitively priced labor to perform labor-intensive sewing operations, and their proximity to the United States provides U.S. firms with greater management and quality control over production, lower shipping costs, and shorter lead times than Asian operations. The proximity of CBERA countries and Mexico to the United States also enables U.S. firms to use “quick response” programs developed with their retail customers to meet rapid fashion changes.

On May 18, 2000, the President signed into law the Trade and Development Act of 2000 (the Act) which provides for expanded trade benefits for 24 CBERA beneficiary countries. Title II of the Act grants duty-free and quota-free treatment to imports of qualifying textile and apparel articles from CBERA beneficiary countries during a transition period beginning on October 1, 2000, and ending on the earlier of September 8, 2008, or the date on which the Free Trade Area of the Americas or a comparable free-trade agreement between the United States and CBERA countries enters into force. The Act authorizes preferential treatment (duty-free and quota-free benefits) for qualifying textile and apparel articles from CBERA countries, provided that these countries have implemented and follow, or are making substantial progress towards implementing and following, the customs procedures required by the Act. The preferential treatment is essentially equivalent to that provided under NAFTA for similar goods from Mexico, which competes with CBERA countries for apparel assembly work from U.S. firms. By the end of 2000, 11 of the 24 CBERA countries had been designated by the U.S. Trade Representative as eligible for preferential treatment, including all major suppliers such as the Dominican Republic, Honduras, El Salvador, and Guatemala.⁴³

The Act authorizes unlimited preferential treatment 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 CBERA countries rather than the United States, the apparel must also be sewn together with U.S. thread. CBERA countries are also eligible to receive unlimited preferential treatment for textile luggage assembled from U.S. fabrics made of U.S. yarns; apparel assembled from fabrics or yarn deemed to be in “short supply” in the United States (e.g., silk or linen fabric, velveteen or fine-wale corduroy cotton fabric, and hand-woven Harris tweed wool fabric); and handloomed, handmade, and folklore articles.

The Act provides for preferential treatment for limited amounts of knit apparel, except socks and other hosiery, made in CBERA countries from fabrics knitted in those

⁴³ The number of certified beneficiary countries had increased to fourteen by July 1, 2001.

countries, provided that the fabrics are produced of U.S. yarns (regional knit fabrics).⁴⁴ This preferential treatment is 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 caps are to be increased by 16 percent in each succeeding 1-year period through September 30, 2004, and remain at those levels through September 30, 2008.

The Act also provides for preferential treatment of brassieres from CBERA countries cut and sewn or otherwise assembled in the United States or CBERA countries, or both. For the 1-year period beginning on October 1, 2001, and in each of the 6 succeeding 1-year periods, preferential 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 granted only to producers who use mostly U.S. fabric components.

Because the CBTPA went into effect late in 2000, the level of U.S. imports of textiles and apparel under this program totaled only \$157 million. Leading CBERA suppliers of textile and apparel imports to the United States under the CBTPA included the Dominican Republic, Honduras, El Salvador, and Costa Rica (see table 2-10). Import activity accelerated significantly during the first half of 2001 when CBTPA U.S. imports of textiles and apparel reached \$2.3 billion, led by Honduras, the Dominican Republic, and El Salvador.

In future years, trade preferences granted under CBTPA are expected to permit CBERA suppliers to compete more cost effectively with Mexico, to secure longer term contracts, and to capture new investment.⁴⁵ The ability to cut and transform fabric in CBERA countries has prompted new investment in cutting, stonewashing, and dyeing equipment in several countries including Guatemala and the Dominican Republic. Industry sources in the Dominican Republic report that in anticipation of the CBTPA, significant investment occurred in cutting, dyeing, and other transformation processes for fabrics.⁴⁶ Such newly-allowed processes have apparently improved turnaround time and increased efficiency in textile and apparel logistics. Sources in Guatemala estimated that the CBTPA has contributed to an increase of about 10,000 employees since October 2000.⁴⁷ The Government of El Salvador has reported that U.S. firms invested \$1.1 million in that country's garment maquila sector in 2000.⁴⁸

⁴⁴ Knit apparel made in CBERA countries from regional knit fabrics includes garments cut and assembled from knit fabrics or those knit-to-shape directly from yarns (sweaters). Note: On April 25, 2001, H.R. 1589 was introduced to amend the CBERA to grant duty-free and quota-free treatment to socks and hosiery that are sewn or assembled, or cut in an eligible CBERA beneficiary country from components knit-to-shape in the United States. See H.R. 1589, 107th Congress, 1st session, found at Internet address <http://thomas.loc.gov>, retrieved on May 14, 2001.

⁴⁵ Eva Martinez Fornos, "The Success of Grupo M," *Apparel Industry Internacional*, July 2000, found at Internet address <http://www.aiimag.com>, retrieved Sept. 9, 2000, and "Mexico Reviews Its Options," *Textile Asia*, Feb. 2001, p. 45.

⁴⁶ Representatives of two Dominican apparel manufacturers, USITC staff interviews, Santiago, June 6, 2001.

⁴⁷ Guatemalan government official, USITC staff interview, Guatemala City, June 15, 2001.

⁴⁸ U.S. Department of State telegram, "Annual USITC CBI Survey - El Salvador," message reference No. 001838, prepared by U.S. Embassy, San Salvador, June 1, 2001.

Table 2-10
U.S. imports of textiles and apparel under the CBTPA, 2000 and January-June 2001

Country	2000	January-June 2001
	<i>(1,000 dollars)</i>	
Dominican Republic	47,044	672,459
Honduras	45,616	680,660
El Salvador	25,929	419,676
Guatemala	14,731	228,185
Costa Rica	15,633	177,124
Haiti	4,619	63,189
Jamaica	2,409	48,527
Guyana	744	3,535
Nicaragua	274	33,373
Panama	6	16
Belize	0	4,671
Total	157,004	2,331,446

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

Trade sources also report that a number of CBERA apparel and textile suppliers during the past two to three years have been making an effort to develop or expand “full-package” programs to compete more effectively with Asian suppliers who have provided these programs for years.⁴⁹ An estimated 40 percent of assembly plants in Guatemala currently offer full-package services.⁵⁰ Some major U.S. retailers such as Target only buy full-package services.⁵¹ Full-package programs are also increasingly sought by U.S. apparel producers switching from manufacturing to marketing and brand management, who prefer to purchase apparel from a few sources.⁵² CBTPA trade preferences will likely help CBERA suppliers compete more effectively with Asian textile and apparel producers once U.S. quotas are eliminated as part of WTO commitments, which include the Agreement on Textiles and Clothing (ATC). The ATC provides for elimination of quotas and the complete integration of textiles and apparel into the GATT regime—that is, subject to GATT disciplines and the same rules as trade in other sectors—over a 10-year transition period ending on January 1, 2005. Some CBERA industry sources are concerned that the phaseout of quotas on Asian suppliers, who have access to numerous low-cost fabrics and other materials, may offset CBTPA trade preferences which require typically higher priced U.S. fabrics and materials.⁵³

⁴⁹ Full-package programs typically refer to the type of sourcing arrangements that can provide the entire range of garment manufacturing from apparel design to all steps of textile production including assembly, packaging, and distribution of the finished garment or any combination of these operations, Official of the Ministry of the Economy, USITC staff interview, Guatemala City, June 15, 2001.

⁵⁰ Representative of AGEXPRONT, USITC staff interview, Guatemala City, June 15, 2001.

⁵¹ Representative of Target Corporation, USITC staff interview, Guatemala City, June 19, 2001.

⁵² See, for example, “Mexico Reviews its Options,” *Textile Asia*, Feb. 2001, p. 45.

⁵³ *Ibid.*

Footwear and Footwear Parts

U.S. imports of footwear, except zoris (thonged sandals), disposable footwear, and most footwear uppers and parts, are not eligible for duty-free treatment under the 1983 CBERA. However, they may benefit from reduced duties under HTS heading 9802.00.80⁵⁴ and from section 222 of the 1990 Caribbean Basin Economic Recovery Expansion Act (the 1990 Act), which permitted for the first time duty-free entry of finished footwear assembled in CBERA countries entirely from U.S. components.⁵⁵ In 2000, CBTPA granted NAFTA-equivalent tariff treatment to footwear and certain other articles that are ineligible for duty-free treatment under CBERA. Under 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.⁵⁶ 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 footwear uppers and parts) from CBERA countries are small, accounting for about 1 percent of the total import quantity and value in 2000. CBERA shipments in 2000 decreased 16 percent from 1999 in quantity, to 7.8 million pairs, but increased by 6 percent in value, to \$79 million. U.S. imports of footwear from the world in 2000 also increased by 6 percent in value to \$14.5 billion. Imports from China, the leading U.S. supplier with 77 percent of import quantity in 2000, rose by 10 percent in quantity to 1.3 billion pairs, and by 9 percent in value, to \$9.1 billion. Rubber footwear represented 54 percent of the quantity, but only 41 percent of the value of total footwear imports from CBERA countries in 2000.

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 \$64 million in 1996 to \$57 million in 2000. Footwear imports under section 222 in 2000, which came almost entirely from the Dominican Republic, accounted for 82 percent of the quantity (6.4 million pairs) and 73 percent of the value (\$57 million) of total U.S. footwear imports from CBERA countries in 2000. The decline in these section 222 imports reportedly reflected the cessation of footwear manufacturing operations by a U.S. shoe company in the Dominican Republic.⁵⁷ Section 222 footwear imports from CBERA countries will likely continue to decline as importers take advantage of the new CBTPA trade benefits.⁵⁸

⁵⁴ 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).

⁵⁵ Section 222 was codified in note 2(b) to subch. II of ch. 98 of the HTS. The 1990 Act also permitted Puerto Rican inputs used in CBERA exports to be considered in qualifying such exports for preferential duty treatment. The 1990 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.

⁵⁶ The rules of origin set forth in general note 12(t) of the Harmonized Tariff Schedule 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.

⁵⁷ Mitchell T. Cooper, Counsel for the Plastic & Rubber Footwear Manufacturers Association, telephone conversation with USITC staff, June 8, 2001.

⁵⁸ Representatives of a Dominican shoe manufacturer, USITC staff interview, Santiago, June 6, 2001.

U.S. imports of footwear uppers and parts from CBERA countries decreased by 34 percent in 2000 from 1999 to \$125 million; those from all other countries declined by 19 percent to \$234 million. The CBERA share of total U.S. imports of footwear uppers and parts fell by 7 percentage points to 35 percent. Almost all of the imports from CBERA countries in 2000 entered free of duty under CBERA and came from the Dominican Republic. Most of these CBERA shipments consisted of stitched shoe uppers of leather.

Imports by Country

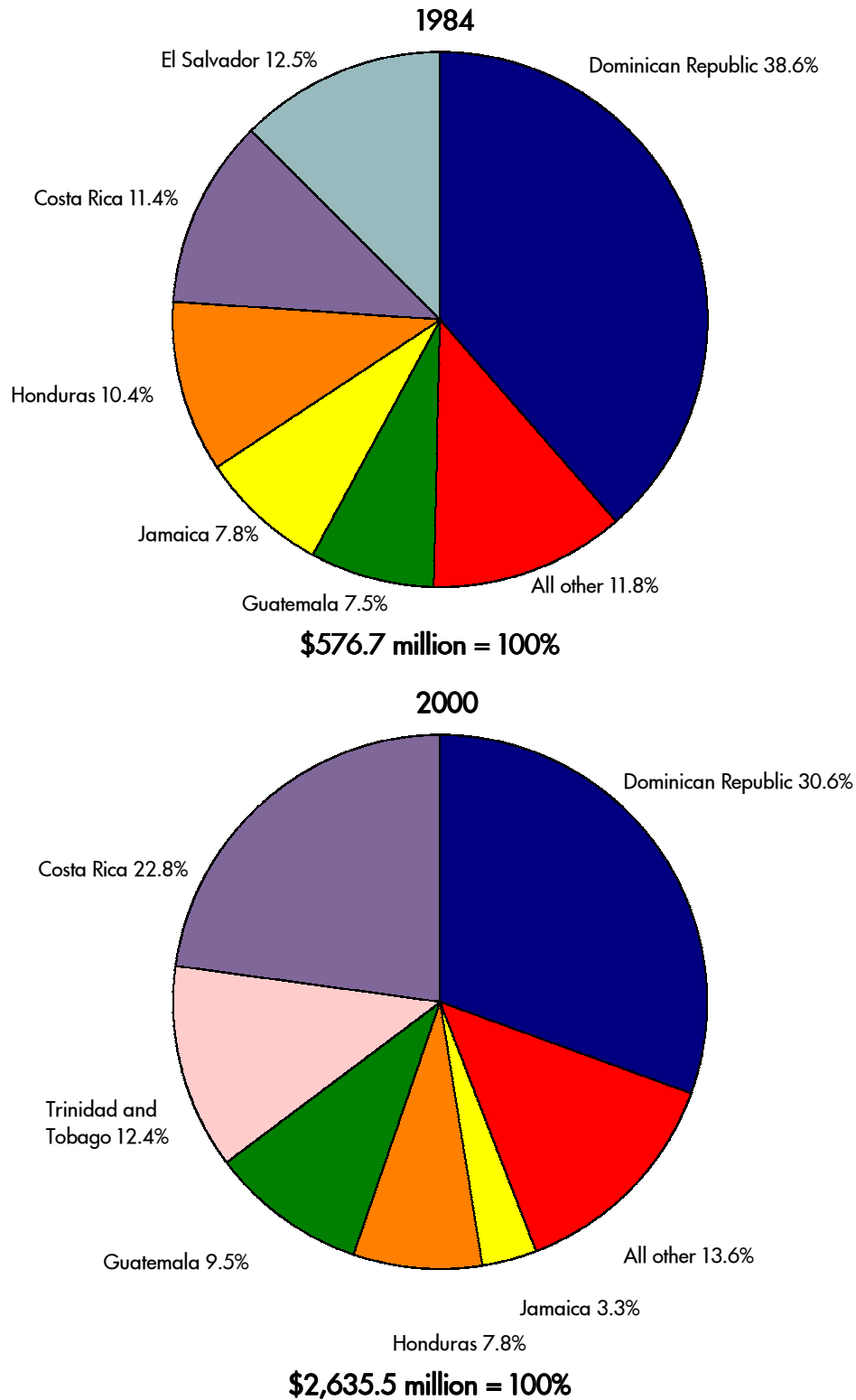
During the period under review, imports under CBERA from most beneficiaries of the program declined (table 2-9). Imports dropped sharply from all Central American countries, except Belize, as the economies of some were substantially weakened by Hurricane Mitch. Another major cause was the cessation of NTR duties for several major products traded under the program. No longer having to claim CBERA preference for duty-free entry reduced the portion of imports entering under CBERA from some major CBERA beneficiaries like the Dominican Republic and Costa Rica. Imports from the Dominican Republic, which was also adversely affected by shrinking U.S. quotas for its sugar cane, dropped 37.2 percent and those from Costa Rica 20.5 percent in the two-year period.

Major exceptions to the general pattern were Trinidad and Tobago, the Bahamas, and Belize. Imports under CBERA from Trinidad and Tobago increased by 76.1 percent, and from the Bahamas by 113.2 percent—record levels in each case. Imports from Belize under CBERA increased 64.2 percent, to an amount approaching the record level of 1997.

The Dominican Republic, Costa Rica, Guatemala, and Honduras, for years the leading sources of U.S. imports under CBERA, collectively accounted for nearly four-fifths of imports under the program in 1998. However, by 2000 the combined share of these four countries dropped to 70.7 percent with the emergence of Trinidad and Tobago as the third-leading CBERA beneficiary (table 2-9 and figure 2-5). Trinidad and Tobago ranked as the fifth-largest supplier under the program in 1998 and was fourth-largest in 1999. Other countries gaining importance as CBERA beneficiaries included The Bahamas, which ranked seventh in 2000 compared with tenth place in 1998, and Belize, which ranked eleventh in 2000, compared with fifteenth in 1998.

Since the beginning of CBERA's implementation, the Dominican Republic has been the largest single supplier under the program. Its policy of providing incentives for companies, a relatively well-developed infrastructure, an adequate supply of labor at competitive wages, and strong ties with the United States might be credited in part for making it the principal source among Caribbean countries of goods for the United States in general as well as for imports under CBERA (figure 2-5).

Figure 2-5
U.S. imports under CBERA, by source, 1984 and 2000



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

In 2000, U.S. imports under CBERA from the Dominican Republic were \$852 million. This amount was nearly half a billion dollars less than in 1998, and the country's share of all imports under CBERA was 30.5 percent in 2000 compared with 40.2 percent in 1998 (table 2-9). This large decline in program participation, which took place especially between 1998 and 1999, was caused in large measure by the disappearance of medical instruments and leather footwear uppers from the list of leading CBERA imports. However, shrinking imports of some important still-remaining CBERA items, including sugar and tobacco products, further reduced the total.

In 2000, the Dominican Republic was the leading supplier of six out of the 20 leading items imported under CBERA (table 2-8). Cigars continued to be the number one CBERA item under the program from that country, despite their shrinking value, and cane sugar the third (appendix table E-1). Imports of precious-metal jewelry, the second-leading item from the Dominican Republic, remained largely unchanged.

By contrast, U.S. imports of automatic circuit breakers from the Dominican Republic were significantly higher during 1999 and 2000 than in prior years. Imports of electrical transformers from that country only began on a meaningful scale in 2000, and immediately became one of the leading imports under CBERA. Static converters, just introduced in the Dominican Republic, were another leading item in the electrical machinery category .

Imports under CBERA from Costa Rica were \$617.1 million in 2000, some one-fifth less than in 1998 (table 2-9). In 1998, Costa Rica's share of total CBERA imports was 23.5 percent, but dropped to 22.1 percent in 2000. Costa Rica supplied 4 of the 20 leading imports under CBERA in 2000, including pineapples, orange juice, and electro-thermic hair dryers (table 2-8).

CBERA imports from Costa Rica were especially curtailed by the shift of several electronic products away from the CBERA program.⁵⁹ For example, parts of telephonic switching apparatus from Costa Rica (HTS subheading 8517.90.24), which was the leading CBERA import from that country in 1998, variable resistors (HTS subheading 8533.31.00), and parts of telephone sets (HTS subheading 8517.90.12) no longer entered under CBERA in 2000 because they could enter free of duty under NTR.

In addition, imports of gold and platinum jewelry, another leading item from Costa Rica, shrank to almost half of their 1998 value, mostly during 2000. Imports of vulcanized rubber articles (HTS subheading 4016.93.50) dropped to almost half of their 1998 value. In this case, the cause was technical; they were entered under GSP rather than under CBERA.

Imports under CBERA from Costa Rica would have contracted even more, had significant increases of nontraditional, agriculture-related imports not offset the

⁵⁹ The "electrical machinery" chapter accounted in 1998 for 28.6 percent of all imports under CBERA from Costa Rica. The comparable number in 1999 was 19.8 percent and in 2000 13.2 percent.

downtrend. Imports of fruit rose considerably during the period. Imports of pineapples, the number one item from Costa Rica, were 72.6 percent larger by value than in 1998, imports of orange juice were 43.7 percent larger, and imports of cantaloupes increased by 90.8 percent (appendix table E-1).

Imports of ethanol from Costa Rica almost doubled by value since 1998. Costa Rica was the third-ranking U.S. supplier of this item among all countries, providing almost one-fifth of all U.S. ethanol imports in 2000.

Trinidad and Tobago took greater advantage of CBERA during the period than in prior years. (table 2-9). The country's increased participation in CBERA can be attributed exclusively to methanol, which accounted in 2000 for nearly four fifths of all imports under the program. Methanol imports from that country almost quadrupled by value during 1998-2000. Not only the price, but also the volume of these imports grew rapidly each successive year, reaching record levels in 2000.⁶⁰ Trinidad and Tobago also continued to be the leading CBERA supplier of iron and steel bars and rods, the imports of which have, however, declined (table 2-8).

U.S. imports under CBERA from Guatemala were \$264.6 million in 2000, a decline of 7.1 percent during the two-year period. Trinidad and Tobago displaced Guatemala to fourth place in 2000 as a source of imports under the program. Imports of trifluralin (HTS subheading 2921.43.15), a herbicide that had been the leading import item from Guatemala in 1998, dropped by more than one-half by value during the two-year period (appendix table E-1). Imports of sugar and tobacco leaf, traditional Guatemalan import items under CBERA, also declined sharply.

Guatemala was the number one supplier under the CBERA of two leading imports under the program: raw cane sugar, mostly for re-export (HTS subheading 1701.11.20) and cantaloupes (table 2-8). Cantaloupes became the leading import item under CBERA from Guatemala in 2000, as imports, together with imports of melons other than cantaloupes, surged during the two-year period. Articles of gold and platinum jewelry also rose steeply during these two years, but the values involved were still comparatively small.

The Bahamas was one of the few countries from which imports under CBERA increased markedly, in fact more than doubled, during the period. Rapid growth of expandable polystyrene production, of which The Bahamas became the number one U.S. supplier, can be credited for this development. Expandable polystyrene accounted for almost 90 percent of Bahamian imports under CBERA in 2000.

Imports from Belize under CBERA increased by more than 60 percent during the period due to the increase of frozen orange juice imports from this country. In 2000, more than three-fourths of imports under CBERA from Belize consisted of orange juice.

⁶⁰ Given the inauguration of a new train in 2001 and more planned in the future, production of methanol in Trinidad will likely increase robustly in the future.

Total Exports

Despite a slight contraction in U.S. exports to CBERA countries between 1998 and 1999, following extensive damage from Hurricane Mitch in late 1998, export performance rebounded between 1999 and 2000 as export product inflation decreased. Year 2000 exports totaled \$20.7 billion, an 8.9 percent increase over 1999 (table 2-11). Collectively, CBERA countries currently rank ninth among U.S. market export destinations, behind such countries as Mexico, China, Germany, and the United Kingdom, but ahead of countries such as France, Singapore, and the Netherlands. CBERA countries' relative importance among U.S. markets has fallen back to its 1996-1997 level, after having risen to sixth in 1998. Principal causes of growing U.S. exports in recent years include 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.⁶¹ In light of the United States' marked economic slowdown, slowing world economic growth, and, particularly, expected slowdowns in CBERA countries' GDP growths, future U.S. export growth is likely to decrease as the economic downturn takes effect in these countries.⁶²

As in recent years, the Dominican Republic, Honduras, Costa Rica, and Guatemala remain principal Caribbean markets for the United States, collectively responsible for 53.6 percent of all U.S. exports to CBERA countries in 2000. The eight largest Caribbean export markets (top one third) represent more than 80 percent of U.S. exports to CBERA countries (table 2-11 and figure 2-6).

Belize, Dominican Republic, Jamaica, Netherlands Antilles, and St. Lucia exhibited above-average increases in HTS chapter 27 imports from the United States. Barbados, El Salvador, Haiti, Nicaragua, St. Kitts-Nevis, and St. Vincent and the Grenadines experienced substantial increases in imports of apparel from the United States. These exports are primarily driven by production-sharing opportunities, and often consist of cut cloth or semifinished products exported to CBERA countries to be assembled and returned to the United States for further processing and distribution.

The fastest growing product among the top exports was metal oxide semiconductors (HTS subheading 8542.13.80), which increased by 4,163 percent between 1998 and 2000. This growth is almost exclusively attributable to Costa Rica's increase from approximately \$2 million in 1998 to more than \$202 million in 2000, which represents 99 percent of the CBERA-destined market for this product. Most of these semiconductors were likely destined for Intel's printed circuit board plant in Costa Rica. Though from much smaller bases, El Salvador- and Netherlands Antilles-destined exports under this HTS subheading also increased by 171 percent and

⁶¹ USITC Caribbean expert knowledge base.

⁶² International Monetary Fund, *World Economic Outlook (Chapter 1)*, May 2001.

Table 2-11

U.S. exports to CBERA beneficiaries, by markets, 1984, 1988, 1992, 1994, 1998, and 2000

Market	1984	1988	1992	1994	1998	2000
	<i>Value (1,000 dollars)</i>					
Dominican Republic	630,599	719,161	2,062,919	2,726,393	3,893,812	4,351,913
Honduras	304,083	228,431	790,027	982,094	2,276,231	2,544,821
Costa Rica	417,641	364,258	1,317,645	1,653,090	2,190,169	2,368,026
Guatemala	369,794	306,068	1,167,411	1,304,028	1,851,948	1,835,476
El Salvador	380,331	230,433	727,188	910,799	1,479,781	1,741,095
Panama	730,382	316,887	998,417	1,190,189	1,641,385	1,501,429
Jamaica	488,463	414,168	914,200	1,044,774	1,272,885	1,339,061
Trinidad and Tobago . . .	587,917	171,983	438,640	531,405	954,960	1,072,883
The Bahamas	546,320	368,501	691,320	653,599	774,459	1,026,584
Netherlands Antilles	607,814	221,508	450,123	492,028	687,304	614,701
Haiti	405,890	246,331	213,050	208,054	538,627	562,520
Nicaragua	109,794	3,933	180,420	178,276	323,680	360,830
Barbados	232,852	87,920	122,780	153,043	256,438	282,195
Aruba	(¹)	(¹)	282,289	267,511	334,755	269,566
Belize	49,462	48,795	111,363	107,001	110,728	204,320
Guyana	48,641	32,844	114,210	100,738	141,014	154,090
Antigua and Barbuda . . .	(²)	36,618	65,549	61,892	88,913	130,911
St. Lucia	(²)	38,302	79,528	77,335	85,413	97,864
Grenada	(²)	15,323	22,983	22,865	53,532	76,443
British Virgin Islands	(²)	20,844	42,263	44,539	56,047	58,837
St. Kitts and Nevis	(²)	20,220	30,111	42,933	42,182	53,295
St. Vincent and the Grenadines	(²)	20,143	33,832	37,342	90,785	35,808
Dominica	(²)	2,056	32,515	25,416	50,068	35,470
Montserrat	(²)	2,970	12,911	6,661	4,975	9,807
Leeward and Windward	201,336	(²)	(²)	(²)	(²)	(²)
Total	6,111,319	3,976,242	10,901,693	12,822,006	19,200,093	20,727,945

Table 2-11-Continued
U.S. exports to CBERA beneficiaries, by markets, 1984, 1988, 1992, 1994, 1998, and 2000

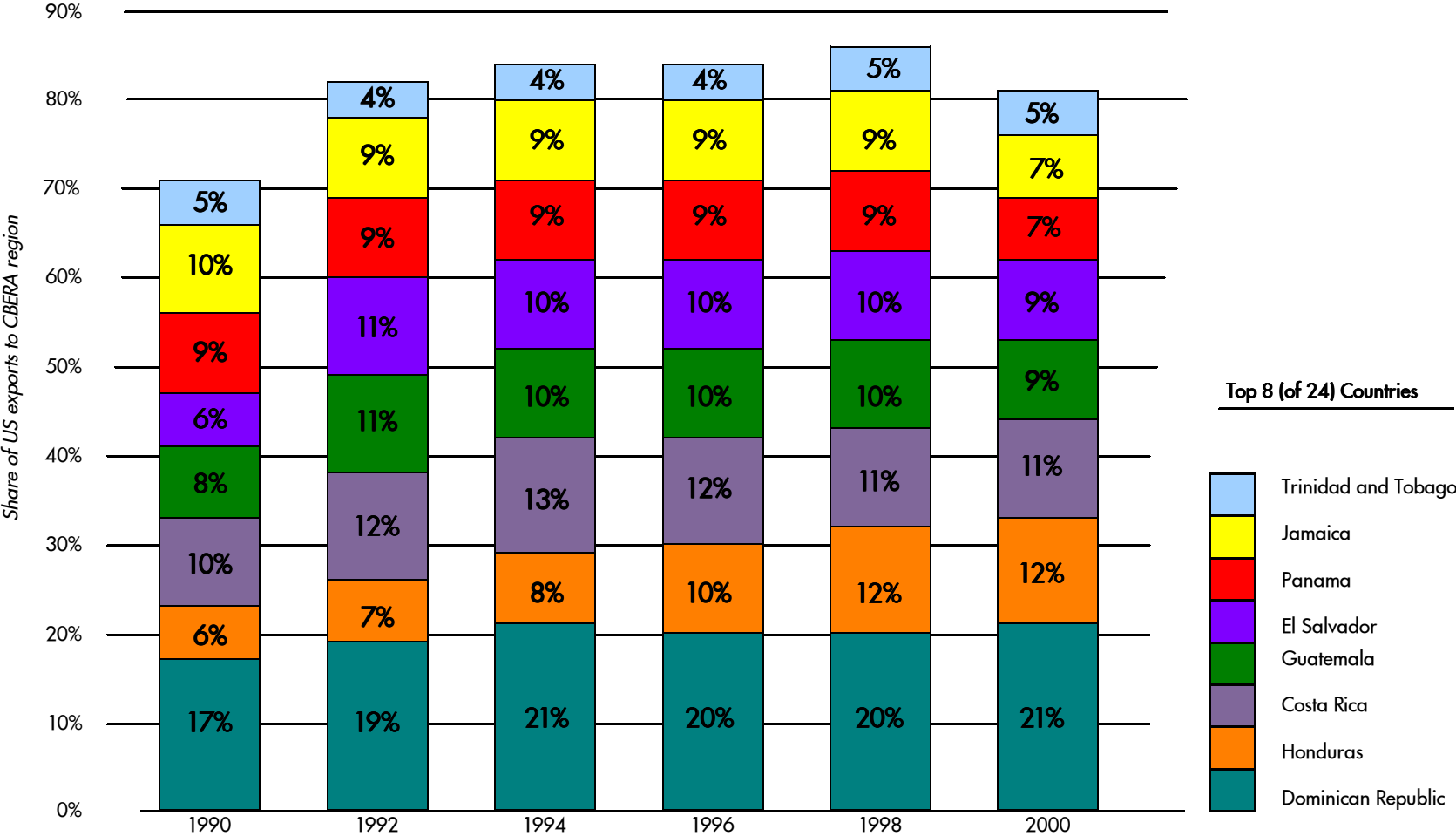
Market	1984	1988	1992	1994	1998	2000
	Percent of total					
Dominican Republic	10.32	18.09	18.92	21.26	20.28	21.00
Honduras	4.98	5.74	7.25	7.66	11.86	12.28
Costa Rica	6.83	9.16	12.09	12.89	11.41	11.42
Guatemala	6.05	7.70	10.71	10.17	9.65	8.86
El Salvador	6.22	5.80	6.67	7.10	7.71	8.40
Panama	11.95	7.97	9.16	9.28	8.55	7.24
Jamaica	7.99	10.42	8.39	8.15	6.63	6.46
Trinidad and Tobago	9.62	4.33	4.02	4.14	4.97	5.18
The Bahamas	8.94	9.27	6.34	5.10	4.03	4.95
Netherlands Antilles	9.95	5.57	4.13	3.84	3.58	2.97
Haiti	6.64	6.20	1.95	1.62	2.81	2.71
Nicaragua	1.80	.10	1.66	1.39	1.69	1.74
Barbados	3.81	2.21	.01	1.19	1.34	1.36
Aruba	(¹)	1.47	2.59	2.09	1.74	1.30
Belize .....	.81	.01	.01	.83	.58	.99
Guyana .....	.80	.01	.01	.79	.73	.74
Antigua and Barbuda	(²)	.01	.01	.48	.46	.63
St. Lucia	(²)	.01	.01	.60	.44	.47
Grenada	(²)	(²)	(²)	.18	.28	.37
British Virgin Islands	(²)	.01	(²)	.35	.29	.28
St. Kitts and Nevis	(²)	.01	(²)	.33	.22	.26
St. Vincent and the Grenadines	(²)	.01	(²)	.29	.47	.17
Dominica	(²)	(²)	(²)	.20	.26	.17
Montserrat	(²)	(²)	(²)	.05	.03	.05
Leeward and Windward ...	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 Netherland 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 with the Leeward and Windward Islands.

