ANNUAL REPORT ON THE IMPACT OF THE CARIBBEAN BASIN ECONOMIC RECOVERY ACT ON U.S. INDUSTRIES AND CONSUMERS

Report to Congress and the President on Investigation No. 332-227 Under Section 332(b) of the Tarriff Act of 1930

Sixth Report 1990

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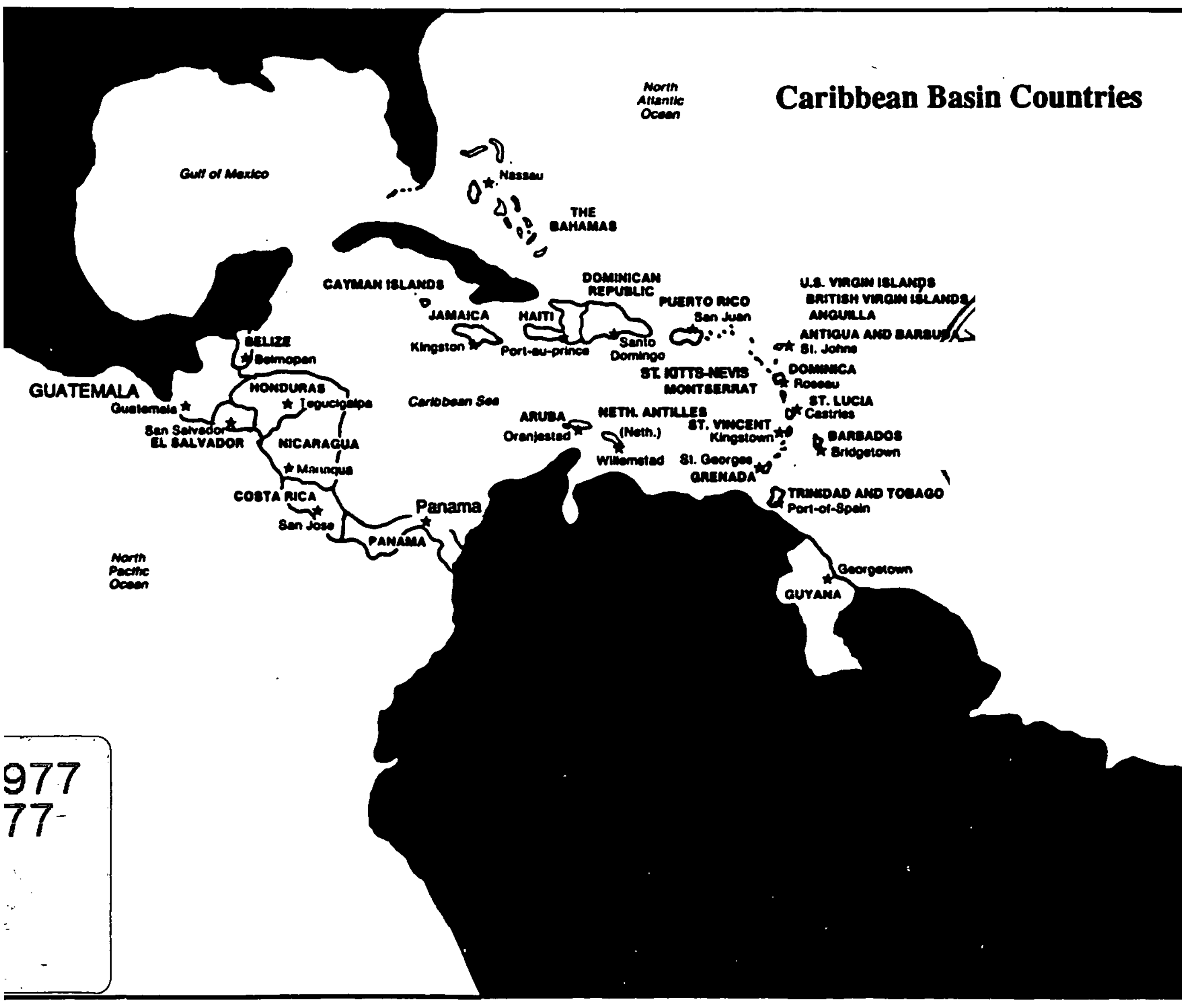

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Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers

Sixth Report
1990

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PREFACE

The submission of this study to the Congress and the President continues a series of annual reports by the U.S. International Trade Commission (the Commission) on the impact of the Caribbean Basin Economic Recovery Act (CBERA) on U.S. industries and consumers. The reports are mandated by section 215(a) of the act, which requires that the Commission report annually on the operation of the program. The present study fulfills the requirement for calendar year 1990, the 7th year of program operation.

