and expeditious customs clearance procedures, such as those provided for in Article X of the General Agreement on Tariffs and Trade. In exploring the needs of US businesses, we have identified a number of key attributes a fair and efficient customs clearance agreement should include. The following is a list of those processes we believe are most important and should be provided for in any hemispheric trade agreement.

CARGO PROCESSING

- Provisional release of goods prior to completing paperwork and payment of duties for all agency purposes.
- Use of an automated selectivity or statistically valid compliance measurement system.
- Define all data forms and fields in terms for UN/EDIFACT messages.
- Separate the merchandise import and inspection process to eliminate delays and reduce the risks of corruption.

TRANSPARENCY TO ENHANCE VOLUNTARY COMPLIANCE

- All relevant rulings should be published and available to exporters and importers prior to customs entry of goods.
- Customs should give timely notice before implementation of any new regulation or practice, or any change in a regulation or established practice.
- The Customs entry process should provide a timely and prompt system to protest rulings and decisions.

PASSENGER PROCESSING

- Integrate passenger processing with immigration and allow for expedited processing of business travelers.

AUDIT

- Rely on post-import audits to verify compliance.

Thank you again for this opportunity to express our views and for your work in expanding the Free Trade Area of the Americas. We will be happy to elaborate on any of the above recommendations.

Sincerely,

JAMES B. CLAWSON
President

[By Permission of the Chairman]

Statement of Hon. Dr. Richard L. Bernal, Ambassador from Jamaica to the United States

Thank you for providing me an opportunity to submit a statement on the impact of hemispheric free trade on the US/Caribbean trade partnership. As the Subcommittee moves forward with its review of these critically important issue, I believe it is important to provide you with a Jamaican perspective.

In December, 1994, the 34 Democratic nations of the Hemisphere came together in Miami to hammer out an agreement to establish a Free Trade Area of the Americas (FTAA) by the year 2005. Earlier this year, the trade ministers of those nations met in Belo Horizonte to agree that negotiations to launch a trade agreement should begin early next year. As the Hemisphere marches to put this vision into practice, it will be important that the needs and special circumstances of the smaller economies—which make up a majority of the nations in the hemisphere—are addressed in the final FTAA implementation package.

I. THE US TRADE AGENDA AND THE US/CARIBBEAN BASIN PARTNERSHIP

The US Congress and successive Administrations have long since recognized that promoting strong economic development in the Caribbean Basin is in the US national interest. This becomes even more apparent in the context of the FTAA. Many Caribbean countries view the United States as their single largest market and as the largest source of their imported supplies. Moreover, many of the smaller econo-

to earn much of their crucial foreign exchange. These economies can be extremely susceptible to external shocks or the corrupting influences of narco-traffickers, and are often not flexible enough to undertake the kinds of reforms necessary for survival in the modern international economy. Sustained and tangible expressions of US support for these countries—through continued engagement on the trade front—re vital to help them defend themselves against external disruption and internal resistance to change.

Although many see the US/Caribbean relationship as altruistic or one-sided, it is truly a mutually beneficial relationship. Statistics on regional trade and investment flows underscore this point.

—Presently, the US/Caribbean commercial relationship supports more than 300,000 jobs in the United States and countless more throughout the Caribbean. During the past decade, the US/Caribbean Basin relationship has created more than 18,000 jobs a year in the United States.

—The Caribbean Basin is in aggregate now the tenth largest export market for the United States, surpassing countries such as France.

—The Caribbean Basin is one of the few regions in the world where US exporters maintain trade surpluses. In 1996, the 11th consecutive year for which the United States recorded a trade surplus with the Caribbean Basin, that surplus surpassed $1.4 billion.

—In 1996, US exports to the region passed $ 15.9 billion, resulting in a 170 percent increase in US exports during the past 11 years. Virtually every state in the union has benefited from this relationship.

—In 1996, US imports from the region reached $ 14.5 billion, completing an 11-year growth rate of nearly 120 percent.

—It is estimated that between 60 to 70 cents of each dollar spent in the Caribbean Basin is spent back in the United States compared with only 10 cents of each dollar spent in Asia.

—When US trading partners are ranked by the US share of their markets, CBI countries claim 12 of the top 20 spots. Jamaica, which in 1995 purchased 75 percent of its imports in the United States, is ranked second and is only surpassed by Canada.