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

Figure 2-6
Share of U.S. exports to major CBERA destinations, 1990, 1992, 1994, 1996, 1998, and 2000



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

and 489 percent, respectively. While lower volumes account for the decrease in value of certain products, such as panty hose and tights (HTS subheading 6115.11.00) and vehicles other than railway (HTS chapter 87), other leading exports decreased in value due to declining prices. Among those were certain leading apparel exports falling under HTS chapter 62 (table 2-12).

In recent years, HTS chapters for apparel (knitted and not knitted), machinery (electric and non-electric), mineral fuels, vehicles (not railway), and cereals dominated U.S. exports to CBERA countries. Combined, these products increased from a 44 percent share of total U.S. exports to these countries in 1990 to a 52 percent share in 1996, where they have since remained (table 2-13 and figure 2-7). Over the past decade, knitted apparel (HTS chapter 61) has surpassed other exports, growing from 3 to 12 percent of total U.S. exports to CBERA countries. The fastest growing categories by 2-digit HTS chapter from 1998 to 2000 include aircraft and parts, precious metals, basketware, railway and rolling stock, and headgear. The fastest contracting products include lead, ships, milling industry products, ores, and copper.

Table 2-12
Leading U.S. exports to CBERA countries, 1998-2000

HTS Item	Description	1998	1999	2000	Change 1998-1999	Change 1999-2000
		1,000 dollars			Percent	
6109.10.00	T-shirts, singlets, tank tops, and similar garments, knitted or crocheted, of cotton	428,847	622,364	880,661	45.12	41.50
8802.40.00	Airplanes and other powered aircraft, nesi., with an unladen weight over 15,000 kg	103,632	194,843	490,292	88.01	151.63
6203.42.40	Men's or boys' trousers, breeches, and shorts, not knitted or crocheted, of cotton, not containing 15% or more by weight of down	469,367	436,231	398,523	-7.06	-8.64
2710.00.05	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing under 25 degrees A.P.I.	227,840	244,380	390,547	7.26	59.81
2710.00.10	Distillate and residual fuel oils (including blends) derived from bituminous minerals, testing 25 degrees A.P.I. or more	224,462	143,746	306,899	-35.96	113.50
1005.90.20	Yellow dent corn	233,886	274,149	300,805	17.21	9.72
6117.90.00	Knitted or crocheted parts of garments or of clothing accessories, nesi.	58,116	287,582	296,059	394.84	2.95
6212.10.00	Brassieres, whether or not knitted or crocheted	279,285	295,590	256,753	5.84	-13.14
6217.90.00	Parts of garments or of clothing accessories, nesi.	816,239	300,464	231,760	-63.19	-22.87
1001.90.20	Wheat and meslin, other than durum or seed wheat	201,624	206,807	210,644	2.57	1.86
8542.13.80	Metal oxide semiconductors, except for high definition television	4,791	126,517	204,249	2,540.87	61.44
8473.30.00	Parts and accessories of automatic data processing machines, transcribing machines, or magnetic or optical readers, nesi.	158,201	180,860	202,657	14.32	12.05
8525.20.90	Transmission apparatus with reception capability, not transceiver, for radiotelephony, radiotelegraphy, radiobroadcasting, or television	48,002	225,979	186,184	370.77	-17.61
2304.00.00	Oilcake and other solid residues, resulting from the extraction of soybean oil	167,153	161,294	180,614	-3.51	11.98
4804.11.00	Uncoated, unbleached kraftliner, in rolls or sheets	139,766	174,361	168,461	24.75	-3.38
2710.00.15	Petroleum motor fuel	143,936	83,242	167,095	-42.17	100.73
8703.23.00	Motor vehicles for people transport, with spark-ignition internal combustion reciprocating piston engine, of cylinder capacity 1500-3000 cc	176,591	159,720	165,323	-9.55	3.51
6115.11.00	Panty hose and tights, knitted or crocheted, of synthetic fibers, measuring per single yarn less than 67 decitex	165,550	190,028	137,293	14.79	-27.75
2710.00.30	Petroleum lubricating oils and greases, with or without additives	102,909	111,278	136,214	8.13	22.41
4407.10.00	Coniferous wood sawn or chipped lengthwise, sliced or peeled, of a thickness exceeding 6 mm	134,202	146,532	131,233	9.19	-10.44
	Total Above	4,284,400	4,565,971	5,442,264	6.57	19.19
	All other	14,915,692	14,463,607	15,285,681	-3.03	5.68
	All total	19,200,093	19,029,578	20,727,945	-0.89	8.92

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

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

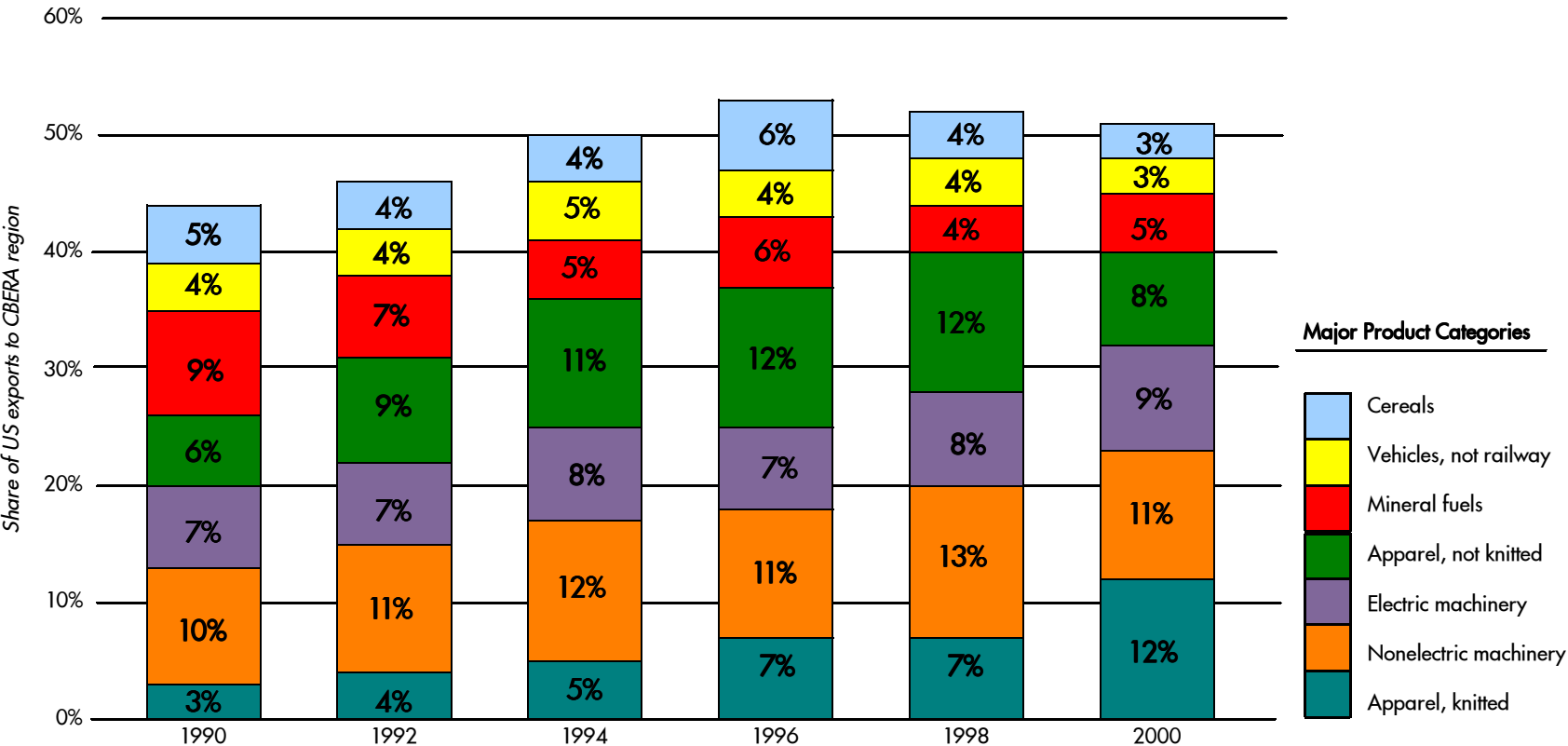
Table 2-13
Leading U.S. exports to CEBRA countries, by major product categories, 1984, 1988, 1992, 1998, and 2000

HTS Chapter	Description	1984	1988	1992	1994	1998	2000
<i>Value (1,000 dollars)</i>							
61	Articles of apparel and clothing accessories, knitted or crocheted	63,535	141,834	470,398	613,266	1,418,234	2,412,428
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	710,222	792,797	1,175,543	1,519,615	2,473,651	2,280,835
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	993,680	1,548,832	1,887,258
62	Articles of apparel and clothing accessories, not knitted or crocheted	196,188	476,264	992,032	1,424,350	2,315,880	1,667,697
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	596,459	483,471	794,230	688,550	771,586	1,117,410
39	Plastics and articles thereof	208,980	333,290	402,557	509,198	629,926	809,443
10	Cereals	326,309	370,136	434,910	492,300	673,609	704,069
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	170,727	271,301	462,741	654,697	773,252	700,762
48	Paper and paperboard; articles of paper pulp, paper or paperboard	234,165	299,122	416,921	489,713	645,068	674,999
88	Aircraft, spacecraft, and parts thereof	45,016	61,274	188,113	163,063	149,594	553,887
	Total of above	3,050,255	3,760,127	6,060,606	7,548,433	11,399,633	12,808,790
	All other	2,859,728	3,667,708	4,841,087	5,273,574	7,800,459	7,919,155
	Total all commodities	5,909,983	7,427,835	10,901,693	12,822,006	19,200,093	20,727,945
<i>Percent of total</i>							
61	Articles of apparel and clothing accessories, knitted or crocheted	1.08	1.91	4.31	4.78	7.39	11.64
84	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	12.02	10.67	10.78	11.85	12.88	11.00
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	7.75	8.07	9.10
62	Articles of apparel and clothing accessories, not knitted or crocheted	3.32	6.41	9.10	11.11	12.06	8.05
27	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	10.09	6.51	7.29	5.37	4.02	5.39
39	Plastics and articles thereof	3.54	4.49	3.69	3.97	3.28	3.91
10	Cereals	5.52	4.98	3.99	3.84	3.51	3.40
87	Vehicles, other than railway or tramway rolling stock, and parts and accessories thereof	2.89	3.65	4.24	5.11	4.03	3.38
48	Paper and paperboard; articles of paper pulp, paper or paperboard	3.96	4.03	3.82	3.82	3.36	3.26
88	Aircraft, spacecraft, and parts thereof	0.76	0.82	1.73	1.27	0.78	2.67
	Total of above	51.61	50.62	55.59	58.87	59.37	61.79
	All other	48.39	49.38	44.41	41.13	40.63	38.21
	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 2-7
Composition of U.S. exports to CBERA countries, by major product categories, 1990, 1992, 1994, 1996, 1998, and 2000



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

CHAPTER 3

Impact of CBERA on the United States and Probable Future Effects

This chapter addresses the impact of the CBERA preference program on the United States in 2000 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 information was collected during field visits to the Dominican Republic, Trinidad and Tobago, and Guatemala, and from U.S. embassies in the countries of the region.

Impact of CBERA on the United States in 2000

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 has never exceeded 0.04 percent of U.S. gross domestic product (GDP). As pointed out in chapter 2, the total value of U.S. imports from CBERA countries remained small in 2000, amounting to 1.8 percent of total U.S. imports.

In addition, the value of the CBERA program to beneficiary countries and its potential for affecting the U.S. economy, consumers, and industries have declined since implementation 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 under NAFTA and The Andean Trade Preference Act (ATPA), 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 column 1-general rates have fallen to free in recent years. These include medical instruments (free of duty in 1999), leather footwear uppers (1999), and electrical variable resistors (2000).³

¹ The higher the ad valorem column 1-general duty rate (formerly known as the MFN 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 column 1-general rate is more extensively applied, that is, if fewer non-CBERA countries enjoy preferential rates.

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

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.

Because most U.S. imports from CBERA countries can enter the United States free of duty at general rates or under GSP, or are excluded from the CBERA program, the Commission focused its analysis of the impact of CBERA on products that can enter free of duty or at reduced duties only under CBERA and not under other programs.⁴

The presence of CBERA guarantees 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 lose GSP eligibility, as discussed in chapter 1. In the analysis described in this chapter, no attempt was made to quantify those effects.

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 2000 and had the largest potential impact on competing U.S. industries.

Products that Benefited Exclusively from CBERA in 2000

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 column 1-general rates or under other programs, such as GSP. Consistent with this definition, GSP-eligible items imported from CBERA countries that entered under CBERA preferences are considered to benefit exclusively from CBERA 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

⁴ The portion of U.S. imports from CBERA countries that is excluded from the CBERA program has dropped dramatically since the passage of CBTPA and its implementation late in 2000. Now excluded are textile goods, as well as apparel items not made from U.S. materials; over-TRQ agricultural products remain excluded. This change had only a small effect on U.S. imports under CBERA in 2000, as entry of imports under the new eligibility criteria only started in December. Data for the first four months of 2001 show U.S. imports entered under CBERA provisions (including the new CBTPA provisions) were 32 percent of total U.S. imports from CBERA countries, as opposed to 12 percent in all of 2000.

⁵ In 2000, 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 (Sec. 504(c)(1) 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. It should be noted that statistics reported for the customs value of U.S. imports generally include the U.S. value of items imported under production-sharing provisions (HTS provision 9802). 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 2000. In addition, items that are free of duty under column 1-general 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 and 2000.

Since implementation of the CBERA program, U.S. imports that benefit exclusively from CBERA have 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 (table 3-1). 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.⁶

The value of U.S. imports that benefited exclusively from CBERA increased from \$1.2 billion in 1999 to \$1.5 billion in 2000, or 27.5 percent (table 3-1). Such imports accounted for 6.8 percent of total U.S. imports from CBERA countries in 2000, compared with 6.1 percent in 1999.

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 methanol (HTS subheading 2905.11.20) from Trinidad and Tobago; imports of that item increased by 150 percent from 1999 to 2000. Other notable changes occurred with respect to frozen concentrated orange juice (HTS subheading 2009.11.00), up by 110 percent; nonwoven disposable clothing (HTS subheading 6210.10.50), up by 73 percent; polystyrene (HTS 3903.11.00) from the Bahamas, up by 50 percent; fuel grade ethyl alcohol (HTS subheading 2207.10.60), up by 42 percent; sugar for processing and re-export (HTS subheading 1701.11.20⁷) from Guatemala and Nicaragua, down by 48 percent; Trifluralin (HTS subheading 2921.43.15), down by 34 percent; and certain handbags (HTS subheading 4202.21.90), down by 36 percent.

⁶ The U.S. GSP program was not in effect from Aug. 1, 1995 through Sept. 30, 1996. Consequently, articles eligible for GSP duty-free entry were subject to ordinary column 1-general duties during this period unless the articles were eligible to enter under another preferential program, such as CBERA, and were entered under that program. The analysis used in the 1995 and 1996 CBERA reports implicitly assumed that importers did not expect the GSP program to be reinstated or the duties to be refunded; therefore, products normally eligible for GSP that entered the United States under CBERA provisions during that period were counted as having benefited exclusively from CBERA. Hence, the effects of duty-free entry of those otherwise GSP-eligible products were attributed to CBERA for the period Aug. 1, 1995 through Sept. 30, 1996, which resulted in higher estimates of the effects of CBERA than would have been the case if the GSP program had been operative during that period. See USITC, *CBERA, Twelfth Report, 1996*, pp. 35-36, for further explanation. 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. Although GSP lapsed in both 1997 and 1998, the lapses were considerably shorter than in 1995 and 1996, and quick renewals were widely anticipated. Therefore, those lapses were not considered significant enough to warrant a repeat in the 1997 and current reports of the assumptions used in the 1995 and 1996 reports. The lower estimates after 1996 derive, in part, from the assumptions used in designating items that benefit exclusively from CBERA, not from the change in actual usage.

⁷ The full HTS description for subheading 1701.11.20 is “Other sugar to be used for the production (other than by distillation) of polyhydric alcohols, except polyhydric alcohols for use as a substitute for sugar in human food consumption, or to be refined and re-exported in refined form or in sugar-containing products, or to be substituted for domestically produced raw cane sugar that has been or will be exported.” Imports under this subheading are not subject to tariff-rate quotas.

Table 3-1

Total imports from CBERA beneficiaries, imports entered under CBERA provisions, and imports that benefited exclusively from CBERA provisions, 1996-2000

Item	1996	1997	1998	1999	2000
Total imports from CBERA beneficiaries:					
Value (<i>million dollars</i> ¹)	14,545	16,572	17,124	19,365	22,161
Imports entered under CBERA provisions: ²					
Value (<i>million dollars</i> ¹)	2,791	3,208	3,225	2,637	2,793
Percent of total	19.2	19.4	18.8	13.6	12.6
Imports that benefited exclusively from CBERA provisions:					
Value (<i>million dollars</i> ¹)	2,324	1,478	1,614	1,174	1,497
Percent of total	16.0	8.9	9.4	6.1	6.8

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.

Table 3-2

Value of leading imports that benefited exclusively from CBERA, 2000

(*1,000 dollars*)

HTS Item	Description	Customs value	C.i.f. value
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	222,229	246,871
2402.10.80 ²	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	178,984	180,737
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	113,822	139,448
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	123,716	123,938
1701.11.10 ⁴	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	86,420	91,682
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	63,994	69,638
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	62,228	68,567
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	64,025	68,004
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	55,844	57,090

See notes at end of table.

Table 3-2—Continued

Value of leading imports that benefited exclusively from CBERA, 2000

(1,000 dollars)

HTS Item	Description	Customs value	C.i.f. value
3903.11.00 ⁵	Polystyrene, expandable, in primary forms	51,123	52,117
0202.30.50	Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	29,344	32,036
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	20,490	25,023
1701.11.20 ⁶	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	19,941	23,270
0201.30.50	Bovine meat cuts, boneless, not processed, fresh or chld., descr in add. US note 3 to Ch. 2	21,191	22,383
4202.21.90 ⁷	Handbags, with or without shoulder strap or without handle, with outer surface of leather, composition or patent leather, nesi, over \$20 ea.	17,139	17,888
4202.12.80 ⁷	Trunks, suitcases, vanity & attache cases, occupational luggage and similar containers, with outer surface of textile materials nesi	16,212	17,208
2401.20.85	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf, described in addl US note 5 to ch. 24	16,245	16,651
0714.10.20 ⁸	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	10,566	14,226
2921.43.15	alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine (Trifluralin)	12,962	13,100
2402.10.30	Cigars, cheroots and cigarillos containing tobacco, each valued less than 15 cents	12,479	12,643

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, 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 The Bahamas and Nicaragua, other suppliers of this item, were included because those countries were not designated GSP beneficiaries in 2000.

³ Includes only imports from the Dominican Republic, The Bahamas, 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 and the Netherlands Antilles, other suppliers of this item, were included because those countries were not designated GSP beneficiaries in 2000.

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 2000.

⁵ Includes imports only from The Bahamas. Item is GSP-eligible, but The Bahamas was not a designated GSP beneficiary in 2000.

⁶ Includes only imports from Guatemala and Nicaragua. Item is GSP-eligible, but imports from Guatemala 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 2000.

⁷ Subject to reduced duties under CBERA.

⁸ Includes only imports from Costa Rica and Nicaragua. Item is GSP eligible, but imports from Costa Rica 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 beneficiary in 2000.

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.

One item was added to the list in 2000. Cassava (HTS subheading 0714.10.20) from Costa Rica and Nicaragua returned to the list of leading items that benefited exclusively after the column 1-general duty fell to free on electrical variable resistors (HTS subheading 8533.40.80), leading to its removal from the list.

Leading imports that were identified in previous annual CBERA reports as benefiting exclusively from CBERA between 1984 and 1998 continued to rank among the leading U.S. imports in 2000. Those imports were beef (HTS subheadings 0201.30.50 and 0202.30.50), pineapples (HTS subheading 0804.30.40), and frozen concentrated orange juice. Fuel-grade ethyl alcohol has ranked as one of the leading items benefiting exclusively from CBERA since 1985. Items that have appeared consistently among the leading imports benefiting exclusively from CBERA in the last 5 years include higher priced cigars (HTS subheading 2402.10.80), nonwoven disposable apparel, sugar for refining and re-export, and wire rod (HTS subheading 7213.91.30).

Welfare and Displacement Effects of CBERA on U.S. Industries and Consumers in 2000

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 range), and those made assuming lower substitution elasticities (lower range).

The analysis was conducted on the 20 leading items that benefited exclusively from CBERA (table 3-2).⁸ Estimates of welfare and potential U.S. industry displacement effects were made. Estimates of potential U.S. industry displacement effects were small, with no industry having an upper range estimated displacement of over 5.0 percent, the cutoff traditionally used in this series for selecting industries for further analysis.

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 2000; they are ranked on the basis of their c.i.f. (customs value plus insurance and freight charges) import values.⁹ Those products represented

⁸ 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.

⁹ 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

80.1 percent of the \$1.5 billion in imports that benefited exclusively from CBERA during 2000.¹⁰ The five leading CBERA-exclusive imports in 2000 were (1) methanol from Trinidad and Tobago; (2) higher priced cigars from the Dominican Republic, Nicaragua, and The Bahamas; (3) pineapples; (4) jewelry articles and parts from the Dominican Republic, The Bahamas, and the Netherlands Antilles; and raw cane sugar (HTS subheading 1701.11.10¹¹) from the Dominican Republic and Nicaragua. The Dominican Republic was the leading supplier of three of the top five items.¹² Methanol and cigars ranked fourth and first, respectively, in 1999.

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;¹³ market shares varied considerably in 2000 (table 3-3). For instance, the market share of CBERA-exclusive imports of higher priced cigars was approximately 40 percent, whereas the market share of CBERA-exclusive imports of fresh, chilled, and frozen beef was under 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 2000.¹⁴ 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

Fuel-grade ethyl alcohol provided the largest gain in consumer surplus (\$19.3 million to \$27.7 million) resulting exclusively from CBERA tariff preferences in 2000 (table 3-4). The price U.S. consumers would have paid for imports of ethyl alcohol from

9—Continued

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.

¹⁰ The import values reported in tables 3-2 and 3-3 reflect only that portion of imports under each HTS subheading that entered duty free or at reduced duty under CBERA. Even though all these items were eligible for CBERA tariff preferences, full duties were paid on a certain portion of imports under each HTS subheading for a variety of reasons, such as failure to claim preferences or insufficient documentation.

¹¹ The full HTS description for subheading 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 preferences under GSP, CBERA, ATPA, NAFTA, and the U.S.-Israel Free Trade Agreement. Overquota imports are subject to much higher tariffs and are not eligible for the aforementioned preferences, except for a slight reduction from the over-quota column 1-special rate for overquota imports from Mexico.

¹² Leading CBERA suppliers are shown in table 2-8.

¹³ 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.

¹⁴ 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, 2000

HTS Item	Description	Imports from CBERA countries (c.i.f. value) (A)	Apparent U.S. consumption (B) ¹	Market share (A/B)
		—	1,000 dollars —	Percent
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	246,871	2,812,977	8.78
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	180,737	453,880	39.82
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	139,448	361,643	38.56
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	123,938	5,824,234	2.13
1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	91,682	3,847,287	2.99
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	69,638	2,298,093	3.03
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	68,567	2,426,049	2.83
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	68,004	1,704,723	3.99
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	57,090	655,454	8.71
3903.11.00	Polystyrene, expandable, in primary forms	52,117	676,344	7.71
0202.30.50	Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	32,036	6,586,659	0.83
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	25,023	(²)	(²)
1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	23,270	(³)	(³)
0201.30.50 ⁴	Bovine meat cuts, boneless, not processed, fresh or chld., descr in add. US note 3 to Ch. 2	22,383	-	-
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.	17,888	987,962	⁵ 1.94
4202.12.80	Trunks, suitcases, vanity & attache cases, occupational luggage and similar containers, with outer surface of textile materials nesi	17,208	556,768	⁵ 3.57

See footnotes at end of table.

Table 3-3—Continued
Value of leading imports that benefited exclusively from CBERA, apparent U.S. consumption, and CBERA-exclusive market share, 2000

HTS Item	Description	Imports from CBERA countries (c.i.f. value) (A)	Apparent U.S. consumption (B) ¹	Market share (A/B)
		— 1,000 dollars — Percent		
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	16,651	1,648,802	1.01
0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	14,226	(²)	(²)
2921.43.15	alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-di propyl-p-toluidine (Trifluralin)	13,100	(⁶)	(⁶)
2402.10.30	Cigars, cheroots and cigarillos containing tobacco, each valued less than 15 cents ...	12,643	998,044	1.27

¹ Apparent U.S. consumption defined as U.S. production plus total imports (landed, duty-paid basis) minus exports.

² U.S. production data not available.

³ Most raw sugar imported under this HTS subheading is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback. Comparable domestic production does not exist.

⁴ Apparent consumption for HTS subheadings 0201.30.50 and 0202.30.50 were aggregated into one category and reported under HTS subheading 0202.30.50.

⁵ Market share based on landed, duty-paid value.

⁶ No U.S. production.

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, 2000

HTS Item	Description	Gain in consumer surplus (A)		Loss in tariff revenue (B)		Net welfare effect (A-B)	
		Upper range	Lower range	Upper range	Lower range	Upper range	Lower range
		<i>Value (1,000 dollars)</i>					
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	19,008	20,570	15,355	18,106	3,652	2,464
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	4,030	4,085	3,945	4,053	85	32
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	2,863	2,900	2,769	2,841	94	58
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	5,974	6,286	5,227	5,803	747	483
1701.11.10 ¹	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	0	0	4,064	4,414	-4,064	-4,414
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	19,319	27,726	10,573	22,880	8,746	4,846
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	493	496	487	494	5	2
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	10,941	13,521	5,767	9,325	5,174	4,196
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	1,349	1,378	1,304	1,361	45	18
3903.11.00	Polystyrene, expandable, in primary forms	2,881	3,046	2,489	2,789	393	256
0202.30.50 ²	Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	966	983	922	957	43	27
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	(³)	(³)	(³)	(³)	(³)	(³)
1701.11.20 ⁴	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	-	-	-	-	-	-
0201.30.50 ²	Bovine meat cuts, boneless, not processed, fresh or chld., descr in add. US note 3 to Ch. 2	-	-	-	-	-	-
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.	297	301	285	294	11	7
4202.12.80	Trunks, suitcases, vanity & attache cases, occupational luggage and similar containers, with outer surface of textile materials nesi	312	317	300	309	12	7
2401.20.85 ⁵	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf, described in addl US note 5 to Ch. 24	1,421	1,562	1,166	1,417	255	145
0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	(³)	(³)	(³)	(³)	(³)	(³)
2921.43.15	alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine (Trifluralin)	(⁶)	(⁶)	(⁶)	(⁶)	(⁶)	(⁶)
2402.10.30	Cigars, cheroots and cigarillos containing tobacco, each valued less than 15 cents	1,252	1,394	1,062	1,320	190	73

¹ 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. shipments are displaced following a tariff reduction.

² Analysis for HTS subheadings 0201.30.50 and 0202.30.50 is combined under HTS subheading 0202.30.50. Although beef imports are subject to tariff-rate quotas, indications are that they are not binding for CBERA countries.

³ Welfare and displacement effects were not calculated because of the unavailability of U.S. production data.

⁴ Most raw sugar imported under this HTS subheading is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback. Therefore, there is no effect on U.S. consumers and no loss of tariff revenues.

⁵ Although cigarette tobacco imports are subject to tariff-rate quotas, indications are that they are not binding for CBERA countries.

⁶ Welfare and displacement effects were not calculated because there was no U.S. production in 2000.

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 displacement effects on the United States of leading imports that benefited exclusively from CBERA, 2000

HTS Item	Description	Reduction in domestic shipments				
		U.S. domestic shipments	Value		Share	
			Upper range	Lower range	Upper range	Lower range
		1,000 dollars		Percent		
2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	2,185,680	73,628	38,095	3.37	1.74
2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	205,889	5,198	1,445	2.52	0.7
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	65,012	2,555	1,469	3.93	2.26
7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesi	1,926,914	6,586	2,193	0.34	0.11
1701.11.10 ¹	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	3,324,702	0	0	0	0
2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	1,969,533	49,305	1,188	2.5	0.06
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	1,699,240	761	66	0.04	(²)
2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	1,123,857	47,535	24,381	4.23	2.17
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	401,413	1,642	0	0.41	0
3903.11.00	Polystyrene, expandable, in primary forms	548,000	11,019	5,720	2.01	1.04
0202.30.50 ³	Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	2,627,324	1,750	951	0.07	0.04
0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)
1701.11.20 ⁵	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	-	-	-	-	-
0201.30.50 ³	Bovine meat cuts, boneless, not processed, fresh or chld., descr in add. US note 3 to Ch. 2	-	-	-	-	-
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.	89,086	120	64	0.13	0.07
4202.12.80	Trunks, suitcases, vanity & attache cases, occupational luggage and similar containers, with outer surface of textile materials nesi	69,883	175	94	0.25	0.13
2401.20.85 ⁶	Tobacco, partly or wholly stemmed/stripped, threshed or similarly processed, not from cigar leaf, described in addl US note 5 to Ch. 24	1,168,621	4,398	2,069	0.38	0.18
0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	(⁴)	(⁴)	(⁴)	(⁴)	(⁴)
2921.43.15	alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine (Trifluralin)	(⁷)	(⁷)	(⁷)	(⁷)	(⁷)
2402.10.30	Cigars, cheroots and cigarillos containing tobacco, each valued less than 15 cents	961,668	3,738	1,047	0.39	0.11

See footnotes at end of table.

Table 3-5—Continued

Estimated displacement effects on the United States of leading imports that benefited exclusively from CBERA, 2000

¹ 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. shipments are displaced following a tariff reduction.

² Less than 0.005 percent.

³ Analysis for HTS subheadings 0201.30.50 and 0202.30.50 is combined under HTS subheadings 0202.30.50. Although beef imports are subject to tariff-rate quotas, indications are that they are not binding for CBERA countries.

⁴ Welfare and displacement effects were not calculated because of the unavailability of U.S. production data.

⁵ Most raw sugar imported under this HTS subheading is re-exported either as refined sugar or in sugar-containing products, which would qualify for a duty drawback. Therefore, there is no comparable domestic production to be displaced.

⁶ Although cigarette tobacco imports are subject to tariff-rate quotas, indications are that they are not binding for CBERA countries.