The CBERA, enacted on August 5, 1983 (Public Law 98-67, title II), authorized the President to proclaim duty-free treatment to eligible articles from designated beneficiary Caribbean Basin countries. Duty-free treatment on certain eligible articles became effective January 1, 1984. Section 215 of the act continues to require the Commission to assess actual and probable effects of the CBERA in the future on the U.S. economy generally, effects on U.S. industries producing like products or products directly competitive with those imported from beneficiary countries, and effects on U.S. consumers. It requires the Commission to submit its report to the President and the Congress by September 30 of each year.

The following countries were designated beneficiary countries of the CBERA during 1990: Antigua and Barbuda, Aruba, the Bahamas, Barbados, Belize, the British Virgin Islands, Costa Rica, Dominica, the 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. Panama's beneficiary status was restored in March 1990 following that country's suspension from the program in April 1988. Nicaragua was designated a beneficiary country in November 1990.

The report contains four chapters and three appendices. Chapter 1 provides an overview of the CBERA program, discusses changes to the CBERA legislation in 1990, and summarizes other duty-free programs and U.S. investment incentive programs available for eligible Caribbean Basin countries. Chapter 2 analyzes overall U.S. trade with the Caribbean Basin during 1990 and compares trade under special programs—CBERA, the Generalized System of Preferences (GSP), and Harmonized Tariff Schedule (HTS) subheadings 9802.00.60 and 9802.00.80 (formerly Tariff Schedules of the United States (TSUS) items 806.30 and 807.00). Chapter 3 addresses the actual effects of the CBERA in 1990, covering CBERA's effects on the economy, industries, and consumers of the United States. Chapter 4 focuses on the probable effects of the CBERA in the future. It looks at investment in the region and indicates which products are most likely to be exported to the United States in the future. Appendix A contains a copy of the *Federal Register* notice by which the Commission solicited public comment for this investigation and a list of submissions received. Appendix B contains U.S.-Caribbean trade data, a table of the leading imports under CBERA provisions, by source, in 1990, data on projects financed with section 936 funds in 1990, and information on twin plants. Appendix C explains the economic model used to derive the results contained in chapter 3.

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EXECUTIVE SUMMARY

Duty-Free Entry for Caribbean Products

- **The original legislation establishing the Caribbean Basin Economic Recovery Act (CBERA) was extended and expanded by the Caribbean Basin Economic Recovery Expansion Act of 1990 (1990 CBERA).**

  The 1990 CBERA repealed the September 30, 1995 scheduled termination date of duty-free treatment, effectively extending the CBERA program indefinitely. The act also contains more liberal provisions for CBERA countries in assessing the impact of imports under U.S. countervailing duty and antidumping laws.

- **The 1990 act also provides duty reductions or duty-free entry for certain products previously excluded from such treatment.**

  The act provides for a 20-percent reduction of duties to be phased in over 5 years on certain products, including handbags, luggage, flat goods, work gloves, and leather wearing apparel (except footwear). The act also effectively extends duty-free entry to many articles not previously able to qualify, such as footwear, handbags, and luggage made, produced, or processed of 100 percent U.S. components or ingredients and assembled in CBERA countries. The 1990 CBERA also grants duty-free entry for goods produced in Puerto Rico and "advanced in value or improved in condition" in CBERA countries.

U.S. Trade with the Caribbean Basin

- **For the 4th consecutive year, the United States registered a trade surplus with the designated CBERA countries. The U.S. trade surplus with the CBERA countries totaled $1.8 billion in 1990.**

  The trade surplus was driven largely by the record high level of U.S. exports to the CBERA countries, which rose from $8.1 billion in 1989 to $9.3 billion in 1990 and represented 2.5 percent of U.S. exports worldwide in 1990. Total U.S. imports from CBERA countries increased from $6.6 billion in 1989 to $7.5 billion in 1990. However, U.S. imports remained well below the $8.6 billion registered in 1984, the 1st year of the program, and equalled just 1.5 percent of U.S. imports worldwide in 1990.

- **Since the CBERA became operative, duty-free U.S. imports under the program have risen by nearly 72 percent, from $594 million in 1984 to over $1 billion in 1990.**

  These duty-free imports accounted for 13.6 percent of total U.S. imports from the CBERA countries, double the 6.7 percent registered in 1984, the 1st year of the program.