The basis of this healthy and balanced trade relationship is a complementarity between the CBI economies and the US economy. While the US economy is highly industrialized, the CBI countries tend to emphasize more agriculture, raw materials, tourism, and, increasingly, labour-intensive manufacture. These economic patterns are natural catalysts for the trade based-economic growth.

For example, apparel has become Jamaica's leading manufactured export and has grown very rapidly. It has grown because of a complementarity involving the combination of US capital goods and raw materials being produced with Jamaican labour for US companies. The result is the creation of jobs in the textile and shipping sectors both here and in Jamaica. In addition, this integrated transnational process of production draws upon the strength of both economies to manufacture a final product that can be competitive in the US and global market. This equation again adds up to jobs, especially through the preservation of jobs and corporate entities in the Unites States which could not survive by producing goods entirely in the United States.

II. NAFTA'S IMPACT ON THE US/CARIBBEAN PARTNERSHIP

A. The CBI/NAFTA Imbalance

Clearly, the biggest issue facing the Caribbean Basin is the lack of parity of US market access with Mexico. The CBI has provided a good foundation, particularly in the era when aid from the United States is declining. It has been a good strategy of trade, and not aid, which has proved more beneficial in the long run. But the CBI has several built-in limitations.

One problem is that, while it liberalizes 90 percent of the trade categories, the CBI does not liberalize 90 percent of the actual trade flows, primarily because the very goods—such as apparel and footwear—on which the CBI has a comparative advantage are the goods that tend to be restricted by US import laws. The paralyzing effect of these exclusions becomes more noticeable as CBI economies begin to produce products that are not covered by the CBI. In 1996, the annual International Trade Commission survey on the CBI reported that average duties paid for CBI imports rose from 1.9 percent in 1984 to 12.3 percent in 1994. If left unchecked, the current CBI formula will have a declining impact on Caribbean economic develop-

In contrast, NAFTA eliminates the duty and quota treatment for these same articles, either immediately or over a phase-out period. Under NAFTA, import duties were immediately removed on the overwhelming majority—approximately 80 percent—of Mexican apparel exports to the United States. The remaining 20 percent benefits from an accelerated implementation of free trade, with annual duty cuts and quota liberalization set to be completed by the year 2000. To be fair, NAFTA also phases out the duties on the products for which the CBI countries already enjoy duty free treatment.

But the result is far from even. Mexico gains parity with the Caribbean countries for CBI-covered products, establishing a level playing field for those items on which Mexican and Caribbean exporters face no duty. But on the products excluded from the CBI, such as textile and apparel products, Mexico gains access to the US market, exceeding that granted to the Caribbean countries. This tilts the playing field in Mexico's favor, and gives Mexican exporters a distinct advantage over Caribbean exporters. When combined with Mexico's access to cheap energy, lower transport costs, greater economies of scale, and low wage rates, this advantage becomes quite substantial.

B. NAFTA's Impact on the Caribbean Basin

Broadly speaking, NAFTA's implementation—and advantages over the CBI—poses clear risks for the US/CBI partnership. The elimination of quotas and the phase-out of tariffs on Mexican products removes the advantage enjoyed by CBI exports to the US market, diverting trade flows from CBI countries to Mexico. Since the NAFTA was implemented, there has already been a measurable diversion of trade from the CBI to Mexico. Before NAFTA was implemented, the growth rate of US apparel imports from Mexico and the CBI region were on par. Three years after the NAFTA was implemented, Mexican apparel import growth rates have consistently outpaced Caribbean growth rates by at least a 2 to 1 margin. As this trend continues, Caribbean market share in the United States will be consumed by Mexican suppliers.

Another consequence of NAFTA's implementation has been the diversion of new investment. One of the primary indicators has been the fact that in the last 3 years there has been a pause in investment in the region, as investors first waited to evaluate the NAFTA provisions and then established new operating facilities in Mexico, instead of in the Caribbean. This trend, which is now being fully realized, was anticipated by the US International Trade Commission, which reported in 1992 that "FTA will introduce incentives that will tend to favor apparel investment shifts away from the CBERA countries to Mexico."

