U.S. Trade Policy and the Caribbean: From Trade Preferences to Free Trade Agreements

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Summary

For over 40 years, the United States has relied on unilateral trade preferences to promote export-led development in poor countries. Congressionally authorized trade preferences give market access to selected developing country goods, duty free or at tariffs below normal rates, without requiring reciprocal trade concessions, although their extension is conditioned on extensive eligibility criteria and the use of U.S. inputs in many cases. The Caribbean Basin has benefitted from multiple preferential trade arrangements, the first being the Caribbean Basin Initiative (CBI), passed by Congress in the Caribbean Basin Economic Recovery Act of 1983. Other programs include the Caribbean Basin Trade Partnership Act (CBTPA) of 2000, which provides tariff preferences for imports of apparel products, and the Haiti HOPE Act of 2006 (amended in 2008 and 2010), which gives even more generous preferences to imports of Haitian apparel.

Since the preferences have been implemented, U.S.-Caribbean trade has grown, but evaluations of the early programs suggest that their effects were not as robust as originally hoped. Benefits tended to be concentrated in a few countries and products, limiting export promotion and deterring product diversification. Over time, benefits have been "eroded" by multilateral trade liberalization and other regional U.S. preference programs. Bilateral free trade agreements, particularly the CAFTA-DR, have actually replaced unilateral preferences with permanent, more attractive tariff reductions and trade rules for former CBI countries such as the Dominican Republic and Central American countries. As the main exporters of apparel in the Caribbean Basin, they were among the primary beneficiaries of the Caribbean trade preference programs.

In recent years, Congress had leaned toward short-term extensions of the Caribbean and other preference programs. A number of Members seek a comprehensive review of these programs with an eye on harmonizing and revamping their various provisions. Congressional concern over eligibility criteria, simplifying rules of origin, targeting the least developed countries, and standardizing benefits are among a number of broad issues being debated as part of the preference reform agenda. In the 111th Congress, the discussion of extending the Caribbean programs has been part of a broader reauthorization effort for all preference arrangements. In addition, there are a number of issues and circumstances converging that may suggest the need for reorienting U.S. trade policy in the Caribbean region.

The most effective trade preferences appear to be the apparel provisions provided under the CBTPA and the HOPE Act, as amended. Both were extended through September 30, 2020, in the Haiti Economic Lift Program (HELP) Act of 2010 (P.L. 111-171). These provisions, however, are not well suited to the services- and energy-based economies of the smaller Eastern Caribbean countries. Also, there is a reluctance by these countries to make the transition to an FTA without some guarantee of a "development component" to the agreement. These concerns persist, despite the promise of permanent market access and increased investment that an FTA holds out. The Caribbean countries, long involved in dependent economic relationships, appear content to take a cautious path toward any new trade arrangement with the United States.

For U.S. trade policy, any thoughts of achieving broader regional integration are challenged by these circumstances. Broader integration may be difficult to reconcile with the needs of very small developing countries, which are highly vulnerable to the vicissitudes of global economic trends and may require new and creative solutions, particularly if U.S. policy is still driven by the historical focus on development and regional security issues in addition to trade liberalization. In the context of continuing with trade preferences in similar or altered form, or opting for an FTA, the solution is not immediately obvious.

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For over 40 years, the United States has relied on unilateral trade preferences as an integral part of its foreign economic policy. Trade preferences give market access to selected developing country goods, duty free or at tariffs below normal (NTR)[1] rates, without requiring reciprocal trade concessions. They come in many forms and are intended to promote economic growth and development in poor countries by stimulating export promotion and investment, and to encourage the use of U.S. inputs in foreign manufacturing. Trade preference programs must be authorized by Congress and are usually done so for specific periods of time.

The Caribbean Basin (see **Figure 1**)[2] has benefitted from multiple preferential trade arrangements, the best known being those linked to the Caribbean Basin Initiative (CBI) implemented on January 1, 1984. Since then, the growth of free trade agreements (FTAs) in the region has signaled a shift in U.S. trade policy. The increase in reciprocal FTAs (particularly the Dominican Republic-Central America-United States Free Trade Agreement—CAFTA-DR) with even more generous trade benefits for Caribbean exports has the effect of "eroding" the relative benefits given to countries covered only by the CBI programs, raising questions about the future path of U.S. trade policy for those countries.

This report reviews unilateral preference programs for the Caribbean, discusses how they have been affected by FTAs in the region, and considers trade policy options for dealing with countries still relying on trade preferences and that may be considering whether to negotiate an FTA with the United States.

U.S. Preferential Trade Programs and the Caribbean Region

The United States has a long history of employing various types of trade incentives to encourage specific trade activities. Motivated by commercial, political, and security interests at times, the U.S. Congress has created unilateral trade preference programs that promote developing-country exports, but are often structured so as to minimize the negative economic effects on U.S. producers and workers. Over time, bilateral, regional, and multilateral trade agreements have come to eclipse the importance of many preference arrangements, a trend that a review of these developments will show has been particularly visible in the Caribbean Basin.

[1] NTR stands for "normal trade relations," a phrase adopted by the United States in lieu of the often confusing "most-favored-nation" (MFN) term used internationally. Both refer to the application of tariffs on a non-discriminatory basis. Tariff preferences are by definition inconsistent with NTR/MFN treatment, requiring a waiver from the World Trade Organization (WTO). See CRS Report RS22183, *Trade Preferences for Developing Countries and the World Trade Organization (WTO)*, by Jeanne J. Grimmett.

[2] Caribbean Basin countries include Antigua and Barbuda, Aruba, 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.

Figure 1. Map of the Caribbean Basin

Source: Map Resources. Adapted by CRS.

Background: Early Trade Preference Programs

In 1964, the United States Government initiated a preferential tariff program based on production sharing. Production sharing is a cost-reducing business strategy that seeks competitive (price) advantage by locating manufacturing processes in more than one country. U.S. firms specialize in the capital intensive, technology driven stages of production, and outsource assembly and other lower-skill processing to lower-wage countries. Under the U.S. production-sharing program, foreign firms that import U.S. component parts and assemble or process them into finished or semi-finished products may then re-export them back to the United States, with duties levied only on the value added abroad (no tariff on U.S. content).[3]

U.S. firms benefit from production sharing by the required use of their inputs (to receive the tariff exemption) and in retaining a portion of the global market for goods that might otherwise go to lower-cost foreign producers that do not use U.S. inputs. Foreign firms using U.S. inputs benefit from the tariff exemption, making their products more competitive in the U.S. market relative to those of other producers who face a duty on the full value of their exports. This type of production arrangement has been commonly used for automobile parts, electronics, and apparel, among other manufactured goods.[4]

The Caribbean Basin and Mexico were early beneficiaries of the production sharing program, with proximity providing a major advantage at that time. Lower transportation costs and quicker turn around times have provided Mexican, Caribbean, and Central America producers with an additional competitive factor, at least for certain niche markets, over their more distant, but often lower-cost Asian competitors. Many Caribbean countries developed their export processing zones around this program.