- **Leading items imported duty-free under the CBERA in 1990 were beef, raw cane sugar, medical instruments, cigars, pineapples, baseballs and softballs, cantaloupes, orange juice, fish, ethyl alcohol, rum, tobacco, certain electrical items, jewelry, leather footwear uppers, and steel bars and rods.**

  Notably, U.S. imports under the CBERA of medical and surgical instruments soared, from $27.1 million in 1989 to $84.3 million in 1990, making this product the third-leading item imported under the CBERA after beef and raw cane sugar.

- **The Dominican Republic, Costa Rica, and Guatemala were the leding sources of U.S. duty-free imports under the CBERA in 1990.**

  These three suppliers accounted for over two-thirds of total U.S. duty-free imports under the program.

Impact of the CBERA in 1990

- **Although the total value of duty-free imports entered under the CBERA in 1990 was $1.021 billion, only $422 million of these imports would have been dutiable but for the CBERA's duty-free provisions. However, the value of goods actually benefiting from the program increased by more than one-fourth since 1989.**

  The $422 million in imports actually benefitting from the program was 5.6 percent of the customs value of total imports from CBERA countries. With CBERA duty-free imports at such low levels, the act's impact on U.S. industries and consumers in 1990, as in previous years, was minimal.

- **In each of the past 7 years, five products have consistently ranked among the leading items that actually benefited from CBERA tariff preferences.**

  These items were beef, pineapples, frozen concentrated orange juice, rum, and raw cane sugar (except in 1989). In addition, in each of the past 6 years, ethyl alcohol has been among the leading items that actually benefited from CBERA.

- **The estimated net-welfare cost to the United States of granting duty-free entry to the 30 leading items that actually benefited from CBERA ranged from $5.1 million to $11.0 million in 1990.**

  The net-welfare cost is defined as the loss in tariff revenues to the U.S. Treasury minus the gain to U.S. consumers that results from the lower priced CBERA imports. Compared with the total value of 1990 imports from CBERA countries, the range of net-welfare cost represented about 0.07 to 0.15 percent.

- **Among the 30 items observed, 8 products with high net-welfare costs were frozen concentrated orange juice, beef, cigars, rum, raw cane sugar, partly or wholly stemmed tobacco products, pineapples, and frozen vegetables.**

  In terms of c.i.f. value, these 8 imports accounted for 70 percent of the total imports that benefited from CBERA in 1990. The item with the largest net-welfare cost resulting from CBERA duty-free treatment was ethyl alcohol. The net-welfare effect for ethyl alcohol ranged from a loss of $1.3 million to a gain of $0.7 million.

- **In value terms, the five CBERA imports with the largest displacement effects on output of competing U.S. industries were ethyl alcohol, beef, frozen concentrated orange juice, rum, and cigars.**

  The largest effect occurred for ethyl alcohol for which the displacement of domestic shipments ranged from $7.9 million to $10.8 million, or between 0.4 and 0.6 percent of the value of total domestic shipments.

Probable Effects of CBERA in the Future

- **The Commission identified 44 new and 18 expansion investment projects in CBERA beneficiaries in 1990. A total of $92.3 million in investment was reported for the 62 projects for which data were available. Reported investment may substantially understate actual investment in the region, but does indicate current trends.**

  Most new investment reported in 1990 occurred in the growing number of Caribbean Basin free-trade zones (FTZs). FTZs allow duty-free imports of materials used in export-oriented production and provide expedited customs clearance. Costa Rica, the Dominican Republic, Guatemala, and Honduras led in the number of firms operating in FTZs and in FTZ construction and expansion in 1990. The highest levels of new FTZ investment reported were in apparel, footwear, and electronics.

- **Nine private-sector projects with investments totaling over $245 million received section 936 loan disbursements in 1990.**

  Trinidad and Tobago, which was awarded nearly $80 million for petroleum refining projects, was the leading recipient of section 936 disbursements in 1990. Overall, Jamaica has received more section 936 funding—$17 million as of January 1, 1991—than any other CBERA country.

- **The exclusion of key Caribbean products from duty-free eligibility and the availability of other duty-reduction and duty-elimination programs remain significant factors slowing the growth of CBERA-related investment activity.**

  Major Caribbean industries such as completed footwear and non-U.S. origin textiles and apparel are excluded from benefits under the CBERA. Many Caribbean exporters continue to use other U.S. duty-free and duty-reduction programs, such as the GSP and provisions under HTS subheadings 9802.00.60 and 9802.00.80.

- **Economic and political factors in the Caribbean Basin countries themselves also contributed to the low level of investment activity recorded during 1990.**

  Political and economic instability in some Caribbean Basin countries hindered or discouraged foreign investors. Investment also was hindered by regulations restricting investors' access to foreign exchange and limiting their ability to repatriate profits. The deteriorating economic infrastructure in many Caribbean countries also may have discouraged new investment activity.