⁷ Welfare and displacement effects were not calculated because there was no U.S. production in 2000.

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.

CBERA countries would have been 49 percent higher (the ad valorem duty rate adjusted for freight and insurance charges) without CBERA. Methanol provided the second-largest gain in consumer surplus (\$19.0 million to \$20.6 million). Without CBERA, the price of methanol from CBERA countries would have been 9 percent higher. In general, items providing the largest gains in consumer surplus also have either the highest column 1-general 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 frozen concentrated orange juice, lower tariff revenues offset 53 percent to 69 percent of the gain in consumer surplus; for ethyl alcohol, the offset was 55 percent to 83 percent. For many of the other items listed in table 3-4, especially those items with low column 1-general duty rates, lower tariff revenues offset nearly all of the gain in consumer surplus.

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 two sugar items: (1) raw cane sugar, which did not provide a gain in consumer surplus because it was subject to a binding tariff-rate quota, and (2) sugar for processing and re-export, which very likely did not provide a gain to consumers because of restrictions inherent in the HTS category.¹⁵ Of the resulting net welfare gains, the largest were for frozen concentrated orange juice (\$4.2 million to \$5.2 million) and ethyl alcohol (\$4.8 million to \$8.7 million). Frozen concentrated orange juice and ethyl alcohol also had the largest net welfare gains in 1998.¹⁶

Effects on U.S. producers

Estimates of the potential displacement of domestic production (table 3-5) were small for most of the individual sectors.¹⁷ The analysis indicates that the largest potential

¹⁵ Tariff-rate quotas (TRQs) that apply to HTS subheading 1701.11.10 set maximum sugar import levels at lower tariff rates both globally and for imports from individual countries. Overquota 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, the net welfare associated with duty elimination is composed solely of a transfer of tariff revenue from the U.S. Treasury to CBERA country sugar exporters; thus, the price of sugar did not change, and there was no consequent gain in consumer surplus, even after CBERA tariff reductions on sugar were implemented.

Imports of sugar under HTS subheading 1701.11.20 are believed to be re-exported after being refined and/or included in other products for export. Those imports have no direct effect on U.S. consumers, and there is no revenue loss to the Treasury, given U.S. law on sugar imported for processing and re-export. The U.S. refining industry benefits from these imports because it allows the use of excess refinery capacity, and U.S. consumers may benefit indirectly because of added efficiency in the refining industry. Sugar imported under this provision that is processed and re-exported qualifies for duty drawbacks—i.e., most duties paid are refunded.

¹⁶ See USITC, *CBERA, Fourteenth Report, 1998*, tab. 3-4, pp. 46-47.

¹⁷ 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.

displacement effects were for frozen concentrated orange juice (an estimated 2.2 percent to 4.2 percent of U.S. domestic shipments displaced, valued at \$24.4 million to \$47.5 million), pineapples (2.3 percent to 3.9 percent displaced, valued at \$1.5 million to \$2.6 million), methanol (1.7 to 3.4 percent displaced, valued at \$38.1 million to \$73.6 million), and higher priced cigars (0.7 percent to 2.5 percent displaced, valued at \$1.4 million to \$5.2 million). However, the estimated displacement share for the majority of products benefiting exclusively from CBERA was less than 1.0 percent, even in the upper range of estimates.

Thus, it is possible to conclude that the impact of CBERA in 2000 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 and the small portion of imports from CBERA countries that benefit exclusively from CBERA. Similarly, none of the items that benefit exclusively from CBERA had any significant displacement impact on U.S. production.

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 2000. Information was obtained from various published sources and field interviews conducted during June 2000 in the Dominican Republic, Guatemala, and Trinidad and Tobago. Additional investment data were obtained from U.S. embassies in several of the relevant countries. The effect that CBERA-related investments¹⁸ may have on U.S. imports in the near term is discussed.

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. 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.¹⁹ 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 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

¹⁸ The term is meant to refer to investment expenditures motivated by the preferences extended under CBERA.

¹⁹ USITC, *CBERA, Tenth Report*, 1994, USITC publication 2927, September 1995, p. 37.

CBERA countries is directed toward the production of goods covered by U.S. trade provisions other than CBERA. Many of these investment projects are in free-trade zones (FTZs),²⁰ 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.²¹

Despite noted 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 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 the Dominican Republic, Guatemala, and Trinidad and Tobago during travel to these countries.

Investment in Specific CBERA Beneficiary Countries

Worldwide FDI flows topped nearly \$1.3 trillion in 2000, an increase of 18 percent over 1999. Among the developing countries, almost 23 percent of FDI flows were concentrated in two regions, Asia and Latin America and the Caribbean. After increasing in the second half of the 1990's, annual FDI flows to Latin America and the

²⁰ 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 FTZs 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 re-exported for final sale. Apparel and electronics assembly operations are the principal sectors involved in Caribbean FTZs.

²¹ As originally enacted, section 936 grants 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 USITC, *CBERA Ninth Annual Report 1993*, pp. 38-40. Previous reports also contain project types eligible for section 936 financing. See USITC, *CBERA, Seventh Annual Report 1991*, pp. 1-9 to 1-10.

Caribbean fell in 2000.²² Estimated flows to the region amounted to around \$86.2 billion in 2000 (table 3-6).

Table 3-6
FDI inflows, by host region and economy, 1996-2000

(Millions of dollars)

Host region/economy	1996	1997	1998	1999	2000
World	384,910	477,916	692,544	1,075,049	1,270,764
Developing countries	219,668	271,378	483,165	839,818	1,005,178
Latin America and the Caribbean	51,279	71,152	83,200	110,285	86,172
CBERA	4,732	5,446	7,150	5,803	5,408
Antigua and Barbuda	19	23	27	27	31
Aruba	84	196	84	392	228
The Bahamas	88	210	147	149	251
Barbados	13	15	16	17	14
Belize	17	12	19	56	28
Costa Rica	427	407	612	620	400
Dominica	18	21	7	18	16
Dominican Republic	97	421	700	1,338	953
El Salvador	-5	59	1,104	231	185
Grenada	19	35	51	46	37
Guatemala	77	85	673	155	228
Haiti	4	4	11	30	13
Honduras	90	128	99	237	282
Jamaica	184	203	369	524	456
Netherlands Antilles	2,826	1,038	892	401	777
Nicaragua	97	173	184	300	265
Panama	410	1,256	1,219	517	393
Saint Kitts and Nevis	35	20	32	42	38
Saint Lucia	18	48	83	94	75
Saint Vincent and the Grenadines	43	92	89	46	76
Trinidad and Tobago	355	1,000	732	643	662

Source: UNCTAD, *World Investment Report 2001*, pp. 291-93.

In 2000, FDI inflows to CBERA beneficiaries were less than 1 percent of FDI to all developing countries. During the period 1996 through 2000, FDI to CBERA countries increased from \$4.7 billion to \$5.4 billion, or 15 percent. However, during 1998 through 1999, FDI fell from \$7.2 billion to \$5.8 billion. In 2000, the Dominican Republic accounted for the largest share of FDI (\$953 million), followed by Netherlands Antilles (\$777 million), Trinidad and Tobago (\$662 million), Jamaica (\$456 million), Costa Rica (\$400 million), and Panama (\$393 million) (see table 3-6).

Competition for FDI has led to a proliferation of agreements aimed at promoting and providing guarantees for FDI. These agreements include bilateral treaties, free trade agreements, regional negotiations, and multilateral arrangements.²³

²² United Nations, Economic Commission for Latin America and the Caribbean, *Foreign Investment in Latin America and the Caribbean, 2000*, found at Internet address <http://www.eclac.org/cgi-bin/getPR>, retrieved May 8, 2001, p. 2.

²³ *Ibid.*

An overview of direct investment in selected CBERA countries follows.

Bahamas

Foreign direct investment has increased significantly in the Bahamas in recent years. In 2000, inflows of private foreign investment totaled \$500.3 million, a decline from \$512.80 million in 1999.²⁴ Most of the growth in investment appears to be in large-scale hotel construction, renovations and expansion. The largest investors are American, Canadian, Hong Kong, and South African in origin.²⁵

The Government of the Bahamas has targeted the following categories of business for foreign investment: tourist resorts, upscale condominiums, time shares, second home developments, international business centers, marinas, information and data processing services, assembly industries, high-tech service, ship registration, repair and other services, light manufacturing for export, agro-industries, food processing, mariculture, banking and other financial services, captive insurance companies, aircraft services, pharmaceutical manufacture, and offshore medical centers.²⁶

Major foreign investments in the Bahamas include: a shrimp farm (United States); Bahama Star (United States); PFC Bahamas in Freeport (United States); Sheraton Grand Hotel on Paradise Island (United States); Crystal Palace Resort Casino and Convention Center (United States); Atlantis Hotel and Resort (South Africa); a container port facility, an airport and three beachfront hotels (Hong Kong); Breezes Resort (Jamaica); Sandals Resort (Jamaica); British Colonial Hilton (Canada); Winding Bay Hotel in Eleuthera (Italy); Uniroyal Chemical; Plymers International Ltd; Gorda Cay (Disney Corp.); Cotton Bay Club (Colombia); a tropical fish farm; Princess Cay, a cruise ship landing facility; Club Med Resorts; Comfort Suites on Paradise Island; and Cable Bahamas (Canada).²⁷

Barbados

There were 2 expansions of CBERA projects in 2000. One expansion investment project totaled \$1 million and is related to exports of analog meters. The estimated value of annual exports to the United States is \$3 million. The second expansion investment project totaled \$85,000. The firm exports wire-wound resistors. The estimated value of exports to the United States is \$3.7 million.²⁸

²⁴ U.S. Department of State telegram, "2001 Investment Climate Statement for the Bahamas," message reference no. 01969, prepared by U.S. Embassy, Nassau, July 23, 2001.

²⁵ Ibid.

²⁶ U.S. Department of State telegram, "2000 Investment Climate Statement: Bahamas," message reference no. 01721, prepared by U.S. Embassy, Nassau, July 17, 2000.

²⁷ Ibid.

²⁸ U.S. Department of State, "USITC Annual Caribbean Basin Investment Survey," message reference no. 01180, prepared by U.S. Embassy, Bridgetown, June 18, 2001.

Belize

U.S. investment in Belize decreased sharply on January 26, 2001 when Duke Energy International sold the Belize Electricity Company Ltd. to a Canadian Private Utility, Fortis. Shortly before this sale, MCI divested its 23.5 percent share of Belize Telecommunications Ltd. valued at over \$20 million. As a result of these two major sell-offs, U.S. investment in Belize fell to below \$200 million.²⁹

According to the Belize Trade and Investment Development Service, there were 5 new "development concessions" in 2000 and 9 extensions to previous development concessions. None of the concessions were CBERA-related. Of the 14 companies, 7 were involved in the agriculture sector (bananas), 4 in the manufacturing sector (paper towels), and 3 in the tourism sector. Agriculture was also the leading sector in value of total direct investment in Belize (\$16.04 million), followed by manufacturing (\$1.29 million), and tourism (\$8.37 million). Local companies led investments in 2000 followed by the United States (\$2.7 million), Turkey (\$6.3 million), and Denmark (\$1.2 million).

Several businesses in Belize have enjoyed the benefits of CBI since it was first established. Examples are in the citrus industry, exotic fruits and niche vegetables (such as papayas and hot peppers), and farmed shrimp. These firms have been surveyed in past CBI studies.³⁰

Costa Rica

The United States is by far the largest source of foreign investment in Costa Rica, accounting for 58 percent of gross inflows in 1999. The United States was followed by Mexico (12 percent), Panama (11 percent), Canada (5 percent), the EU (5 percent), other Central American countries (5 percent), and Japan (1 percent). By industry sector destination, 53 percent of 1999 FDI went into manufacturing, 16 percent into services, 12 percent into tourism, and 7 percent into agriculture. Neither CBERA nor CBTPA were major factors in investment decisions in 2000.³¹

Costa Rica administers one major export incentive program: tax exemptions for operating in FTZs. As of mid-2000, 222 companies were registered and 190 companies were operating in Costa Rica's FTZs. U.S. companies accounted for over 50 percent of FTZ investments followed by investments from Costa Rica, Europe, Asia, and Latin America.

The Standard Fruit Company (Dole) and Chiquita Brands have been the principal U.S. investors in Costa Rica for decades. Dole continues to expand its investment,

²⁹ U.S. Department of State telegram, "Belize's CY 2001 Investment Climate Statement," message reference no. 00781, prepared by U.S. Embassy, Belize, July 11, 2001. This cable reported that there was no new or expanded investment in 2000 in the three following beneficiary countries: Antigua and Barbuda, St. Lucia, and St. Vincent and the Grenadines.

³⁰ U.S. Department of State telegram, "USITC Annual CBI Survey: Belize," message reference no. 00678, prepared by U.S. Embassy, Belize, June 15, 2001 and USITC, *Caribbean Basin Economic Recovery Act: The Impact on the United States*, USITC publication no. 3132, Sept. 1998, p. 30.

³¹ U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey," message reference no. 001625, prepared by U.S. Embassy, San Jose, June 15, 2001.

diversifying from its core banana business into pineapples and, most recently, prepared salads for the Central American market. Chiquita has partially withdrawn and now concentrates on exporting fruit. In recent years, investment has turned toward manufacturing. Intel invested approximately \$200 million in 1997 and employs approximately 2,000 professionals and technicians. The value of Intel's shipments in 1999 was over \$2 billion. Abbott Laboratories registered as a free trade zone investment in 1998 and built a large manufacturing facility for health care products. Consolidation continues in the textile and apparel sector which has experienced little new or expansion investment and some plant closures in recent years. Several lingerie plants closed in 1997. There are indications that some new companies producing up-scale apparel in short production runs are now considering moving to Costa Rica.³²

CBERA had a negligible impact on U.S. investment flows in Costa Rica in 2000. CBTPA initially raised some interest in new investment in the textiles sector, but market conditions in the United States led to factory closings instead.³³ Overall enthusiasm for CBTPA was mitigated by the relatively high cost of Costa Rican labor compared to other CBERA beneficiaries. Costa Rica is focusing on high-end apparel with short production runs where its relatively well-educated workforce can be more competitive. Continued uncertainty over the implementation of CBPTA regulations, and economic slowdown in the United States, led companies that had been deferring decisions to close down. However, there is possible interest from U.S. textile mills in partnering with Costa Rican assemblers.³⁴

Dominican Republic

The Dominican Republic has modified its FDI policies substantially in recent years to align them with its national development objectives, which included encouraging investments in more sophisticated manufacturing. As a result, it has received increasing flows of FDI. In the last few years, FDI has been largely concentrated in tourism, free trade zone activity, electricity generation and communications. The decision to capitalize ailing state enterprises (electricity, airport management, sugar) attracted substantial foreign capital to these sectors.³⁵

Since the 1980's, the Dominican Republic's policies on export processing zones (EPZs) have attracted assembly industries, allowing various apparel products to become competitive in the U.S. market. However, in the 1990's, the Dominican Republic's competitiveness in the apparel industries began to wane.³⁶

³² U.S. Department of State telegram, "2000 Investment Climate Statement for Costa Rica," message reference no. 01706, prepared by U.S. Embassy, San Jose, July 7, 2000.

³³ U.S. Department of State telegram, "USITC Caribbean Basin Investment Survey," message reference no. 01625, prepared by U.S. Embassy, San Jose, June 15, 2001.

³⁴ Ibid.

³⁵ U.S. Department of State telegram, "Investment Climate Statement: Dominican Republic," message reference no. 03009, prepared by U.S. Embassy, Santo Domingo, July 17, 2001.

³⁶ United Nations, Economic Commission for Latin America and the Caribbean, Foreign Investment in Latin America and the Caribbean, 2000, found at Internet address <http://www.eclac.org/cgi-bin/getPR>, retrieved May 8, 2001.

The Dominican Republic's free trade zones (FTZs) are managed by the Free Trade Zone Council. The free trade zones offer 100 percent exemption on all taxes, duties, charges, and fees affecting production and export activities in the zones. As of 2000, there were 46 free trade zones with 481 companies operating in them. Employment in the FTZs totaled 196,924 in 2000 (see tables 3-7, 3-8, and 3-9). Total exports from the FTZs were estimated at \$4.7 billion and revenues totaled \$1.0 billion. There were 275 companies or 57 percent of total firms producing textiles in the FTZs in 2000. Services accounted for 12 percent of the firms and electronics for 3 percent of the firms operating in the FTZs.³⁷ During the period January through May 2001, there were 40 investments in the FTZs totaling \$28.4 million. Of these investments, 28 percent were in textiles.³⁸ Within the FTZs the largest investors were the United States (47 percent, 228

Table 3-7
Dominican Republic: Free trade zones, 1998-2000

Year	Number of Zones	Firms	Employees	Revenues
				(Million dollars)
1998	43	496	195,193	826.50
1999	44	484	189,458	887.30
2000	46	481	196,924	1,018.60

Source: Consejo Nacional de Zonas Francas de Exportacion, "Informe Estadistico del Sector Zonas Francas, 2000", obtained by USITC staff in Santo Domingo, June 2001.

Table 3-8
Dominican Republic: Activities of firms in the free trade zones, 1999-2000

Activity	1999		2000	
	Number of firms	Percent	Number of Firms	Percent
Textiles	277	57	275	57
Services	33	7	59	12
Electronics	27	6	16	3
Tobacco	26	5	27	6
Footwear	21	4	18	4
Jewelry	16	3	14	3
Medical products	12	2	13	3
Metal products	5	1	8	2
Plastics	6	1	7	1
All other	61	12	44	9
Total	484	100	481	100

Source: Consejo Nacional de Zonas Francas de Exportacion, "Informe Estadistico del Sector Zonas Francas, 2000", obtained by USITC staff in Santo Domingo, June 2001.

³⁷ "Informe Estadistico del Sector Zonas Francas, 2000", Consejo Nacional de Zonas Francas de Exportacion, obtained by USITC staff from the Free Trade Zone Council, Santo Domingo, June 2001.

³⁸ "Consejo Nacional de Zonas Francas de Exportacion," obtained by USITC staff from the Free Trade Zone Council, Santo Domingo, June 8, 2001.

Table 3-9
Dominican Republic: Investment in the free trade zones, by activities, 2000

Activity	Investment	Percent
Textiles	\$554,865,006	45.3
Tobacco	169,193,373	13.8
Electronics	124,372,414	10.1
Medical products	95,986,251	7.8
Footwear	77,340,523	6.3
Services	63,800,784	5.2
Jewelry	32,421,908	2.6
Other	104,392,381	8.5
Total	\$1,222,372,641	100

Source: Consejo Nacional de Zonas Francas de Exportacion, "Informe Estadistico del Sector Zonas Francas, 2000", obtained by USITC staff in Santo Domingo, June 2001.

firms), Dominican Republic (34 percent, 166 firms), Korea (6 percent, 27 firms), Panama (2 percent, 11 firms), Puerto Rico (2 percent, 8 firms) and Taiwan (2 percent, 7 firms).³⁹ The Dominican Republic is also promoting joint ventures with Haiti. According to the American Chamber of Commerce, recent investments have been in fast food franchises, organic vegetables, and new airlines (US Airways and Continental).⁴⁰

Santiago has a very large group of industrial parks. One new park is being promoted with the aim of following Costa Rica's lead in attracting investments in high tech industry.⁴¹ Export possibilities include leather products (furniture, car seats), transformers, jewelry, and packaging. Exports in apparel, coffee, cacao, and fresh vegetables will still be encouraged.⁴² Most agriculture and light manufacturing is located outside export processing zones and is funded by local investment.

The expansion of apparel processing operations afforded by CBTPA has prompted a shift toward "full package" assembly in the country. As a result, design, dyeing, cutting, and processing (such as stone washing of jeans), are now possible in beneficiary countries. Euphoria at enactment of CBTPA caused increased investment for the new processing facilities. However, the downturn in economic activity in the United States has reportedly impacted employment in the Dominican apparel sector, where up to 40 percent of the labor force has been laid off.⁴³

Recent foreign investments in the Dominican Republic include: Taiwan and Korea in the apparel sector; Puerto Rico in truck beds, educational materials, processing sand for building materials; United States in luxury hotels; and Venezuela in oil. Other

³⁹ Ibid.

⁴⁰ Ibid.

⁴¹ United Nations, Economic Commission for Latin America and the Caribbean, Foreign Investment in Latin America and the Caribbean, 2000, found at Internet address <http://www.eclac.org/cgi-bin/getPR>, retrieved May 8, 2001.

⁴² U.S. Department of State telegram, "Investment Climate Statement - Jamaica 2001," message reference no. 01878, prepared by U.S. Embassy, Kingston, July 18, 2001.

⁴³ Ibid.

investments are taking place in organic agricultural products, fibre optics, car parts, luggage, mining parks (non-metallic minerals), generic medicines, and processed foods.⁴⁴

In general, FDI flows to the Dominican Republic came from Canada, United States, Spain, Grand Cayman, United Kingdom, Switzerland, and Italy. Some examples of the largest registered foreign businesses are Compania Dominicana de Telefonos (CODETEL, owned by GTE of Canada); Central Romana Corporation (United States); E. Leon Jimenes (a local partner of Phillip Morris of the United States); Falconbridge Dominicana (Canada); Shell Company (Holland/England); Citibank (United States); Esso Standard Oil (United States); Texaco Caribbean (United States); Colgate Palmolive (United States); Bank of Nova Scotia (Canada); AES (United States); Enron (United States); Coastal (a subsidiary of El Paso Energy United States); Seaboard (United States); Tricom (United States); Union Fenosa (Spain); Iberostar (Spain); and Barcelo (Spain).⁴⁵

Dominican agriculture has traditionally been dominated by sugar. It is the second-biggest sugar producer in the Caribbean after Cuba. Sugar is not affected by the recent CBTPA legislation. The main reason for the recent decline in the industry is perceived to be that the sugar mills were state-owned. Some 13 state-owned mills were privatized during the 1990s, which led to rationalization of the sector. Since the beginning of 2001, the current administration of the Dominican Republic plans to focus investments in the agricultural sector on the production of fruits, coffee, cocoa, tobacco, and the development of livestock.⁴⁶

Footwear in general did not benefit from CBERA, but Dominican Republic footwear did take advantage of production-sharing. When CBERA was extended in 1990 (section 222), it provided for duty-free entry of completed footwear made entirely from U.S. components. The Dominican industry benefited from this enhancement. The industry benefited further with CBTPA, as the U.S. content requirement was liberalized and the duty lowered on shoes from the CBERA region. Timberland and Bass are major U.S. companies who source production in the Dominican Republic. The U.S. downturn has not widely affected the sector.⁴⁷

El Salvador

The Salvadoran government has taken numerous steps in the past decade to restructure and privatize its economy, opening it to trade and investment. The country now has the most open economy in the region with few sectors under government control.⁴⁸

⁴⁴ Office of Investment Promotion (OPI) representative, USITC staff interview, Santo Domingo, June 8, 2001.

⁴⁵ U.S. Department of State telegram, message reference no. 02602, prepared by U.S. Embassy, Santo Domingo, June 30, 2000.

⁴⁶ Canute James, "Dominican Republic to Reap Harvest of Farm Investment," found at [wysiwyg://22http://globalarchive.ft.com](http://globalarchive.ft.com). .les.html, retrieved May 31, 2001.

⁴⁷ Representative of a footwear manufacturer, USITC staff interview, Santiago, June 6, 2001.

⁴⁸ U.S. Department of State telegram, "El Salvador: 2001 Investment Climate Statement," message reference no. 02189, prepared by U.S. Embassy, San Salvador, July 9, 2001.

There are seven free zones in the country and private sector developers have scheduled three more for opening during the next two years. The government is also developing a network of small free zones which will create new opportunities for free zone investors. The major investors in El Salvador are the United States, Venezuela, France, Chile, and Spain.⁴⁹

Ten garment companies reported investment activity during 2000; five of these indicated that the expenditure represented expansion, rather than new or start-up investment. Three of these garment maquilas cited CBI as a reason for making additional investments in El Salvador in 2000. The three companies had \$9.9 million in exports to the United States in 2000. These companies reported \$1.3 million in CBI-related direct investment and \$70 million in indirect investment in 2000. It is estimated that 90 percent of CBI investment comes from the United States, either directly or through joint ventures with foreign companies. The other 10 percent comes from Asian companies.⁵⁰

Implementation of CBI in El Salvador has been complicated by the government's attempt to institute a country-quota allocation system of CBTPA benefits. El Salvador wanted its Central American neighbors to sign onto the plan, but it never went into effect. El Salvador is currently concerned about pending U.S. legislative proposals to expand CBTPA benefits to Andean countries. Nonetheless, CBTPA has proved very beneficial to El Salvador.⁵¹

Privatization is playing an important role in attracting foreign investment in El Salvador. The process was launched in 1990 with the privatization of most of the banking system. The sale of four state-owned electricity distributors in January 1998 yielded \$586 million. Investors from the United States, Chile, and Venezuela bought controlling shares of the distributors. During the second round of privatization in July 1999, the state-owned energy company sold three thermal generation plants to a U.S. investor for \$125 million. The state telecommunications company was sold to strategic foreign partners in public auctions in July 1998. France Telecom purchased 51 percent of CTE, the wireline telephone firm valued at \$275 million, and Telefoncia from Spain paid \$41 million for 51 percent of the wireless firm's shares.⁵²

Guatemala

Foreign direct investment in Guatemala was heavily influenced by the development of FTZs during the 1990's. The Guatemalan government has privatized a number of state-owned assets in such industries as power generation and distribution, telephone services and grain storage. There are currently twelve authorized free trade zones in

⁴⁹ Ibid.

⁵⁰ U.S. Department of State telegram, "Annual USITC CBI Survey - El Salvador," message reference no. 01838, prepared by U.S. Embassy, San Salvador, June 11, 2001.

⁵¹ Ibid.

⁵² U.S. Department of State telegram, "2000 Investment Climate Statement for El Salvador," message reference no. 02179, prepared by U.S. Embassy, San Salvador, June 30, 2000.

the country. Textile assembly operations are the common beneficiaries of Guatemala's free trade zones. As a result of CBI enhancement in October 2000, the prospects for continued growth in the textile sector are favorable.⁵³ As of 2000, there were 80 companies with investments in the FTZs totaling \$102 million (table 3-10). The sector receiving the largest investments was clothing. There were 41 investments in apparel totaling \$44.3 million. There were 11 firms in industrial products, 13 in farm products, 4 in thread and textile manufacturing, 3 in textiles, 4 in chemicals, 2 in mineral extraction, and 2 in construction.⁵⁴

Table 3-10
Guatemala: Summary of registered businesses, by number of firms, employment, and value of investment, 2000

Economic activity	Number of Firms	Employment	Investment (Million dollars)
Clothing factory	41	12,585	43.0
Industrial products	11	2,430	14.1
Farm products	13	2,233	25.8
Thread & textile manufacture	4	1,917	5.5
Textiles	3	1,488	6.0
Chemicals	4	385	1.3
Mineral extraction	2	308	2.6
Construction	2	102	4.3
Total	80	21,448	102.6

Source: Information provided by Ministry of Economy, Office of Commercial and Investment Services, Guatemala, "Summary of Registered Businesses in 2000", to USITC staff, June 15, 2001.

Representatives of the Ministry of Economy (Trade and Investment section) maintained that the major force behind new investment in Guatemala has been the U.S. production-sharing program rather than CBI. (Fruits and flowers may be two exceptions which did benefit from CBI.) Guatemala did lose investment when NAFTA went into effect and that investment has not yet returned. However, the CBTPA has brought new investment. It was noted that 41 new companies had opened apparel operations in Guatemala since CBTPA, amounting to about 12,500 new jobs in total. About 80 percent of the output goes to the United States, and the rest to the EU. Now that tuna is included in the CBTPA, a Spanish company has invested \$1 million in this industry.

Requirements needed to obtain free trade zone benefits are not as easy to meet in Guatemala as in other countries in the region. However, Guatemala does have free trade zones with tax incentives similar to the Dominican Republic. Six new zones were established in 2000 (about a \$4 million investment). The number of free trade zones include many garment firms. There are also 4 industrial parks (one of which is entirely textiles). In addition, there are many commercial zones whose exports are sold regionally. Guatemala, like the Dominican Republic, fears that its WTO commitment

⁵³ Ibid.

⁵⁴ Statistics provided to USITC staff by the Guatemalan Ministry of the Economy, Office of Commercial and Investment Services, June 2001.

will imply no more tax incentives for companies arriving after 2002. Since lower income competitors like Honduras and Nicaragua can retain their tax incentives, Guatemala fears it will lose investment to these countries. Like the Dominican Republic, Guatemala hopes to get an extension on its ability to offer free zone tax incentives.⁵⁵

A private sector association for trade and investment emphasized that CBTPA goes a long way toward reaching NAFTA parity. This is critical for maintaining investment. Both this organization and the American Chamber of Commerce noted that the lack of more rapid investment into Guatemala is most likely due to political instability in the country.⁵⁶ There have been major efforts to promote a more positive image for Guatemala. Although there has been great success in export diversification in agriculture, very little has occurred in manufacturing. A number of observers noted the possibility of developing eco-tourism, and efforts to attract info-business.⁵⁷

A general consensus exists that Guatemala's traditional export crops (coffee, bananas, sugar), though still the largest in terms of export volume, are no longer the primary export sectors in terms of earnings. Prices in the traditional products are low and growth is flat. However, there has been rapid growth in the agricultural sector in non-traditional exports. This export diversification is attributed to the CBERA. Many small farmers were initially growing corn and beans at subsistence levels. Given the CBI preferences, there has been a transformation toward new crops like broccoli and snow peas. There are about 100,000 farmers who depend upon these crops. Over the years, they have seen a significant benefit to the families of small growers, and a boost to local employment. There are probably in total about 150,000 farmers that benefit from the CBI program overall.⁵⁸

Impact studies done by the private sector association for non-traditional exports show that this diversification has had a significant effect on small farmers' incomes. Their studies estimate that farmers' incomes are 5 times what they were originally, as a result of export diversification. They have also seen a significant drop in infant mortality and malnutrition.⁵⁹

Many of these agricultural products did not face large tariff barriers at the inception of CBI, so the actual preference margin was probably not significant. However, it was an incentive to diversify into new crops. It also put Guatemala "on the map" for U.S. marketers and consumers. Currently, a major effort is being mounted to identify and test cultivate a number of new crops for development as export earners in Guatemala. The goal is to arrive at a list of 10 crops with new potential for export from Guatemala. The list includes blueberries and radicchio.⁶⁰

⁵⁵ Official of the Guatemalan Ministry of the Economy, USITC staff interview, Guatemala City, June 18, 2001.

⁵⁶ Representatives of Fundesa and the American Chamber of Commerce of Guatemala, USITC staff interviews, Guatemala City, June 18, 2001.

⁵⁷ Official of the Guatemalan Ministry of the Economy and a representative of the American Chamber of Commerce of Guatemala, USITC staff interviews, Guatemala City, June 19, 2001.

⁵⁸ Representatives of Asociacion Gremial de Exportadores de Productos No Tradicionales (AGEXPRONT), USITC staff interview, Guatemala City, June 15, 2001.

⁵⁹ Ibid.