By the 1970s, the concept of preference programs for developing countries shifted. Whereas production sharing was based on a mutually beneficial competitive business strategy, developing countries had long advocated for unilateral trade preferences as a form of development assistance. Under the auspices of the General Agreement on Tariffs and Trade (GATT), the Generalized System of Preferences (GSP) was conceived as a way for developed countries to respond to this expressed need. The GSP permits developed countries to grant unilateral tariff preferences for selected imports from developing countries to promote export-led growth. The U.S. program provides limited tariff incentives for many, but not all products. The Caribbean region has availed itself of both the GSP and production sharing incentives for many years. The U.S. GSP program requires periodic renewal by Congress and was last reauthorized through December 31, 2010.[5]

The tariff preference model as development strategy continued to evolve in the 1980s. The next step targeted specific regions of the world for deeper preferences than those accorded under the GSP, a strategy driven by security, as well as economic and political interests of the United States.

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[3] Initially defined under Item 807 of the U.S. tariff schedule and later in Chapter 98 of the U.S. Harmonized Tariff Schedule (HTS). United States International Trade Commission. *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1995-1998*. Washington, D.C. USITC Publication 3265. December 1999. pp. 1-1 and 1-2.

[4] Regional production sharing is also done by European and Asian firms.

[5] See CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

Congress enacted the first such geographically targeted program for the Caribbean region in 1983.[6]

The Caribbean Basin Economic Recovery Act of 1983

The impetus to create a Caribbean trade preference program arose from concern over the region's economic collapse and concomitant political radicalization that materialized in the early 1980s. The Caribbean's Basin's "proximity, vulnerability, and instability" has long made it of particular strategic interest to the United States, a notion well established in U.S. political history dating to the Monroe Doctrine.[7] In light of this reasoning, President Reagan and the U.S. Congress initially considered a comprehensive response to the Caribbean Basin's troubles. Trade preferences would emerge as the primary economic component of a scaled back alternative.

President Reagan unveiled the CBI in a speech before the Organization of American States on February 24, 1982, arguing that ensuring economic and political stability in the Caribbean region was vital to U.S. security interests. He proposed a controversial mix of tax incentives, aid, and trade preferences. The idea was rejected by many, however, particularly import-competing firms and workers. As a consequence, the first bill died in the 97th Congress.[8] In the 98th Congress, however, Congress acted promptly on the Caribbean Basin Economic Recovery Act (CBERA).[9] Although it again drew stiff resistance from U.S. textile and labor interests, once scaled back to modest duty-free treatment for only 10% of Caribbean imports, it passed with overwhelming support in both the House (392-12) and the Senate (90-7).[10] President Reagan signed it into law on August 5, 1983 (P.L. 98-67) and the trade preferences went into effect on January 1, 1984.

The CBERA permits 27 countries to be designated by the President as beneficiary countries (24 eventually were—see **Appendix**), eligible to receive duty-free or reduced-duty access for selected exports provided the countries meet specific conditions. Designation may be denied or suspended if the country 1) is a Communist country; 2) has seized U.S. property without compensation; 3) fails to recognize or enforce awards arbitrated in favor of U.S. citizens; 4) affords preferential treatment to goods from other countries to the detriment of U.S. commerce; 5) broadcasts U.S. copyrighted material without permission; 6) has not signed an extradition agreement with the United States; or 7) is not taking steps to afford internationally recognized worker rights. Thus, the unilateral nature of the arrangement is clear: meet U.S.-defined eligibility criteria and selective imports will be granted trade preferences. No negotiation was involved.[11]

Provided a good is wholly the "growth, product, or manufacture" of, and imported directly from, a beneficiary country, it may enter the United States duty free or at a reduced rate of duty. There were, however, significant exceptions for articles defined by Congress as "import sensitive."

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[6] Other geographically targeted trade preference programs would be created in the Andean Trade Preference Act (ATPA) and the African Growth and Opportunity Act (AGOA).

[7] See Pastor, Robert A. *Exiting the Whirlpool: U.S. Foreign Policy Toward Latin America and the Caribbean, Second Edition*. Boulder: Westview Press, 2001. pp. 19-20.

[8] 1982 CQ Almanac. *Caribbean Trade Plan*. pp. 54-55 and 129.

[9] The CBI was conceptually a comprehensive program, but only the tariff preferences were codified in the CBERA.

[10] 1983 CQ Almanac. *Caribbean Trade Plan*. pp. 252-53.

[11] Some of these conditions may be waived by the President for national security reasons. Other requirements were also in force. For a summary, see U.S. Congress. House. 109th Congress. 1st Session. Committee Print. Committee on Ways and Means. *Overview and Compilation of U.S. Trade Statutes*. Part I of II. June 2005. pp. 23-24.

These included textiles and apparel subject to textile agreements under the Multi-Fiber Arrangement (MFA),[12] petroleum products, footwear, handbags, luggage, flat goods, work gloves, leather wearing apparel, canned tuna, and watches or watch parts. Under the rules of origin, 35% of the article's value of labor and parts had to originate in a beneficiary country, although some 15% of the 35% could be of U.S. origin.[13]

A number of special provisions also applied. First, all Caribbean imports were still subject to safeguard measures (resumption of tariffs) if the imports were shown to increase in quantities that would hurt U.S. producers. Also, special treatment was accorded to some import-sensitive goods. CBERA gave ethanol imports duty-free entry if produced under certain conditions[14] and sugar imports from the region entered under a tariff rate quota (TRQ)—duty free up to a specified quota and then taxed at prohibitively high levels.

Congress also required the United States International Trade Commission (USITC) to produce biennial reports on the effects of the preference program. The USITC found that for the first five years, the impact was relatively small, with imports from beneficiary countries expanding at slower rates than imports from the rest of the world. CBERA eligible products, nonetheless, grew from 6.7% of total imports from CBERA beneficiary countries in 1984, to 7.4% in 1985, 11.1% in 1986, 12.7% in 1987, and 13.0% in 1988. Even these numbers overstate the effects because there was an increasing shift from use of duty-free access under GSP to CBERA, so the marginal increase in duty-free goods that entered exclusively under CBERA was small.

Special Access Program

Under CBERA, textile and apparel products were excluded from receiving tariff reductions, despite the fact that they were a major manufacturing export (and job creating) sector for the region. Textile and apparel articles are considered highly import sensitive in the United States and elsewhere, and their trade was controlled by quotas defined in bilateral textile agreements permitted under the MFA. In 1986, President Reagan, by executive order, established a Special Access Program (SAP) that granted guaranteed access levels (GALs) for apparel from eligible CBERA countries, provided it was assembled from fabric formed and cut in the United States. GAL shipments paid duty only on the value added abroad.[15]

Following implementation of the SAP, there was an sudden large increase in apparel imports from CBI countries. Importantly, the increase occurred because of changes in U.S. textile policy, not the CBERA. The increase in demand for Caribbean apparel articles at this time was evident nonetheless, driven by their relatively low cost, production proximity, and higher quota restrictions that Asian producers still faced. Tariffs on textile and apparel goods from the CBI countries, however, remained a significant barrier and would not be addressed in legislation until 2000.[16] The SAP did not apply after elimination of the world textile quotas on January 1, 2005.[17]

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[12] Recast in 1994 under GATT as the Agreement on Textiles and Clothing (ATC), it was the framework for the global bilateral textile quota agreements that were finally phased out on January 1, 2005.

[13] P.L. 98-67, section 213.

[14] Ibid, pp. 26-28 and CRS Report RS21930, *Ethanol Imports and the Caribbean Basin Initiative (CBI)*, by Brent D. Yacobucci.

[15] USITC, *Production Sharing: Use of U.S. Components and Materials in Foreign Assembly Operations, 1995-1998,* pp. A-4 and A-5.

[16] USITC. *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and* (continued...)

