Statement of Sally Yearwood

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USITC Hearings on the Caribbean Basin Economic Recovery Act; 21st Report. (Investigation No. 332-227); June 13, 2013

Commissioners,

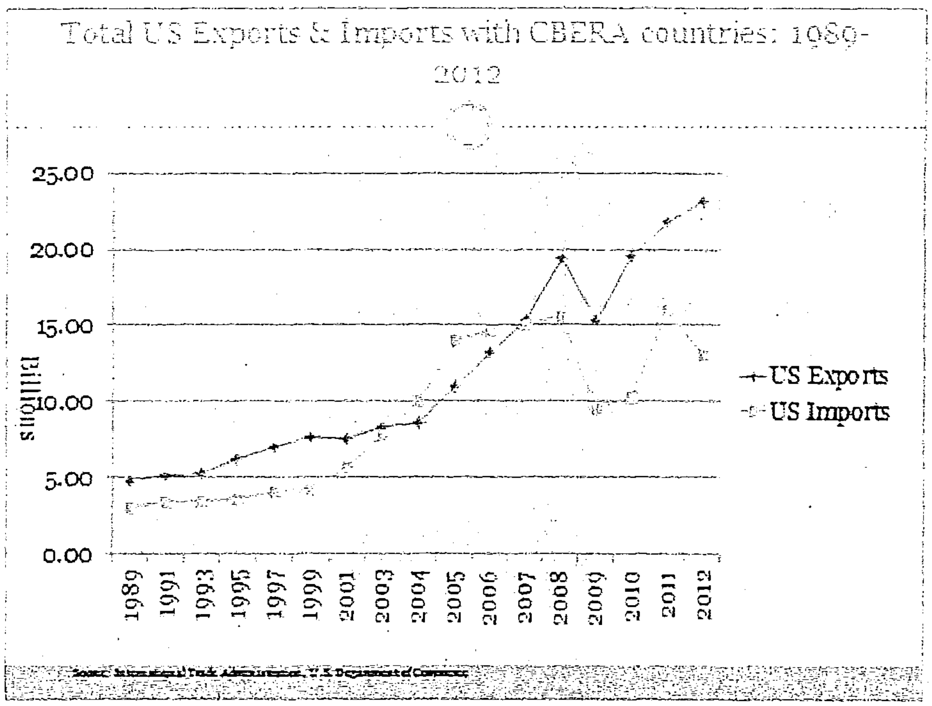
I would like to thank the United States International Trade Commission for inviting Caribbean Central American Action (CCAA) to testify today. CCAA has been addressing the relationship between the United States and the Caribbean Basin for thirty five years with a focus on economic development. Rather than being a pure trade policy organization, we seek to support a strong business and investment environment in the region, and to address critical issues which threaten growth.

The questions for this hearing, in the context of the biannual review process, speak to the impact of the CBERA on the economies of the United States and the beneficiary countries, as well as the possible future impact.