As existing investors begin to source their products out of Mexico, others are rushing to transfer or close existing productive capacity—particularly in the "foot-loose" apparel industries which can easily be relocated—to take advantage of Mexico's market access. In many Caribbean Basin countries, NAFTA directly reverses past successes of the CBI program, effectively turning back the clock of Caribbean development. Employment is hit particularly hard by this trend, as manufacturers close factories and lay off employees. According to estimates by the Caribbean Textiles and Apparel Institute, more than 150 apparel plants closed in the Caribbean, resulting in the loss of 123,000 jobs during 1995 and 1996. This trend is particularly damaging to women, who often look to the textile and apparel sector for their livelihood.

An erosion of export access to the United States will eventually translate directly into a contraction of economic activity in the CBI region. Such a contraction would lower regional incomes, and, ultimately, the demand for imports from the United States. In such a scenario, US exports of goods and services to the CBI would decline while regional instability—fostered by a decrease in economic opportunities—would rise. Judging from past patterns, the resulting unemployment in the United States would be met with an increase in immigration from displaced Caribbean workers and a rise in narcotics trafficking.

C. Caribbean Enhancement (Parity) As An Immediate Remedy

While the long term solution is to determine how to fully integrate Caribbean countries—and the specific needs of their smaller economies—into the NAFTA or a Free Trade Area of the Americas (FTAA), a short term solution calls for the leveling of the playing field between Mexico and the Caribbean countries. In Bridgetown earlier this year, President Clinton renewed and unequivocally reconfirmed his strong commitment to seek enactment of a Caribbean Basin Trade Enhancement package during 1997. Congressmen Phil Crane and Charlie Rangel and Senator Bob Graham have also worked to support enactment of Caribbean parity provisions this year. As Congress and the Administration move ahead on this proposal to re-impose balance

between Mexican and Caribbean access to the US market, they should ensure that the legislation on which they act encompasses several key principles:

First, the legislation must cover all products currently excluded from the CBI. As the Caribbean economies liberalize, it becomes increasingly difficult to erect artificial barriers between product categories. Improving market access for only certain textile and apparel products would have a limited effect, and would retain the anomalies that encourage unbalanced economic growth. Enacting a comprehensive bill, however, is both economically more feasible and symbolically more consistent with the notion of free and open trade.

Second, the legislation must serve as a gateway to the Free Trade Area for the Americas. One of the implicit goals of parity is to provide Caribbean Basin countries an opportunity to complete the trade liberalization and economic reform steps necessary for accession to the FTAA. While some countries—such as Jamaica—are now ready to negotiate either a free trade agreement with the United States or accession to a NAFTA, others may need a longer period. The Caribbean trade enhancement proposal should provide that transitional period, without locking CBI countries into a perpetual state where their trade posture is being slowly eroded.

Third, any Caribbean trade enhancement proposal must be of a sufficiently long duration to provide credibility and certainty, and to help re-establish confidence lost in past years. It is now clear that this legislation will require Caribbean countries to undertake certain obligations and implement specific measures in order to access the full benefits. Such reciprocity makes sense, but only if the reciprocal commitments are maintained in force indefinitely.

Fourth, on a related note, the legislation must not impose entrance requirements that are insurmountable. The 24 nations of the Caribbean Basin represent diverse economies that are at different stages of liberalization. Ideally, the legislation will not establish a new set of criteria by which countries can become eligible for the benefits, but rather link the enhanced benefits to more rigorous application of the existing CBI program criteria. In this way, countries can fully pursue trade liberalization without being harmed by a break in market access or the sudden resurgence of an unbalanced playing field.

III. Sustaining US/Caribbean Trade Links for the Longer Term

Moving past the immediate concerns of Caribbean Basin trade enhancement are the longer term debates of NAFTA expansion and the development of the FTAA.

A. NAFTA Accession and the Caribbean

The prospect of NAFTA accession for Caribbean countries takes on added importance with the on-going delay in enactment of Caribbean parity provisions. It also provides an important long term framework for the CBI, especially since the CBI exists now as the product of a legislated action by Congress, and not as the product of a reciprocal trade negotiation.