The Caribbean Basin Economic Recovery Expansion Act of 1990

Soon after the original CBERA went into force, concern over the effectiveness of its trade preferences surfaced. Two issues stood out: 1) expanding the program to include a greater number of Caribbean goods, and 2) making the program permanent. The amending legislation as initially proposed would have extended additional tariff benefits to textiles, apparel, sugar, petroleum, leather goods, and other items left out of the 1983 legislation. It also would have repealed the September 30, 1995, termination date, making the duty preferences permanent.

As the initiative made its way through the legislative process, however, many of the preferences that might have had the greatest economic impact on the Caribbean, like the textiles and apparel provisions, were stripped from the bill. This change allowed the Caribbean Basin Economic Expansion Act of 1990 (referred to as "CBI II") to be passed as Title II of the Customs and Trade Act of 1990 (P.L. 101-382). It made permanent the existing CBI preferences for beneficiary countries, but extended them only to a few new products. Changes included a limited phased-in tariff reduction for handbags, luggage, flat goods, work gloves, and leather goods not eligible for GSP treatment, and duty-free and quota-free treatment for articles other than textiles, apparel, and petroleum products that are assembled or processed from U.S. components. There were also new limited benefits for ethanol imports and a few non-trade incentives. CBI imports were also given an exception from antidumping (AD) and countervailing duty (CVD) cumulation rules, making it harder to show that U.S. firms had experienced material injury from those imports.

The Caribbean Basin Trade Partnership Act and NAFTA Parity

On January 1, 1994, NAFTA took effect, altering the relative tariff situation in the region and igniting a debate over parity issues related to treatment of U.S. imports under competing trade agreements and arrangements. Imports from Mexico received much reduced tariffs or duty-free treatment under NAFTA, which as it phased in over 14 years, conveyed to Mexico an increasingly large benefit, both absolutely and relative to the CBI countries. Preferential access for textile and apparel goods would be applied not only to the value of U.S. content, but importantly, to the value added in Mexican production. Imports were subject to detailed rules of origin generally limiting content of traded goods to materials made in the NAFTA countries, thus excluding CBI countries.

The effects seemed apparent; two-way trade in textiles and apparel between the United States and Mexico rose 218% from 1993 to 2002, some of it presumably to the detriment of apparel production in the Caribbean.[18] NAFTA eliminated much of the relative trade advantage that the CBI countries had enjoyed over Mexico since 1984, and gave Mexico a distinct advantage in apparel production, which was a dominant export sector for many of the Caribbean countries as

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Consumers. Sixth Report. Washington, DC, 1990. pp. 1-6 and 2-9.

[17] USITC. *The Impact of the Caribbean Basin Economic Recovery Act: Eighteenth Report, 2005-2006*. USITC Publication No. 3954. September 2007. pp. 2-27.

[18] CRS Report RL31723, *Textile and Apparel Trade Issues*, by Bernard A. Gelb.

well. Mexico's much larger economy and production capacity for textiles and apparel became an immediate threat to income and employment in the CBI countries, which began to lobby for U.S. trade preferences equal to those of Mexico. This became known as the CBI/NAFTA parity issue.

While some in Congress were sympathetic to CBI country claims, particularly after the region's devastation from Hurricanes Georges and Mitch in 1998, it took years to gather the support to pass legislation. The idea was to provide the CBI countries with NAFTA-equivalent preferences until such a time that they could either accede to NAFTA, or enter into a similar reciprocal FTA with the United States. Because textile and apparel trade was at the heart of the program, the legislation had to overcome resistance from import-competing U.S. manufacturers. Nonetheless, on May 18, 2000, following congressional passage, the Caribbean Basin Trade Partnership Act (CBTPA—P.L. 106-200) was signed into law, extending additional benefits for a "transition period" of eight years ending September 30, 2008, or until a beneficiary country entered into an FTA with the United States. Congress extended these benefits, unchanged, for two years in the Food, Conservation, and Energy Act of 2008 (P.L. 110-246) and again through September 30, 2020, in the Haiti Economic Lift Program (HELP) Act of 2010 (P.L. 111-171).

Eligibility for CBTPA benefits include all those under CBERA, plus an additional emphasis on countries meeting their trade obligations under the World Trade Organization (WTO) and making progress toward some type of FTA with the United States. The most important provisions provide that certain articles excluded from CBERA that meet NAFTA rules of origin may receive NAFTA tariff treatment, specifically canned tuna, petroleum products, footwear, handbags, luggage, flat goods, work gloves, and leather-wearing apparel.

Textile and apparel articles were also given essentially NAFTA-equivalent treatment. Those assembled in beneficiary countries are eligible for duty-free and quota-free treatment subject to rules of origin, provided they are assembled from fabrics made and cut from U.S. yarns.[19] However, articles in which the fabric is also cut in the CBTPA country may also enter duty free, if the parts are sewn together with U.S. thread. Limited amounts of knit apparel (except socks) using U.S. yarns are also given duty-free treatment, as are certain brassieres, handloomed, handmade, and folklore articles, textile luggage, and articles made from materials not available, or materials demonstrated not to be available in commercial quantities in the United States. The apparel duty preferences were later modified in the Trade Act of 2002, requiring that imported knit and woven garments using U.S. fabric be dyed, printed, and finished in the United States.[20] The CBTPA also prohibits illegal transshipment of textile and apparel products and directs the President to have the USTR convene meetings with CBTPA beneficiary countries to encourage movement toward a free trade agreement with the United States.

CAFTA-DR and New Parity Issues

When the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) began to be implemented on March 1, 2006 (P.L. 109-53), the trade preference landscape shifted again.[21] CAFTA-DR leads to nearly full free trade between the United States and member

[19] For a summary, see U.S. Congress, *Overview and Compilation of U.S. Trade Statutes*. op.cit., pp. 32-33.

[20] For details, see USITC. *The Impact of the Caribbean Basin Economic Recovery Act: Eighteenth Report,* pp. 1-10 thru 1-13.

[21] The United States implemented the CAFTA-DR on a rolling basis upon each country complying with the agreement's legal and regulatory obligations. On January 1, 2009, Costa Rica became the sixth and final country to (continued...)

countries when it is fully implemented. Provisions covering textile and apparel, the largest U.S. import category from the region, were enhanced from those offered under CBTPA, and made permanent. They provide for immediate elimination of duties on textiles and apparel that meet rules of origin, which are even more flexible than in other preferential agreements and FTAs, including the CBTPA. Stated briefly, provided components are sourced in any one of the member countries, the finished assembled product may be exported to the United States duty free. Generally, the intent of the agreement is to build on the history of increasingly flexible CBI programs that allow apparel producers in the region to combine materials and production in various ways (referred to as cumulation) and still receive duty-free access to the U.S. market.[22]

CAFTA-DR, much like NAFTA a decade earlier, created parity problems for other producers in the region that cannot export under these more flexible rules of origin or reduced tariffs. Mexico was one, but the United States agreed in January 2007 to harmonize the rules of origin as applied to NAFTA and CAFTA, which will allow Mexican and Central American producers to use each other's inputs without penalty, further integrating the region's apparel production.[23] Haiti was not included in this deal, which caused Congress subsequently to pass separate legislation covering Haitian apparel imports (see "The HOPE Act: New Trade Preferences for Haiti" below). The rest of the CBI countries, however, are at a disadvantage relative to NAFTA, CAFTA-DR, and Haiti with respect to trade preferences in general, and their effect on apparel trade in particular.