- **The lack of finance capital, particularly for smaller firms, also was a factor contributing to the decline in CBERA-related investment.**

  Section 936 loans favor large firms and large projects generally in industries not eligible for the CBERA, such as tourism and petroleum production. Smaller export-oriented manufacturing firms reported an inability to meet the tough credit requirements necessary to receive section 936 loans.

- **Several global economic factors also contributed to low levels of overall investments in CBERA beneficiary countries during 1990.**

  The 1990 U.S. recession and slower global economic growth, in part due to the Persian Gulf crisis, reduced the level of U.S. investment activity in the Caribbean Basin.

- **Officials in the Caribbean are concerned that a United States-Mexico Free-Trade Agreement (FTA) may further reduce the attractiveness of the region as a site for foreign investment.**

  Caribbean officials perceived an FTA as adding to the advantages Mexico already has as an investment site. Their primary concern is that an FTA will allow Mexico to capture new foreign investment at the expense of some Caribbean Basin countries due to that country's proximity to U.S. markets and generally lower labor costs.

CHAPTER 1
DUTY-FREE ENTRY FOR CARIBBEAN PRODUCTS

The Caribbean Basin Economic Recovery Act (CBERA) marked its 7th year of operation in 1990.[1] This chapter provides an overview of the benefits provided under the CBERA, describes changes to the act enacted in 1990, and examines the designation during the year of new countries as eligible to receive CBERA benefits. This chapter also summarizes the trade benefits provided to Caribbean Basin countries under other U.S. duty-free or duty-reduction programs, investment funding made available to eligible Caribbean Basin countries under section 936 of the U.S. Internal Revenue Code, and rules of origin under the CBERA. This chapter ends with a summary of the submissions received by the Commission during the course of this 6th annual investigation of the CBERA.

Overview of the CBERA Program

The CBERA is the centerpiece of the U.S. Caribbean Basin Initiative (CBI). The CBI refers to a broader program launched in 1983 to expand foreign and domestic investment in nontraditional sectors of the Caribbean Basin countries, to diversify their economies, and to expand their exports.[2] The CBERA is designed to encourage economic development in the Caribbean Basin principally by providing duty-free entry into the United States for a wide range of products from designated eligible Caribbean Basin countries. The duty-free entry provisions went into effect January 1, 1984, and originally were scheduled to end September 30, 1995.

Designated Eligible Countries

As of December 30, 1990, 24 Caribbean, Central American, and South American countries and territories in the Caribbean Basin were designated as eligible to receive benefits under the CBERA program. These countries are shown in table 1-1.

In this report, the designated country group (also referred to as "CBERA countries") varies according to the year under discussion.[3] In 1990, Nicaragua became a designated CBERA country for the first time[4] and Panama regained eligibility as a designated country.[5]

Trade Benefits Under the CBERA

The CBERA program provides duty-free entry into the United States for certain products from designated eligible Caribbean Basin countries, provided that:

1. Articles are exported directly to the customs territory of the United States;
2. Eligible articles must be wholly grown, produced, or manufactured in a beneficiary country, or they must be articles of commerce that are "new and different" from any foreign materials used in their manufacture; and
3. The sum of direct processing costs plus the cost or value of materials produced in one or more designated eligible CBERA country or countries (including Puerto Rico and the U.S. Virgin Islands) total at least 35 percent of the article's customs value, or 20 percent with the additional 15 percent attributable to U.S.-made components.[6]

As part of the CBI, the United States assists eligible countries by promoting business and facilitating private sector investment in the area. In 1990, the Department of Commerce continued to lead these activities through its Caribbean Basin Information Center (CBIC), which was superseded by the Latin America/Caribbean Business Development

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[1] The CBERA became operative by Presidential proclamation on Jan. 1, 1984 (pursuant to Public Law 98-67, title II). General information and specific data on trade and economic activity under the CBERA between 1984 and 1989 can be found in the Commission's prior annual reports on the impact of CBERA on U.S. industries and consumers. See USITC, *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, First Report, 1984-1985*, USITC publication 1897, September 1986; *Second CBERA Report, 1986*, USITC publication 2024, September 1987, *Third CBERA Report, 1987*, USITC publication 2122, September 1988, *Fourth CBERA Report, 1988*, USITC publication 2225, September 1989, and *Fifth CBERA Report, 1989*, USITC publication 2321, September 1990.