Although there are quite a few countries in the region that are close to meeting the requirements of joining NAFTA, there is a perception that only a handful of big emerging markets—such as Brazil and Argentina—hould be considered for NAFTA accession once Chile has joined. It may, however, make sense to look to smaller Caribbean economies for the next stage of NAFTA expansion. First, most Caribbean economies would be complementary, not competitive, with the US economy. Second, because Caribbean economies are small, they are unlikely to disrupt the US economy. Third, there may be no better way of securing the long-term economic development of the Caribbean then by forging a close link based on reciprocity with the United States. Finally, the Caribbean is the logical place to start since many Caribbean economies have already implemented the kind of trade liberalization and economic reforms that would be called for under NAFTA accession.

Regardless of the accession queue, it is vitally important for the US Government to establish a transparent process in which there are clear eligibility criteria. Without clear guidelines, countries are focusing on political jockeying to compete to see who should come in next, rather than focusing on meeting specific criteria that is a more appropriate measure of readiness.

B. The FTAA And The Caribbean

At the same time, Caribbean countries are engaged with their hemispheric neighbors in discussions on erecting a Free Trade Area of the Americas (FTAA). Although a hemispheric free trade agreement will provide a long-term framework under which a solid security relationship can flourish, the process of achieving that goal may prove exceptionally disruptive for many Caribbean countries.

FTAA participants will have the unprecedented task of erecting an FTAA that encompasses in a single trade agreement countries which differ widely in size, levels of development, extent of industrialization, and degree of liberalization. At the same time, for the FTAA to be worthwhile, it must strive toward a uniform series of standards and disciplines that are consistent with international and hemispheric trading practices. To ensure full and equitable participation, especially of the smaller economies in the Caribbean, the FTAA implementation path must reflect several important principles.

First, there must be an orderly accession process. This can be achieved if the process is politically transparent. Orderly accession requires the establishment and enunciation of a clearly defined set of eligibility criteria, procedures for applying for membership, and a timetable for expansion. The absence of these factors creates a situation in which various arbitrary, non-economic criteria may disproportionately influence the selection and sequence of admission of new members.

Second, the path will have to accommodate considerable flexibility since it will probably not be possible for all countries to move at the same pace and arrive at a single destination. In fact, there is some concern about how quickly the smaller, less developed countries of the Caribbean region or Latin America could undertake the full range of commitments that will be expected under the FTAA. A suitable transitional arrangement must be designed for these countries and involve asymmetrically phased assumption of obligations and disciplines. An appropriate adjustment period not only will take account of the level of development, extent of liberalization, and undiversified structure of these economies, but it also would permit time for completion of the structural adjustment process of the wider Latin American region. For example, Caribbean Basin countries could be provided fuller access to the NAFTA markets, with phased in reciprocity, to transition them to the disciplines of the NAFTA. A suitable transitional arrangement would enable these economies to complete their processes of economic reform and structural adjustment, which will put them in a position to move towards reciprocity. A premature attempt by these countries to provide full reciprocity immediately could be detrimental to these processes of adjustment, and could inhibit export expansion.

Third, the FTAA will need to contain provisions for associate or partial membership to permit countries, or sectors within those countries, to undertake FTAA commitments in a way that do not infringe upon existing obligations. This would provide an opportunity, for countries that, despite a commitment to the FTAA, are not ready for full membership or are precluded by existing commitments to sub-regional trade arrangements with trade groups outside the hemisphere. Looking back at example of the Caribbean, CARICOM members of the preferential Lome Convention are obliged to provide no-less favorable conditions to the EU than that provided to any developed country. If Caribbean countries were to provide reciprocity to the United States and Canada by virtue of an FTAA agreement, or even NAFTA membership, then these countries would be obliged to provide reciprocity to the EU under the terms of Lome. Associate membership would facilitate liberalization in a limited number of areas and obviate the enforcement of across the board reciprocity by the European Union.

Finally, the FTAA process must pay close attention to the needs of the smaller economies. While constituting a majority of the Western Hemisphere, the smaller economies are not likely to be a major determinant on what constitutes the FTAA, the path to the FTAA and the schedule for negotiations and the commencement of the FTAA. Yet without their participation, the FTAA loses its character as a truly hemispheric exercise. At a minimum, the Ministers must integrate the special needs of small developing countries in all their work, rather than confine these concerns to the Working Group on Smaller economies.