The HOPE Act: New Trade Preferences for Haiti[24]

To respond to the Haiti apparel parity issue, as well as broader development challenges Haiti faced as the poorest country in the Western Hemisphere, the 109th Congress amended the CBERA legislation with passage of the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE I), Title V of the Tax Relief and Health Care Act of 2006 (P.L. 109-432). It was implemented on March 19, 2007. The act provided additional special trade rules for Haitian goods in the form of duty-free treatment for select apparel imports made in part from less expensive third country (e.g. Asian) yarns and fabrics, provided Haiti meets eligibility criteria related to promoting core labor rights, human rights, and anti-poverty policies.

To address concerns that the HOPE Act was not having the full desired effects, the 110th Congress enhanced the rules and preferences in the Food, Conservation, and Energy Act of 2008 (H.R. 6124/P.L. 110-246)—the Farm Bill, Title XV of which includes the Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2008 (HOPE II). This act extended tariff preferences through September 30, 2018; made the rules more flexible and simpler; expanded duty-free treatment for U.S. apparel imports of knits as well as woven articles; and allowed for direct shipment of apparel articles to the United States from either Haiti or the Dominican Republic. HOPE II also required that Haiti create a new apparel sector monitoring program (Labor Ombudsman) to ensure compliance with internationally recognized core labor principles.

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implement the agreement.

[22] USITC. U.S.-Central America-Dominican Republic Free Trade Agreement: *Potential Economywide and Selected Sectoral Effects*. USITC Publication 3717. August 2004. pp. 27-30.

[23] Latin American Newsletters. *Latin American Mexico and NAFTA Report*. February 2007. p. 14.

[24] For details, see CRS Report RL34687, *The Haitian Economy and the HOPE Act*, by J. F. Hornbeck.

After the January 12, 2010 earthquake in Haiti, Congress passed the HELP Act to provide even more flexible and generous tariff preferences to Haiti. It extended the HOPE Act preferences through September 30, 2020, enhancing those that appeared to be most effective at expanding exports to the United States. The HOPE Act preferences operate differently than those in other U.S. trade arrangements with the region. Unlike the CBTPA, of which Haiti is a beneficiary country, and the CAFTA-DR, which does not include Haiti, the HOPE Act permits duty-free treatment for apparel imports in limited quantities assembled or knit-to-shape in Haiti with inputs from *third-party* countries, or those outside the region that are not a party to either a preferential trade arrangement or free trade agreement with the United States. The competitive advantage derives from allowing Haitian firms to use less expensive inputs sourced from virtually anywhere in the world and still receive duty-free treatment. To the extent that this advantage is in place for an extended period of time, it is intended to encourage increased investment in the apparel assembly business in Haiti, contributing to growth in output, employment, and exports.

The duty preferences are significant because the United States is the main destination for Haitian apparel exports, its dominant export sector, generating as much as 80% of the country's foreign exchange. In 2009, apparel constituted over 80% of Haiti's total exports and 93% of exports to the United States (74% knit, 19% woven articles), so the sector provides one potential avenue for employment growth. The preferences also support textile firms in the Dominican Republic, which have an expanding co-production arrangement with Haiti. Critics have argued, however, that this advantage could come at the expense of other regional producers, although these effects have so far been judged to be small.[25]

Trade Effects of Tariff Preferences

To promote diversified, export-led growth in CBI countries, the U.S. Congress has approved multiple trade preference programs over the past three decades (production sharing, GSP, CBERA, CBI II, CBTPA, HOPE I and HOPE II), as well as two free trade agreements (NAFTA and CAFTA-DR). Each one amended trade rules and tariff preferences in ways designed to increase U.S. imports from various CBI countries, although some had more far reaching effects than others. Legislative action in the 110th and 111th Congresses focused on enhancing Haiti trade preferences and extending the CBTPA, but the parallel trend in the region has been toward the implementation of free trade agreements, particularly the CAFTA-DR.

The implementation of CAFTA-DR has had an overarching direct effect on the use of the unilateral preferences, particularly those offered under the CBTPA, the main benefit of which was duty-free treatment for select apparel goods. When the major apparel producers (Central American countries and the Dominican Republic) began exporting under the CAFTA-DR, they were no longer eligible as beneficiary countries under CBERA or CBTPA, which registered in the import data as a large decline in imports under CBTPA. This change points to a critical analytical point. In disaggregating the import data, it is important to distinguish between two types of trends in the tariff preference programs, those that allow new categories of goods to enter the United States duty free, counted as increased trade because of trade preferences, and those that switch goods from one preference category to another (e.g. from GSP to CBTPA, CBTPA to CAFTA-

[25] See United States International Trade Commission. *Textiles and Apparel: Effects of Special Rules for Haiti on Trade Markets and Industries*. Washington, D.C. USITC Publication 4016. June 2008. p. 3-6.

DR, or CBTPA to HOPE II), accounting for little net increase in imports from trade preferences, as discussed in more detail below.

Imports by Duty Category[26]

Table 1 displays trends in U.S. imports from CBI countries since the CBTPA program began in 2000. The first line presents total imports from the beneficiary countries. It reflects data prepared by the USITC that includes imports from the six CAFTA-DR countries only until they implemented the free trade agreement, which occurred on a rolling basis between 2006 and 2009. Hence, totals for imported goods vary from those in **Table 2**, which includes data for all 24 countries that are or were eligible for CBI preferences. As mentioned above, as the CBI countries implemented the CAFTA-DR, they were dropped as CBERA or CBTPA program beneficiaries, explaining the decline in total imports in line 1, beginning in 2006.

The rest of **Table 1** is divided into three parts, with imports categorized as either dutiable or duty free under various preference programs. There are two dominant trends that can be discerned from the vantage point of either the dutiable categories of imports, sections 1 and 2 of **Table 1**, or the duty-free categories, section 3. The first occurred from 2000 to 2006 and corresponds to the CBTPA benefits for apparel imports. The second corresponds with the implementation of the CAFTA-DR.

Effects of CBTPA: 2000-2006

In section one, the dutiable value, calculated duty, and average duty applied to aggregate CBI imports establish an overall downward trend from 2000 to 2006, as would be expected with the increasing use of preferences provided under the CBTPA. The exception is the rise in dutiable value of imports in 2004 and 2005, which is associated with increased imports of petroleum products from Aruba, the Netherlands Antilles, and the Bahamas, which are not beneficiary countries under the CBTPA. The 2006 decline reflects an increase in duty-free imports that offset this trend.

In the second section of **Table 1**, note that the dutiable value of total imports has fallen from 35.2% in 2000 to 20.2% in 2006, associated with two related trends: final implementation of the WTO Uruguay Round commitments, which shifted some imports from the CBERA to the NTR (other) duty-free category, and more significantly, the implementation of CBTPA for textile and apparel articles. Note also that as dutiable goods fell as a percentage of production sharing imports, at times, some appeared to show up as a rise in “other dutiable” category, or NTR (see footnote 1) rates.[27]

[26] This discussion draws primarily on a more detailed analysis in USITC, *The Impact of the Caribbean Basin Economic Recovery Act, Nineteenth Report*, September 2009, as well as its earlier incarnations.

[27] USITC. *The Impact of the Caribbean Basin Economic Recovery Act: Seventeenth Report, 2003-2004.* USITC Publication No. 3804. September 2005. p. 2-12.