⁶⁰ Representatives of Asociacion Gremial de Exportadores de Productos No Tradicionales (AGEXPRONT), USITC staff interview, Guatemala City, June 15, 2001.

This export diversification began around 1986 and led to very high growth rates in agriculture throughout the period until 2000—approximately 14 percent average annual growth. This has encouraged imports of transport services, seeds, and agrochemicals from the United States. It is estimated that for every \$1.00 of exports to the United States about \$0.70 worth is imported from the United States. About 80 percent of Guatemala's exports crops go to the United States, and the rest to the EU. In the U.S. market, Guatemala's major competitor is Mexico, while in the EU market its major competitor is Africa.

Guyana

CBI-related investment is in the initial stages in Guyana with only one local company taking advantage of the program. However, the company, Denmor Garment Manufacturers, Inc., has expanded its apparel assembly operations during 2000. Currently, the firm employs 1000 workers. The amount of CBI investment in 2000 was \$325,000. The estimated value of CBI apparel exports to the United States was \$10.8 million. Aside from Denmor garments, Guyana's sugar cane and rum/spirit industries receive duty-free treatment through the original CBERA. No U.S. company has invested in CBERA-related industries in Guyana.⁶¹

Honduras

There are currently 36 industrial parks operating in Honduras and the number is expected to increase. Over 80 percent of the parks are located in the north coast region, near the nation's major port and transportation facilities. Ninety percent of the companies operating in the parks are involved in apparel assembly. Textiles and apparel production continues to be a growing industry in Honduras. Honduras ranks second in the world in apparel export production, first among CBI countries, and first in Central America.

Investment in the maquiladora industry is expected to increase due to the passage of the CBTPA-enhanced trade benefits to CBI countries. Cumulative investment in the maquiladora industry, including both CBERA and non-CBERA investments, in Honduras in 2000 amounted to \$1.2 billion, with almost \$650 million in foreign investments.⁶² U.S. companies accounted for 42 percent of total investment while Hondurans account for 30 percent, Koreans 14 percent, and Taiwan 2 percent. New investment in the sector in 2000 totaled \$81.4 million. In 2000, exports increased to \$2.4 billion compared with \$2.2 billion in 1999. The reason for the decline has been attributed to an oversupply in the world apparel industry that has lowered the dollar amount of contents. During January to July 2001, there have been 19 maquila

⁶¹ U.S. Department of State telegram, "Caribbean Basin Investment Survey - Guyana," message reference no. 000593, prepared by U.S. Embassy, Georgetown, June 18, 2001.

⁶² U.S. Department of State telegram, "Investment Climate Statement for Honduras," message reference no. 02309, prepared by U.S. Embassy, Tegucigalpa, July 26, 2001.

shutdowns. The trend is expected to continue for the rest of 2001. There were 6,000 new jobs created in 2000, bringing the total number of workers to 126,000. However, there were 4,000 net job losses in the first seven months of 2001 due to the slowdown in the U.S. economy.⁶³

CBI and CBTPA have been welcomed by the government of Honduras and the maquila industry. CBTPA is expected to increase business opportunities for the sector. Some maquilas have instituted "full package" regimes where they weave their own cloth, cut and sew the fabric and then add value through printing embroidering. It is believed that NAFTA gives Mexico a comparative advantage over Honduras because of a quota allowing Mexican apparel assembly plants to use cheaper non-U.S. origin yarn and fabric. The sector's growth over the last decade has been fueled by a strong U.S. economy. Growth in the industry has weakened as the U.S. economy has slowed. The weakened growth has been characterized by decreasing purchase orders and lower revenues. Rising labor costs and shift severance requirements have increased exporting expenses.

The U.S. firm Texaco Caribbean, Inc. has recently invested \$10.13 million in a modern oil off-loading pier and dredging project in Honduras' main port. The port was inaugurated on August 15, 2000. The project will contribute to the re-establishment of the port after it was partially damaged by Hurricane Mitch in 1998. The port, which previously could receive only small cargo vessels of 30 metric tons, will now be able to receive vessels of up to 80 metric tons.⁶⁴

The Central American Bank for Economic Integration loaned a total of \$141.7 million to Honduras during 1999 to encourage investment and support the efforts of the national reconstruction program. The loans were allocated as follows: \$1.4 million to environmental/social sector projects, \$69.9 million to infrastructure, and \$70.4 million to the productive sector.⁶⁵

Haiti

Statistics on direct foreign investment by country of origin and sector are not available for Haiti. Major U.S. investors in Haiti are: American Airlines, American Rice, Inc., Citibank, Compagnie de Tabac Comme Il Faut (Lockett Inc.), Esso (Exxon), Texaco, Seaboard, Continental Grain, and Western Wireless. Other foreign investors are Elf, Scotiabank, Shell, and Royal Caribbean.

In 1998, U.S. companies Seaboard and Continental Grain purchased the state-owned flourmill with other investors. In 1999, a consortium of Colombian and Swiss investors purchased a majority stake in the privatized cement factory. Since then, privatization

⁶³ U.S. Department of States telegram, "Honduran Apparel Closings Highlight USITC Survey," message reference no. 002432, prepared by U.S. Embassy, Tegucigalpa, Aug. 3, 2001.

⁶⁴ U.S. Department of States telegram, "Honduran Economic Highlights - August," message reference no. 03364, prepared by U.S. Embassy, Tegucigalpa, Oct. 4, 2000.

⁶⁵ Ibid.

has come to a standstill. None of the major infrastructure-related enterprises in Haiti (the airport, seaport, telephone company, and electric company) had been privatized as of May 2000.⁶⁶ A modernization commission was established to choose the mode of privatization among management contract, concession, or capitalization for each of the state companies to be privatized. Selection of any private sector investor is to be made through international competitive bidding. There has been no significant opposition to foreign investment in Haiti. U.S. firms have sometimes cited corruption as an obstacle to direct investment.⁶⁷ Smuggling has become a major problem with contraband accounting for a large percentage of the market for manufactured consumables.⁶⁸

Jamaica

In the 1990's FDI flows to Jamaica were directed at relatively simple manufacturing activities in export processing zones. In recent years, these investments have been supplemented by heavy investments in the services sector, particularly tourism and telecommunications. Investments in cellular telephone technology were particularly significant in this respect in 2000.⁶⁹

For the year 2000, direct investments were \$101.9 million. Of that amount, 52 percent were in tourism; 29 percent in minerals and chemicals; 12 percent in agriculture/manufacturing; and 7 percent in information technology.

Employment in the service sector accounted for 62 percent of total employment during 2000. The agricultural sector employs approximately 21 percent of the labor force and of the total agricultural sector, a fifth are involved in the sugar industry. The high cost of production and global competition are serious concerns to the viability of that industry. The bauxite industry accounts for most mining activity in Jamaica. However, the competitiveness of that industry has been eroded by other countries whose industries are more modern and have greater economies of scale.⁷⁰

The garment assembly/export industry once provided employment for thousands of workers in Jamaica - usually single, unskilled female heads of household. This industry has declined drastically due to the closure of firms and the sector employs one-half the number of workers that it did in 1994.⁷¹

Nicaragua

Overall new investment in 1999 was an estimated \$727 million. In 2000, exports from CBI businesses increased almost 50 percent to \$300 million. In one large investment,

⁶⁶ U.S. Department of State telegram, "Haiti: 2000 Investment Climate Statement," message reference no. 01666, prepared by U.S. Embassy, Port au Prince, June 9, 2000.

⁶⁷ Ibid.

⁶⁸ Ibid.

⁶⁹ United Nations, Economic Commission for Latin America and the Caribbean, Foreign Investment in Latin America and the Caribbean, 2000, found at Internet address <http://www.eclac.org/cgi-bin/getPR>, retrieved May 8, 2001.

⁷⁰ U.S. Department of State telegram, "Investment Climate Statement - Jamaica 2001," message reference no. 01878, prepared by U.S. Embassy, Kingston, July 18, 2001.

⁷¹ Ibid.

U.S., British, and Guatemalan firms invested \$73 million in a power plant at Corinto. Private investment flows are going primarily into construction, services, industry, mining, energy, tourism, and aquaculture.

The overall CBI-related investment in Nicaragua is minimal due to the dominant position of Taiwan, Korean, and Hong Kong-owned firms and their exclusive use of Asian-produced materials. It is estimated that virtually all CBI-related investment comes from the United States. CBTPA, while viewed favorably by officials, provided some benefits to Nicaragua, but its impact continued to be limited due to extensive use of reportedly subsidized Asian inputs by Taiwanese and Korean clothing manufacturers.⁷²

Most manufactured exports originate from a single FTZ operating in 9 separate areas. There are 43 companies operating in that FTZ. The majority of businesses (34) engage in clothing production; other products include: cigars, footwear, ornaments, wigs, and electronic components. Thirteen of the companies are U.S.-owned. In 2000, the number of workers employed in the FTZ totaled 40,758.

Trinidad and Tobago

Trinidad's ability to attract foreign investment is linked to exploitation of the country's abundant hydrocarbon resources. Within this sector, the largest recent investments have been directed at natural gas, the production of which increased five-fold in the 1990s.⁷³

Economic reform and trade and investment liberalization have led to substantial foreign investment inflows. Direct investment increased from \$372.6 million in 1993 to \$643.3 million in 1999 (table 3-11). The United States was the largest foreign investor, investing \$274.6 million in 1999, followed by the United Kingdom, Canada, Germany, Japan, and India. Sectors receiving the largest amount of FDI included petroleum industries (\$467.7 million); food, drink, and tobacco (\$3.8 million); chemicals and non-metallic minerals (\$2.9 million); assembly type and related industries (\$0.1 million); distribution (\$-0.5 million); and all other sectors (\$169.3 million).⁷⁴

In 1999, 32 percent of U.S. investment was in petrochemicals and 50 percent in oil and gas. U.S. oil companies active in Trinidad and Tobago include BP Amoco, Texaco, EOG Resources, Exxon, and Arco. Many non-American oil companies are also investing in hydrocarbon exploration including ELF (France), AGIP (Italy), REPSOL (Spain), Deminex, Talisman (Canada), BHP (Australia), and British Gas. Much foreign investment has taken place in industrial parks. During the 1990s, the Trinidad and

⁷²U.S. Department of State telegram, "Annual USITC CBI Survey - Nicaragua," message reference no. 01976, prepared by U.S. Embassy, Managua, June 19, 2001.

⁷³A new methanol plant came on stream in 2000, and another is scheduled for readiness in 2003. Representative of a Trinidadian methanol producer, USITC staff interview, Point Lisas, June 12, 2001.

⁷⁴Republic of Trinidad and Tobago, Central Statistical Office, "The Balance of Payments of Trinidad and Tobago, 1999," p. 28.

Table 3-11
Trinidad and Tobago: Direct investment capital in private sector enterprises,
by sectors, 1993-2000

(Million dollars)

Sector	1993	1994	1995	1996	1997	1998	1999	2000
Petroleum industries . .	348.9	275.1	266.0	334.7	954.2	599.7	467.7	(¹)
Mining, exploration and production, refineries, petrochemicals	348.7	290.0	253.6	320.6	947.6	585.3	449.0	(¹)
Service contractors, marketing and distribution	0.2	-14.9	12.4	14.1	6.6	14.4	18.7	(¹)
Food, drink and tobacco	1.9	5.7	3.2	4.3	8.4	9.1	3.8	(¹)
Chemicals and non- metallic minerals . . .	0.1	128.7	1.7	2.3	2.3	2.2	2.9	(¹)
Assembly type and related industries . . .	-0.4	-1.9	-0.4	0.7	-0.1	-0.1	0.1	(¹)
Distribution	4.2	1.0	6.2	4.4	3.1	2.0	-0.5	(¹)
All other sectors	17.9	112.4	19.0	9.9	31.7	119.0	169.3	(¹)
Total	372.6	521.0	295.7	356.3	999.6	731.9	643.3	386.2

¹ Industry-specific data not available for 2000.

Source: Central Statistical Office and Central Bank of Trinidad and Tobago, "The Balance of Payments of Trinidad and Tobago, 1999."

Tobago government began privatizing much of the energy sector, and these plants were bought by foreign companies (many European and some U.S.). Many of these industrial parks predate CBERA. Almost all output is from the energy sector, and most of it is exported. Efforts are being made to attract service industries to these parks. There are efforts to attract new industry—e.g. a desalination plant is being set up. There is also foreign investor interest in such non-oil sectors of the economy as information technology, wood and wood products, and the entertainment industry. Many in Trinidad and Tobago felt that the country's trade reforms during the 1990s really made business more competitive since they changed the previously prevailing import-substitution perspective to an outward-oriented one. Some Trinidad and Tobago firms have begun operations in other CARICOM countries—in banking, cement, and food manufacturing.

The methanol industry was in existence long before CBERA. The driving force behind its development was access to natural gas and the decline in oil prices in the mid 1980s. Although methanol is the largest of Trinidad and Tobago's exports to the United States under CBERA, the Act itself had a negligible impact on the methanol industry's growth.⁷⁵ However, to the extent that CBERA benefits the rest of the region, Trinidad

⁷⁵ A recent survey conducted by the American Chamber of Commerce in Trinidad revealed that there is not a clear understanding of the possibilities afforded by the CBERA preference program. Passage of the CBTPA offered many businesses in Trinidad the first opportunity to become aware of the existence of CBERA and to explore the enhanced preferences available under the amended act. Representative of the American Chamber of Commerce, USITC staff interview, Port of Spain, June 13, 2001.

and Tobago methanol producers also benefit from its provisions. Since Trinidad and Tobago is the largest supplier to the Caribbean region, growth elsewhere in the region benefits the Trinidadian economy. One large manufacturer, Titan, sells 50 percent of its exports to the United States, and the rest to Europe. Its main competitors are from Chile and Venezuela. Titan plans to triple its production capacity by 2003. This manufacturer believes that CBTPA will now have an impact on the energy sector since petroleum products are included for the first time and are given NAFTA-equivalent treatment.⁷⁶

There are two apparel producers on the island of Trinidad. Operations have been affected by the CBTPA, as new equipment upgrades have been introduced to take advantage of the enhanced processing possibilities afforded by the law.⁷⁷ While the CBTPA will enhance existing apparel operations in Trinidad, it is not anticipated that it will result in the opening of many new textile/apparel plants.⁷⁸

Some parties contend that CBERA has had little impact on Trinidad and Tobago, largely because it excluded petroleum-related products and apparel. However, according to observers in Trinidad, CBTPA will be helpful because it now includes the previously excluded products. In addition, since Trinidad and Tobago is a large supplier in the Caribbean region, CBERA benefits to other countries may spill over as benefits to Trinidad and Tobago. For Trinidad and Tobago, exports to the CARICOM region are fueling the growth of non-energy-related light manufacturing. Some examples are canned foods, cereals, pasta, beer, electric bulbs, and furniture.⁷⁹ Future possible products in the manufacturing sector include: bottled water, PVC piping, electrical parts and fittings, paper products, and soft drinks.⁸⁰ Also, the recent free trade agreements between CARICOM and the Dominican Republic, and between CARICOM and Cuba, have boosted Trinidad and Tobago exports.⁸¹

One CBI-related expansion was imported in 2000. It was by Halliburton Trinidad and the investment amount was \$1.5 million.⁸²

Export diversification

Large stocks of petroleum and natural gas have been the main source of comparative advantage in Trinidad and Tobago for many years. Exports were almost exclusively petroleum and petroleum-related during the 1970s and 1980s. The collapse of oil prices in the mid-1980s pushed diversification into natural gas, methanol, urea, and

⁷⁶ Representative of Titan Methanol Company, USITC staff interview, Point Lisas, June 12, 2001.

⁷⁷ Representative of a shirt producer, USITC staff interview, Port of Spain, June 11, 2001.

⁷⁸ Representative of a Trinidadian manufacturers' association, USITC staff interview, Port of Spain, June 11, 2001.

⁷⁹ Representative of an official investment promotion agency, USITC staff interview, Port of Spain, June 11, 2001.

⁸⁰ Ibid.

⁸¹ Representatives of the Trinidad and Tobago Manufacturers' Association, USITC staff interview, Port of Spain, June 11, 2001.

⁸² Message from U.S. Embassy, Port of Spain, Trinidad, to USITC, Office of Economics, June 1, 2001.

ammonia. However, these exports are still concentrated around the energy sector. As noted above, the growth of regional trade is beginning to fuel growth in light manufacturing. A decline in petrochemicals is not anticipated in Trinidad. Indeed, with further expansion of methanol production, movement into more sophisticated products, like ethylene and plastics, is possible.⁸³ Such expansion would depend on the quality and cost of natural gas, as well as economies of scale.

There have always been tax incentives from the government for FDI in the energy sector, e.g., tax exemptions for 5 years (both on income and imported inputs). Some of the other major incentives for investment in this sector have been Trinidad and Tobago's own trade reforms (e.g., privatization), and its highly skilled work force. While the economy of Trinidad and Tobago is energy driven, only 30 percent of GDP is accounted for by the energy sector. The future of the island economy is believed to be in the service sector.⁸⁴

CBERA-Related Investment in 2000

Information was received from eight embassies representing 11 CBERA beneficiaries.⁸⁵ The information obtained from U.S. diplomatic posts in CBERA countries and published sources identify 69 investment projects in CBERA-related goods in the year 2000. In addition, in Costa Rica, two CBERA-related firms closed in 2000 and 7 firms closed in 2001; in Honduras 19 maquilas shut down between January and July 2001. Table 3-12 identifies how many projects were undertaken in each country, with a break-out for the garment/apparel sector. The bulk of investments in 2000 in CBERA countries were in the garment sector.⁸⁶

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. Due to CBERA tariff preferences, such investment in new production facilities or the expansion of existing facilities could rise. But, thanks to multilateral tariff reductions in recent years, the margin of preference afforded by CBERA continues to shrink.

⁸³ Representatives of the Trinidad and Tobago Manufacturers' Association, USITC staff interview, Port of Spain, June 11, 2001.

⁸⁴ Official of the U.S. Embassy, USITC staff interview, Port of Spain, June 13 2001.

⁸⁵ Beneficiary countries were Barbados, Antigua, St. Kitts, St. Lucia, St. Vincent and the Grenadines, Belize, Nicaragua, Costa Rica, El Salvador, Honduras, and Guyana.

⁸⁶ The value totals for investment are skewed by the inclusion of a major investment in Trinidad—a \$250 million expenditure on methanol production facilities. Central Bank of Trinidad and Tobago, USITC staff interview, Port of Spain, June 1, 2001.

Table 3-12
Reported CBERA-related investments, 2000

Country	Number of projects in manufacturing ¹	Value of investment in manufacturing	Number of projects in garments	Value of investment in garments
		<i>(Million dollars)</i>		<i>(Million dollars)</i>
Barbados	2	1.09	-	-
St. Kitts	1	0.25	-	-
El Salvador ²	-	-	3	-
Guyana	-	-	1	0.33
Honduras ²	-	-	19	81.40
Trinidad and Tobago ..	2	251.50	-	-
Guatemala	-	-	41	44.30
Nicaragua	-	-	(³)	56.00
Total	5	252.84	64	182.03

¹ Manufacturing, other than apparel.

² The cables received from El Salvador and Honduras reported exclusively on investments in the garment maquila sector.

³ Number of projects not reported.

Source: Cables from U.S. embassies in selected CBERA countries and field visits to Guatemala, and Trinidad and Tobago, June 2001.

The most recent FDI statistics show that investment in the region declined during 1998-99. 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 the Dominican Republic, Guatemala, and Trinidad and Tobago. U.S. embassies in the Caribbean and published sources provided additional information.

Seven U.S. embassies representing CBERA beneficiary countries responded to the Commission's 2001 request for information regarding new or expansion investments in CBERA-eligible products that could result in new or increased exports to the United States under CBERA. The majority of investments were in the garment sector.

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 2000 was small (1.8 percent). However, the impact of the introduction of new preferences granted under the CBTPA amendment may not be insignificant. These enhanced preferences became effective in October 2000. While the trade information that is available for the October-December 2000 quarter is not conclusive, it is indicative of the high degree of interest in the CBTPA preferences, particularly in the textile and apparel sectors.⁸⁷ Information obtained from USITC field work in the region in June 2001, together with preliminary trade data for 2001, indicate that the CBTPA enhanced preferences are very significant. As shown earlier,

⁸⁷ While eligible from October onward, imports under CBTPA were not entered until December 2000.

imports under the enhanced preferences are growing dramatically. Future trade flows in the CBERA program will increasingly find these preferences advantageous, and it is likely that future effects of the program will be concentrated in the textile and apparel sectors.

CHAPTER 4

Impact of CBERA on Beneficiary Countries

This chapter addresses the new element of the Commission's reporting requirement under the CBTPA, to evaluate the impact of CBERA on beneficiary countries' economies. The first section provides background on the expected impact of CBERA, reviews early studies of the short-run impact of CBERA, and reviews more recent empirical studies on the long-run effects of preferential trade liberalization. The second section examines major changes in the beneficiary countries' economies over the period 1970-98. Trends in income growth, investment, and exports are discussed, as well as data on traditional and non-traditional export shares, and other measures of export diversification. Comparisons of these data before and after the inception of CBERA are made, and evidence of significant changes is discussed. The extensive trade liberalization which the CBERA countries themselves have undertaken since inception of the act is also examined.

Because many types of trade liberalization have occurred since 1984,¹ and because other trade preference programs existed concurrently with CBERA (e.g. production-sharing and GALs²), it is not possible to discern the independent effect of CBERA from an examination of overall trends. The third section, therefore, presents the results of a formal econometric analysis, which tests statistically 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 these other influential policy reforms.

Results suggest that the CBERA program may have had an 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 appears unaffected by the CBERA program. Instead, results show that the production-sharing program, the beneficiary countries' unilateral and regional reforms, and U.S. trade reforms have had the strongest impact on growth and investment in the region. NAFTA appears 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. Given the importance of the production-sharing program, it is not expected that the October 2000 CBTPA revision has reportedly already had a significant effect on investment, employment, and earnings in the apparel industry in the CBERA countries.³

¹ E.g., the Uruguay Round, unilateral trade liberalization, regional integration agreements, and the establishment of free trade zones.

² See chapter 1.

³ See chapter 3.

Background

As noted in chapter one, the objective of CBERA was to encourage economic growth and development in the Caribbean Basin countries by promoting increased production and increased exports of non-traditional products. One would expect that removal of tariffs under CBERA would spur higher incomes in both the United States and the beneficiary countries, by encouraging a more efficient allocation of resources in both.⁴ These short-run effects would likely appear within the first few years of CBERA.

However, even in the early years of CBERA, academic studies argued that the impact of the program on beneficiary countries would be minimal. J. Pelzman and G. Schoepfle⁵ calculated the amount of net trade creation that the act was likely to generate in the Caribbean region. They concluded the impact would be small. E. Ray⁶ estimated the impact of several trade preference programs, including CBERA, on the pattern of U.S. imports. He found evidence that CBERA may have increased U.S. imports of processed agricultural products from the region, but the effect was small, and there was no evidence that U.S. imports of other goods were affected.

These authors, and others, offer several reasons why the impact of CBERA might be expected to be minimal: (1) most goods eligible for CBERA already entered duty-free under MFN or GSP; (2) goods in which these countries had a significant comparative advantage (e.g., textiles and petroleum) were excluded from CBERA; (3) goods which were eligible for CBERA had very low tariffs, so the margin of preference was small; and (4) some eligible goods were restrained by non-tariff measures (NTMs) (e.g., sugar), and these NTMs were left in place. The significance of this last point is strongly substantiated in a more recent study by D. Clark and S. Zarrilli.⁷

These limitations also likely imply that any long-run effects of CBERA would be fairly small, though to date no formal analyses have been conducted. A large literature argues that trade liberalization encourages more rapid growth, as well as higher levels of investment.⁸ Freer trade is expected to increase the total factor

⁴ For an explanation of the efficiency gains from tariff removal, see R. Jones, *World Trade and Payments*, NY: Harper Collins, 1996.

⁵ J. Pelzman and G. Schoepfle, "The Impact of the Economic Recovery Act on Caribbean Nation's Exports and Development," *Economic Development and Cultural Change*, 36(4) 753-791, 1988.

⁶ E. Ray, "The Impact of Special Interests on Preferential Tariff Concessions by the United States," *Review of Economics and Statistics*, 69 (2) 187-193, 1987.

⁷ D. Clark and S. Zarrilli, "Non-Tariff Measures and the U.S. Imports of CBERA-Eligible Products," *Journal of Development Studies*, 31(1) 214-224, 1994. The authors calculate coverage ratios to determine incidence of U.S. NTMs on goods which receive CBERA tariff preferences. Using the UNCTAD data base on trade control measures (1991 data), they find that at least 7 percent of tariff lines are covered by quantitative restrictions, and up to 16 percent of tariff lines are covered by UNCTAD's broader definition of NTMs for the region as a whole. Again using UNCTAD's broad definition, they find that each country in the region faces NTMs on at least one of its major export products, when exporting to the United States. Tariff-rate quotas, flexible import prices, and automatic licensing procedures are the most important of these NTMs.

⁸ A survey of both the theoretical and empirical literature may be found in USITC Publication 3069 (October 1997) *The Dynamic Effects of Trade Liberalization: an Empirical Analysis*.

productivity⁹ of an economy, because it improves access to new information, causes firms to improve efficiency to compete globally, and allows freer access to foreign investment which often embodies more efficient technologies. Adoption of newer technology is likely to imply new investment. In addition, more open trade is likely to lower the costs of capital equipment, while raising the return to investment in tradable goods.¹⁰ Levine and Renelt,¹¹ in an extensive examination of the results of this literature, noted there seems to be a consistently strong positive relationship between investment and the openness of an economy, and between investment and income growth. More recent work by Baldwin and Seghezza¹² finds evidence of this same indirect link. They examine whether or not trade openness explains differences in growth and investment rates across countries that are major manufactured goods exporters. Allowing for a simultaneous relationship¹³ between growth and investment, they find the lower the trade barriers at home and abroad, the higher the rate of investment; the higher the rate of investment, the higher is income growth.

There have been very few analyses of the dynamic effects of *preferential* trade liberalization.¹⁴ In one study, DeMelo, Montenegro, and Panagariya¹⁵ test whether or not membership in any of six different integration schemes¹⁶ helps explain differences in growth across 101 countries. In general, they find that membership in an integration scheme does not appear to explain these differences. An earlier study by Brada and Mendez¹⁷ also examines the impact of six integration schemes¹⁸ on investment and on

⁹ Total factor productivity growth is defined as that part of the growth rate of output in excess of growth attributed to increases in inputs, and is a widely used measure of the rate of technological change.

¹⁰ See R. Baldwin and E. Seghezza (1996) "Trade-Induced Investment-Led Growth," NBER Working Paper 5582. Anecdotal evidence from interviews on June 15, 2001 with officers of AGEXPRONT (a Guatemalan export association) suggested that CBERA acted as a signal to U.S. firms of a good investment climate and new trade opportunities in the CBERA region. Trade reforms and other preferential trade agreements could also induce higher investment through signaling. Asociacion Gremial de Exportadores de Productos No Tradicionales (AGEXPRONT), USITC staff interview, Guatemala City, June 15, 2001.

¹¹ R. Levine and D. Renelt (1992), "A Sensitivity Analysis of Cross-Country Growth Regressions," *American Economic Review* 82 (4) pp. 942-963.

¹² R. Baldwin and E. Seghezza (1996), "Testing for Trade-Induced Investment-Led Growth," NBER Working Paper 5416.

¹³ Thus, income growth is assumed to affect the level of investment, and at the same time, investment is assumed to affect the level of income growth.

¹⁴ R. Baldwin and A. Venables (1996), "Regional Economic Integration," in G. Grossman and K. Rogoff, eds., *Handbook of International Economics Vol. 3*, Amsterdam: Elsevier Science. See also A. Panagariya (2000), "Preferential Trade Liberalization: The Traditional Theory and New Developments," *Journal of Economic Literature* 38 (2), 287-331.

¹⁵ J. DeMelo, C. Montenegro, and A. Panagariya (1992), "L'integration Regionale Hier et Aujourd'hui," *Revue D'Economie du Developpement*.

¹⁶ European Community, the European Free Trade Area, the Central American Common Market, the Latin American Free Trade Area, the Southern African Customs Union, the East African Economic Community.

¹⁷ J. Brada and J. Mendez (1988), "An Estimate of the Dynamic Effects of Economic Integration," *Review of Economics and Statistics*.

¹⁸ European Community, the European Free Trade Area, the Central American Common Market, the Latin American Free Trade Area, the East African Common Market (EACM), and the Council for Mutual Economic Assistance.

growth in the member countries, using pooled¹⁹ data over 26 years. They find that all six integration schemes do have a significant²⁰ positive influence on investment, and that investment itself has a strong and significant effect on growth. The overall evidence found in the literature thus suggests that trade liberalization is likely to increase income growth, but that this link may be indirect—lower trade barriers leading to higher investment, with higher investment then generating more rapid rates of growth.

Growth, Investment, and Trade in the Beneficiary Countries

Macroeconomic and Social Indicators

Table 4-1 presents macroeconomic indicators for 20 beneficiary countries for 1999 (or most recent year available).²¹ The Central American region includes countries classified as middle-income and low-income developing countries. Honduras and Nicaragua remain quite poor, with real GDP per capita less than half that of the other four countries. Double-digit inflation or unemployment are also problems in half the countries. On the other hand, real gross domestic investment is fairly high, exceeding 30 percent of GDP in three countries. There appears to be wide variation in reliance on foreign direct investment (FDI). However, in all but Guatemala, exports constitute a large component of GDP.

The Caribbean countries are much more disparate, with real GDP per capita ranging from about \$13,214 in the Bahamas to only \$371 in Haiti. The ratio of gross domestic investment to GDP exceeds 25 percent for most countries, though investment in Haiti remains quite low. Inflation is relatively low across this region, but many countries have double-digit unemployment. Dependence upon trade is much higher in the Caribbean region than in Central America, as revealed in export-to-GDP ratios reaching 48 percent or more. Foreign direct investment inflows also represent a much larger percent of GDP than in the Central American countries.

Table 4-2 shows a number of social indicators for these 20 beneficiary countries for the most recent year available (between 1993 and 1999). Poverty rates remain very high for the Central American countries. For the four poorest countries, infant mortality rates, malnutrition, and illiteracy also remain serious problems. In the Caribbean, infant mortality is high in all 14 countries, with the poorest six having quite severe rates.

¹⁹ The term "pooled" refers to data compiled across members of a group (e.g., countries) and over a time period (e.g., years).

²⁰ The terms "significant" and "significance" mean statistically significant, and imply there is a relatively high probability, for example 90 or more in 100, that the relationship between the variables would not have occurred by chance.

²¹ Due to lack of data, Aruba, Montserrat, British Virgin Islands, and Netherlands Antilles were omitted from the analysis.