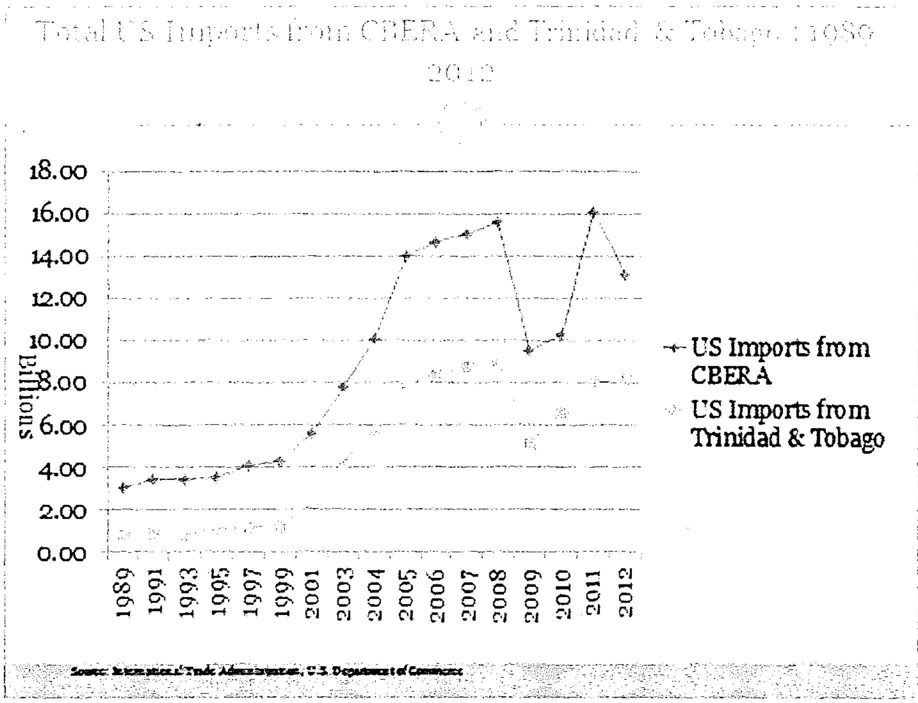
There are a few central points that I would like to open with:

First: Upon reviewing the last USITC report, dated September 2011, we would expect few significant changes from the findings of that report as related to the current impact of CBERA, wherein the report stated that "the overall effect of CBERA-exclusive imports on the U.S. economy generally and on U.S. industries and consumers, continued to be negligible". Furthermore, the report states that "the probable future effect of CBERA on the United States should also be minimal for most products, as CBERA countries generally are small suppliers relative to the U.S. market... Moreover, investment in CBERA countries increasingly targets export-oriented services...rather than manufacturing CBERA-eligible export goods." While there have been some increases in exports of certain manufactured and agricultural goods from the region, the levels remain small in relation to the U.S.' overall global imports.

Second: The countries where CBERA is the principal trade mechanism with the US are not what they were even two years ago. At the last review, DR-CAFTA had been implemented in all of the eligible countries; in October 2011, Panama's Trade Promotion Agreement with the United States was signed into law.



Third: The United States continues to have a healthy trade balance with the beneficiary countries. In 2012 imports from the region were approximately $13 billion and exports to the region were approximately $23 billion. Indeed, if the imports from Trinidad and Tobago are extracted from the overall trade figures, the tilt is even more remarkable. Trinidad & Tobago exports to the U.S. in 2012, primarily in the areas of chemicals, petroleum, and oil and gas, were approximately $8 billion, while their imports from the U.S. were approximately $2 billion. The extrapolation here is that the rest of the region imported approximately $21 billion in U.S. goods, while exporting about $5 billion under CBERA[1].