IV. Conclusion

The prospect of hemispheric free trade figures prominently in US/Caribbean trade relations. If the Administration and Congress can develop a common approach for continued trade expansion, they can signal to the hemisphere that the United States remains fully engaged in the international trading community over the next decade. Failure to reach such a consensus not only sends the wrong signal on trade, but also stands as a real barrier to continued US/Caribbean trade. Conversely, any setbacks in the effort to enact Caribbean parity suggests an ambiguous commitment to promote trade liberalization on the part of the United States.

Countless studies have shown that strong regional economic links are crucial, not only in creating economic opportunities throughout the United States and the Caribbean Basin, but also in supporting stable and mutual beneficial security relationships. In the dozen years since it has been implemented, the CBI has provided a

key framework of economic development for the Caribbean, and has stimulated sound US/Caribbean commercial relations.

However, with the many challenges facing the Caribbean today, it is imperative that the US and Caribbean Basin Governments jointly work to sustain a healthy relationship and keep the vision of the CBI relevant. In crafting the Bridgetown Partnership, US and Caribbean policy makers have taken a first step to address concerns in a number of sensitive economic and security areas. A critical premise of this work is the understanding that both the United States and the Caribbean partners will move ahead to foster and implement additional trade liberalization. Such an understanding is important since the continued vitality of this relationship will be a key ingredient in the approach to hemispheric free trade.

Statement of Mattel Toys, Inc., El Segundo, California

As a multinational corporation with offices in over 30 countries, sales in more than 140 countries, and manufacturing activities in 7 countries, Mattel strongly supports the goal to establish the Free Trade Area of the Americas agreement by 2005. We support all multilateral initiatives to promote the reduction of tariffs and non-tariff barriers, especially those within the hemisphere. Latin America is a very important market for Mattel's products. With sales and marketing offices in Mexico, Argentina, Chile, Venezuela and Colombia, and strong export sales to the rest of the region, we've enjoyed significant annual sales growth in Latin America for more than a decade. Nonetheless, we have also experienced significant restrictions to trade in the region including high tariffs and import taxes, proliferation of anti-dumping (safeguard), retaliatory tariff measures against toys from China, and yearly introduction of laws threatening imports by imposing stricter standards, labeling requirements or other criteria.

U.S. Objectives in FTAA Process

1. The FTAA should eventually supersede and integrate all sub-regional trade accords (i.e. NAFTA, Andean Pact, ALADI, Mercosur, etc.) providing for one common set of trading rules and tariff phase-out schedules.
2. The FTAA should promote the voluntary acceptance among all participatory countries of International Customs Guidelines. Under this framework, countries can cohesively work towards the goal of providing automated customs systems, the ability to appeal decisions of each nation's Customs Service, as well as pre-entry binding advice and post-entry audit procedures.
3. The FTAA could improve the enforcement of Intellectual Property Rights in Latin America by recognizing and endorsing the effective methods of the U.S. Customs Service to protect U.S. companies from IPR violations. U.S. Customs (under 19 CFR 133) allows businesses to register trademarks, copyrights or trade names with U.S. Customs. In turn, the agency protects these companies against infringing imports by denying entry to, or seizing goods which violate recorded rights. U.S. Customs also requires importers to obtain letters of authorization from trademark holders granting them permission to import products bearing the latters' registered trademark.
4. The FTAA should work to harmonize product safety standards and testing/certification requirements in the hemisphere. To the greatest extent possible, uniform and consistent safety standards should be adopted by all parties. Where safety certification is required, countries should allow approved laboratories to conduct such certification within any country that is party to the agreement.
5. The FTAA overall should promote the ideals and objectives of the WTO to provide for transparent, consistent and fair trade policies, and systemic approaches to resolving trade conflicts.

Major Issues Not Address by International Disciplines

If international disciplines refers to multinational organizations such as the World Trade Organization and the World Customs Organization, then there are few, if any, trade issues that are not already addressed or able to be addressed through those organizations.

However, as mentioned in Point 3 above, there is much room for improvement in the enforcement of intellectual property rights (IPR). As the world leader in innovative technology, the U.S. stands to lose the most in the face of weakly enforced IPR around the world. We strongly urge U.S. officials to push for the adoption by other countries of stricter controls to protect IPR by dedicating more resources towards