Table 4-1
Macroeconomic indicators for the CBERA region, 1999

Country	GDP p.c. (1995 \$)	Gross Domestic Investment (% of GDP)	FDI Net Inflows (% of GDP)	Population (millions)	Exports (% of GDP)	Unemployment (% of adult population)	Inflation (% change in consumer prices)
Central American countries:							
Costa Rica	3994	17.3	4.4	3.5	53.7	6.0	10.0
Panama	3246	32.5	0.23	2.8	32.9	11.8	1.3
El Salvador	1752	16.3	1.9	6.2	24.8	³ 7.3	0.51
Guatemala	1545	17.4	0.85	11.1	19.0	¹ 4.9	4.9
Honduras	689	32.9	4.3	6.3	42.9	3.7	11.7
Nicaragua	472	43.0	13.2	4.9	33.6	³ 13.3	11.2
Caribbean countries:							
The Bahamas	13214	⁴ 23.2	¹ 2.4	0.30	³ 18.8	7.8	1.3
Antigua	8873	29.8	—	0.07	71.1	—	2.8
Barbados	7963	19.4	0.7	0.27	50.4	10.5	1.5
St. Kitts	6676	37.4	25.6	0.04	48.3	—	3.9
Trinidad	4936	20.9	9.2	1.3	49.6	³ 14.2	3.4
St. Lucia	3956	26.4	13.3	0.15	57.9	18.1	5.4
Grenada	3553	41.0	11.7	0.10	48.9	¹ 17	2.4
Dominica	3354	29.1	4.9	0.07	57.8	² 23.1	1.2
Belize	2768	24.2	0.5	0.24	48.8	12.8	-1.2
St. Vincent	2732	32.6	7.6	0.11	51.9	—	1.0
Dominican Republic	1916	25.1	7.7	8.4	30.4	² 15.9	6.5
Jamaica	1691	26.3	7.6	2.6	48.9	⁴ 6.7	5.9
Guyana	843	24.5	7.1	0.85	98.9	—	7.5
Haiti	371	11.0	0.7	7.8	12.4	—	8.7

¹ 1996.

² 1997.

³ 1998.

⁴ 1995.

Source: All data are from the World Bank *World Development Indicators, 2001*, except unemployment and Central American inflation. Unemployment data from ILO, LABORSTAT 2000 (Guatemala unemployment from IDB Statistical and Quantitative Analysis Database). Central American Inflation data are from the IMF *International Financial Statistics* (Antigua inflation from ECLAC *Statistical Yearbook 1999*).

Table 4-2
Social indicators for the CBERA region, 1993-99, most recent year

Country	Poverty (Population below national poverty line, %)	Income Inequality (Gini Coefficient ¹)	Infant Mortality (per 1000 live births)	Malnutrition (% of children under 5)	Illiteracy (% of adult population)
Central American countries:					
Costa Rica	—	0.46	12	5	5
Panama	37	0.49	20	¹ 6	8
El Salvador	² 48	0.51	30	12	22
Guatemala	—	0.56	40	24	32
Honduras	53	0.59	34	25	26
Nicaragua	50	0.60	34	12	32
Caribbean countries:					
The Bahamas	—	—	18	—	4
Antigua and Barbuda	—	—	16	³ 10	10
Barbados	—	—	14	³ 5	3
St. Kitts and Nevis	—	—	20	—	—
Trinidad and Tobago	² 21	² 0.40	16	7	6
St. Lucia	—	0.42	16	—	—
Grenada	—	—	13	—	—
Dominica	—	—	14	² 5	—
Belize	—	—	28	6	7
St. Vincent and the Grenadines	—	—	20	—	—
Dominican Republic	² 21	0.47	39	6	17
Jamaica	² 34	0.36	20	4	14
Guyana	—	0.40	57	18	2
Haiti	—	—	70	28	51

¹ Gini index measures the deviation of the distribution of income among individuals or households from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini index of zero represents perfect equality, while an index of 1 implies perfect inequality.

² 1992.

³ Represents percentage under 5 that are moderately or severely underweight as defined by UNICEF, 1990-1998, most recent year.

Source: Central American Countries: World Bank, *World Development Indicators 2001*. Caribbean Countries: World Bank, *World Development Indicators 2001*, except Illiteracy. Illiteracy data are from IDB Statistical and Quantitative Analysis Database (Antigua illiteracy rate from IMF Country Report, Statistical Annex). Malnutrition data for Antigua, Barbados, and Dominica from UNICEF, "The State of the World's Children 2000."

The few poverty rates which are available are high. However, with the exception of the poorest four countries, malnutrition and illiteracy appear much less severe than in the Central American region.

Trends in Income Growth, Investment, Export Growth, and Diversification

Figure 4-1 shows annual real income growth and gross domestic investment (as a share of GDP) for the 13 years prior to CBERA (1970-83) and the fourteen years after CBERA (1984-98). For many of the CBERA countries, annual real income growth has averaged 3 percent or higher over the entire twenty-nine year period (1970-98). However, it is noteworthy that no distinct change appears in the average annual growth rates after the inception of CBERA. In Central America, two countries show faster growth in the second period, and four show slower growth. In the Caribbean, six show more rapid growth post-1983 and eight show slower growth or essentially no change. This lack of distinction after the inception of CBERA is also seen with respect to gross domestic investment as a share of GDP. In Central America three countries show higher rates of investment post-CBERA, and three show lower rates. In the Caribbean region, six show higher rates post-CBERA, while eight show lower rates or essentially no change.

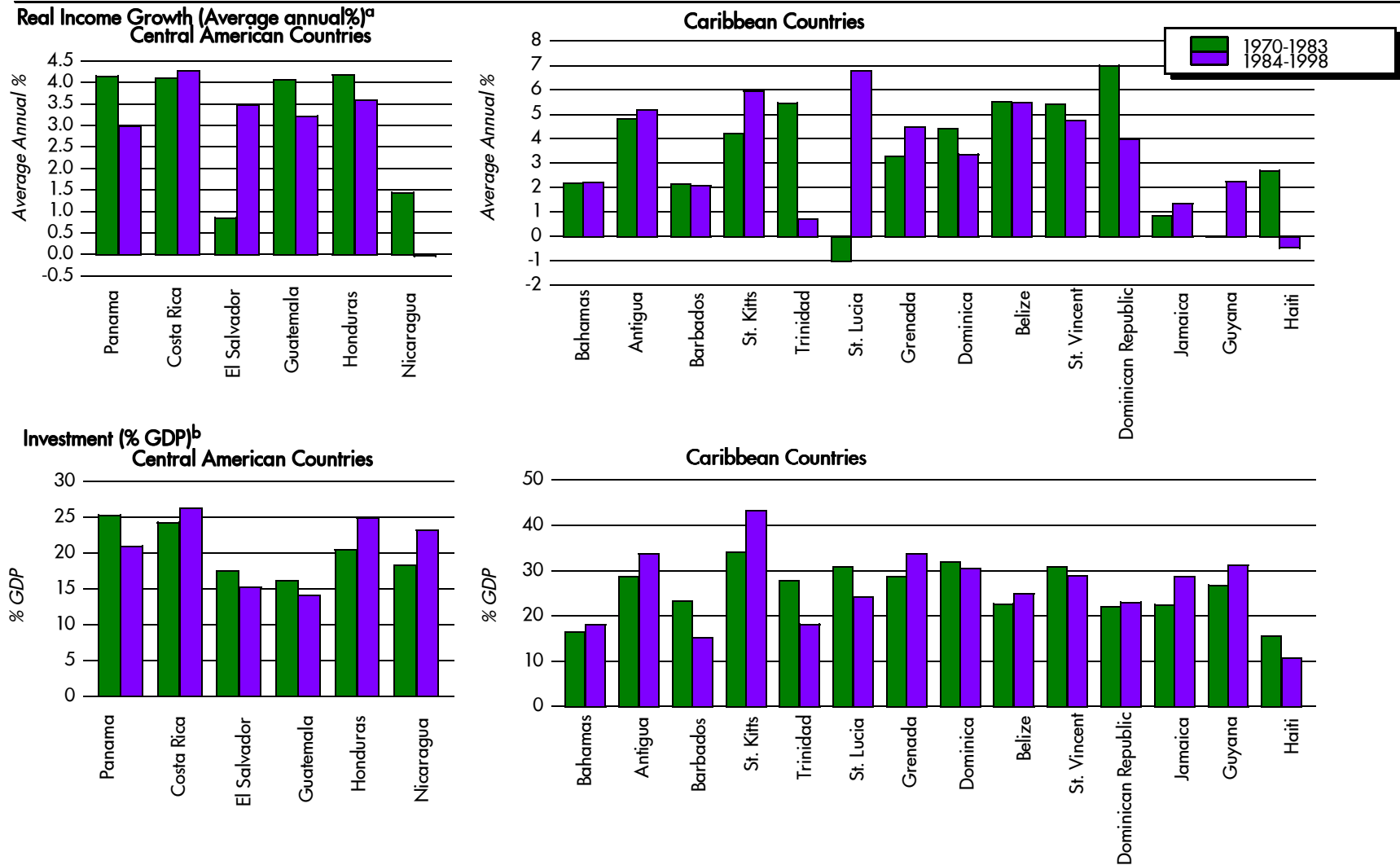
Significant changes do appear, however, with respect to both FDI and export growth. As figure 4-2 shows, in four of the six Central American countries, FDI as a ratio of GDP is between 50 percent and 200 percent higher than in the earlier period. All countries but Honduras show more rapid rates of real export growth post-1984. In the Caribbean region six countries show remarkably higher average ratios of FDI inflows to GDP in the later period.²² In addition, all but two Caribbean countries show rapid real export growth (5 percent or higher) after 1984, and six show dramatic increases in export growth rates.

Evidence with respect to export diversification is even more noteworthy. Table 4-3 shows the structure of exports for both regions, using five standard UNCTAD classifications. Data are presented for 1980 and 1998. Food products were the largest component of exports for the Central American countries in 1980, ranging from 47 percent to 75 percent of total exports. Manufactures constituted 9 percent to 35 percent of total exports. As of 1998, food products still constitute the largest share of exports from these countries. However, with the exception of Nicaragua, there has been a significant increase in manufactures as a share of exports. This trend is particularly striking in Costa Rica, where the share of food in exports fell by one-third, while the share of manufactures doubled. El Salvador and Guatemala show a significant shift away from agricultural raw material exports toward manufactures, while Panama's concentration in fuel exports all but disappears.

The top charts in figure 4-3 show two other indicators of increased export diversification. The left chart shows an export concentration index, which takes values

²² Note that some differences are exaggerated as data in the earlier period are limited for some countries.

Figure 4-1
Real income growth and investment in CBERA region, 1970-83 and 1984-98

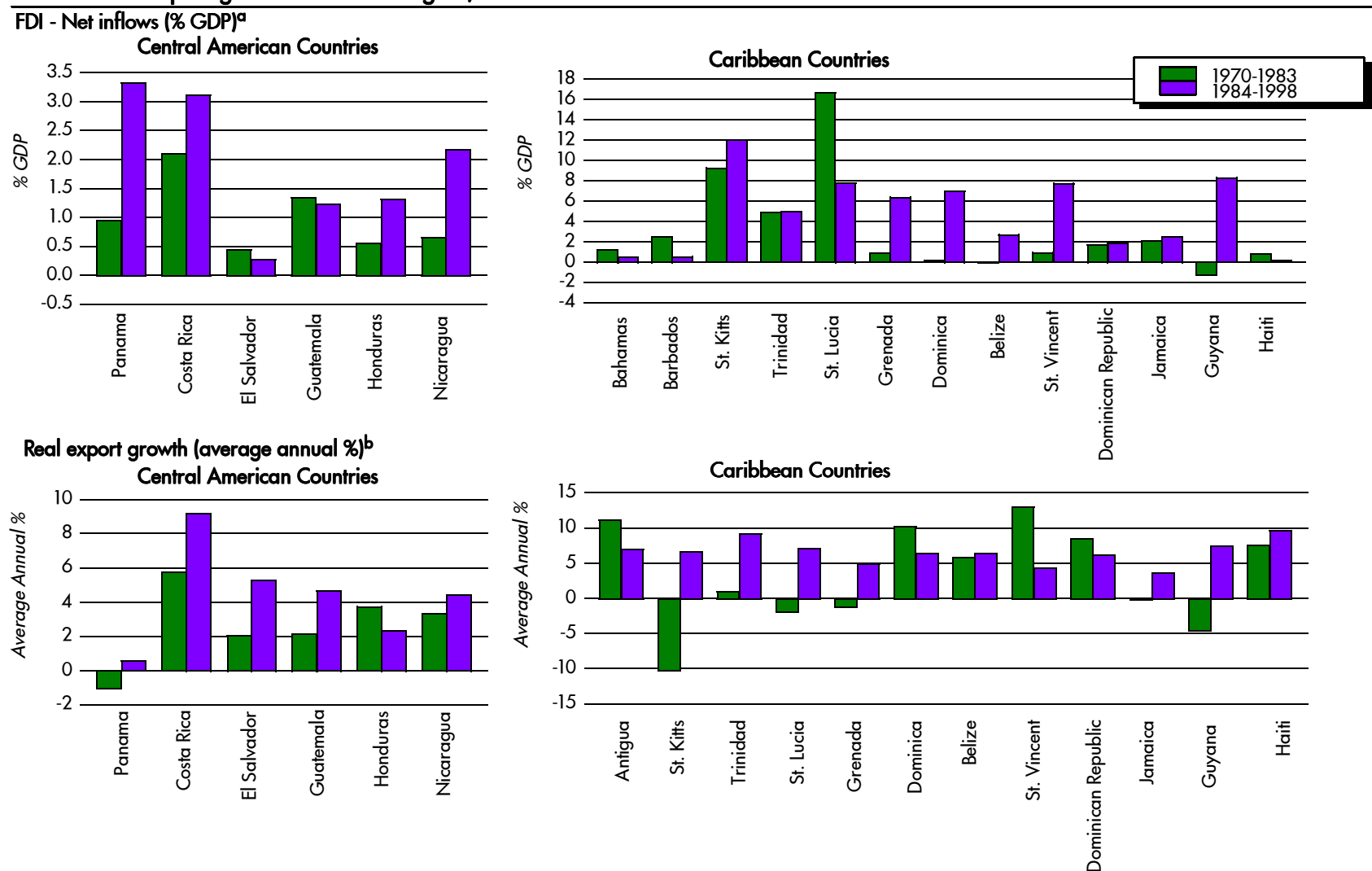


^a For: Antigua, St. Kitts, Grenada, Dominica, St. Vincent, the initial year is 1978; Bahamas, the final year is 1995.

^b For: Panama, St. Lucia, Belize, the initial year is 1980; Antigua, St. Kitts, Grenada, Dominica, St. Vincent, Bahamas, the initial year is 1997; Bahamas, the final year is 1987.

Source: Author's calculation, using data from sources cited in table 4-1.

Figure 4-2
FDI and real export growth in CBERA region, 1970-83 and 1984-98



^a For: St. Kitts, St. Lucia, Dominica, the initial year is 1981; Grenada, St. Vincent, the initial year is 1977; Bahamas, the initial year is 1976 and the final year is 1996.

^b For: Panama, St. Lucia, Belize, the initial year is 1981; St. Kitts the initial year is 1982; Antigua, Grenada, Dominica, St. Vincent the initial year is 1978

Source: Author's calculation, using data from sources cited in table 4-1.

Table 4-3
Structure of CBERA country exports, 1980 and 1998

(Percent of total)

Country	Food		Agricultural raw materials		Fuels		Ores and metals		Manufactures	
	1980	1998	1980	1998	1980	1998	1980	1998	1980	1998
Central American Countries:										
Costa Rica	64	39	1	4	1	0	0	1	28	56
Panama	67	77	0	0	23	4	1	2	9	17
El Salvador	47	47	12	1	3	4	3	2	35	47
Guatemala	53	61	16	4	1	2	5	1	24	33
Honduras	75	79	5	2	0	0	6	2	12	17
Nicaragua	75	88	8	3	2	1	1	1	14	8
Caribbean Countries:										
The Bahamas	91	^f 970	0	2	95	—	0	27	4	1
Antigua and Barbuda	^a 17	—	6	—	0	—	0	—	77	—
Barbados	47	^b 39	0	0	0	3	0	0	53	57
St. Kitts and Nevis	^c 72	^f 66	0	0	0	0	0	0	28	34
Trinidad and Tobago	2	11	0	0	94	45	0	0	4	44
St. Lucia	^c 66	^b 74	1	0	0	0	0	0	22	25
Grenada	92	^f 79	0	0	—	0	—	22	9	5
Dominica	^c 57	^e 49	0	0	0	0	0	2	43	49
Belize	—	^f 86	—	2	—	0	—	0	—	13
St. Vincent and the Grenadines	—	^f 87	—	0	—	0	—	0	—	13
Dominican Republic ^h	^g 73	^{d, g} 19	0	0	0	0	3	0	24	78
Jamaica ⁱ	14	^f 24	0	0	2	0	79	54	6	22
Guyana	^c 50	—	2	—	0	—	44	—	4	—
Haiti	^b 36	^f 16	1	0	0	0	12	0	38	84

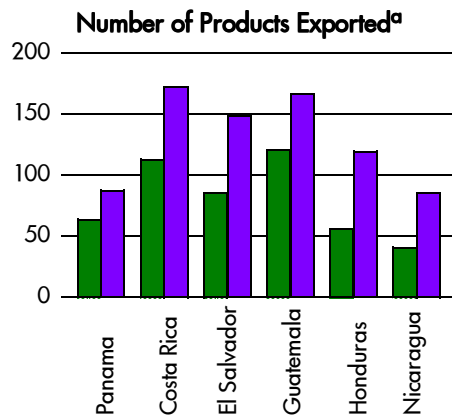
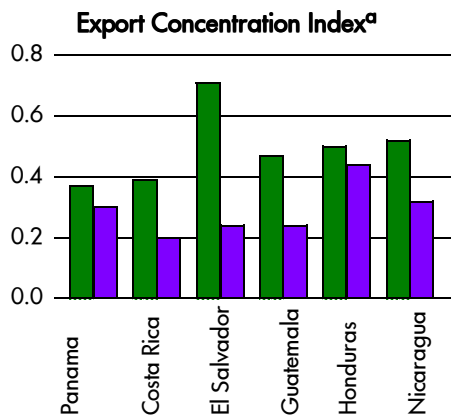
^a 1978. ^b 1979. ^c 1981. ^d 1995. ^e 1996. ^f 1997. ^g From WDI 2000. Dates apply across all export sectors. Percentages may not sum to 100 due to rounding. 0 represents no trade as well as trade that rounds to 0.

^h Dominican Republic 1996-1998 statistics contain substantial "unallocated" percentages (~80%).

ⁱ World Bank, *World Development Indicator's* percentages for Ores & Metals (1980: 21%; 1998: 54%) and Manufactures (1980: 63%; 1998: 70%).

Source: Central America: Trade shares are from the World Bank, *World Development Indicators, 2000*. Caribbean Countries: from UNCTAD Handbook of Trade Statistics CD-ROM 2000, Supplement (1987); from World Bank *World Development Indicators, 2000* where indicated.

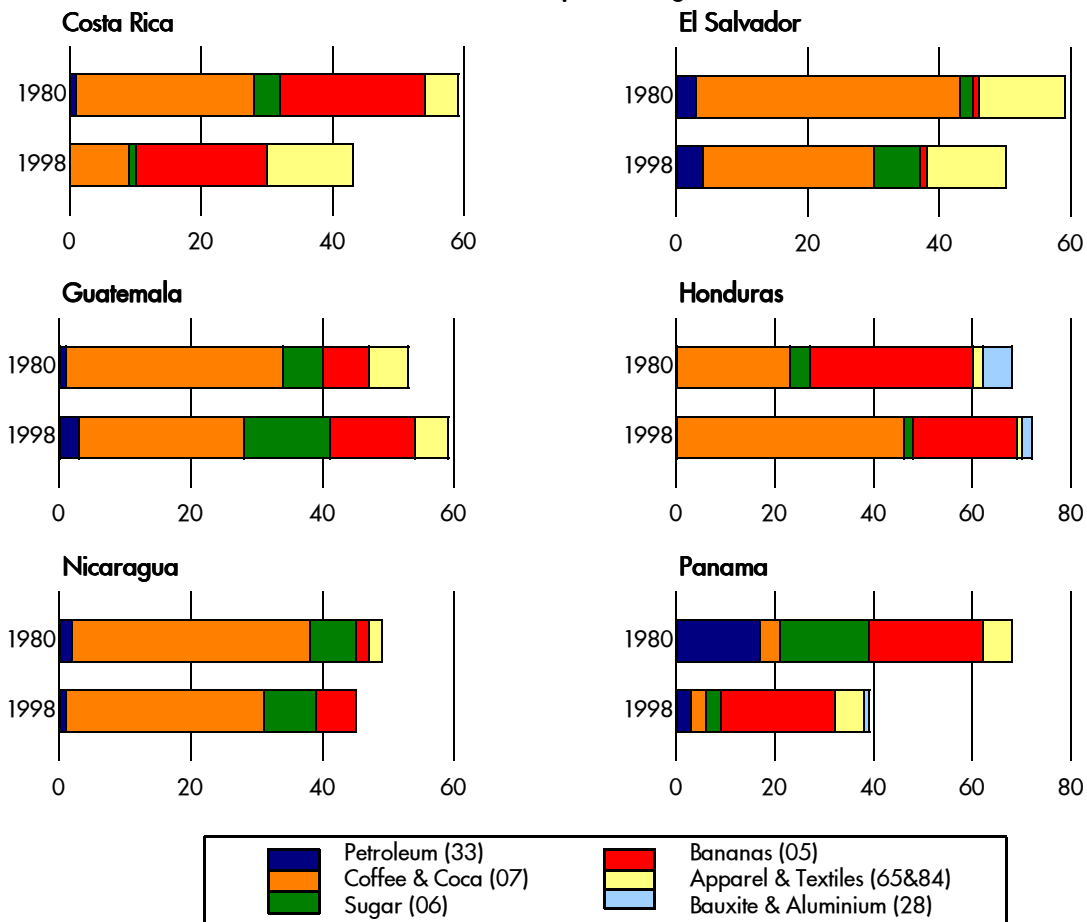
Figure 4-3
Export diversification (Central American countries)



^a Costa Rica, final year is 1997.

Source: UNCTAD *Handbook of Trade Statistics, 2000*, CD-ROM.

Concentration of Major Export Products
% of Total Exports (2-digit SITC)



Source: *Statistics Canada, World Trade Analyzer, 2000*, CD-ROM.

between zero and 1 (maximum concentration).²³ Between 1986 and 1998, this index fell in all six countries. In three countries, it fell by more than 50 percent. The right chart shows the number of products exported.²⁴ Again, all countries show large increases in the number of different products exported. Honduras and Nicaragua, in particular, show a doubling of the number of products exported. The lower section of figure 4-3 provides information on changes in the concentration of exports in several major commodities: petroleum, coffee and cocoa, sugar, bananas, apparel and textiles, and bauxite and aluminum. In the early 1980s all Central American beneficiaries earned forty percent or more of export revenues from two major commodities. For five countries, coffee constituted more than one-fifth of export revenues and for three countries bananas constituted more than one-fifth of export revenues. By 1998 all but Honduras had significantly reduced dependence on coffee exports, and all major banana exporters had reduced their dependence on this product. Panama's concentration on petroleum and sugar exports had also dropped dramatically.

Similar shifts in export concentration also appear in the Caribbean countries. As table 4-3 shows, in eight of these countries food shares in total exports ranged between 36 percent and 92 percent during the early 1980s, while manufactures represented between 8 percent and 53 percent. Six of these eight countries show a marked shift away from food exports and towards manufactures. Trinidad's dependence on fuel exports dropped from 94 percent to 45 percent, while its share of manufactures exports grew by a factor of ten.²⁵ Jamaica's dependence on ores and metals exports also showed a dramatic decline from nearly 80 percent to 54 percent, while its dependence on manufactures exports and food exports tripled and (nearly) doubled, respectively.

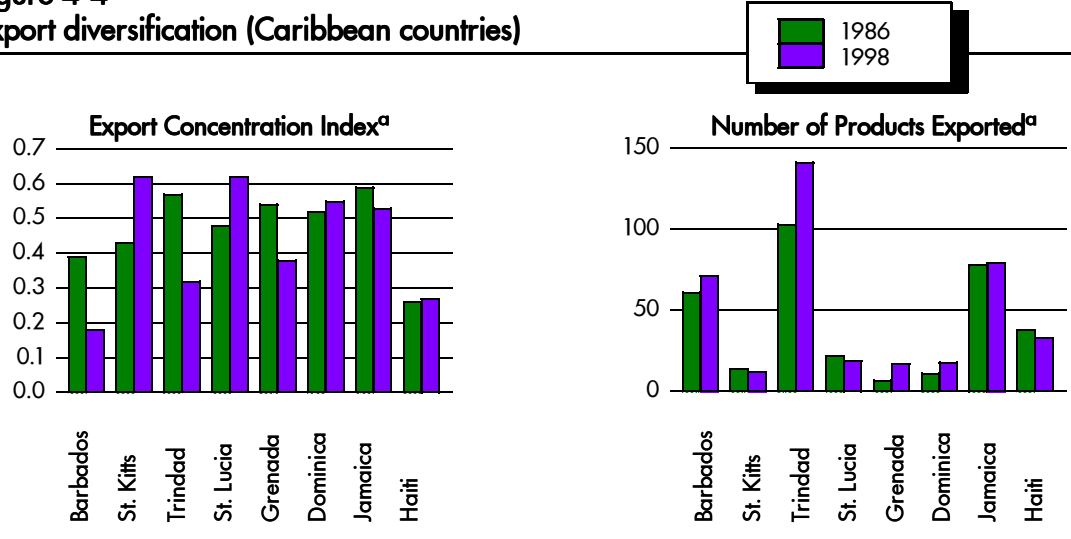
In the top left chart of figure 4-4 values of the export concentration index are given for eight Caribbean countries. Of these eight, four show declines (increased diversification) in the index and two remained roughly constant. These same six countries show an increase in the number of products exported (top right chart, figure 4-4). Further evidence of export diversification can be seen in the changing shares of major commodity exports (the lower part of figure 4-4). Of the nine Caribbean beneficiary countries for which data were available, four earned about 30 percent to 50 percent of export revenues from sugar, two earned more than 30 percent from bananas, two earned 20 percent or more from coffee, and two earned more than 90 percent from petroleum. Significant reductions in these concentrations can be seen in all nine countries. The Dominican Republic, for example, shows a dramatic change from virtually all export earnings from coffee, sugar, and bananas in 1980 to less than 10 percent export earnings from these goods in 1998.

²³ This is a Hirschmann index normalized to make values ranking from 0 to 1 (maximum concentration). It is calculated as a square root of the sum of the ratios (raised to the power of two) of each of the 239 products at the three-digit SITC, Revision 2 level to total exports. The result is then normalized by a square root of 1 over 239.

²⁴ The definition given by the UNCTAD *Handbook of Trade Statistics* is as follows: This is the number of products exported at three-digit SITC, Revision 2 level; this figure includes only those products which are greater than \$100,000 or more than 0.3 per cent of the country's total exports.

²⁵ Note that most of Trinidad's manufactures, such as urea and ammonia, are derived from natural gas, and thus are still largely related to the energy sector.

Figure 4-4
Export diversification (Caribbean countries)



^a St. Kitts; 1986, 1997. Grenada: 1984, 1997. Dominica: final year 1996. Jamaica: final year 1997. Haiti: 1981, 1997.
 Source: UNCTAD *Handbook of Trade Statistics, 2000*, CD-ROM.

Concentration of Major Export Products
% of Total Exports (2-digit SITC)

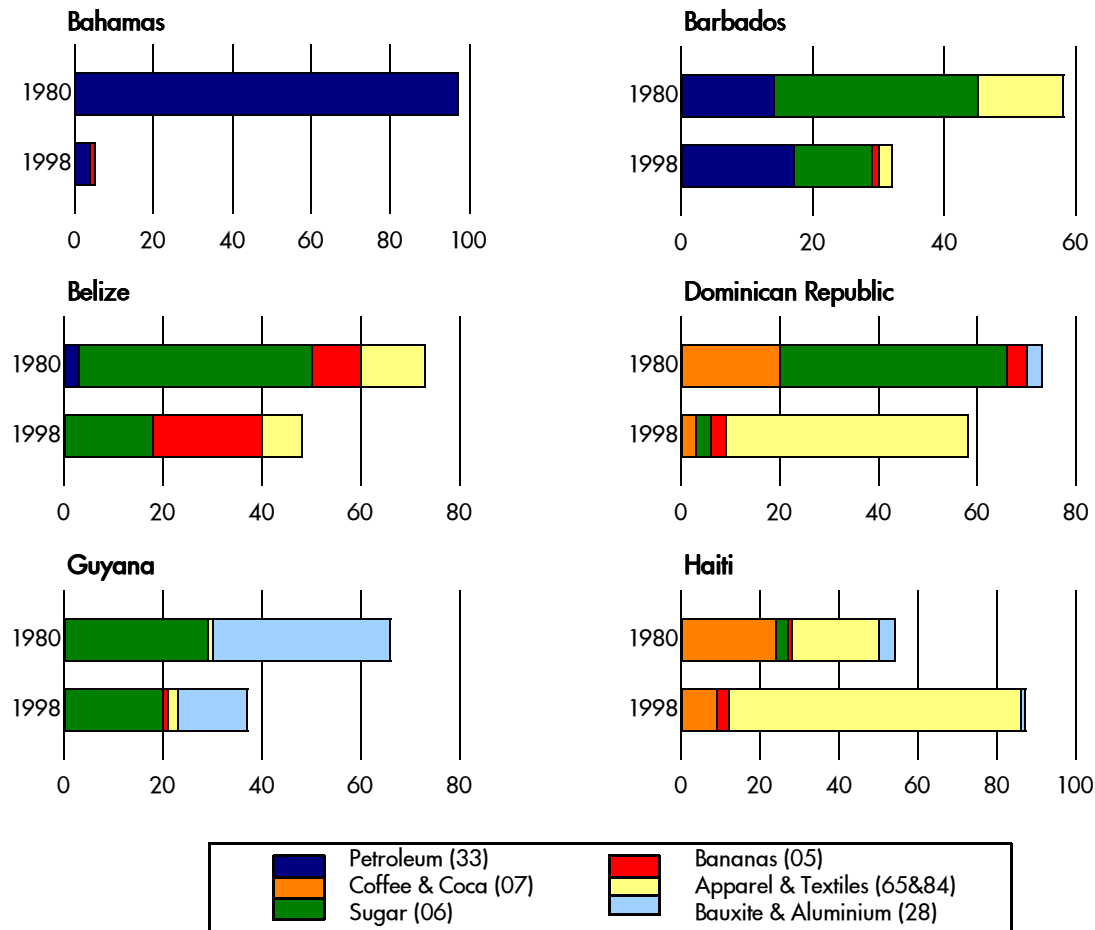
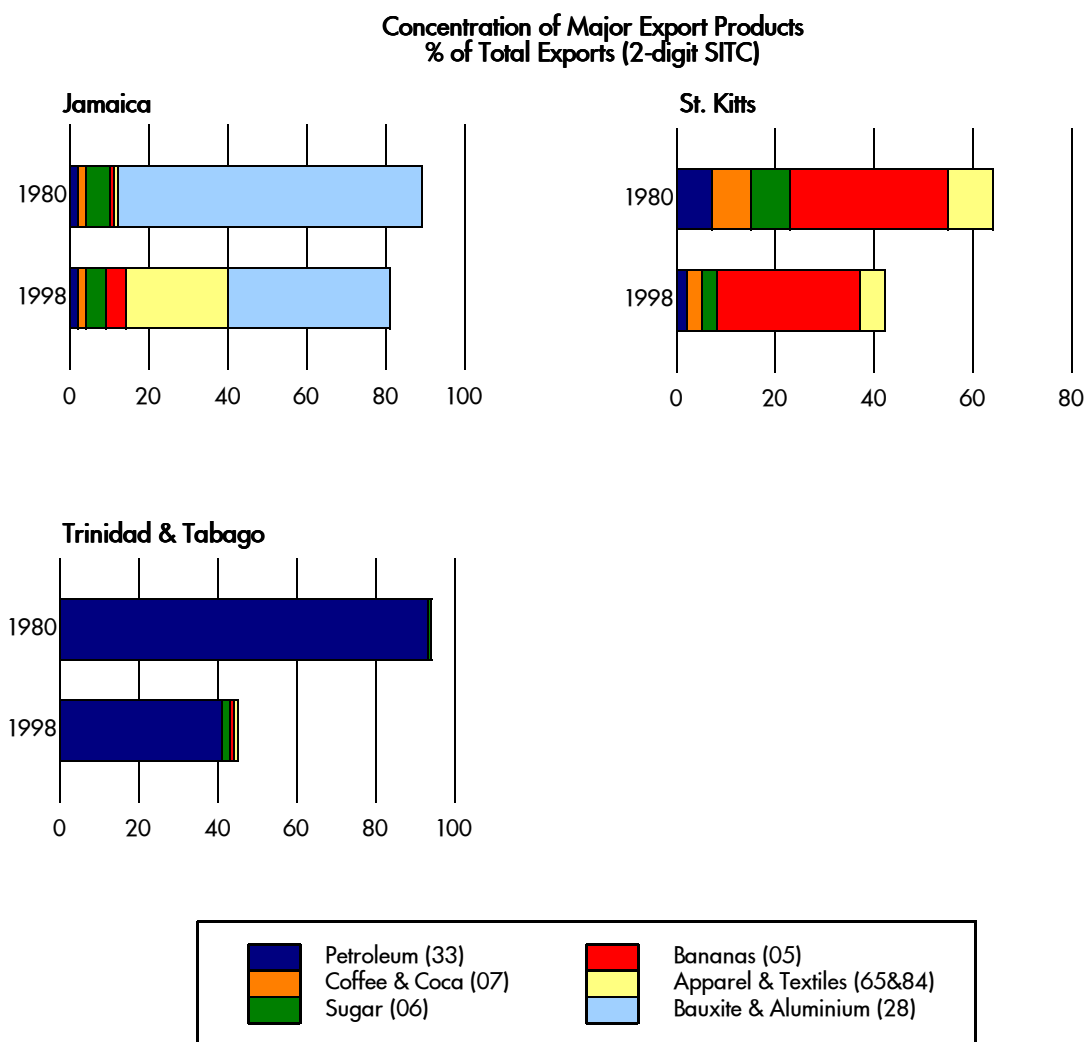


Figure 4-4—Continued
Concentration of major export products



Source: Statistics Canada, World Trade Analyzer 2000, CD-ROM.