Table 1. U.S. Imports from CBI Countries by Dutiable Category, 2000-2008

Duty Category:	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total Imports ($mn)	22,057	20,606	21,185	24,277	27,555	31,814	25,755	19,058	19,566
-Dutiable Value, ($mn)	7,778	5,590	5,462	4,902	6,261	7,580	5,214	4,224	4,906
-Calculated Duty ($th)	915	578	496	513	457	483	190	na	na
-Average Duty (%)	11.8	10.3	9.1	10.5	7.9	6.7	3.8	na	na
Dutiable Value, All Imports (%)	**35.2**	**27.1**	**25.8**	**20.2**	**22.7**	**23.8**	**20.2**	**22.2**	**25.2**
-Production sharing	12.7	6.8	4.5	3.4	3.5	2.5	1.3	[b]	[b]
-Other dutiable	22.5	20.3	21.3	16.8	19.2	21.3	18.9	22.2	25.2
Duty-free Value, All Imports (%)	**64.7**	**72.9**	**74.2**	**79.8**	**77.3**	**76.2**	**79.8**	**77.8**	**74.8**
-NTR	30.1	27.3	27.5	33.2	35.1	34.5	38.2	47.1	48.7
-Production sharing	21.0	6.7	3.2	1.7	1.8	1.3	0.8	[b]	[b]
-CBERA	11.7	12.7	13.7	12.2	11.0	11.2	15.4	14.9	15.5
-CBTPA	0.7	24.9	28.6	30.7	28.8	27.7	23.3	14.0	8.7
-GSP	0.9	0.9	0.4	1.0	1.3	1.5	1.5	0.8	0.7
-Other duty-free	0.3	0.4	0.7	0.9	0.7	0.6	0.7	1.1	1.2
Imports entering CBERA+CBTPA (%)	12.6	40.2	47.1	42.6	39.7	38.8	38.5	28.8	24.3
Exclusively under CBERA+CBTPA[a] (%)	6.8	22.9	31.5	30.2	30.1	30.9	31.7	25.5	21.1

a. Means goods would not have entered duty free under any other program.

b. Reflects zero or near zero use, subsumed under "other dutiable" or "other duty-free."

Note: na = not available.

Source: USITC. *The Impact of the Caribbean Basin Economic Recovery Act*, Seventeenth, Report, 2003-2004. September 2005. pp. 2-10, 2-11, and 3-4, *The Impact of the Caribbean Basin Economic Recovery Act*, Eighteenth Report, 2005-2006. September 2007. pp. 2-10 to 2-13 and 3-3, and *The Impact of the Caribbean Basin Economic Recovery Act*, Nineteenth Report. September 2009. pp. 2-11 and 2-12.

In the duty-free section of **Table 1**, the importance of the CBTPA program is visible in the growth of U.S. imports of CBI goods from 64.7% in 2000 to nearly 80% in 2006, and in the large increase in use of CBTPA program itself (line 12). Note, that there were only slight increases in the percentage of duty-free goods entering under the CBERA, GSP, or "other duty free" categories. Articles entering under the older production sharing rules, by contrast, have fallen to near zero. Taken together, these data trends again point first to a switch in apparel goods in 2001 that entered under the CBTPA that had previously entered under production sharing preferences, a modest increase in the value of new imports eligible for duty-free treatment, and increasing use of the NTR duty-free category.[28]

In section three, the last two rows of **Table 1** highlight that the total imports entering under the combined CBERA and CBTPA provisions rose from 12.6% of total CBI imports in 2000, to a peak of nearly 39% in 2006-2007. In addition, the amount that entered exclusively from these preferences, that is, could not have entered under any other program such as GSP, rose from 6.8% of total imports to 31.7% from 2000 to 2006.[29] This trend again reinforces the observed sharp increase in duty-free imports that occurred shortly after CBTPA was implemented, but also suggests that the benefits of this program, as currently defined, may have peaked.

Effects of CAFTA-DR: 2006-2008

The second major trend covers 2007 and 2008, which coincides with the implementation of the CAFTA-DR. The CAFTA-DR countries include all the major apparel producers whose goods were once eligible for preferences under the CBTPA. The USITC reports that apparel from CBI countries fell from 13.6% of total U.S. apparel imports in 2005 to only 1.0% in 2008 because apparel from the CAFTA-DR producers no longer entered under the CBTPA. For 2008, the CAFTA-DR countries (not including Costa Rica which did not implement until 2009) accounted for 90% of total apparel imports that would have been part of the CBI statistics in the absence of CAFTA-DR. This trend may be seen in the absolute decline in U.S. imports from the CBI countries (line 1 in **Table 1**), the decrease in the use of CBTPA preferences in 2007-2008 (line 12), the major preference program applied to apparel goods from the CBI countries, and the relative increase in use of NTR. In a separate trend, GSP and production sharing have become nearly irrelevant.[30]

The full data set on duties for 2007 and 2008 is not readily available (lines 3 and 4), but there was a noticeable increase in the dutiable value of imports and of dutiable imports as a percentage of total imports (line 5). These trends also correspond with the decreasing percentage of duty-free goods entering the United States shown in line eight, again reflecting the shift in textile and apparel imports that entered duty free under CBTPA that are now imported under CAFTA-DR. In addition, the last two lines of **Table 1** point to the decline in percentage of goods entering exclusively under CBERA and CBTPA to levels not seen since 2001.

Collectively, the data in **Table 1** tell a complicated story, reflecting amendments to trade preference laws and uncovering their overlapping effects of the beneficiary countries. For example, the data reinforce the idea that for nearly 17 years the CBERA program was less

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[28] USITC, *The Impact of the Caribbean Basin Economic Recovery Act: Eighteenth Report*, pp. 2-11 to 2-13.

[29] For more detailed data, ibid., pp. 2-13 and 3-3.

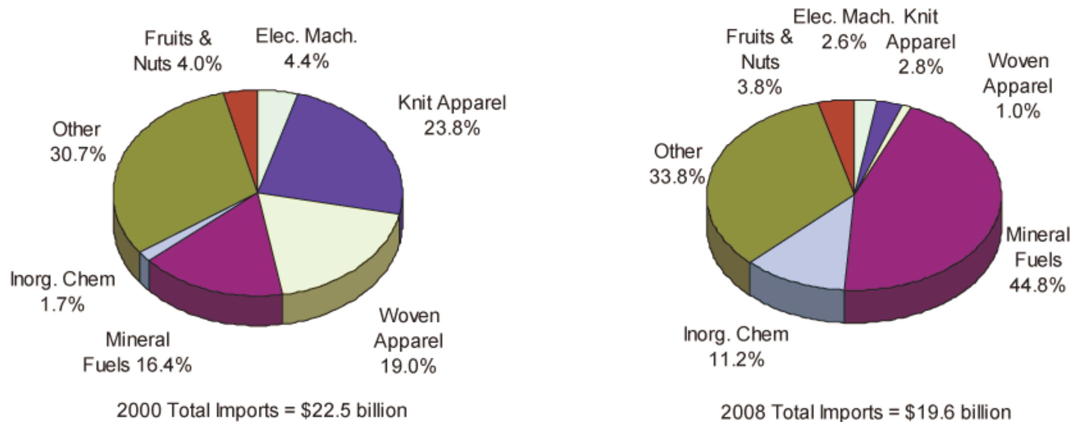
[30] USITC, *The Impact of the Caribbean Basin Economic Recovery Act: Nineteenth Report*, pp. 2-1, 2-11 to 2-13.

effective than might have been expected until the CBTPA was implemented. The CBTPA trade appeared quickly, replacing trade entering duty free under production sharing arrangements. This same CBTPA trade disappeared just as suddenly beginning in 2007, as the CAFTA-DR was implemented. The increase in the NTR duty-free category appears to reflect that more trade from the CBI countries not a part of CAFTA-DR now enters duty free under this category than under either CBERA or the CBTPA, raising questions as to the effectiveness of these preference programs for the smaller island economies. A more detailed analysis at the product level helps clarify these propositions.