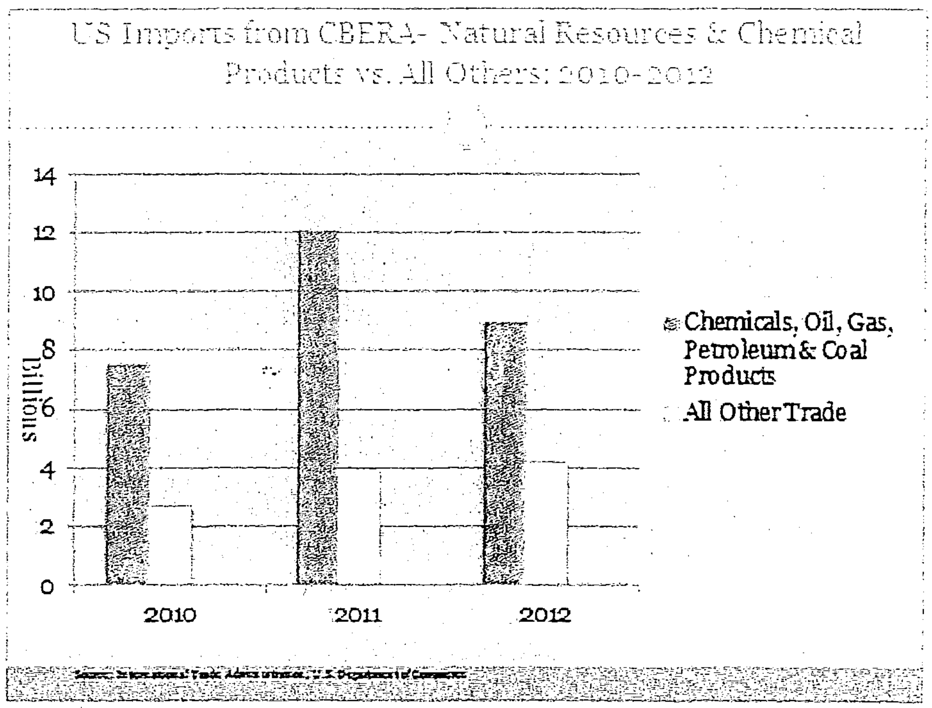


This speaks to the reality of US/Caribbean trade: a strong Caribbean economy positively affects the US economy, insofar as the Caribbean is a close and reliable market for US goods and services.

I would like to stress that notwithstanding this seemingly under-utilized pipeline of trade, CBERA is critical to the remaining beneficiary countries. While it is true that their economies have in large part moved towards the services industries, and that much of the region has not fully taken advantage the benefits that CBERA offers, the legislation provides critical jobs and foreign exchange earnings to a vulnerable region. Furthermore, any erosion of benefits under CBERA to ANY of the beneficiary countries would have an immediate and damaging effect on the country or countries affected. In a region that is already struggling with high debt and low investment, CBERA at a minimum creates a

[1] Statistics are from the U.S. Department of Commerce, International Trade Administration / TradeStats Express™

structure under which the region can continue to trade competitively with its most important partner. A roll-back or elimination of any part of the program would have a harmful outcome, as even a small increase in duties will affect the margins, particularly when competing against larger producers or countries that have Free Trade Agreements in place. Some of the countries in the region are facing the additional threat that if they do not have a free trade agreement in place with Canada by next year, they will be graduated away from preferential trade programs with that country.



Three fundamental reasons why CBERA is important:

First is the cost of energy in the region. In CBERA countries, again with the exception of Trinidad &Tobago, the cost of energy to consumers averages up to 5 times as high as here in the U.S., which contributes to elevated costs of production. Without duty-free access, products arriving from the region would be significantly less competitive. This particular issue speaks to a fundamental need for the region to find a sustainable solution to energy security challenges, and, indeed, this is a priority area for CCAA.

Second is the region's vulnerability to natural disasters. The permanent and non-reciprocal nature of the CBERA offers the region security in rebuilding its production base in the aftermath of a natural disaster. In the absence of this trade protocol, reinvestment would be less certain.

Third is regional security. CCAA was born in the days of the Cold War when the focus was on an economically vibrant Caribbean Basin which would be a strong and democratic partner to the U.S. in the face of the threatened spread of communism. Today that focus seems antiquated in its ideological construct; but the reality is that another war is being fought throughout the hemisphere, and that is a war on crime. While this is not the forum for an in-depth discussion of the problem, rising unemployment in the CBERA region is creating an environment where insecurity can take root, and the region has limited resources to fight it. Stable economies are critical to long-term security, and CBERA is an important contributor to the region's economic stability.

<u>Some of the areas that CBERA continues to have an impact:</u>

While many countries have had varied degrees of success in developing exports under CBERA, some have been able to grow and sustain their exports despite the supply-side constraints that are faced. To appreciate how CBERA continues to affect investment and trade in the region, it is worth looking at some smaller, but no less important successes.