Trade Liberalization in the Region

The countries in the CBERA region have all undergone significant unilateral trade liberalization since inception of CBERA in 1984. For virtually all these countries, the period between 1970 and 2000 includes a long phase of import-substitution industrialization characterized by highly protectionist regimes, and then a distinct shift toward more open, liberalized regimes. In Costa Rica this transformation took place as early as 1986. The other Central American countries began major reforms in the early 1990s. Trinidad (1988), Jamaica (1986), and Guyana (1988) were the early reformers in the Caribbean, with other countries beginning in the early- to mid-1990s. For the CBERA region as a whole,²⁶ most reform periods included macroeconomic stabilization measures, significant deregulation of the foreign exchange market, and trade reform. In general, trade reforms were characterized by removal of quantitative restrictions, reductions in the levels and ranges of tariffs, removal of export taxes, and implementation of incentives for foreign direct investment (e.g., establishment of free trade zones). Significant privatization of industries in some countries (e.g., Dominican Republic, Trinidad) also increased foreign investment. In addition to unilateral reforms, virtually all countries in the region joined the WTO by 1994 (at least 10 joining after CBERA was implemented).

Virtually all CBERA beneficiary countries are now members of one or more regional integration agreements, which have either been negotiated or revitalized since the inception of CBERA. The Central American Common Market (CACM),²⁷ though established in 1960, stagnated in the 1980s. It was reactivated about 1993. Since that time, CACM has been a tool for unilateral trade liberalization, encouraging a reorientation in favor of extra-regional export promotion. The CACM reform agenda broadly included removing foreign exchange market controls and increasing flexibility; export promotion incentives, especially for maquila exporters; and revision of the Common External Tariff (CET). Panama joined in July 1991, though with certain limitations; Honduras fully rejoined in February 1992. In 1998, the Dominican Republic entered into a trade agreement with the CACM. In addition, all Central American countries have negotiated (or are negotiating) preferential trade agreements with Mexico during the 1990s.

The Caribbean Community and Common Market (CARICOM),²⁸ founded in July 1973, also stagnated during the 1980s. Revitalization began about 1991, with a new focus on export promotion. CARICOM's agenda included removing non-tariff barriers and reducing the CET range at various intervals. Trade among CARICOM members is essentially free. In 1991 the CET range was reduced from a maximum/minimum (in percent) of 70/0 to 45/0. This was further reduced in 1992 to 20/5, with the exception of agricultural products, to be phased in by January 1997

²⁶ For detailed studies of the trade reforms in this region, see the WTO *Trade Policy Reviews* and IMF *Staff Country Reports*.

²⁷ Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama (partial member).

²⁸ Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, and Montserrat.

(which was later extended). Although all countries approved the new CET, they were allowed to conform at their own pace, producing some variation across countries. In 1993, 1994, and 1998, CARICOM entered into various trade agreements with Venezuela, Columbia, and the Dominican Republic, respectively.

Table 4-4 presents data on tariff and quantitative restrictions for Central America and the Caribbean for 1986-87 and 1998. This reflects the results of unilateral, preferential, and multilateral trade liberalization during the years since implementation of CBERA. Average nominal (unweighted) tariffs in Central America were about 20 percent in the mid-1980s, with a maximum of 100 percent.²⁹ By 1998, average nominal tariffs were below 10 percent, and the maximum had shrunk to about 50 percent. With the exception of El Salvador, the coverage of quantitative restraints has also been reduced, in most cases to 3 percent or less of tariff lines. For most Caribbean countries, average nominal (unweighted) tariffs were between 12 percent

Table 4-4
CBERA countries: Trade liberalization, 1987 and 1998

Country	Average tariff ^a		Tariff Range Maximum/minimum		Quantitative restrictions (Coverage ratio)	
	1987	1998	1987	1998	1987	1998
Central American countries:						
Costa Rica	^b 21.1	^c 7.2	100/1	^{c, h} 253/0	^b 0.8	^c 1.6
Panama	—	9.2	—	—	—	0
El Salvador	21.1	5.7	100/1	40/0	19.2	33.9
Guatemala	22.8	8.4	100/1	28/0	7.4	2.9
Honduras	—	^d 7.8	—	^d 70/0	—	^d 0.1
Nicaragua	22.1	5.9	100/1	195/0	27.8	5.6
Caribbean countries:						
The Bahamas	32.3	^f 32.0	160/0	—	0.1	—
Antigua and Barbuda	^b 12.0	9.0	70/0	—	^b 2.5	—
Barbados	^b 17.3	9.7	70/0	70/0	^b 11.9	0
St. Kitts and Nevis	12.9	9.2	70/0	^d 70/0	13.0	^d 0
Trinidad and Tobago	^e 17.3	9.2	70/0	40/0	^e 23.4	1.8
St. Lucia	12.0	9.7	70/0	70/0	4.6	0
Grenada	12.0	9.3	70/0	^d 40/0	9.1	^d 0
Dominica	12.8	9.0	70/0	^f 45/0	0.2	^f 0
Belize	^b 17.3	9.2	70/0	^d 70/0	^b 10.2	^d 0
St. Vincent and the Grenadines	^b 17.3	9.2	70/0	40/0	^b 6.8	^d 0
Dominican Republic	—	^d 14.5	—	40/3	—	^f 0

^a Nominal unweighted average tariff.

^b 1986. ^c 1999. ^d 1997. ^e 1988. ^f 1996. ^g 1995.

^h Excluding live animals and processed foods, range for Costa Rica is 50/0.

Source: 1980s data: UNCTAD *Handbook of Trade Control Measures of Developing Countries*, Supplement, 1987. Tariff range is max/min within and between all 2-digit SITC categories. 1990s data: World Bank, *World Development Indicators 2000*, CD-ROM; World Bank Trade and Development Website, Tariff Database; IDB Quantitative and Statistical Analysis Database 2000; TRAINS 2001.

²⁹ This does not include additional surcharges and duties on imports, which raise the maximum tariff figure significantly.

and 17 percent--generally lower than Central America--and tariff ranges were about 0 to 70 percent. By 1998 nearly all these countries had reduced average tariff rates to about 9 percent, and nearly half had reduced the range of tariffs considerably. Quantitative restriction usage was disparate in the mid-1980s, with at least six countries maintaining NTBs over more than 10 percent of tariff lines. By 1998 at least ten countries had eliminated the use of NTBs altogether.

The Impact of CBERA on Growth and Investment in the Caribbean Basin

Model Specification

As the preceding analysis makes clear, the existence of multiple U.S. preference programs and major multilateral, regional, and unilateral trade reforms on the part of CBERA countries (and the United States) during the years since 1984 makes it very difficult to assess the impact of CBERA itself. The goal of the econometric analysis is to test statistically the magnitude and significance of CBERA on average annual GDP growth and annual investment (as a percent of GDP) in the CBERA beneficiary countries, while controlling for the impact of these other influential policy reforms.

The analysis used here takes an approach common to much of the literature reviewed earlier in this chapter. Two equations were specified: one which explains the determinants of real income growth, and one which explains the determinants of investment. Annual real income growth is specified as a function of growth in the factors of production (investment/GDP and growth of the labor force³⁰) and of technological change. The rate of technological change is a function of domestic research and development, and access to foreign technological developments, where such access depends upon the openness of the beneficiary countries' and U.S. trade regimes. Openness is affected by unilateral trade barriers in the beneficiary countries and in the United States, and by trade preference programs (CBERA, the production-sharing program, the guaranteed access levels (GALs), and NAFTA). Since radical changes in the prices of several commodity exports caused wide short-run fluctuations in growth, changes in the purchasing power of exports (the ratio of export revenues to import prices) were also included in the growth equation. Investment is assumed to be a function of income growth and the level of openness of the trade regimes in the beneficiary countries and the United States.³¹ Trade openness

³⁰ Because skill and/or education level data for the labor force are available only sporadically, growth of human capital is not explicitly included.

³¹ The investment equation used here is a simple accelerator model. The desired capital stock next period is a function of expected income next period. Investment today is assumed to be a function of the difference between the desired capital stock next period and the present capital stock. Thus, investment will be a function of the expected growth of income during the period. See J. Sachs and F. Larrain (1993), *Macroeconomics in the Global Economy*, NJ: Prentice Hall.

again includes the effects of unilateral trade barriers in the beneficiary countries and in the United States, and the trade preference programs.

As is well known, it is difficult to find measures for the openness (or restrictiveness) of a country's trade regime.³² Due to data availability, the ratio of trade to GDP is used to represent the level of openness in both beneficiary countries and the United States. In addition, a country-specific dummy variable³³ is included for the periods of major reforms in the trade and foreign exchange regime in each of the beneficiary countries.

CBERA is represented by two alternative measures, calculated at the regional level.³⁴ The first is the ratio of U.S. imports benefitting exclusively from the CBERA program to total U.S. imports from the CBERA region ("CBERA Trade").³⁵ This measure gives some indication of changes in the importance of the CBERA program over time in overall trade between the region and the United States. The second is the ratio of U.S. imports entering duty-free under the CBERA program to total U.S. imports eligible for CBERA duty-free status from the region ("CBERA Utilization"). This latter measure gives an indication of the utilization of the program by beneficiary country exporters. Utilization may be less than 100 percent for a number of reasons: some goods are also eligible for duty-free status under GSP, exporters may lack information about their eligibility for CBERA benefits, or exports may not meet the regional content requirements to qualify. As figure 4-5 shows, CBERA trade has grown over time, but in 1998 was still only about 10 percent.³⁶ However, CBERA utilization has risen from 54 percent to about 70 percent. This most likely reflects the well-documented shift over time from using GSP to using CBERA.³⁷

The production-sharing program is represented by the ratio of U.S. imports from the region entering under HTS heading 9802³⁸ (previously 807) to total U.S. imports from the region ("PSP"). As documented in chapter 2, there has been enormous growth of U.S. imports from the CBERA region under the production-sharing program since the mid-1980s—particularly in apparel. Figure 4-5 shows that the share of U.S. imports from CBERA countries entering under HTS 9802 has more than doubled between 1987 and 1998. The GALs are represented by the ratio of U.S. imports from the region entered under HTS heading 9802.00.8015 (previously 9802.00.8010 and 807A) to total U.S. imports from the region ("GALs").³⁹ Trade using the GALs has also

³² See A. Harrison (1996), "Openness and Growth: a Time-Series, Cross-Country Analysis for Developing Countries," *Journal of Development Economics* 48:419-447.

³³ A "dummy variable" is an on-off indicator which takes the value of 1 when some condition is true and 0 when it is false.

³⁴ Use of a regional measure avoids the problem of simultaneous equation bias between the CBERA variable and the dependent variables.

³⁵ See chapters 2 and 3.

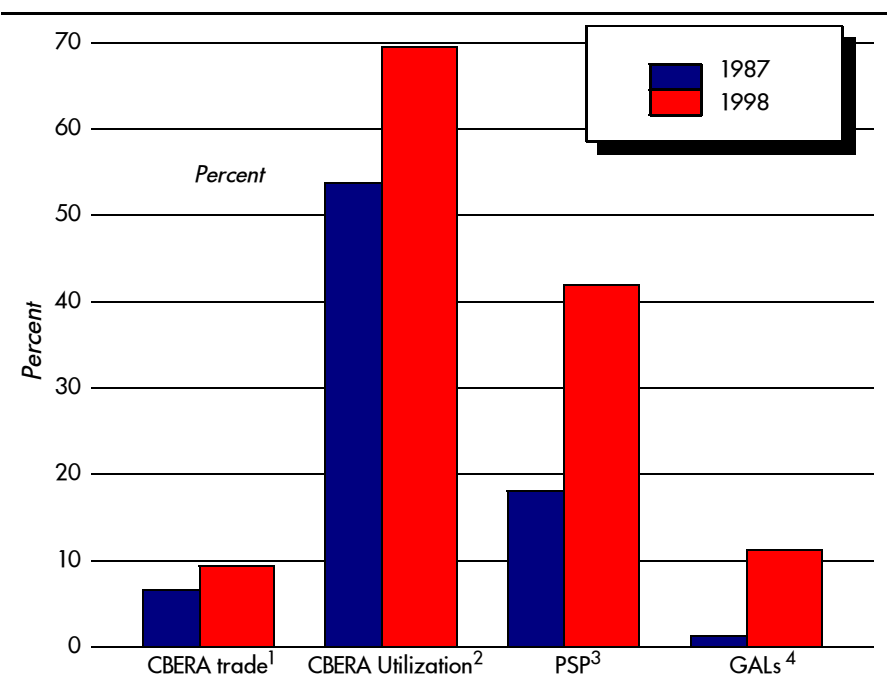
³⁶ The shares of imports benefitting exclusively from the CBERA program are 6.6 percent and 9.4 percent, respectively—about one-half of the total imports entering under the program in both years.

³⁷ See chapter 1.

³⁸ See chapter 2, table 2-6.

³⁹ The United States had negotiated GALs with Costa Rica, Dominican Republic, Jamaica, Haiti, and Trinidad as early as 1986. The GALs with Guatemala began in 1990, and with Panama by 1993. The GALs with Honduras and El Salvador were in place by 1997.

Figure 4-5
Importance of U.S. trade preferences in CBERA-U.S. trade, 1987



¹ Ratio of U.S. imports benefitting exclusively from CBERA programs to total U.S. imports from CBERA region. See text and footnote.

² Ratio of U.S. imports entering duty-free under the CBERA program to total U.S. imports eligible for CBERA duty-free status from the region. See text.

³ Ratio of U.S. imports entering under HTS heading 9802 to total imports from the region. See text and footnote.

⁴ Ratio of U.S. imports entering under HTS heading 9802.00.8015 to total U.S. imports from the region. See text and footnote.

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

dramatically increased, from less than 2 percent of total U.S. trade with the region in 1987 to about 11 percent in 1998.

Data and Estimation

The income growth and investment equations were estimated⁴⁰ using pooled data for six Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama) and pooled data for six Caribbean countries (Belize,

⁴⁰ See Appendix D for technical details. The simultaneous relationship between income growth and investment, along with the likelihood that countries in the region experienced similar contemporaneous shocks (e.g., hurricanes, droughts, collapses in commodity prices) required the use of three-stage least squares to estimate the income growth equation. Testing suggested that the investment equation only required correction for contemporaneous shocks, and thus a seemingly unrelated regression technique was used. These equations were also corrected for first-order serial correlation and groupwise-heteroskedasticity. Country-specific effects were included in both equations to capture the influence of non-measurable country characteristics which would likely influence both investment and growth.

Dominican Republic, Guyana, Haiti, Jamaica, and Trinidad) for the years 1970-98.⁴¹ For all twelve countries this time period contained major changes in trade restrictions, and shifts from increasingly protectionist to much more outward-oriented regimes. The impact of such major policy changes can best be captured by using annual data.⁴² However, annual data often contain short-term spurious changes that can blur long-term relationships. Pooling the data across countries in each region helps diminish these country-specific spurious effects, and reveals more of the regional relationships (though it does mask some important differences across countries). This time period also includes many country-specific and time-specific shocks (e.g., a military coup in Guatemala in 1982, a U.S. trade embargo against Haiti 1992-94, the war in El Salvador, the debt crisis in the early 1980s, the implementation of NAFTA in 1994). Dummy variables were introduced to control for the effect of these types of shocks.

Results

Central American Countries

Tables 4-5a and 4-5b report the effects of the CBERA program, the production-sharing program, and unilateral trade reforms on investment and income growth, respectively, in the Central American countries. The complete detailed econometric results for these equations are given in Appendix D.⁴³ This section first briefly summarizes results on the conventional determinants of investment and growth, and on critical exogenous shocks (see appendix D for details). The focus then turns to a detailed analysis of the effects of trade preferences and trade liberalization, shown in tables 4-5a and 4-5b.

Conventional determinants and exogenous shocks

As anticipated, the ratio of investment to GDP for the pooled sample of six countries showed a strong, statistically significant positive relationship to GDP growth. For all specifications,⁴⁴ a one-percentage-point increase in the rate of annual GDP growth raised annual investment relative to GDP by approximately 0.35 percent. Real income growth in Central America, in all specifications, was (as expected) significantly related to growth in factors of production. An increase in investment of one percentage point

⁴¹ These countries were chosen based on data availability. Data post-1998 were not available for all variables for all countries. Complete data for Panama and for Belize were only available from 1980-98. Details of variable definitions and data sources are given in Appendix D.

⁴² See A. Harrison (1996), "Openness and Growth: a Time-Series, Cross-Country Analysis for Developing Countries," *Journal of Development Economics* 48:419-447.

⁴³ All specifications generated fairly good fits. The R^2 for the investment equations ranged from about .50 to .80. With the exception of Honduras, the R^2 for the growth equations ranged from about .50 to .90. A recent IMF study has reported on the inability of standard economic variables to explain Honduras' growth performance over the past few decades. See V. Juan-Ramon, "Honduras Growth Performance During 1970-1997," *IMF Policy Discussion Papers* PDP/99/1.

⁴⁴ Different specifications of the equations resulted from the use of two proxies for CBERA, and two proxies for concurrent preference programs (either PSP or GALs).

Table 4-5a
Impact of CBERA on investment in Central American countries^a

	CBERA measure: CBERA trade		CBERA measure: CBERA utilization	
	(1)	(2)	(3)	(4)
U.S. Openness	0.28*	0.42**	0.46**	0.46*
Openness	0.19**	0.20**	0.20**	0.20**
Reform period	1.28	1.54†	2.63**	1.84*
CBERA	0.86††	-0.59	0.28**	0.04
CBERA · U.S. Openness	-0.05†	0.02	-0.02**	-0.01
PSP		0.76**	—	0.64
PSP · U.S. Openness		-0.04**	—	-0.03

^a All variable definitions are given in the text.

* statistically significant at 5% level.

** statistically significant at 1% level.

† statistically significant at 10% level.

†† p-value of 13%.

Table 4-5b
Impact of CBERA on income growth in Central American countries^a

	CBERA measure: CBERA trade	CBERA measure: CBERA utilization
	(1)	(2)
CBERA	-9.51*	-0.84
CBERA · Reform	8.42††	0.47
CBERA · U.S. Openness	0.51*	0.05
CBERA · U.S. Openness · Reform	-0.47†	-0.04
PSP	2.46††	1.29
PSP · Reform · NAFTA	-2.99	-3.49
PSP · U.S. Openness	-0.13†	-0.08
PSP · U.S. Openness · Reform · NAFTA	0.13	0.15

^a All variable definitions are given in the text.

* statistically significant at 5% level.

** statistically significant at 1% level.

† statistically significant at 10% level

†† p-value of 11% or 12%.

raised GDP growth by about 0.32 percent, while a percentage point increase in labor force growth raised GDP growth by 0.33 percent.

Major political-economic shocks were important in explaining annual income growth in these six countries. The debt crisis of the early 1980s reduced growth rates in these six countries by, on average, about 6.5 percent, while other major crises (such as military coups) tended to reduce growth rates by about 7 percent. Changes in the purchasing power of exports also had a highly significant effect on growth. On average, a percentage-point drop in the purchasing power of exports decreased GDP growth by 0.04 percent.

CBERA and the production sharing program

The size of the impact of CBERA and the production-sharing program on investment in Central America varies with the alternative measures used (table 4-5a). However, some clear patterns do emerge. First, when estimated alone (columns (1) and (3)), the CBERA program does seem to have a positive effect on investment, but this effect diminishes as the U.S. market becomes more open. For example, column (3) shows that a one-percentage-point increase in CBERA utilization would raise the investment rate in Central America by 0.28 percent, ignoring any interactions, and assuming all else was unchanged. However, the benefits of preferential duty-free access to the U.S. market should diminish as U.S. duties decline overall. Thus, the net effect of the CBERA program on investment must include its interaction with the level of openness of the U.S. market (CBERA · U.S. Openness). The results in column (3) show that at any point in time, the net effect of a percentage-point-increase in CBERA utilization is 0.28 percent minus $0.02 \cdot \text{U.S. Openness}$. With the 1986 level of U.S. Openness at 18 percent, this would mean a net effect of -0.06 percent. Thereafter, each percentage-point-increase in U.S. openness would reduce the net effect of CBERA utilization by 0.02 percent. Since the U.S. market became progressively more open during this time period, these results would suggest that the effect of CBERA diminished over time.

The second important pattern is seen in columns (2) and (4). When production-sharing variables are included in the specification, the CBERA program loses its significance, and production-sharing has a positive significant effect on investment. At any point in time, a percentage point increase in PSP trade increases investment by 0.76 percent minus $0.04 \cdot \text{U.S. Openness}$ (a net effect of 0.04 percent for 1986, for example).⁴⁵ The same pattern emerges in column (4), but is not statistically significant.⁴⁶ This result corresponds to anecdotal evidence from discussions with producers in CBERA countries, who stressed the significance of apparel exports and the production-sharing program for their country's investment, employment, and growth.⁴⁷

The impact of U.S. preference programs on Central American GDP growth is reported in table 4-5b. These results reveal the interrelationship between various significant trade reforms occurring simultaneously. Again suppose CBERA trade increases by a percentage point. Using the results in column (1), the net impact on income growth is -9.51 percent plus $0.51 \cdot \text{U.S. Openness}$ (about -0.51 percent net in 1986, for example). That is, CBERA appears to have a negative impact on income growth for the period as

⁴⁵ Specifications with the alternative combinations of CBERA measures and GALs revealed the same pattern, but with lower levels of statistical significance.

⁴⁶ Specifications using CBERA utilization in general tend to show weaker results. This may be indicative of a multicollinearity problem.

⁴⁷ When asked how the CBERA had impacted their country, a number of exporters and government officials from the Dominican Republic and Guatemala began to discuss apparel exports and the production-sharing program. USITC staff interviews, Santo Domingo, June 5-7 and Guatemala City, June 15, 18-19, 2001. Also U.S. Department of State telegrams, "Caribbean Basin Investment Survey: Guyana," message reference no. 593, prepared by U.S. Embassy, Georgetown, June 18, 2001 and "USITC Caribbean Basin Investment Survey," message reference no. 1625, prepared by U.S. Embassy, San Jose, June 15, 2001.

a whole, though this impact is lessened by the opening of the U.S. market. However, during the period of trade reforms in these countries, the CBERA program has a positive effect on GDP growth (CBERA · Reform). The net effect becomes -1.01 percent plus 0.04 · U.S. Openness.⁴⁸ This suggests that once Central American countries begin to liberalize their own trade regimes, the CBERA program's effect is generally positive, though the magnitude is small.

In contrast, the production-sharing program has a large positive effect on growth in Central America. A percentage-point-increase in PSP trade raises GDP growth by 2.46 percent minus 0.13 · U.S. Openness (a net effect of about 0.13 percent in 1986). Anecdotal evidence from interviews with Central American manufacturers suggested that NAFTA diverted much apparel trade toward Mexico, and that this diversion hurt the Central American economies.⁴⁹ When PSP is interacted with the presence of NAFTA, a strong negative effect appears, diminishing the effect of the program on growth. However, as table 4-5b shows, when PSP is analyzed with both NAFTA and the reform period, this tendency appears, but is statistically insignificant. These results suggest that NAFTA did depress the impact of the production-sharing program on GDP growth, but that this was mitigated somewhat by countries' own trade liberalization. Note that the same patterns for both CBERA and PSP appear when CBERA utilization is used (column (2)), but the effects are not significant.⁵⁰

Unilateral trade reform

As is shown in table 4-5a, both Central American trade reform and U.S. trade reform had a consistently significant positive effect on investment. A one-percentage-point increase in the openness of a country's own market raised the ratio of investment to GDP by approximately 0.20 percent. In addition, on average, Central American countries had between 1.5 percent and 2.6 percent higher investment during the years of major trade reforms than they did during the period as a whole. An increase in the overall openness of the U.S. market by one percentage point raised the ratio of investment to GDP by about 0.45 percent (columns (2)-(4)). As discussed above, CBERA appears to have had a favorable impact on GDP growth only during the years of Central American unilateral trade reform. In addition, those reforms may have mitigated the negative impact of the NAFTA on GDP growth.

Caribbean Countries

Tables 4-6a and 4-6b report the effects of the CBERA program, the production-sharing program, and unilateral trade reforms on investment and income growth, respectively, in the Caribbean countries. The complete detailed econometric results for these equations are given in appendix D.⁵¹ This section first briefly

⁴⁸ $(-9.51 + 8.42) = -1.01$, and $(0.51 - 0.47) = 0.04$.

⁴⁹ Evidence from officials of a Guatemalan nontraditional export association and an apparel manufacturer, USITC staff interviews, Guatemala City, June 15 and June 18, 2001, respectively.

⁵⁰ Specifications using GALs showed similar patterns but weaker results for all preference program variables. This may be due to the fact that only 3 countries in the Central American group had GALs arrangements for any length of time during the sample period.

⁵¹ Regressions again showed fairly good fit. With the exception of the Dominican Republic, R^2 for the investment equations ranged from about .40 to .90. For the growth equations, R^2 ranged from about .40 to .80.

Table 4-6a
Impact of CBERA on investment in Caribbean countries^a

	CBERA measure: CBERA trade	CBERA measure: CBERA utilization
	(1)	(2)
U.S. Openness	0.09	-0.06
Openness	0.12**	0.12**
Reform period ^b	1.46**	1.38*
CBERA	0.23	0.05
CBERA · U.S. Openness	-0.01	0.0
PSP	1.28 *	—
PSP · NAFTA	-0.96	—
PSP · U.S. Openness	-0.07**	—
PSP · U.S. Openness · NAFTA	0.07 **	—
GALs	—	10.34†
GALs · NAFTA	—	-11.50†
GALs · U.S. Openness	—	-0.50†
GALs · U.S. Openness · NAFTA	—	0.56*
NAFTA	-21.04**	-6.45**

^a All variable definitions are given in the text.

^b Refers to the later reform period only.

* statistically significant at 5% level.

** statistically significant at 1% level.

† statistically significant at 10% level.

Table 4-6b
Impact of CBERA on income growth in Caribbean countries^a

	CBERA measure: CBERA trade	CBERA measure: CBERA utilization
	(1)	(2)
U.S. Openness	0.21*	0.24*
Reform period ^b	2.34*	1.86**
CBERA	-9.05**	-1.82*
CBERA · Reform	11.87†	1.67
CBERA · U.S. Openness	0.44*	0.09*
CBERA · U.S. Openness · Reform	-0.55†	-0.08
PSP	2.80*	3.28†
PSP · NAFTA	-4.11*	-3.89†
PSP · U.S. Openness	-0.14*	-0.17†
PSP · U.S. Openness · NAFTA	0.19*	0.18

^a All variable definitions are given in the text.

^b Nets out the effect of early reform in Trinidad. See appendix note.

* statistically significant at 5% level.

** statistically significant at 1% level.

† statistically significant at 10% level.

summarizes results on the conventional determinants of investment and growth, and on critical exogenous shocks (see appendix D for details). The focus then turns to a detailed analysis of the effects of trade preferences and trade liberalization, shown in tables 4-6a and 4-6b.

Conventional determinants and exogenous shocks

As anticipated, the ratio of investment to GDP for the pooled sample of six countries showed a strong, statistically significant positive relationship to GDP growth. For all specifications, a one- percentage-point increase in the rate of annual GDP growth raised annual investment relative to GDP by approximately 0.07 percent.⁵² Real income growth in the Caribbean, in all specifications, was (as expected) significantly related to growth in factors of production. An increase in investment of one-percentage-point raised GDP growth by an average of 0.15 percent, while a percentage-point increase in labor force growth raised GDP growth by 0.28 percent.

The debt crisis of the early 1980s reduced growth rates in these six countries by, on average, 7 percent, while other major crises (such as military coups) tended to reduce growth rates by about 6 percent. Changes in the purchasing power of exports also had a highly significant effect on growth. A percentage-point drop in the purchasing power of exports decreased GDP growth by 0.025 percent. In addition, structural changes in the U.S. quota system for sugar implied a reduction in growth in Belize and the Dominican Republic by 4 percent and 2 percent respectively, though this effect was generally only statistically significant for Belize.