Product Trends

Not all CBI exports were affected equally by the tariff preferences. Apparel and energy related goods, for example, accounted for 61% of U.S. imports from CBI countries in 2000, and received the bulk of the benefits. This number remained about the same in 2008, but the composition of products had changed greatly because of the shift in apparel goods entering under CAFTA-DR. This shift in U.S. imports from 2000 to 2008 may be seen in **Figure 2**. Three products stood out in 2000: mineral fuels (16.4%); knit apparel (23.8%); and woven apparel (19.0%). Together they composed 59% of imports from the CBI countries. They remained the dominant U.S. imports through 2006.

Figure 2. U.S. Imports from CBI Countries, 2000 and 2008



Data Source: U.S. Department of Commerce.

By 2008, the loss of the CAFTA-DR knit and woven apparel trade from the CBI calculations showed up as a relative decline in those imports from 43% to 4% of total CBI imports, which would have fallen to 2% had Costa Rica implemented CAFTA-DR that year. Mineral fuels, by contrast, rose from 16.4% to 44.8% and inorganic chemicals from 1.7% to 11.2% of U.S. imports. These increases do not reflect increased trade, but a change in the relative weights of traded goods in the CBI mix. The mineral fuels group stands apart as a combination of products that received new benefits under CBTPA or entered NTR duty free when the final Uruguay Round commitments phased in and were therefore switched out of the CBERA category. The percentage increase has also at times reflected large increases in energy prices, although this variable has fluctuated in importance with recent swings in energy commodity prices. All liquefied natural

gas, anhydrous ammonia, light fuel oil, and naphtha have NTR rates of zero and account for most of the increase in the portion of duty-free NTR goods.[31]

Trends in the apparel industry are important because apparel is the key value-added Caribbean export industry targeted by CBTPA. **Table 1** indicates that there has been an increase in the value of duty-free goods that entered under CBTPA as discussed above, which was largely attributable to preferences that encouraged a shift in content mix of apparel that for the first time allowed fabrics to be cut in the region. Yet, as the USITC has noted, from 2000 to 2006, U.S. imports of apparel goods from the CBI countries declined from 13% of total apparel imports worldwide in 2002 to only 5% in 2006, and to 1% by 2008.[32]

Country Trends

There were 24 countries in the original CBERA group until the CAFTA-DR took effect (see **Appendix**). Once implemented, the CAFTA-DR benefits superseded those provided under CBERA and the CBTPA. U.S. imports from all 24 countries from 2000 to 2008 are presented in **Table 2**, with those countries that have implemented CAFTA-DR highlighted in bold. Country effects of the CBERA and CBTPA programs are compared since CAFTA-DR was implemented.

For 2005, the last year all 24 countries received full-year CBI preferences:

- 51% of U.S. imports originated in only the top three CBI countries; 90% in the top eight;
- the number one exporter by value (25%) was Trinidad and Tobago, which is explained by its mineral fuels exports (see also **Figure 2**);
- the other top exporters to the United States (Dominican Republic, Costa Rica, Guatemala, Honduras, El Salvador) are all major apparel manufacturers, with Costa Rica's trade increasingly dominated by semiconductors, which enter NTR duty free (details not shown);
- the top six CBI exporting countries, not including energy producers Trinidad and Tobago and Aruba, accounted for 95.6% of Caribbean textile and apparel exports to the United States;

For 2008, the second year that CAFTA-DR was in effect:

- 81% of U.S. imports originated in only the top three CBI countries; 96% in the top eight, excluding the CAFTA-DR countries;
- the number one exporter by value (45%) was Trinidad and Tobago, which is again explained by its mineral fuels exports;
- Haiti has become the major beneficiary of preferences for apparel under the CBTPA and HOPE Act;

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[31] USITC, *The Impact of the Caribbean Basin Economic Recovery Act: Nineteenth Report*, pp. 2-7. Other articles that enter the United States NTR duty free are bananas, coffee, semiconductors, and medical instruments.

[32] Ibid., p. 2-18 and USITC, *The Impact of the Caribbean Basin Economic Recovery Act: Nineteenth Report*, pp. 2-1.

Table 2. U.S. Imports by CBI Country, 2000-2008

($ millions)

Country	2000	2001	2002	2003	2004	2005	2006	2007	2008
Trinidad and Tobago	2,228	2,380	2,440	4,334	5,842	7,891	8,362	8,789	9,030
Honduras	3,090	3,126	3,261	3,313	3,640	3,749	3,717	**3,912**	**4,041**
Dominican Republic	4,383	4,183	4,169	4,455	4,527	4,604	4,532	**4,215**	**3,978**
Costa Rica	3,539	2,886	3,142	3,364	3,333	3,415	3,844	3,941	3,938
Guatemala	2,607	2,589	2,796	2,947	3,154	3,137	3,102	**3,026**	**3,463**
Aruba	1,536	1,034	774	955	1,776	2,920	2,845	2,995	3,179
El Salvador	1,933	1,880	1,982	2,020	2,052	1,989	1,857	**2,044**	**2,228**
Nicaragua	588	604	680	770	990	1,181	1,526	**1,603**	**1,704**
Neth. Antilles	719	485	362	632	435	922	1,119	782	809
Jamaica	648	461	396	423	320	376	528	721	729
Bahamas	275	314	450	479	638	700	453	504	604
Haiti	297	263	255	332	371	447	496	488	450
Panama	307	291	303	302	316	327	379	365	279
Belize	94	97	78	102	107	98	147	105	154
Guyana	140	140	116	119	122	120	125	123	146
St. Kitts/Nevis	37	41	49	45	42	50	50	54	54
Barbados	39	40	34	44	37	32	34	38	40
St. Lucia	22	29	19	13	14	32	30	33	26
Brit. Virgin Is.	31	12	41	35	17	34	26	43	11
Antigua/Barb	3	4	4	13	5	4	6	9	5
Grenada	27	24	7	8	5	6	5	8	7
Dominica	7	5	5	5	3	3	3	2	2
St. Vincent/the Grenadines	9	23	17	4	4	16	2	1	1
Montserrat	0[a]	0[a]	0[a]	1	0[a]	1	1	1	0[a]
Total	22,559	20,911	21,380	24,715	27,750	32,054	33,189	33,803	34,980
Total less CAFTA-DR								19,003	19,566

a. less than 0.5 million.

b. **Bold** figures reflect countries whose imports were not eligible for CBERA or CBTPA benefits because the country implemented the CAFTA-DR. Costa Rica did not implement CAFTA-DR until January 2009.

Data source: U.S. Department of Commerce.

- imports from the five countries that had so far implemented the CAFTA-DR agreement (bolded in **Table 2**) were valued at $15.1 billion, or 44.0% of total U.S. imports from the 24 CBI countries. With the inclusion of Costa Rica, the total would be $19.4 billion, or 55.3% of total imports from these countries;

- if imports from CAFTA-DR and energy exporting countries are not included, the remaining U.S. imports from CBI beneficiary countries amounted to 7.5% of total imports, and only a portion of that amount would be eligible for tariff preferences.