<u>Belize</u>

As a recent example, Belize has carved out a niche market in tropical fruit, notably in papayas. In December, 2012, industry analysts were projecting a 30% increase in exports of papayas from Belize[2]. The growth is demand-driven, and in spite of a number of tropical storms that have hit Belize recently, export growth of this product has been constant.

St. Kitts and Nevis

In St. Kitts and Nevis, there is a small but significant computer and electronics industry that has grown by 100% since 2005. In 2012, this industry accounted for $36.7 million of the $56.8 million generated by merchandise exports to the U.S., or 64%.[3]

Haiti

The benefits of the HOPE legislation to Haiti are immediately apparent. The industry has rebounded dramatically since the 2010 earthquake, with exports to the U.S. growing from $513 million in 2009, to $730 million in 2012. Last week, on June 6th, U.S. Ambassador Pamela White visited a U.S.-owned manufacturing plant that is producing garments under the bill. The Ambassador noted that: "Without the HOPE Act, the plants cannot be competitive…."[4]

It is worth mentioning that while Haiti's apparel industry exports accounted for 94.2% of the country's exports to the U.S. in 2012, the original CBERA benefits have allowed Haiti to grow other aspects of their exports, with items such as mangos, coffee, and crafts all benefiting from duty-free access. Indeed, in spite of a series of hurricanes and tropical storms over the last few years, Haiti's agricultural exports have experienced a slow but steady climb and are now above pre-earthquake levels.[5]

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[2] http://www.thepacker.com/commodity-fruits/papayas/Papaya-volumes-on-the-rise-183546781.html

[3] If products classified as "electrical equipment, appliances and components" are added to this, the total rises to $47.8 million, or 84.1%.

[4] http://lenouvelliste.com/article4.php?newsid=117657

[5] Agricultural exports to the U.S. were valued at $16.5 million in 2009, $11.9 million in 2010, $16.5 million in 2011, and $18 million in 2012

Barbados

I would like to share with you some thoughts regarding CBERA from The Barbados Private Sector Association:

1) As regional producers are smaller in scale and often faced with supply-side constraints, there are few scenarios within which regional exports to the US under the legislation can negatively affect the US economy;
2) There has been some growth in the Barbadian agriculture and agribusiness industries, but the Food Safety Modernization Act, which was signed into law in 2011, has created a new set of challenges. Upgrading plants is costly, but the country can be competitive as long as they meet the new export requirements[6].
3) Barbados is seeing a slow but steady increase in the export of merchandise to the United States. Growth areas include food, beverages, and manufactured products. The Association sees potential for more exports under CBERA in those areas, and also pointed to a growing pharmaceutical production base that also has potential.

South Florida

It is important to underscore that trade with the CBERA countries benefits the United States' economy. To illustrate this point, the data from the Miami customs zone (which includes the air and sea ports in the South Florida area) shows that overall trade between that customs zone and the CBERA-beneficiary countries in 2012, had a total value of $6.34 billion. This represented 5.08% of Miami's total trade. As a comparison, Miami's trade with China in 2012 was $6.19 billion, Chile

[6] Note that in February the FDA introduced the "International Food Safety Capacity Building Plan". The guidelines under this plan include a number of important actions to help foreign governments and producers implement the new standards; CCAA encourages both sides to engage as quickly as possible, at both the government and private sector level, so that the countries can get the technical assistance and capacity building programs in place.

was $5.3 billion, and France, the UK, Italy and Spain *combined* for total trade of $6.32 billion. These numbers speak to the economic impact of CBERA trade to the South Florida region[7]. There are also positive trends with regards to the trade figures coming out of ports on the East Coast such as Baltimore and New York.