CBERA and the production sharing program

Looking at table 4-6a, at first, it appears that the CBERA program had a positive effect on investment, though again its effects were diminished with each percentage point increase in U.S. openness. However, for the Caribbean group there was no specification where these effects were statistically significant. In contrast, PSP and the GALs have strongly significant effects on investment in the Caribbean. At any point in time, a percentage-point increase in PSP raised investment by 1.28 percent minus $0.07 \cdot \text{U.S. Openness}$ (a net effect of 0.12 percent in 1986, for example). Thereafter, this effect would decline by 0.07 percent with each percentage point increase in U.S. openness. A similar pattern appears when CBERA utilization and GALs are used in the same specification.⁵³

The effect of NAFTA on investment in the Caribbean is also quite crucial. In interviews, Caribbean exporters spoke about the trade-diversion and investment-diversion effects experienced when NAFTA was implemented, particularly in the apparel industry.⁵⁴

⁵² Lags appear to be important in this region. In some specifications, investment was strongly positively related to both GDP growth this period and GDP growth lagged one period.

⁵³ Alternative combinations of CBERA and production-sharing measures produced similar but much weaker results. The GALs would be expected to have a strong effect in the Caribbean group, since 4 countries in the this group had GALs agreements beginning in 1986.

⁵⁴ Evidence from USITC staff interviews with two apparel manufacturers and several government officials in Trinidad, June 11-13, 2001, and apparel manufacturers in the Dominican Republic, June 6, 2001.

As table 4-6a shows, NAFTA had a strong and significantly negative, direct effect on investment in the region (with size depending upon the specification). In addition, NAFTA diminished the impact of the production-sharing program on investment (though this effect is only significant in column (2)). For example, column (2) suggests that the positive impact of the GALs on investment was essentially reduced to zero during the NAFTA years.

The results regarding the impact of the trade preference programs on growth (table 4-6b) again reveal the interrelationship between various important trade reforms which occurred simultaneously. As in the Central American case, the CBERA program has a negative significant effect on growth in the Caribbean for the period as a whole, but the effect diminishes as the U.S. market becomes more open. Using the results in column (1), a percentage-point increase in CBERA trade at any point in time would lower Caribbean growth by -9.05 percent plus $0.44 \cdot \text{U.S. Openness}$ (a net effect of -1.13 percent in 1986, for example). However, when interacted with the period of trade reforms in these countries, the CBERA program has a positive effect on GDP. Again using the results in column (1), a percentage-point increase in CBERA trade during the reform years, raised Caribbean growth by 2.82 percent minus $0.11 \cdot \text{U.S. Openness}$.⁵⁵ However, results in column (2) show that this effect shrinks, and its significance is lost, when alternative measures are used.⁵⁶

As in Central America, the production-sharing program has a strong statistically significant effect on growth in the Caribbean. Using the results in column (1), a percentage point increase in PSP at any point in time raises GDP growth by 2.80 percent minus $0.14 \cdot \text{U.S. Openness}$ (a net effect of 0.28 percent in 1986). When PSP is analyzed with the presence of NAFTA, a negative effect appears, actually reversing the impact of the program on growth. Both columns (1) and (2) report a reduction in the effect of PSP on growth during the NAFTA years, though this result is only significant in column (1). Unlike the Central American case, unilateral reform did not appear to mitigate these effects (not shown in table). These results suggest that, the presence of NAFTA tended to depress the impact of the production-sharing program on GDP growth, despite on-going Caribbean trade liberalization.⁵⁷

Unilateral trade reform

Table 4-6 also shows the effects of U.S. and Caribbean unilateral trade reforms. A one-percentage-point increase in the openness of a country's own market raised the ratio of investment to GDP by 0.12 percent. In addition, Caribbean countries' investment was on average 1.4 percent higher during the trade reforms of the 1990s than during the period overall. Unlike Central America, the openness of the U.S. market appears to have no direct effect on investment in the Caribbean.

During the trade reforms conducted by the Caribbean countries in the 1990s, GDP growth was about 2 percent higher than during the period overall. In addition a

⁵⁵ $(-9.05 + 11.87) = 2.82$, and $(0.44 - 0.55) = -0.11$.

⁵⁶ Again similar patterns emerged using GALs, but the results were much weaker.

⁵⁷ Specifications using GALs showed similar patterns but weaker results for all preference programs.

percentage-point increase in U.S. openness raised Caribbean growth by about 0.2 percent. All specifications showed this strong direct relationship between trade liberalization, in the United States and in the Caribbean, and Caribbean growth.

Conclusion

The econometric analysis in this chapter provides some insight into the effect of CBERA on investment and growth in beneficiary countries. Some limitations of the analysis should be noted when drawing any overall conclusions. The model appears to be very good at explaining growth and investment in the region as a whole, but clearly fits some countries' experience much better than others. In addition, not all results are robust to changes in proxies for CBERA or for other trade preference programs. The regional proxies for CBERA and the other trade programs may fall short of capturing the importance of these programs in individual countries. The model is also, by necessity, simplified. For example, it omits any explicit estimation of the interdependence between foreign investment, growth, domestic investment, and trade preference programs. It also does not model individual components of countries trade reforms, such as privatization. Despite these (and other) limitations, some consistent strong patterns emerge.

There is some evidence that CBERA may have had a small positive effect on growth in the beneficiary countries. However, this effect only occurred during the years in which the beneficiary countries were liberalizing their own trade and foreign exchange regimes. In addition, as expected, this effect diminished in importance as the U.S. trade regime became more open. Though this pattern appeared in all specifications, it was statistically significant in some but not in others. In contrast, the analysis shows no evidence that CBERA had any direct impact on investment in the beneficiary countries once the presence of other preferential programs was taken into account.

The most striking result to emerge from the analysis is the consistent positive impact of the production-sharing program on both growth and investment in the region. Results for production-sharing are statistically significant for most specifications for the Caribbean countries, and some of the specifications for the Central American region. This evidence corresponds to reports from direct interviews with Central American and Caribbean exporters, who consistently emphasized the importance of production-sharing—particularly in the apparel industry—for investment, employment, growth, and exports in the region.⁵⁸ The importance of this program is also reflected in the significant negative impact that NAFTA had on the region. In direct interviews,⁵⁹

⁵⁸ Exporters and government officials from the Dominican Republic and Guatemala, USITC staff interviews, Santo Domingo, June 5-7 and Guatemala City, June 15, 18-19, 2001. Also U.S. Department of State telegrams, "Caribbean Basin Investment Survey: Guyana," message reference no. 593, prepared by U.S. Embassy, Georgetown, June 18, 2001 and "USITC Caribbean Basin Investment Survey," message reference no. 1625, prepared by U.S. Embassy, San Jose, June 15, 2001.

⁵⁹ Officials of a Guatemalan nontraditional export association and an apparel manufacturer, USITC staff interviews, Guatemala City, June 15 and June 18, 2001, respectively. Also, two apparel manufacturers and several government officials in Trinidad, June 11-13, 2001, and apparel manufacturers in the Dominican Republic, June 6, 2001.

CBERA manufacturers and industry representatives discussed the diversion of apparel trade and investment from the CBERA region to Mexico after 1994. Though only the Caribbean shows evidence of a direct reduction in aggregate investment due to NAFTA, there is evidence that the impact of the production-sharing program on both investment and growth in the region was reduced beginning in 1994.

The econometric analysis also shows strong evidence that trade liberalization--on the part of both the United States and the beneficiary countries--accelerated growth and investment. Trade reforms on the part of Central American and Caribbean countries significantly raised their investment as a share of GDP. Because investment proved strongly related to income growth, trade liberalization indirectly raised this growth. In addition, Caribbean trade reforms had a direct significant effect on Caribbean growth. U.S. trade liberalization had a significant, positive impact on Central American investment--thereby indirectly raising Central American growth--and had a significant, positive effect on Caribbean growth. These results were consistent across all specifications.

The importance of the production-sharing program for growth and investment in the CBERA region reinforces the critical nature of the CBTPA. For the first time, apparel exports (under the production-sharing program) have been included in the CBERA program. The duty-free status (and ability to transform the product) that this implies has already stimulated large amounts of investment and employment in the apparel industry in CBERA beneficiary countries.⁶⁰ The evidence from this analysis suggests that the addition of CBTPA will have a major impact on growth and investment in beneficiary countries in the future.

⁶⁰ Chapter 3 discusses investment in the CBERA region.

APPENDIX A
Federal Register Notice

consultation by encouraging maximum direct participation of representatives of tribal governments, tribal organizations, and BIA funded schools in important processes.

This notice is published in accordance with the authority delegated by the Secretary of the Interior to the Assistant Secretary—Indian Affairs by 209 DM 8.1.

Written Comments

Comments, including names, street addresses, and other contact information of respondents, will be available for public review at the address listed under ADDRESSES section during regular business hours (7:45 a.m. to 4:15 p.m. EST), Monday through Friday, except Federal holidays. Individual respondents may request confidentiality. If you wish us to withhold your name, street address, and other contact information (such as fax or phone number) from public review or from disclosure under the Freedom of Information Act, you must state this prominently at the beginning of your comment. We will honor your request to the extent allowable by law. We will make available for public inspection in their entirety all submissions from organizations or businesses, and from individuals identifying themselves as representatives or officials of organizations or businesses.

Dated: April 12, 2001.

James H. McDivitt,
Deputy Assistant Secretary—Indian Affairs
(Management).

[FR Doc. 01-9610 Filed 4-17-01; 8:45 am]

BILLING CODE 4310-02-P

DEPARTMENT OF THE INTERIOR

Bureau of Land Management

[OR-030-01-1220-AA: GPO1-0113]

Notice of Postponement of Meeting of the National Historic Oregon Trail Interpretive Center Advisory Board

AGENCY: Bureau of Land Management (BLM), Vale District, Oregon.

ACTION: Notice of postponement of meeting.

SUMMARY: Notice is given that the meeting of the National Historic Oregon Trail Interpretive Center Advisory Board scheduled for April 19, 2001, at the Sunridge Inn in Baker City, Oregon, has been postponed. BLM will provide notice when the meeting is rescheduled.

FOR FURTHER INFORMATION CONTACT: David B. Hunsaker, Bureau of Land Management National Historic Oregon

Trail Interpretive Center, P.O. Box 987, Baker City, Oregon 97814, (541) 523-1845.

Dated: April 13, 2001.

Josephine Gabiola,
Acting Vale District Manager.

[FR Doc. 01-9660 Filed 4-17-01; 8:45 am]

BILLING CODE 4310-33-P

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: United States International Trade Commission.

ACTION: Notice of opportunity to submit comments in connection with the 2000 biennial report.

EFFECTIVE DATES: April 11, 2001.

FOR FURTHER INFORMATION CONTACT:

Thomas Jennings (202-205-3260),
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:

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

(2) The probable future effect of CBERA on the U.S. economy generally and on industries affected by the Act.

(3) The impact of CBERA in promoting export-oriented growth and diversification of production in the beneficiary countries.

The latter item constitutes an addition to the Commission's mandated reporting requirement and will be undertaken for the first time as part of this year's report. The United States-Caribbean Basin Trade Partnership Act (19 U.S.C. 2701), Title II of the Trade and Development Act of 2000, amended the original CBERA legislation by broadening the scope of the Commission's reporting requirement and modifying the frequency of Commission reporting. The

requirement was changed from an annual to a biennial report.

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 fifteenth report, covering calendar year 2000, is to be submitted by September 30, 2001.

Written Submissions: The Commission does not plan to hold a public hearing in connection with the preparation of this fifteenth 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 for inspection by interested persons in the Office of the Secretary to the Commission. 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 June 29, 2001.

Address all submissions to the Secretary to the Commission, U.S. International Trade Commission, 500 E St., SW., Washington, DC 20436. Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 205-1810.

Issued: April 11, 2001.

By order of the Commission.

Donna R. Koehnke,

Secretary.

[FR Doc. 01-9516 Filed 4-17-01; 8:45 am]

BILLING CODE 7020-02-P

APPENDIX B
Summary of Submissions In Response to
Federal Register Notice

Submissions for the Record Investigation No. 332-227

Florida Citrus Mutual (FCM)¹

The submission from Florida Citrus Mutual “asserts that the rapidly growing U.S. orange juice imports from Costa Rica, Belize and Honduras under the CBERA program, have captured a significant share of both U.S. imports and consumption,” and that these imports may be “fueled by government funds.” Of specific concern to FCM is that the “dramatic growth in U.S. orange juice imports from Costa Rica in 2000 is not justifiable based on the only production data publicly available for Costa Rica in 2000, and may reflect some transshipment.” While acknowledging the limitations of available data, the report analyzes an apparent discrepancy between the Food and Agricultural Organization of the United Nations local production estimates and U.S. imports. The report also notes that the U.S. Customs Service currently has an open investigation around this matter. Given its concerns, FCM feels that the U.S. and Costa Rican governments should increase efforts to prevent possible transshipment of Brazilian orange juice via Costa Rica. Having cited the paucity of data in the Foreign Agricultural Service’s *Agricultural Attache Report* and *World Citrus Situation and Outlook*, FCM requests that citrus-producing CBERA countries “be required to report to the USITC their annual orange and orange juice production, consumption and export data in a timely and accurate manner and on an annual basis, ” to facilitate future analysis.

International Intellectual Property Alliance (IIPA)²

The submission from the International Intellectual Property Alliance begins by reinforcing that “its members have supported various trade tools with intellectual property rights (IPR) provisions over the years, including CBERA....” The submission summarizes the CBERA and CBTPA (U.S.-Caribbean Trade Partnership Act) programs and their various eligibility provisions that protect intellectual property rights. The report, nevertheless, expresses concern that despite these statutory provisions, “many of the CBTPA-eligible countries fail to meet the higher IPR standards elaborated under

¹ Submission to the Commission by Matthew T. McGrath, Esq., Counsel to Florida Citrus Mutual, received June 29, 2001.

² Submission to the Commission by Maria Strong, Esq., Vice President and Associate General Counsel to the International Intellectual Property Alliance, received June 29, 2001.

the CBTPA.” The report provides an overview and examples of copyright piracy in the region, including business software, videogames, sound recordings and music, and book publishing in various countries. The report also estimates “trade losses due to piracy of U.S. copyrighted material [and] levels of piracy for 2000 in some of the CBERA countries.” While acknowledging recent actions taken to alleviate some impediments within these countries, the submission concludes by reiterating a concern previously raised with the USTR regarding developments in Costa Rica, Dominican Republic, El Salvador, Guatemala, and The Bahamas, and stresses vigilant enforcement of IPR provisions in determining country eligibility.

American Apparel & Footwear Association (AAFA)³

The submission from the American Apparel & Footwear Association focuses on the Caribbean Basin Trade Partnership Act (CBTPA) because of its enhanced benefits relative to CBERA. The report raises several concerns around the “numerous uncertainties” contained in the interim regulations, and expresses hope that “these issues will be clarified once the final regulations are promulgated.” The submission notes that while AAFA “members are quite pleased with the tariff benefits,” the CBTPA preferences do not yet appear “to be stimulating new investment in, or resulting in new trade flows from, the region.” Despite this apparent lack of significant investment increase, the submission asserts that CBTPA is, nevertheless, modifying partnership trade with the CBTPA, as “the cut parts model appears to be shifting in favor of more full package approaches where U.S. yarns or fabrics, instead of cut parts, are shipped to the region for further processing into garments.” The report details the pre- and post-CBTPA enactment change in distribution of imports under various preferences including 807, 807A, CBTPA, and non-preference, noting the increase in CBTPA usage. Consequently, the submission contends that “despite confusion and incomplete rule making process, the apparel industry is slowly beginning to use the program to see duty savings and production savings... for current production.”

³ Submission to the Commission by Stephen Lamar, Vice President of the American Apparel & Footwear Association, received June 29, 2001.

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 2000. The economic effects of CBERA duty reductions¹ were evaluated with a comparative static analysis. Since CBERA tariff preferences were already in effect in 2000, the impact of the program was measured by comparing the market conditions currently present (duty-free entry, or 20 percent reduced-duty entry, for eligible products entered under CBERA provisions) with those that might have existed under full tariffs (i.e., no CBERA tariff preferences). Thus, the analysis provides an estimate of what the potential costs and benefits to the U.S. economy would have been if CBERA had not been in place during 2000. 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

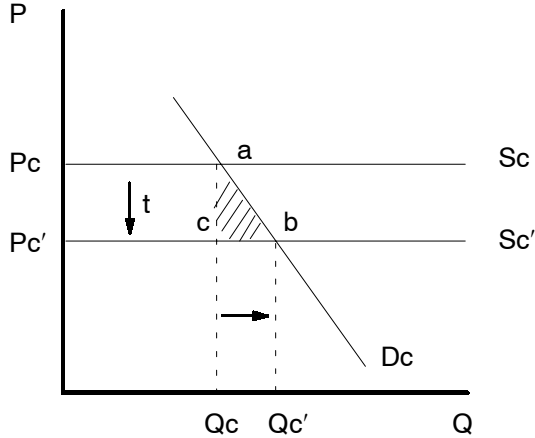
¹ Although the term *duty reduction* is used, the methodology employed in the analysis for this report applies equally to a duty elimination (which is a duty reduction in the full amount of the duty).

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. The method described in this section can be used in either situation.

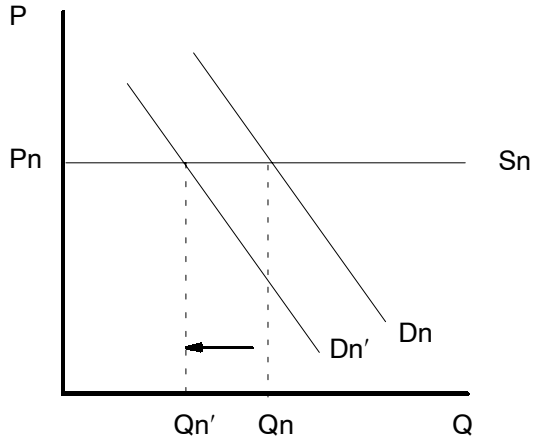
³ This is technically true only if income effects are negligible. Given the small U.S. expenditure on goods from CBERA countries, income effects are likely to be negligible for the products under consideration. See R. Willig, “Consumer’s Surplus Without Apology,” *American Economic Review*, 66, pp. 589-597.

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

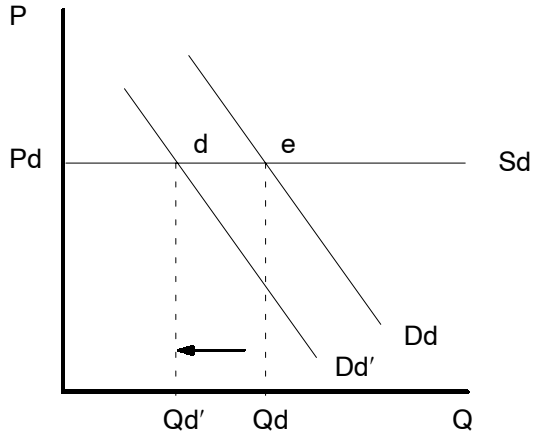
Figure C-1
Partial equilibrium analysis of the effects of CBERA duty provisions on U.S. imports



a. CBERA



b. non-CBERA



c. U.S. domestic output

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 net welfare effect of CBERA is equal to the increase in consumer surplus plus the decrease in tariff revenue—the trapezoid $P_cabP'_c$ minus the rectangle $P_cacP'_c$ 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'_ddeQ_d in panel c.

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:

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

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

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

⁵ Since CBERA imports 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. The change in producer surplus for CBERA producers was not considered in this analysis because the focus of the analysis was on the direct effects of CBERA provisions on the United States.

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

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

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

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

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:

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

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

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

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 i th and j th 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 ranges reflect a range of assumed substitutabilities between CBERA products and competing U.S. output. The upper range estimates reflect the assumption of high substitution elasticities. The lower range 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 M. Galloway, C. McDaniel, and S. Rivera, "Long-Run Industry-Level Estimates of U.S. Armington Elasticities," USITC Working Paper 2000-09A, Sept. 2000.

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

$$\begin{aligned} \text{trapezoid } P_c a b P'_c &= \int_{P'_c}^{P_c} k P_c^{\epsilon_{cc}} dP_c \\ &= [1/(1+\epsilon_{cc})] [(1+t)^{(1+\epsilon_{cc})} - 1] P'_c Q'_c && \text{if } \epsilon_{cc} \neq -1 \\ &= k \ln(1+t) && \text{if } \epsilon_{cc} = -1 \end{aligned}$$

Tariff revenue from U.S. imports from CBERA partners

area of

$$\begin{aligned} \text{rectangle } P_c a c P'_c &= (P_c - P'_c) Q_c \\ &= P'_c t Q_c && \text{given } P_c = P'_c (1+t) \\ &= t P'_c Q'_c (1+t)^{\epsilon_{cc}} && \text{given } Q_c = Q'_c (1+t)^{\epsilon_{cc}} \end{aligned}$$

Domestic output

area of

$$\begin{aligned} \text{rectangle } Q'_d d e Q_d &= P_d (Q_d - Q'_d) \\ &= P_d Q'_d [(1+t)^{\epsilon_{dc}} - 1] \end{aligned}$$

APPENDIX D

Technical Notes to Chapter 4

Technical Notes to Chapter 4

A. Model Specification and Estimation

Chapter 4 presents an econometric analysis of the effect of CBERA on income growth and investment in the beneficiary countries. In that analysis, annual income growth and investment are specified as a simultaneous system of equations, (1) and (2):

$$\hat{Y}_{it} = \hat{A}_{it} + a_1 \hat{L}_{it} + a_2 I_{it} + \eta_{it} + \varepsilon_{it} \quad (1)$$

$$I_{it} = b_{i0} + b_1 \hat{Y}_{it} + b_2 TR_{it} + v_{it} \quad (2)$$

where
$$\hat{A}_{it} = a_{01} TR_{it} + \delta_{it}$$

$$TR_{it} = c_1 T_{it} + c_2 T_{us} + c_3 CB_j + c_4 CB_j \cdot T_{us} + c_5 CB_j \cdot R_{it} + c_6 CB_j \cdot T_{us} \cdot R_{it} + c_7 PR_k + c_8 PR_k \cdot T_{us} + c_9 PR_k \cdot N \cdot R_{it} + c_{10} PR_k \cdot T_{us} \cdot N \cdot R_{it} + c_{11} R_{it} + c_{12} N$$

$$\eta_{it} = a_3 \hat{X}_{it} + a_4 DT_{it} + a_5 CR_{it} + a_6 WR_{it}$$

and, $\hat{}$: percent change
 \hat{A} : technological change
 TR: all types of trade reforms
 η : specific shocks
 ε, v : random shocks
 i: country
 t: year
 j: measure for CBERA program
 k: measure for other programs

All variables are defined in the table in section C below. Equation (1) was estimated using 3SLS. Equation (2) was estimated using SUR. For both (1) and (2) all specifications included corrections for fixed effects, groupwise heteroskedasticity, and first-order autocorrelation.

B. Sample

Equations (1) and (2) were estimated using pooled data from six Central American countries and pooled data from six Caribbean countries. The Central American sample included 29 years of data (1970-1998) for Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, and 19 years of data for Panama (1980-1998). The Caribbean sample included 29 years of data (1970-1998) for Dominican Republic, Guyana, Haiti, Jamaica, and Trinidad, and 19 years of data for Belize (1980-1998).

C. Variable definition, measurement, and source

Variable Name	Measure	Source
Y: Income	GDP in 1995 US dollars	World Bank, World Development Indicators 2000
I: Investment	gross domestic investment/GDP (percent)	World Bank, World Development Indicators 2000
L: labor force	total labor force (thousands)	World Bank, World Development Indicators 2000
X: export capacity to import	export revenue/import price index	World Bank, World Development Indicators 2000
CB ₁ : CBERA trade	US imports exclusively eligible for CBERA program/US imports from CBERA region (percent)	USITC data
CB ₂ : CBERA utilization	US imports under CBERA program/US imports eligible for CBERA program (percent)	USITC data
PR ₁ : Production Sharing	US imports from CBERA under HTS heading 9802 (807)/US imports from CBERA region (percent)	USITC data
PR ₂ : GALS	US imports from CBERA under HTS heading 9802.00.8015 (807A)/US imports from CBERA region (percent)	USITC data
T _{it} : openness of country	value of country's exports plus imports/country's GDP (percent)	World Bank, World Development Indicators 2000
T _{us} : openness of US	value of US exports plus imports/US GDP (percent)	World Bank, World Development Indicators 2000
DT: debt crisis years	country specific dummy variable	constructed by author
CR: domestic crisis years	country specific dummy variable	constructed by author
WR: war years	dummy variable for El Salvador and Honduras	constructed by author
δ, b_{i0} : country fixed effects	dummy variables	
R _{it} : reform years	country specific dummy variable	constructed by author
N: NAFTA	dummy variable for 1994-1998	

The Effect of CBERA on Investment in Central America

Dependent Variable: Gross Domestic Investment/GDP

	(1) ¹	(2) ¹	(3) ¹	(4) ¹
GDP Growth	0.33 (6.02) ² <i>0.00</i> ³	0.37 (7.43) <i>0.00</i>	0.35 (7.12) <i>0.00</i>	0.38 (7.77) <i>0.00</i>
Openness	0.19 (7.06) <i>0.00</i>	0.20 (8.28) <i>0.00</i>	0.20 (8.08) <i>0.00</i>	0.20 (8.16) <i>0.00</i>
US Openness	0.28 (2.14) <i>0.03</i>	0.42 (3.64) <i>0.00</i>	0.46 (4.15) <i>0.00</i>	0.46 (4.17) <i>0.00</i>
CBERA Trade	0.86 ⁴ (1.54) <i>0.13</i>	-0.59 (-0.93) <i>0.36</i>	-----	-----
CBERA Utilization	-----	-----	0.28 (3.09) <i>0.00</i>	0.04 (0.15) <i>0.88</i>
CBERA*US Openness	-0.05 ⁴ (-1.85) <i>0.07</i>	0.02 (0.63) <i>0.53</i>	-0.02 (-3.63) <i>0.00</i>	-0.01 (-0.39) <i>0.70</i>
Reform period	1.28 (1.58) <i>0.12</i>	1.54 (1.68) <i>0.10</i>	2.63 (3.25) <i>0.00</i>	1.84 (2.04) <i>0.04</i>
PSP	-----	0.76 (3.04) <i>0.00</i>	-----	0.64 (1.36) <i>0.18</i>
PSP*US Openness	-----	-0.04 (-3.28) <i>0.00</i>	-----	-0.03 (-1.09) <i>0.28</i>
NAFTA	-0.82 (-0.71) <i>0.48</i>	1.21 (1.05) <i>0.30</i>	0.66 (0.58) <i>0.56</i>	1.15 (1.03) <i>0.31</i>
Obs.	158	158	158	158
	R ² DW-statistic	R ² DW-statistic	R ² DW-statistic	R ² DW-statistic
Costa Rica	0.42 1.97	0.43 1.77	0.52 1.87	0.52 1.70
El Salvador	0.65 1.75	0.69 1.77	0.66 1.79	0.69 1.78
Guatemala	0.73 2.14	0.72 2.09	0.77 2.07	0.74 2.13
Honduras	0.73 1.70	0.75 1.72	0.73 1.74	0.73 1.74
Nicaragua	0.60 1.75	0.61 1.71	0.60 1.75	0.61 1.71
Panama	0.78 1.51	0.80 1.57	0.80 1.52	0.79 1.64

¹ Includes fixed effects.

² t-statistics in parentheses.

³ p-values in italics.

⁴ 3SLS estimation produced coefficients for CBERA of similar magnitude, but significant at the 10% and 5% levels.

The Effect of CBERA on Growth in Central America¹

Dependent Variable: Annual Real Income Growth

CBERA represented by CBERA Trade

GDI	0.32 (5.25) ² <i>0.00</i> ³	CBERA Trade	-9.51 (2.09) <i>0.04</i>
Labor Force Growth	0.35 (2.81) <i>0.00</i>	CBERA Trade*Reform	8.42 (1.56) <i>0.12</i>
NI migration to CR ⁴	-0.63 (-2.00) <i>0.05</i>	CBERA Trade*US Openness	0.51 (2.10) <i>0.04</i>
Debt Crisis	-6.67 (-9.01) <i>0.00</i>	CBERA Trade *US Openness* Reform	-0.47 (-1.72) <i>0.09</i>
War-El Salvador (country dummy)	-3.18 (-2.21) <i>0.03</i>	PSP	2.46 (1.59) <i>0.11</i>
War-Nicaragua (country dummy)	-1.34 (-0.82) <i>0.41</i>	PSP*Reform	0.64 (0.20) <i>0.84</i>
Export Capacity to Import (% change)	0.04 (3.04) <i>0.00</i>	PSP*Reform*NAFTA	-2.99 (-1.23) <i>0.22</i>
Crisis	-7.38 (-9.92) <i>0.00</i>	PSP*US Openness	-0.13 (-1.68) <i>0.10</i>
NAFTA	7.34 (0.64) <i>0.52</i>	PSP*US Openness*Reform	0.00 (0.03) <i>0.99</i>
Reform	-8.81 (-1.33) <i>0.58</i>	PSP*US Openness * Reform*NAFTA	0.13 (1.25) <i>0.22</i>
Obs. = 158	R ² DW-statistic		
Costa Rica	0.68	2.06	
El Salvador	0.92	2.01	
Guatemala	0.60	1.55	
Honduras	0.25	1.84	
Nicaragua	0.68	1.96	
Panama	0.53	1.80	

¹ Includes fixed effects.

² t-statistics in parentheses.

³ p-values in italics.

⁴ Dummy interacted with Costa Rican labor growth during the war years in Nicaragua.

The Effect of CBERA on Growth in Central America¹ (continued)

Dependent Variable: Annual Real Income Growth

CBERA represented by CBERA Utilization

GDI	0.33 (5.52) ² <i>0.00</i> ³	CBERA Utilization	-0.84 (-0.83) <i>0.42</i>
Labor Force Growth	0.32 (2.53) <i>0.01</i>	CBERA Utilization*Reform	0.47 (0.31) <i>0.76</i>
NI migration to CR ⁴	-0.75 (-2.30) <i>0.02</i>	CBERA Utilization*US Openness	0.05 (0.85) <i>0.40</i>
Debt Crisis	-6.43 (-8.30) <i>0.00</i>	CBERA Utilization *US Openness*Reform	-0.04 (-0.48) <i>0.63</i>
War-El Salvador (country dummy)	-3.54 (-2.42) <i>0.02</i>	PSP	1.29 (0.57) <i>0.57</i>
War-Nicaragua (country dummy)	-2.00 (-1.23) <i>0.22</i>	PSP*Reform	2.66 (0.54) <i>0.59</i>
Export Capacity to Import (% change)	0.04 (3.19) <i>0.00</i>	PSP*Reform*NAFTA	-3.49 (-1.21) <i>0.23</i>
Crisis	-7.38 (-9.72) <i>0.00</i>	PSP*US Openness	-0.08 (-0.64) <i>0.52</i>
NAFTA	7.69 (0.65) <i>0.51</i>	PSP*US Openness*Reform	-0.08 (-0.39) <i>0.69</i>
Reform	-5.03 (-0.83) <i>0.41</i>	PSP*US Openness* Reform*NAFTA	0.15 (1.18) <i>0.24</i>
Obs. = 158			
	R ²	DW-statistic	
Costa Rica	0.69	2.10	
El Salvador	0.91	2.12	
Guatemala	0.58	1.54	
Honduras	0.24	1.88	
Nicaragua	0.69	1.91	
Panama	0.54	1.83	

¹ Includes fixed effects.

