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CARIBBEAN REGION: REVIEW OF ECONOMIC GROWTH AND DEVELOPMENT

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Written Statement by
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As Director General of the Caribbean Regional Negotiating Machinery (CRNM), which is responsible for co-ordinating external trade negotiations on behalf of the Member States of the Caribbean Community, I welcome this opportunity to submit testimony. I will confine my contribution to the issue of CARICOM-US trade relations and the regional priorities for deepening and expanding the trade relationship.

I: CARICOM-US Trade Relations: Current Situation and Future Options

Trade and economic co-operation relations between CARICOM countries and the United States are currently covered under a narrow range of trade and trade-related instruments. The Caribbean Basin Economic Recovery Act or CBERA (revised 1990) and the Caribbean Basin Trade Partnership Act (2000) which enhances CBERA (collectively referred to as CBI) provide unilateral duty free market access for nearly all goods from beneficiary countries. The (2006) Haitian Hemispheric Opportunity through Partnership Encouragement Act (HOPE) enhances the current access for certain apparel enjoyed by Haiti under CBTPA. The US Generalised System of Preferences (GSP), in operation since 1976, also provides duty free treatment to eligible countries for select categories of products under conditions established by the US Administration. The CARICOM-United States Trade and Investment Council (TIC) established in 1991, provides a forum for dialogue on investment and trade-related issues. The United States has also concluded Bilateral Investment Treaties with three (3) CARICOM countries, namely Jamaica, Grenada and Trinidad and Tobago.

As the Caribbean Community (CARICOM) pursues the goal of economic development and international competitiveness, it is recognised that existing instruments governing CARICOM-United States trade relations do not provide an adequate and secure basis for long term trade relations and for bringing dynamism to CARICOM export performance vis-à-vis the US, nor for spurring foreign direct investment into new productive sectors of the regional economy such as services.

In April 2006, CARICOM Ministers of Trade met with then United States Trade Representative Ambassador Robert Portman in Washington DC and raised the issue of a CARICOM-United States Free Trade Agreement. While CARICOM Heads of Government are yet to take a policy decision on the way forward, the regional leaders took the opportunity at the historical first Conference on the Caribbean last June to signal the strong interest of the Region in strengthening trade ties with the United States, building on and deepening the economic relations and updating the current trading arrangements to take account of changing global trade imperatives and trends.

The Joint Statement of CARICOM Heads of Government and United States President George Bush at the end of the Conference reinforces the joint commitment to strengthen our existing trade arrangements, in particular through the extension and updating of the Caribbean Basin Trade Promotion Act and the 1991 Trade and Investment Framework Agreement.

I wish to commend the energy, leadership and dedication of Congressman Charles Rangle, Chairman of the House Ways and Means Committee in leading the way towards making this joint commitment a reality.

II. CARICOM Merchandise Trade Performance

The United States is the major trading partner for CARICOM countries as a whole and for most countries separately. Over the five-year period 2002 – 2006, merchandise exports from CARICOM to the US market grew at an average annual rate of 18.3%, and valued approximately US$7.5 billion in 2006. Compared to other trading partners in Europe and Canada, the aggregate value of CARICOM merchandise exports to the US has consistently registered a greater annual increase over exports to those markets. In the ten-year period between 1993 and 2003, the aggregate value of the Region's exports to the US grew 8.7% annually, compared with 6.8% to the World, 3.9% to the EU and 5.0% to Canada.

Excluding Trinidad and Tobago, CARICOM's share of merchandise trade as a percentage of total US imports has declined steadily since 1993 and now stands at one half the share it held just a decade earlier.[1] In the process US imports of certain goods from some CARICOM countries have declined sharply and even disappeared. For example, the value of US imports of HS Chapt.62 apparel from Jamaica declined from US$236.2 million to $46.3 million from 2000-2005 and similarly from St. Lucia such imports declined from US$10.6 million to merely $299 thousand from 1994-2005. By contrast, U.S. imports from Central American countries and the Dominican Republic account for an increasing share of total US imports. Converting this trade deficit into a trade surplus is a major objective of CARICOM countries in their search for a new trade arrangement with the US.