CBERA Countries' Trade through South Florida in 2012*

COUNTRY	TOTAL TRADE
Bahamas	$1,378,078,833
Haiti	$1,266,395,467
Trinidad & Tobago	$1,050,992,100
Jamaica	$752,590,298
Guyana	$622,998,399
Aruba	$333,485,888
Barbados	$285,312,883
Belize	$172,568,767
St. Lucia	$105,188,033
St. Kitts & Nevis	$98,395,493
Antigua & Barbuda	$80,872,690
British Virgin Islands	$80,685,594
St. Vincent & the Grenadines	$41,526,654
Grenada	$40,580,292
Dominica	$36,489,314

Total trade through the Miami Customs District for 2012 was valued at $124.73 billion.

$6.34 billion of this came from CBERA countries, or 5.08% of the total.

For comparison, total trade with:
China = $6.19 billion
Chile = $5.30 billion
France, UK, Italy & Spain = $6.32 billion

* Figures do not include trade with Montserrat or the Netherlands Antilles.

Source: World City, 2013 Miami Trade Numbers

The primary discussion about the role of CBERA today lies in the fact that most of the Caribbean's economies have evolved away from manufactured goods towards the services industries, and there is no agreement in place between the US and the Caribbean that regulates trade in services. I am going to defer to my colleague Stephen Lande from Manchester Trade, which is a member company of CCAA. Mr. Lande will cover the importance of services in the CBERA beneficiary countries as a part of his presentation.

[7] Figures from the 2013 Miami Trade Numbers, published by WorldCity. www.ustradenumbers.com

On the broader policy level, there is a strong subscript running under this long-standing relationship between the United States and the Caribbean. Two weeks ago Trinidad and Tobago played host to two high-level delegations: Vice President Biden arrived on May 27 for a one-day trip; President Xi of China arrived on the 31st. David Jessop, the Director of the Caribbean Council which is based in London and which is a partner organization to CCAA, wrote the following about the two visits: "...Mr. Xi's Latin American and Caribbean visit was almost certainly intended to demonstrate that China was seeking to rebalance relationships with proximate nations to the US that Washington has previously regarded as being within its ability to influence." President Xi announced the establishment of a US$3 billion package in soft loans for the region[8] – although the details of this package are still unclear.

The centerpiece of the Vice President's visit was the signing of a Trade and Investment Framework Agreement (TIFA). This seeks to create a roadmap with which the USA and the countries of CARICOM (which now make up the large majority of CBERA beneficiaries) can advance their trade relationship in goods and services.

On the face of it, for a region that is plagued by debt and fragile economies, the 3 billion dollars from China could represent a lifeline, albeit short term; however, a strengthened trade relationship with the United States that incorporates the new realities of the CBERA economies, together with some technical assistance to producers, would be just what the region needs for its long term viability. If exports to the U.S. were to increase by just 10% per year over 3 years, that would increase revenue by over $3 billion – and there would be no additional debt to show for it.

[8] Belize, Haiti, St Kitts-Nevis, St Lucia and St Vincent, are not eligible for these loans as they officially recognize Taiwan.

In conclusion, CCAA strongly supports the goals of the TIFA as a mechanism that can anchor a relationship that had been adrift for a number of years. We would like to re-emphasize that changes to CBERA, other than any which would move towards expanding the agreement to embrace new industry areas, would be a blow to foreign exchange earnings and regional employment.

Discussions should take place on how to promote the movement of people within this partnership. Tourism, for example, is of such importance to the region that it bears examination for mutually beneficial arrangements that can maximize economic impact. One can also look at the movement of students that travel between our regions; the Institute of International Education database shows that in the 2010/2011 school year, there were 4550 U.S. students in CBERA countries, and 10,537 CBERA-identified students in the U.S. [9]

The reality is that the region has to take better advantage of the legislation. Maximizing the involvement of the domestic and regional private sectors in the discussions will be the key to success – trade must always be based on the reality of where the private actors are willing to invest. We need to identify the success stories and use these to encourage and build more success – it will benefit everyone.

Thank you

[9] Institute of International Education. http://www.iie.org/Research-and-Publications/Open-Doors/Data/International-Students