² t-statistics in parentheses.

³ p-values in italics.

⁴ Dummy interacted with Costa Rican labor growth during the war years in Nicaragua.

The Effect of CBERA on Investment in the Caribbean

Dependent Variable: Gross Domestic Investment/GDP

	(1) ¹		(2) ¹
GDP Growth	0.07 (1.68) ² <i>0.10</i> ³	GDP Growth	0.06 (1.45) <i>0.15</i>
Openness	0.12 (7.19) <i>0.00</i>	Openness	0.12 (6.18) <i>0.00</i>
US Openness	0.09 (0.50) <i>0.62</i>	US Openness	-0.06 (-0.28) <i>0.78</i>
CBERA Trade	0.23 (0.30) <i>0.77</i>	CBERA Utilization	0.05 (0.30) <i>0.77</i>
CBERA Trade*US Openness	-0.01 (-0.32) <i>0.75</i>	CBERA Utilization*US Openness	-0.003 (-0.42) <i>0.67</i>
Reform period	-2.05 (-2.08) <i>0.04</i>	Reform period	-1.83 (-1.66) <i>0.10</i>
Reform period post 1990	3.51 (2.52) <i>0.01</i>	Reform period post 1990	3.21 (2.11) <i>0.04</i>
PSP	1.28 (2.25) <i>0.03</i>	GALS	10.34 (1.83) <i>0.07</i>
PSP*NAFTA	-0.96 (-1.43) <i>0.16</i>	GALS*NAFTA	-11.50 (-1.93) <i>0.06</i>
PSP*US Openness	-0.07 (-2.59) <i>0.01</i>	GALS*US Openness	-0.50 (-1.91) <i>0.06</i>
PSP*US Openness*NAFTA	0.07 (2.69) <i>0.00</i>	GALS*US Openness*NAFTA	0.56 (2.03) <i>0.04</i>
NAFTA	-21.04 (-2.56) <i>0.01</i>	NAFTA	-6.45 (-2.90) <i>0.00</i>
Obs. = 158	R ² DW-statistic		R ² DW-statistic
Belize	0.53 1.44		0.69 1.92
Dominican Republic	0.18 1.52		0.26 1.65
Guayana	0.43 1.79		0.37 1.81
Haiti	0.91 2.08		0.91 1.99
Jamaica	0.68 2.00		0.72 2.17
Trinidad	0.69 1.64		0.69 2.03

¹ Includes fixed effects.

² t-statistics in parentheses.

³ p-values in italics.

The Effect of CBERA on Growth in the Caribbean¹

Dependent Variable: Annual Real Income Growth

CBERA represented by CBERA Trade

GDI	0.18 (3.17) ² <i>0.00</i> ³	CBERA Trade	-9.05 (-2.62) <i>0.01</i>
Labor Force Growth	0.28 (1.79) <i>0.08</i>	CBERA Trade*reform	11.87 (1.68) <i>0.10</i>
Debt Crisis	-7.08 (-6.83) <i>0.00</i>	CBERA Trade *US Openness	0.44 (2.43) <i>0.02</i>
Crisis	-5.60 (-7.13) <i>0.00</i>	CBERA Trade*US Openness* Reform	-0.55 (-1.68) <i>0.10</i>
Sugar Regime Change-Belize ⁴ (country dummy)	-4.17 (-1.78) <i>0.08</i>	PSP	2.80 (2.33) <i>0.02</i>
Sugar Regime Change-DR ⁴ (country dummy)	-2.32 (-1.50) <i>0.13</i>	PSP*NAFTA	-4.11 (-1.99) <i>0.05</i>
Export Capacity to Import (% change)	0.02 (2.34) <i>0.02</i>	PSP*US Openness	-0.14 (-2.35) <i>0.02</i>
Reform	2.34 (2.42) <i>0.02</i>	PSP*US Openness* NAFTA	0.19 (1.99) <i>0.06</i>
Trinidad Reform Dummy ⁵	-0.14 (-0.07) <i>0.94</i>	US Openness	0.21 (1.91) <i>0.06</i>
Jamaica Govt. Dummy ⁶	15.07 (7.05) <i>0.00</i>	NAFTA	0.68 (0.08) <i>0.94</i>
Obs. = 158	R ²	DW-statistic	
Belize	0.36	2.09	
Dominican Republic	0.51	2.35	
Guayana	0.62	1.88	
Haiti	0.73	1.81	
Jamaica	0.79	1.64	
Trinidad	0.42	1.95	

¹ Includes fixed effects.

² t-statistics in parentheses.

³ p-values in italics.

⁴ Dummy for years in which the US changed the structure of its sugar quota scheme.

⁵ Dummy for Trinidad's early reform years, which coincided with major debt restructuring and other macroeconomic problems.

⁶ Dummy for 1972 positive growth shock with newly elected government.

The Effect of CBERA on Growth in the Caribbean¹ (continued)

Dependent Variable: Annual Real Income Growth

CBERA represented by CBERA Utilization

GDI	0.13 (2.28) ² <i>0.02</i> ³	CBERA Utilization	-1.82 (-2.32) <i>0.02</i>
Labor Force Growth	0.29 (1.84) <i>0.07</i>	CBERA Utilization*Reform	1.67 (1.00) <i>0.32</i>
Debt Crisis	-7.30 (-7.29) <i>0.00</i>	CBERA Utilization*US Openness	0.09 (2.14) <i>0.03</i>
Crisis	-5.76 (-7.60) <i>0.00</i>	CBERA Utilization *US Openness*Reform	-0.08 (-1.00) <i>0.32</i>
Sugar Regime Change-Belize ⁴ (country dummy)	-4.14 (-1.71) <i>0.09</i>	PSP	3.28 (1.91) <i>0.06</i>
Sugar Regime Change-DR ⁴ (country dummy)	-2.62 (-1.64) <i>0.10</i>	PSP*NAFTA	-3.89 (-1.22) <i>0.23</i>
Export Capacity to Import (% change)	0.02 (2.07) <i>0.04</i>	PSP*US Openness	-0.17 (-1.89) <i>0.06</i>
Reform	3.17 (3.19) <i>0.00</i>	PSP*US Openness*NAFTA	0.18 (1.22) <i>0.22</i>
Trinidad Reform Dummy ⁵	-1.31 (-0.70) <i>0.49</i>	US Openness	0.24 (2.28) <i>0.02</i>
Jamaica Govt. Dummy ⁶	15.24 (7.08) <i>0.00</i>	NAFTA	0.22 (0.02) <i>0.98</i>
Obs. = 158	R ²	DW-statistic	
Belize	0.21	2.18	
Dominican Republic	0.45	2.26	
Guayana	0.64	1.72	
Haiti	0.76	1.84	
Jamaica	0.78	1.84	
Trinidad	0.45	1.95	

¹ Includes fixed effects.

² t-statistics in parentheses.

³ p-values in italics.

⁴ Dummy for years in which the US changed the structure of its sugar quota scheme.

⁵ Dummy for Trinidad's early reform years, which coincided with major debt restructuring and other macroeconomic problems.

⁶ Dummy for 1972 positive growth shock with newly elected government.

APPENDIX E

Statistical Tables

Table E-1
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change 1998-1999	Change 1999-2000	Change 1998-2000
			1998	1999	2000			
			<i>1,000 dollars</i>			<i>Percent</i>		
Antigua and Barbuda . . .	6306.31.00	Sails for boats, sailboards or landcraft, of synthetic fibers	-	-	4	-	-	-
Total			-	-	4	-	-	-
Aruba	0511.99.40	Animal products nesi; dead animals of chapter 1, unfit for human consumption	-	-	90	-	-	-
	7103.99.10	Precious or semiprecious stones, nesoï, cut but not set and suitable for use in the manufacture of jewelry . .	-	-	14	-	-	-
Total			-	-	104	-	-	-
The Bahamas	3903.11.00	Polystyrene, expandable, in primary forms	15,169	33,992	51,123	124.09	50.40	237.02
	3812.30.60	Antioxidizing prep & oth compound stabilizers for rubber/plastics cont any aromatic or modified aromatic antioxidant or o/stabilizer, nesoï	10,133	8,148	6,344	-19.59	-22.14	-37.39
Total			25,302	42,140	57,467	66.55	36.37	127.13
Barbados	9032.89.60	Automatic regulating or controlling instruments and apparatus, nesi	3,449	3,070	3,510	-10.99	14.35	1.78
	2208.40.80	Rum and tafia, in containers each holding over 4 liters, valued over \$0.69/proof liter	788	1,789	1,923	126.98	7.50	144.00
	8204.11.00	Hand-operated non-adjustable spanners and wrenches, and base metal parts thereof	919	1,648	1,290	79.32	-21.73	40.35
	9030.90.88	Parts and accessories for articles of subheadings 9030.20 to 9030.40, 9030.83 and 9030.89, nesoï	2,442	1,637	812	-32.95	-50.44	-66.77
Total			7,598	8,145	7,535	7.19	-7.48	-83
Belize	2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	7,356	13,077	18,313	77.76	40.04	148.94
	0807.20.00	Papayas (papaws), fresh	3,272	3,658	5,889	11.78	61.00	79.98
Total			10,628	16,735	24,202	57.45	44.62	127.71
British Virgin Islands	2103.90.80	Mixed condiments and mixed seasonings, not described in add us note 3 to ch. 21	3	6	6	63.72	9.34	79.02

See footnotes at end of table.

Table E-1—Continued
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change 1998-1999	Change 1999-2000	Change 1998-2000
			1998	1999	2000			
			1,000 dollars			Percent		
	8536.49.00	Relays for switching, protecting or making connections to or in electrical circuits, for a voltage exceeding 60 but not exceeding 1,000 v	-	-	6	-	-	-
	6306.31.00	Sails for boats, sailboards or landcraft, of synthetic fibers	-	-	5	-	-	-
	8714.95.00	Pts. & access. for bicycles & o/cycles, saddles	-	-	5	-	-	-
Total			3	6	22	63.72	295.73	547.91
Costa Rica	0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	61,044	99,302	105,383	62.67	6.12	72.63
	8516.31.00	Electrothermic hair dryers	39,296	47,719	44,365	21.44	-7.03	12.90
	2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	27,759	16,065	39,898	-42.13	148.34	43.73
	0807.19.20	Cantaloupes, fresh, if entered during the periods from january 1 through july 31 or september 16 to december 31, inclusive	16,883	21,729	32,209	28.71	48.23	90.78
	2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	13,917	16,459	27,436	18.26	66.69	97.14
	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi	42,784	39,723	23,373	-7.15	-41.16	-45.37
	4016.93.50	Gaskets, washers and other seals, of noncellular vulcanized rubber other than hard rubber	31,139	33,348	17,096	7.10	-48.74	-45.10
	0201.30.50	Bovine meat cuts, boneless, not processed, fresh or chld., descr in add. US note 3 to Ch. 2	11,644	14,048	14,914	20.64	6.17	28.08
	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.	13,685	18,829	14,892	37.59	-20.91	8.82
	0202.30.50	Bovine meat cuts, boneless, not processed, frozen, descr in add. Us note 3 to ch. 2	8,580	13,168	13,769	53.47	4.56	60.47
	0603.10.80	Cut flowers and flower buds suitable for bouquets or ornamental purposes, fresh cut, nesi	11,789	13,199	13,254	11.95	.42	12.42
	4011.10.10	Radial tires w rim diameter > 45.72 cm or (18") ...	2,447	10,445	12,739	326.86	21.96	420.61
	4418.20.80	Doors of wood, other than french doors	16,426	15,996	12,427	-2.62	-22.31	-24.35
	0714.90.10	Fresh or chilled dasheens, whether or not sliced or in the form of pellets	8,956	10,472	10,698	16.93	2.16	19.46

See footnotes at end of table.

Table E-1—Continued
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change 1998-1999	Change 1999-2000	Change 1998-2000
			1998	1999	2000			
			<i>1,000 dollars</i>				<i>Percent</i>	
	0714.10.20	Cassava (manioc), fresh, chilled or dried, whether or not sliced or in the form of pellets	15,174	8,688	10,547	-42.74	21.40	-30.49
	0602.10.00	Unrooted cuttings and slips of live plants	8,638	7,884	10,125	-8.73	28.43	17.21
	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	-	-	-
	3926.90.98	Other articles of plastic, nesoi	7,189	7,434	7,711	3.40	3.73	7.25
	0714.90.20	Fresh or chilled yams, whether or not sliced or in the form of pellets	11,882	9,094	7,608	-23.47	-16.34	-35.97
	0807.19.70	Other melons nesoi, fresh, if entered during the period from december 1, in any year, to the following may 31, inclusive	9,656	5,538	7,172	-42.64	29.49	-25.73
	Total		358,888	409,140	434,459	14.00	6.19	21.06
Dominica	7013.99.90	Glassware for toilet/office/indoor decor. or similar purposes, nesoi, n/cut or engraved, valued over \$5 each	-	115	116	-	1.00	-
	3307.10.20	Pre-shave, shaving or after-shave preparations, containing alcohol	27	21	39	-20.34	81.98	44.97
	Total		27	137	155	406.74	13.73	476.32
Dominican Republic	2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	216,598	163,262	169,834	-24.62	4.03	-21.59
	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	123,582	122,390	123,394	-.96	.82	-.15
	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17 ..	113,597	65,081	77,871	-42.71	19.65	-31.45
	8536.20.00	Automatic circuit breakers, for a voltage not exceeding 1,000 V	57,198	75,099	74,016	31.30	-1.44	29.40
	8504.31.40	Electrical transformers other than liquid dielectric, having a power handling capacity less than 1 kVA ..	636	693	27,380	9.03	3,850.71	4,207.42
	8536.49.00	Relays for switching, protecting or making connections to or in electrical circuits, for a voltage exceeding 60 but not exceeding 1,000 V	24,126	21,898	21,412	-9.23	-2.22	-11.25
	8504.40.95	Static converters (for example, rectifiers), nesoi	28	189	20,947	572.63	11,007.58	74,613.09
	4202.12.80	Trunks, suitcases, vanity & attache cases, occupational luggage and similar containers, with outer surface of textile materials nesi	13,354	18,303	16,194	37.07	-11.53	21.27

See footnotes at end of table.

Table E-1—Continued
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change 1998-1999	Change 1999-2000	Change 1998-2000
			1998	1999	2000			
			1,000 dollars			Percent		
	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	-	-	-
	3926.90.98	Other articles of plastic, nesoi	9,877	12,155	11,898	23.07	-2.11	20.47
	2203.00.00	Beer made from malt	10,859	9,541	11,887	-12.14	24.60	9.47
	2106.90.99	Food preparations not elsewhere specified or included, not canned or frozen	9,563	12,257	11,191	28.17	-8.70	17.02
	2402.10.30	Cigars, cheroots and cigarillos containing tobacco, each valued less than 15 cents	8,123	9,255	11,173	13.94	20.72	37.55
	8536.90.80	Electrical apparatus nesi, for switching or making connections to or in electrical circuits, for a voltage not exceeding 1,000 V, nesoi	11,889	5,901	9,993	-50.37	69.35	-15.94
	Total		599,429	516,024	603,263	-13.91	16.91	.64
El Salvador	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	-	-	7,524	-	-	-
	2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	4,127	5,884	7,514	42.58	27.71	82.08
	4819.40.00	Sacks and bags, nesi, including cones, of paper, paperboard, cellulose wadding or webs of cellulose fibers	2,615	3,185	5,102	21.79	60.18	95.08
	6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	-	-	3,112	-	-	-
	8504.31.40	Electrical transformers other than liquid dielectric, having a power handling capacity less than 1 kVA . .	2,136	3,181	3,280	48.91	3.13	53.58
	6109.90.10	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of man made fibers	-	-	3,112	-	-	-
	2203.00.00	Beer made from malt	358	604	2,973	68.95	392.22	731.61
	7615.19.70	Aluminum, cooking and kitchen ware (o/than cast), not enameled or glazed and not containing nonstick interior finishes	1,661	3,643	2,903	119.25	-20.30	74.74
	1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	8,609	6,378	2,475	-25.91	-61.20	-71.26
	4420.90.80	Wood marquetry and inlaid wood; wooden articles of furniture, nesi	1,616	1,979	2,161	22.46	9.21	33.74
	6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	-	-	1,975	-	-	-

See footnotes at end of table.

Table E-1—Continued
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change 1998 -1999	Change 1999-2000	Change 1998-2000
			1998	1999	2000			
			<i>1,000 dollars</i>				<i>Percent</i>	
	4202.92.30	Travel, sports and similar bags with outer surface of textile materials other than of vegetable fibers	1,417	2,127	1,800	50.15	-15.41	27.01
	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	-	-	-
	9507.90.70	Artificial baits and flies	867	1,058	1,312	22.07	24.03	51.40
	6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	-	-	1,080	-	-	-
	6207.11.00	Men's or boys' underpants and briefs, not knitted or crocheted, of cotton	-	-	920	-	-	-
	4202.92.90	Bags, cases and similar containers nesi, with outer surface of plastic sheeting or of textile materials, excl. cotton	931	952	908	2.26	-4.62	-2.46
	6108.21.00	Women's or girls' briefs and panties, knitted or crocheted, of cotton	-	-	851	-	-	-
Total			24,336	28,990	50,868	19.13	75.47	109.02
Grenada	8535.90.80	Electrical apparatus nesi for switching, protecting, or making connections for electrical circuits, for a voltage exceeding 1,000 V, nesi	7,347	11,324	16,494	54.13	45.66	124.50
Total			7,347	11,324	16,494	54.13	45.66	124.50
Guatemala	0807.19.20	Cantaloupes, fresh, if entered during the periods from January 1 through July 31 or September 16 to December 31, inclusive	15,292	32,928	41,026	115.33	24.59	168.29
	0710.80.97	Vegetables nesi, uncooked or cooked by steaming or boiling in water, frozen, reduced in size	21,226	24,374	20,387	14.83	-16.36	-3.95
	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17 .	19,054	17,801	15,078	-6.58	-15.29	20.86
	1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	12,139	56,529	14,141	365.67	-74.98	16.49
	2921.43.15	alpha,alpha,alpha-Trifluoro-2,6-dinitro-N,N-dipropyl-p-toluidine (Trifluralin)	26,518	19,749	12,962	-25.53	-34.37	-51.12
	0807.19.70	Other melons neso, fresh, if entered during the period from December 1, in any year, to the following May 31, inclusive	5,978	9,704	12,225	62.32	25.97	104.48

See footnotes at end of table.

Table E-1—Continued
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change	Change	Change
			1998	1999	2000	1998-1999	1999-2000	1998-2000
			1,000 dollars			Percent		
	2401.20.85	Tobacco, partly or wholly stripped, threshed or similarly processed, not from cigar leaf, described in addl US note 5 to chap 24	20,235	9,570	11,804	-52.71	23.35	-41.67
	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	695	3,285	10,712	372.68	226.07	1,441.26
	0602.10.00	Unrooted cuttings and slips of live plants	4,712	6,453	9,075	36.96	40.62	92.59
	4203.30.00	Belts and bandoliers with or without buckles, of leather or of composition leather	8,506	5,009	8,047	-41.12	60.66	-5.40
	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	-	-	-
	6910.10.00	Porcelain or china ceramic sinks, washbasins, baths, bidets, water closet bowls, urinals & siml. sanitary fixtures	8,809	8,122	7,082	-7.79	-12.81	-19.60
	3926.40.00	Statuettes and other ornamental articles, of plastics	3,879	5,734	6,480	47.81	13.00	67.02
	0603.10.60	Roses, fresh cut	5,744	4,096	4,416	-28.69	7.81	-23.12
	0804.50.40	Guavas, mangoes, and mangosteens, fresh, if entered during the period September 1 through May 31, inclusive	3,625	3,876	4,180	6.92	7.86	15.32
	0781.10.40	Peas, fresh or chilled, shelled or unshelled, if entered Nov. 1 through the following June 30, inclusive	3,862	3,192	3,390	-17.34	6.19	-12.22
	Total		160,273	210,421	188,168	31.29	-10.58	17.40
Guyana	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	11,896	5,546	8,821	-53.38	59.05	-25.85
	4412.22.30	Plywood nesoi, least one hardwood outer ply, w/tropical hardwood ply, not surface-covered beyond clear/transparent, not w/face ply of birch	3,170	2,971	4,728	-6.28	59.13	49.13
	Total		15,067	8,517	13,549	-43.47	59.08	-10.08
Haiti	0804.50.40	Guavas, mangoes, and mangosteens, fresh, if entered during the period September 1 through May 31, inclusive	2,384	3,476	3,479	45.85	.06	45.94

See footnotes at end of table.

Table E-1—Continued
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change 1998 -1999	Change 1999-2000	Change 1998-2000
			1998	1999	2000			
			<i>1,000 dollars</i>				<i>Percent</i>	
	0804.50.60	Guavas, mangoes, and mangosteens, fresh, if entered during the period June 1 through August 31, inclusive	2,998	3,213	3,467	7.18	7.89	15.64
	4104.31.50	Upper & sole leather of bovine (except buffalo) or equine animals, parchment dressed or prep. after tanning, full grains and grain splits	2,745	1,781	1,807	-35.14	1.48	-34.18
	4106.19.20	Wet blues of goat or kidskin leather, without hair on, not incl. chamois, patent, patent laminated or metallized leath, tanned or retanned	2,512	1,884	1,295	-24.98	-31.29	-48.46
	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 ..	1,053	924	1,208	-12.23	30.74	14.75
	7326.90.85	Iron or steel, articles, nesoi	1,414	1,326	1,175	-6.21	-11.38	-16.88
	7013.99.50	Glassware for toilet/office/indoor decor. or similar purposes, nesoi, valued over \$0.30 but n/over \$3 each	1,287	1,142	930	-11.30	-18.56	-27.76
	6107.11.00	Men's or boys' underpants and briefs, knitted or crocheted, of cotton	-	-	924	-	-	-
	6104.62.20	Women's or girls' trousers, breeches and shorts, knitted or crocheted, of cotton	-	-	811	-	-	-
	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	-	-	775	-	-	-
	7326.20.00	Iron or steel, articles of wire, nesoi	157	436	712	177.628	63.26	353.24
	5808.90.00	Ornamental trimmings in the piece, without embroidery, other than knitted or crocheted; tassels, pompons and similar articles	-	73	520	-	616.39	-
	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	-	882	460	-	-47.91	-
	6116.92.64	Gloves, mittens & mitts, (excl. ski or snowmobile), knitted or crocheted, of cotton, made from a pre-existing machine knit fabric, w/o four.	-	-	451	-	-	-
	Total		14,550	15,138	18,013	4.04	18.99	23.80

See footnotes at end of table.

Table E-1—Continued

Leading U.S. imports for consumption entered under CBERA, by sources, 1998-2000

Source	HTS Item	Description	Value			Change	Change	Change
			1998	1999	2000	1998 -1999	1999-2000	1998-2000
			1,000 dollars			Percent		
Honduras	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 ..	23,824	31,251	54,590	31.17	74.68	129.13
	2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	45,325	41,958	33,573	-7.43	-19.98	-25.93
	0807.19.20	Cantaloupes, fresh, if entered during the periods from January 1 through July 31 or September 16 to December 31, inclusive	19,040	16,527	18,372	-13.20	11.16	-3.51
	6109.10.00	T-shirts, singlets, tank tops and similar garments, knitted or crocheted, of cotton	-	-	14,164	-	-	-
	9603.90.80	Brooms & brushes nesoi, mops, hand operated mechanical floor sweepers, squeegees and similar articles, nesoi	7,393	6,974	8,630	-5.67	23.74	16.73
	0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates or other packages	6,622	6,310	7,761	-4.71	22.99	17.20
	4421.90.98	Articles of wood, nesoi	5,650	10,633	7,250	88.19	-31.81	28.33
	8536.30.80	Electrical apparatus for protecting electrical circuits, for a voltage not exceeding 1,000 V, nesi	4,132	4,589	6,235	11.06	35.87	50.90
	3923.21.00	Sacks and bags (including cones) for the conveyance or packing of goods, of polymers of ethylene	8,054	4,778	6,198	-40.68	29.72	-23.05
	6110.20.20	Sweaters, pullovers and similar articles, knitted or crocheted, of cotton, nesoi	-	-	5,852	-	-	-
	8708.29.50	Pts. & access. of bodies for mtr. vehicles of headings 8701 to 8705, nesoi	67	1,449	5,502	2049.54	279.74	8,062.77
	2009.11.00	Orange juice, frozen, unfermented and not containing added spirit	3,438	1,417	5,283	-58.78	272.79	53.67
	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	2,167	3,890	4,441	79.52	14.15	104.91
Total			125,714	129,776	177,850	3.23	37.04	41.47

See footnotes at end of table.

Table E-1—Continued
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change	Change	Change
			1998	1999	2000	1998 -1999	2000 -1999	1998-2000
			1,000 dollars			Percent		
Jamaica	2207.10.60	Undenatured ethyl alcohol of 80 percent vol. alcohol or higher, for nonbeverage purposes	15,615	22,772	29,045	45.83	27.55	86.01
	2203.00.00	Beer made from malt	7,887	8,210	10,602	4.09	29.14	34.42
	2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	30,938	10,462	8,613	-66.18	-17.67	-72.16
	0714.90.20	Fresh or chilled yams, whether or not sliced or in the form of pellets	9,664	9,504	7,648	-1.65	-19.52	-20.85
	2208.40.80	Rum and tafia, in containers each holding over 4 liters, valued over \$0.69/proof liter	2,686	7,850	7,445	192.28	-5.16	177.20
Total			66,790	58,798	63,353	-11.97	7.75	-5.15
Montserrat	2208.90.45	Cordials, liqueurs, kirschwasser and ratafia	-	-	.00	.00	.00	-
Total			-	6	-	-	-100.00	-
Netherlands Antilles	8544.20.00	Insulated (including enameled or coaxial cable and other coaxial conductors	2	20	1,040	961.42	5,078.87	54,869.34
	8504.32.00	Electrical transformers other than liquid dielectric, having a power handling capacity exceeding 1 kVA but not exceeding 16 kVA	194	747	946	284.09	26.62	386.33
	8544.60.20	Insulated electric conductors nesi, for a voltage exceeding 1,000 V, fitted with connectors	52	-	669	-100.00	.00	1,199.82
Total			248	767	2,655	209.46	246.16	971.21
Nicaragua	0202.30.50	Bovine meat cuts, boneless, not processed, frozen, descr in add. US note 3 to Ch. 2	9,309	10,299	15,178	10.64	47.37	63.05
	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	11,732	9,956	8,549	-15.14	-14.13	-27.13
	2402.10.80	Cigars, cheroots and cigarillos containing tobacco, each valued 23 cents or over	12,595	8,615	8,539	-31.60	-.88	-32.20
	0201.30.50	Bovine meat cuts, boneless, not processed, fresh or chld., descr in add. US note 3 to Ch. 2	4,012	3,829	6,163	-4.56	60.97	53.63
	1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	10,851	5,164	5,800	-52.41	12.31	-46.55
Total			48,498	37,862	44,229	-21.93	16.82	-8.80
Panama	1701.11.10	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17	20,965	19,913	14,544	-5.02	-26.97	-30.63

See footnotes at end of table.

Table E-1—Continued
Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change 1998-1999	Change 1999-2000	Change 1998-2000
			1998	1999	2000			
			1,000 dollars			Percent		
	1701.11.20	Cane sugar, raw, in solid form, to be used for certain polyhydric alcohols	4,329	1,295	4,256	-70.08	228.62	-1.69
	9603.90.80	Brooms & brushes nesoi, mops, hand-operated mechanical floor sweepers, squeegees and similar articles, nesoi	4,418	3,932	4,065	-11.00	3.38	-7.99
	0807.19.70	Other melons nesoi, fresh, if entered during the period from December 1, in any year, to the following May 31, inclusive	8,464	5,491	4,044	-35.12	-26.35	-52.22
	7604.21.00	Aluminum alloy, hollow profiles	1,120	1,612	2,229	43.90	38.27	98.97
	7604.10.10	Aluminum (o/than alloy), profiles	539	1,089	2,145	101.96	96.95	297.75
Total			39,837	33,333	31,283	-16.32	-6.15	-12.47
St. Kitts and Nevis	8536.50.90	Switches nesoi, for switching or making connections to or in electrical circuits, for a voltage not exceeding 1,000 V	12,923	14,418	15,372	11.57	6.62	18.98
	8503.00.95	Other parts, nesi, suitable for use solely or principally with the machines in heading 8501 or 8502	1,776	2,883	2,956	62.32	2.53	66.43
	8529.90.39	Parts of television receivers specified in U.S. note 10 to chapter 85, other than printed circuit assemblies, nesi	811	497	2,930	-38.72	489.59	261.31
Total			15,510	17,798	21,258	14.75	19.44	37.06
St. Lucia	8529.10.20	Television antennas and antenna reflectors, and parts suitable for use therewith	2,477	3,039	3,964	22.68	30.41	60.00
	8544.20.00	Insulated (including enameled or anodized) coaxial cable and other coaxial conductors	309	394	975	27.24	147.55	215.00
	6216.00.38	Gloves, mittens & mitts (excl. for sports), not impregnated, coated or covered with plastics or rubber, of cotton, without fourchettes	208	723	761	247.93	5.15	265.84
Total			2,995	4,156	5,699	38.79	37.11	90.30
St. Vincent and the Grenadines	7113.19.50	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal, nesoi	2,548	6,441	1,227	152.79	-80.96	-51.86
	8504.50.80	Other inductors, nesoi	648	631	381	-2.66	-39.58	-41.19
Total			3,196	7,072	1,608	121.27	-77.27	-49.69

See footnotes at end of table.

Table E-1—Continued

Leading U.S. imports for consumption entered under CBERA, by source, 1998-2000

Source	HTS Item	Description	Value			Change	Change	Change
			1998	1999	2000	1998-1999	1999-2000	1998-2000
			1,000 dollars			Percent		
Trinidad and Tobago	2905.11.20	Methanol (Methyl alcohol), other than imported only for use in producing synthetic natural gas (SNG) or for direct use as fuel	57,779	92,456	222,229	60.02	140.36	284.62
	7213.91.30	Iron/nonalloy steel, nesoi, hot-rolled bars & rods in irregularly wound coils, w/cir.x-sect.diam.<14mm, n/tempered/treated/partly mfd	59,430	77,229	62,228	29.95	-19.42	4.71
Total			117,209	169,685	284,457	44.77	67.64	142.69

¹ Based on actual (unrounded) data.

³ Increase of over 1,000 percent.

Note.—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 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
IDB	Inter-American Development Bank
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
UNCTAD	United Nations Conference on Trade and Development
USAID	U.S. Agency for International Development
USITC	U.S. International Trade Commission
USTR	United States Trade Representative
WTO	World Trade Organization