III. CARICOM exports to the US.

CARICOM depends on a narrow range of product categories for the bulk of its exports to the United States. Apart from mineral fuels and oils, organic and inorganic chemicals which are the top three (3) regional exports, the other leading product categories which are of interest to a broad set of CARICOM countries include apparel, fish and crustaceans, beverages and spirits, plastic products, electric machinery (electronics), vegetable and fruit juices, ores, cassava, iron and steel products, and sugar products.

The contribution of apparel to total US imports from CARICOM has slipped from being the 2nd highest in 1994 (behind mineral fuels and oils) to the 4th highest in 2005. At the same time, apparel imports from Haiti have grown steadily since 2000, accounting for approximately 87% of the value of total US apparel imports from CARICOM in 2005, replacing Jamaica as the leading source of imports from the region. Yet, US apparel

[1] INTAL-IDB CARICOM Report No. 2, August 2005.

imports from Central American sources out-perform imports from CARICOM sources. Completion of the CAFTA-DR FTA has provided enhanced market access opportunities to its beneficiaries relative to the rest of the Caribbean for this product category, creating the possibility for a further widening of existing import margins in the U.S. The incremental market access advantages gained by the Central Americans and the Dominican Republic through CAFTA could have the potential of pulling apparel investment from CARICOM countries.

In 2005, fish imports from CARICOM countries accounted for 1.77% of total imports from the Region. Notwithstanding this small share of total imports, this product category accounts for the 6th highest US import (by value) from the Region and for a significant share of total US imports from individual countries. The Bahamas, Guyana, Belize, Trinidad and Tobago and Suriname, in that order, are the leading CARICOM sources. Imports from Jamaica and Grenada are less significant although in the case of Grenada, fish is among the top three (3) US imports from that country, and in 2004 accounted for 40.3% of the value of total US imports from Grenada. A similar picture emerges for Belize, the Bahamas and Guyana. In the case of Belize, although the totals declined between 2000 and 2005, fish products remain the number one US import, accounting for 31.8% of the value of total US imports from that country in 2005. Fish is number two (behind bauxite) in terms of US imports from Guyana, and is number four in the case of the Bahamas.

Jamaica, Trinidad and Tobago and Barbados, in that order, are the leading sources of US imports of beverages and spirits from CARICOM. Imports from Jamaica grew steadily between 2000 and 2005, and accounted for approximately 88% of total (value) of US imports from the region last year. Imports from Trinidad and Tobago in 2005 saw a dramatic rise over the previous 4-year period, registering a remarkable 400% growth in 2005 over the previous year. It is noteworthy that while the contribution of Barbados is less significant, rum and spirits is the leading US import from Barbados, accounting for 30% of total imports from Barbados in 2005.

St. Kitts and Nevis dominates US imports of electronics from the Region followed by Barbados, Haiti, St. Lucia, Trinidad and Tobago and Jamaica. In the case of Barbados, although US import levels have fallen since 2000, electronics remains among the top 3 US imports from Barbados.[2] Imports from Haiti more than tripled between 2002 and 2003, doubled in 2004 and then fell by almost 50% in 2005. Nonetheless, electric machinery is 4th highest import from Haiti. Electronic imports from St. Lucia, although declining by approximately 50% between 2000 and 2005, is the 2nd highest US import from that country.

Jamaica and Belize are the dominant sources of fruit and vegetable juices, and in the case of Belize is the second most important US import. Although imports from Belize declined by approximately 50% between 2000 and 2003, imports have rebounded, growing by 39% between 2004 and 2005.

[2] Between 1994-2003, electronics was the leading US import from Barbados.

IV. Contribution of CBERA /CBTPA to CARICOM-US Trade

All CARICOM countries except Suriname[3] are CBERA beneficiaries. However, not all CARICOM beneficiaries are eligible for the additional preferences provided under CBTPA.[4] Only Barbados, Belize, Guyana, Haiti, Jamaica, Saint Lucia, and Trinidad and Tobago have been designated as fully eligible to receive the enhanced benefits of the CBTPA.