To summarize, the benefits of CBI trade preferences have been concentrated in a few key beneficiary countries because of their energy- or apparel-related products, which has only increased since CAFTA-DR was implemented. With little remaining exports of apparel, Haiti being the exception, most preferences are being applied to energy-related exports, particularly those from Trinidad and Tobago. Use of CBERA/CBTPA preferences is diminishing for many reasons. First is the CAFTA-DR effect. Second, the remaining non-CAFTA-DR countries are not competitive and so not producing in the apparel sector, meaning many of the CBTPA benefits no longer apply. Third, as NTR duty-free rates are gradually falling to zero as negotiated in the WTO Uruguay Round and other U.S. FTAs and preference programs are implemented, the "preference margins" or main benefits from CBI preference programs are diminishing. Given these trends, the CBI preferences may not be able to deliver on the employment and development goals originally expected, raising important questions with respect to the relevance of Caribbean preference programs to the remaining beneficiary countries.

Trade Preference Programs: Some Economic Perspectives

Since first implemented in 1984, Caribbean tariff preference programs were intended to assist beneficiary countries with enhancing their export-led development strategies. They have combined U.S. trade preferences with their own proximity-driven niching strategies in a way that has helped them maintain a relatively small, but important market share in the United States. It is a strategy that may have led to selective export and economic growth, but the effects may have run their course given the proliferation of large low-cost Asian producers and increasing substitution by the United States of the reciprocal FTA for unilateral preferential trade arrangements in the region. In addition, many economists are skeptical about the efficacy of trade preferences as a development strategy, pointing to two areas in particular: design and administration of the preference programs and weak trade effects.

Structural design flaws that limit the effectiveness of unilateral trade preferences is a common concern. Trade preferences are paternalistic in nature; designed by developed countries to give "generous" one-way benefits to developing countries, but as unilateral concessions, they are self-limiting often for political reasons. For example, critics argue that[33]

- unilateral agreements are non-binding, often subject to renewal, and can be denied or suspended (and have been) on a product or country basis, which can hinder investors from committing more fully to developing economies;

[33] Srinivasan, T. N. *The Costs of Hesitant and Reluctant Globalization: India*. p. 31. http://www.econ.yale.edu/~srinivas/ and Özden, Caglar and Eric Reinhardt. Unilateral Preference Programs: The Evidence. In: Evenett, Simon J. And Bernard M. Hoekman, eds. *Economic Development and Multilateral Trade Cooperation*. World Bank. Washington, D.C. 2006. p. 190-192, 197-198 and 204-205, and CARICOM Secretariat. *Caribbean Trade and Investment Report 2005*. Caribbean Community Secretariat. Georgetown, Guyana. 2006. p. 61.

- eligibility criteria are based on foreign policy and political goals of the developed country, often unrelated to enhancing trade performance, so they are not a costless proposition for recipients; and,
- program details are subject to domestic economic pressures that typically seek to exclude import-sensitive articles, which can cause the developed country to apply higher than average tariffs on these goods for non-beneficiary countries.

The CBI programs are not immune to these criticisms. Beneficiary countries have no formal say in the design of the tariff preferences, must lobby the U.S. Congress and Executive Branch to make a case for their continuance, must comply with numerous foreign policy and political requirements to maintain eligibility, and have been restricted from exporting key products under preference programs. Results of the CBERA program disappointed some because of the many structural limitations. Even with CBI II making the program permanent and the CBTPA adding many new products to the list of eligible exports, including textile and apparel articles, success has not been overwhelming.

Critics also fault preferences for their limited trade effects and the distortions they can introduce into the economies of recipient countries and the global trading system. U.S. tariff preferences offered to the Caribbean countries often[34]

- replaced tariff with nontariff barriers, usually quantitative restrictions, as is the case for some goods entering under the CBERA, CBTPA, and HOPE Act;
- have complicated rules of origin that are costly, cumbersome to implement, and frequently inhibit use of preferences;
- require use of relatively higher-cost U.S. inputs, offsetting the cost competitiveness benefit of the tariff concessions;
- induce trade growth explicitly through trade diversion (Caribbean apparel instead of Asian or Central American);
- can bias a country's investment pattern toward particular industries, limiting incentives to diversify their economies, and also prolonging other market-based adjustments;[35]
- can induce recipients to limit export promotion and increase barriers to entry in industries facing CBI quantitative restrictions, and;
- can act as a disincentive to support multilateral trade negotiations, given they can erode regional preference margins.

[34] Özden and Reinhardt, *Unilateral Preference Programs: The Evidence*, p. 191, and *CARICOM Trade and Investment Report 2005*, pp. 61-62.

[35] In fact, the two major industries affected show limited promise for growth. Energy-based exports are limited by available resources and manufacturing is done on such a small scale as to be increasingly less competitive with Asian producers.

U.S.-Caribbean Basin Trade Relations: Policy Options

For over 40 years, the United States has provided some type of trade preference program to the countries of the Caribbean Basin. Given changing trade relations and policies in the United States and the Caribbean, the time for evaluating these programs is ripe. In particular, with the largest of the (now former) CBI economies implementing CAFTA-DR, an important question for U.S. trade policy is what to do with the smaller, and most vulnerable, Caribbean nations that still rely on the CBI preferences to some extent. Options include 1) allow trade preferences to expire; 2) renew them as is or with more generous, targeted, and flexible rules; or 3) replace them with an FTA.

Allow Trade Preference Programs to Expire

One option is to allow the trade preference programs to expire. Congress has rejected this approach to date and the CBTPA, perhaps the most effective of the programs, was renewed by the 111th Congress through September 30, 2020. CBERA is permanent and would require an act of Congress to terminate. In addition, the CARICOM countries have expressed a desire to retain the trade preferences, even though they have not been big users of them. Allowing the preference programs to expire would likely raise the stakes in the debate over a potential bilateral FTA with the United States, but it appears as an unlikely alternative in the near future.

Reform Trade Preference Programs

A second option is to consider redefining the unilateral preference programs in a way that might provide more benefit to the CARICOM countries.[36] This option recognizes that while the trade preference programs have not been perfect, they have evolved over time in an attempt to become more economically relevant to the countries they were designed to help. The evolution from CBERA through CBI II to CBTPA supports this fact, even if the current preferences are being eroded by free trade agreements and broader trade trends.

The central problem is that except for the energy and chemical exports, which constitute 80% of CARICOM's merchandise exports to the United States, there is little for the CARICOM countries to take advantage of in the CBI preference programs. Apparel goods amount to slightly less than 5% of total CBI exports to the United States and the complexities of U.S. rules of origin and Caribbean supply constraints raise doubts about the ability of CARICOM countries to expand this sector significantly. Unless apparel rules of origin are relaxed even further, Caribbean apparel exports would not be competitive with those entering under CAFTA-DR or from low-cost Asian producers. One option would be to permit 100% duty-free, quota-free treatment for all Caribbean exports, a policy advocated by some to support least developed countries (LDCs).[37] Application of such a broad tariff preference, however, might be challenged given many Eastern Caribbean countries do not qualify as LDCs.

[36] Rangaswami, Viji. *Nickel and Diming the Poor: U.S. Implementation of the LDC Initiative*. Carnegie Endowment for International Peace. Policy Outlook. July 2006. p. 7.

[37] Kimberly Ann Elliott, *Open Markets for the Poorest Countries: Trade Preferences That Work*, Center for Global Development, April 2010.