In general, US imports under CBERA duty free provisions have declined since 1998 as a proportion of total imports from all beneficiary countries, though values have risen. This is also the case for CARICOM as a whole, although CBI imports from individual countries such as Trinidad and Tobago and Haiti continue to grow as a share of total US imports from CBI beneficiaries. An examination of US imports under CBERA from CARICOM beneficiaries (excluding Trinidad and Tobago) between 2000 and 2004 shows that the share of US imports from CARICOM declined from 11% in 2000 to approximately 5.5% of total CBERA imports in 2004. If Trinidad is included the decline is less dramatic – from 22.8% in 2000 to 20.8% of total CBERA imports in 2004.

Under the CBTPA, the value of US imports from the seven CARICOM beneficiaries amounted to US$ 2,338 million in 2005; the share of US imports from CARICOM beneficiaries as a proportion of total CBTPA imports is increasing. While data for CBTPA for the comparable period is not available, US imports for consumption under CBTPA for 2004-2005, indicates that the value of US imports from CARICOM CBTPA beneficiaries increased from 18.7% of total US CBTPA imports in 2004 to approximately 27% of total in 2005. Even when Trinidad is excluded from the picture, the growth trend remains, though the percentage increase is far less impressive - moving from 3.8% in 2004 to 4.1% in 2005. Apart from the overall growth trend for CARICOM as a whole in respect of CBTPA trade as opposed to CBERA, imports from Trinidad and Tobago, Haiti and Belize also grew over the same period by 68.3%, 38.9% and 1.7% respectively. In the case of Trinidad and Tobago, CBTPA accounts for a growing portion of US imports of petroleum products. The same is true for Haiti in respect of apparel.

A closer examination of US imports from individual CARICOM countries under selected US import programmes is instructive and provides new insights into the importance of CBERA for individual CARICOM countries, in particular the OECS, which otherwise would not be immediately evident. The largest share of U.S. imports from the majority of CARICOM countries relies on duty-free entry under normal trade relations (NTR) (or most-favored nation) status. That share has been increasing. The data also indicate the very small share of imports that have relied on the Generalized System of Preferences (GSP) program for duty-free entry into the United States.

Closer study reveals that US imports from CARICOM in 2004 were valued at more than US$7,517 million of which 60% entered duty-free under MFN (NTR free) and only

[3] Suriname is eligible but has not applied for beneficiary status.

[4] Besides certain qualifying apparel articles, CBTPA extends preferential tariff treatment to certain tuna, petroleum products, certain footwear, certain watches and watch parts and textile luggage assembled from US fabrics made of US yarns.

0.2% under the GSP, while 29.2% entered under the CBI (10.4% under CBERA and 18.8% under CBTPA). This means that 10.5% was dutiable. Noteworthy is the fact that of the CBI share, the CBTPA segment is more important than the CBERA segment (18.8% vs. 10.4%), despite the fact that many CARICOM countries are not CBTPA beneficiaries as previously indicated. For CBI beneficiaries as a whole CBTPA has proven to be far more important than CBERA (28.1% vs. 10.8%). This could mean that if CBTPA-type access were accorded to those CARICOM countries not benefiting (either by becoming CPTBA beneficiaries or through an FTA) the significance of this access could increase. It is also worth noting that the GSP is currently almost irrelevant, amounting to 0.2% of all imports from CARICOM– in 2005 it was higher than 2% for only one country (St. Lucia at 4.8%)

VI. The Future of CBI?

CARICOM welcomes and remains supportive of the continuing efforts of the United States to secure a WTO waiver for CBERA. CARICOM Trade Ministers and Officials continue to work with the United States in the WTO and through other diplomatic channels and fora to secure the successful passage of the waiver**.** The renewal of the waiver is of political and economic importance to all beneficiaries in providing legal certainty for investors and exporters alike.

As the United States Congress seeks to extend and update CBERA, the following realities need to be taken into consideration:

(1) CBI's relative value has been reduced since it was first introduced in 1984 due to progressive market liberalization by the United States, either unilaterally through successive rounds of multilateral negotiations or through bilateral trade agreements with third countries. As the US continues to aggressively pursue bilateral agreements with countries in the hemisphere and outside, the value of these preferences will continue to be eroded.

(2) The negotiation of FTAs between the US and former CBI beneficiaries in Central America and the Dominican Republic have allowed these countries to lock-in the preferential arrangements into a more secure trade arrangement and at the same time improve their market access and investment situations relative to that of CARICOM. Approximately one hundred and thirty (130) products that do not currently benefit from duty free treatment either under CBI or the US GSP have been scheduled for immediate tariff elimination under CAFTA. Most of these products which fall within the broad classification of textiles and fabrics currently attract an MFN rate of duty ranging from 6% to 32% and in several instances, there are also compounded duties, that is ad valorem and specific duties. Preferential access for these products will affect CARICOM's market share for those products in which the Region already has a presence in the market.

(3) Not all CARICOM CBERA beneficiaries are eligible for the additional preferences provided under CBTPA. Only Barbados, Belize, Guyana, Haiti, Jamaica, Saint Lucia and Trinidad and Tobago are eligible to receive CBTPA

benefits.

(4) CBERA benefits are limited to merchandise trade, which accounts for a diminishing share of total regional exports. With the exception of Trinidad and Tobago, Guyana, Belize and Haiti, services exports account for the lion share of total exports of individual countries**.** Therefore one clear objective of CARICOM in any future trade arrangement with the US should be to provide opportunities to harness and grow the Region's services trade potential.

VII. Strengthening CBTPA

The CBTPA will expire on September 30, 2008. It is important to lock in the CBTPA preferences into the permanent legislation under CBERA ensuring that these preferences are not subject to expiration. One group of products, which would benefit from a secure long-term basis for CBTPA preferences, would be petroleum and petroleum based products. The bulk of Trinidad and Tobago's petroleum based exports to the United States enter under CBTPA preferences, the same is true for Haiti's garment exports, although, the HOPE initiative extends the CBTPA preferences**.** At present, not all CARICOM CBERA beneficiaries are eligible for the additional preferences under CBTPA. The coverage of CBTPA should be extended to all CARICOM CBERA beneficiaries**.**

CARICOM exporters could also benefit from more flexible Rules of Origin for exports to the United States. CBERA rules of origin have affected the effectiveness and value of the preferences for beneficiary countries, and account for the increasing use of duty free entry under normal trade relations (NTR) or most favored nation (MFN) status. The origin criterion with respect to substantial transformation imposes limitations for countries at the lower end of the technology development and manufacturing ladder. CBI beneficiaries have consistently complained about excessive, burdensome and complicated certificate of origin documentation requirements, paperwork and customs implementing rules. Current Rules of Origin should be re-examined to the extent that they can be made more flexible for exporters using the CBERA preferences. Quotas and other non-tariff barriers, which CBTPA does not address, continue to constitute significant and increasing barriers to entry to goods produced in CBI beneficiary countries.

VIII. Development Promotion

CARICOM (and the Dominican Republic) has recently completed a comprehensive Economic Partnership Agreement with the European Union, which should provide some indications of the type of treatment that a developed country should provide to small vulnerable developing countries such as those in the CARICOM group. (1) Both the commitments and the implementation must be asymmetrical to reflect the differences in size and level of development between the United States and the CARICOM countries. (2) The trade agreement must be accompanied by an adequate package of development assistance and technical cooperation to assist the governments of CARICOM with the cost of implementation and to facilitate adjustment and the enhancement of international competitiveness.

IX. Strengthening the Partnership

A democratic, peaceful and prosperous Caribbean Basin is in the interest of the United States of America. Economic development is a critical component of the foundation of stable democratic societies. The growth of trade and investment between CARICOM and the US can contribute to the economic development of the CARICOM countries thereby strengthening a partnership based on shared economic and political ideals. The proposals I have outlined can promote the expansion and diversification of trade and investment between the United States and the CARICOM region to the benefit of both parties.