It is conceivable that the CBI programs could be amended to target the specific export sectors of the CARICOM countries and perhaps deepen existing benefits for certain industries. The opportunities, however, may be limited. The CARICOM countries are largely service sector economies (e.g., tourism, financial services, professional services) and do not view enhancing U.S. market access for goods with the same sense of urgency that many other countries in the Western Hemisphere do, even if rules of origin and cumulation could be made more flexible. Trinidad and Tobago, the country that benefits the most from CBTPA given its large energy related exports, is also most likely to consider an FTA of benefit relative to the smaller island economies. Still, there appears to be interest in exploring the revision of preference programs to include services exports.

Negotiate a Reciprocal FTA

A third option is to consider a U.S. bilateral FTA with CARICOM. It could provide some appeal if crafted in a way that would benefit the small Caribbean nations, but the difference in commitments between trade preferences and an FTA could be a hindrance. FTAs operate much differently than unilateral trade preferences. Trade preferences are unilateral concessions of one country to another, offering little in the way of recourse to the recipient country if a dispute arises. FTAs, by contrast, are negotiated agreements with mutual obligations and disputes subject to a resolution mechanism defined in the FTA. Preferences are also limited commitments, usually focusing on market access. FTAs are comprehensive, covering a vast array of rules, practices, and obligations from investment to labor and environment provisions. Preferences are often time limited and subject to unilateral suspensions, whereas FTAs are permanent arrangements, codified by each member in domestic law.

An FTA would be consistent with U.S. trade policy in the rest of the region. The United States' vision for hemispheric integration has revolved around the comprehensive FTA model as implemented with Mexico, Canada, Central America, Chile, Peru, and possibly in the near future with Panama and Colombia. If the integration path were to emanate from a harmonization of these agreements, having an FTA in place with CARICOM would appear to further the broader U.S. trade agenda. There is, nonetheless, significant doubt that a congressional consensus exists at this time to pursue such goal.

The CARICOM countries, by contrast, are a diverse group of mostly island countries with vastly different economies, and therefore, varying perspectives on trade policy and an FTA with the United States.[38] The more developed economies (energy-rich Trinidad and Tobago and tourism-driven Barbados) are far more open to the prospects of an FTA than the natural resource-based countries (Guyana and Jamaica) and the micro economies of the Eastern Caribbean, which have a fearful reluctance to begin negotiations. All of the CARICOM countries, however, have expressed some overriding concerns over the limitations of small economies to undertake the obligations of an FTA without some type of "compensatory mechanism" to replace trade preferences. Among the major concerns are:[39]

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[38] For a historical survey of the different trade regimes, see McBain, Helen. Challenges to Caribbean Economies in the Era of Globalization. In: Knight, Franklin W. And Teresita Martínez-Verque. *Contemporary Caribbean Cultures and Societies in a Global Context*. University of North Carolina Press. Chapel Hill. 2005.

[39] Based in part on author interviews during a two-week trip through the Eastern Caribbean in 2006 and *CARICOM Trade and Investment Report*, p. 61.

- questions over the United States' willingness to accommodate their need for special and differential treatment (SDT), such as long phase-in periods to meet FTA commitments, trade capacity building (TCB) assistance, trade adjustment assistance (TAA), and perhaps a financial component to implement these options;[40]
- the high transition costs of fiscal adjustment (from a high tariff dependency), discontinuing protection for manufacturing and agriculture sectors, regulatory harmonization in areas such as government procurement, intellectual property rights, labor, environment, sanitary and phytosanitary (SPS) rules;
- supply-side constraints (dearth of arable land, small-scale production) that limit their ability to take advantage of market access;
- a perceived lack of support for their growing services trade, particularly movement of professionals, and concerns over U.S. agricultural subsidies, two issues the United States is reluctant to address, and
- asymmetrical negotiating capacity.

Outlook

A number of issues and circumstances have converged that point up challenges for U.S. trade policy in the Caribbean region. Among these is the renewed, but as yet unchanged, Caribbean Basin Trade Partnership Act, the benefits of which have been eroded over time by multilateral trade liberalization and new U.S. reciprocal bilateral FTAs. Further, these programs are little used by the smaller beneficiary countries, which also have expressed a reluctance to move toward an FTA with the United States without some guarantee of a "development component" to the agreement, despite the promise of permanent market access and increased investment that an FTA holds out. The Caribbean countries, long accustomed to dependent economic relationships, appear content to take a cautious and leisurely path toward any new trade arrangement with the United States.

For U.S. trade policy, these circumstances present a formidable challenge to any further thoughts of expanding Hemispheric integration and raise a broad question as to what future congressional interest might be for reforming these programs. In fact, broader integration may be difficult to achieve and still meet the needs of very small developing countries. Their economies are highly vulnerable to the vicissitudes of global economic trends and weather patterns, and may require new and creative solutions to make the adjustment to full reciprocal free trade. U.S. trade policy toward the region has also had a historical focus on development and regional security issues in addition to trade liberalization, suggesting that trade liberalization likely will not be the only factor to determine policy. In the context of deciding whether to continue with trade preferences in similar or altered form, or opt for an FTA, agreement has yet to materialize.

The existing Caribbean preference programs are also part of a larger congressional debate over preference reform that includes the GSP, ATPA, and AGOA. Congress has signaled that it may be time to consider a wholesale review of the design, scope, and purpose of these programs, particularly in light of evolving trade agreements and relationships worldwide. Although similar

[40] CARICOM, *Caribbean Trade and Investment Report 2005*, p. 61.

in some respects, the different trade preference programs have overlapping constituents and also include countries with dissimilar economic features. These differences challenge designs to harmonize and equalize the many unilateral trade preference programs.

Appendix. Country Groups, 2010

A. Beneficiary Countries Designated under the CBERA:[41]

Antigua and Barbuda	Grenada	Panama
Aruba	Guyana	St. Kitts and Nevis
Bahamas	Haiti	St. Lucia
Barbados	Jamaica	St. Vincent and the Grenadines
Belize	Montserrat	Trinidad and Tobago
Dominica	Netherlands Antilles	British Virgin Islands

B. Beneficiary Countries Designated under the CBTPA:[42]

Barbados	Haiti	St. Lucia
Belize	Jamaica	Trinidad and Tobago
Guyana	Panama	

C. Caribbean Community (CARICOM) Countries:[43]

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

[41] As listed in the Harmonized Tariff Schedule of the United States (2010). The CAFTA-DR implementing Act (P.L. 109-53) modifies the CBERA legislation by adding the designation "former beneficiary country," meaning a country that ceases to be designated as a beneficiary country under CBERA because it has become a party to the CAFTA-DR. These countries include Guatemala, Honduras, Nicaragua, El Salvador, the Dominican Republic, and Costa Rica, which have implemented the CAFTA-DR, essentially trading their benefits under CBERA for equal or better treatment under the free trade agreement.

[42] As listed in the Harmonized Tariff Schedule of the United States (2010). P.L. 109-53, as with the CBERA, amends CBTPA status by including a new category of "former beneficiary country," which includes the six CAFTA-DR countries. In cases where a good is produced in both a former and current CBTPA country, it shall not receive any less treatment than as if it had been produced by a CBTPA country.

[43] For an overview of CARICOM, see CRS Report RL34308, *CARICOM: Challenges and Opportunities for Caribbean Economic Integration*, by J. F. Hornbeck.

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