[2] For more detailed information on provisions under the CBI, see Latin America/Caribbean Business Development Center (LA/C Center), *1991 Guidebook: Caribbean Basin Initiative*, U.S. Department of Commerce, International Trade Administration, November 1990.

[3] For the years 1985-87, the CBERA countries comprised 22 designated beneficiaries. For 1988, the list of designated CBERA beneficiaries was expanded to 23 with the designation of Guyana. There were 22 designated beneficiary countries in 1989 when Panama was suspended from eligibility on Apr. 9, 1988, for lack of full cooperation with the United States in preventing the exportation of illegal narcotics, making it the first CBERA beneficiary to lose its designated status. See USITC, *Operation of the Trade Agreements Program*, 40th Report, 1988, USITC publication 2208, July 1989.

[4] The President's authority to designate Nicaragua a beneficiary country was granted under the Caribbean Basin Economic Recovery Expansion Act of 1990. See discussion of the act below. Worker rights criteria required of all beneficiary countries (sec. 212(b) of the CBERA) were waived for Nicaragua for national security reasons by Presidential Determination No. 91-8 of Nov. 7, 1990, 55 F.R. 49499, Nov. 29, 1990. Nicaragua became an eligible CBERA beneficiary effective Nov. 8, 1990. Presidential Proclamation 6223, 55 F.R. 47447, Nov. 13, 1990.

[5] Panama was reinstated as a CBERA beneficiary effective Mar. 17, 1990. 55 F.R. 7685, Mar. 2, 1990.

[6] The 35-percent value-added requirement becomes relevant when an article is not wholly the growth, product, or manufacture of a beneficiary country.

Table 1-1
Caribbean Basin countries, CBERA-designated and nondesignated

Countries designated as eligible for benefits under the CBERA program as of Jan. 1, 1991:	
Antigua and Barbuda	Guyana
Aruba	Haiti
Bahamas	Honduras
Barbados	Jamaica
Belize	Montserrat
British Virgin Islands	Netherlands Antilles
Costa Rica	Nicaragua
Dominica	Panama
Dominican Republic	St. Kitts-Nevis
El Salvador	St. Lucia
Grenada	St. Vincent/Grenadines
Guatemala	Trinidad and Tobago
Countries that have not formally requested CBERA designation as of Jan. 1, 1991, but which are potentially eligible:	
Anguilla	Suriname
Cayman Islands	Turks and Caicos Islands

Center (LA/C Center) as of October 27, 1990. The LA/C Center, which is funded in part by the U.S. Agency for International Development (USAID), issues numerous publications and conducts trade- and investment-promotion projects including business counseling, seminars on trade and investment opportunities, matchmaker events to link investors and suppliers with specific regional needs and interests, and business development missions to the region.

Excluded Products

The following articles were specifically excluded from duty-free entry into the United States under the original CBERA legislation:

- Most textiles and apparel[7];
- Canned tuna;
- Petroleum and petroleum products;
- Footwear (except disposable items and footwear parts such as uppers), handbags, luggage, flat goods, work gloves, and leather wearing apparel[8]; and
- Watches and watch parts, if any component originated in a Communist country.

Ethanol and ethyl alcohol, sugars, syrups, and molasses, and beef and veal are eligible for duty-free entry only under special conditions.[9] Products eligible for duty-free entry into the United States under the CBERA may still be subject to U.S. Federal excise taxes (for example, taxes on rum and other liquors).

The Caribbean Basin Economic Recovery Expansion Act of 1990

Legislation to extend and expand the CBERA was introduced in the U.S. Congress in August 1987 by Representative Sam Gibbons (H.R. 3101) and Senator Bob Graham (S. 1594).[10] Hearings were held in December 1987 and August 1988, but no further action was taken.[11]

In March 1989, Representative Gibbons and Senator Graham reintroduced similar legislation to modify the CBERA (H.R. 1233 and S. 504, respectively) known as the "Caribbean Basin Economic Recovery Expansion Act of 1989."[12] The House

[7] The exclusion pertains to textile and apparel articles which are subject to textile agreements on the date of enactment of the CBERA (Aug. 5, 1983). Textiles and apparel made of silk blends or vegetable fibers other than cotton are eligible for duty-free entry. Bilateral agreements can be negotiated for duty-free entry of traditional hand-loomed, hand-sewn articles. For more information on these bilateral agreements, see LA/C Center, *1991 Guidebook*, p. 18.

[8] Pertains to those specified products not eligible for duty-free entry under the U.S. Generalized System of Preferences (GSP) as of Aug. 5, 1983. See the discussion of the GSP program below.

[9] Ethanol and ethyl alcohol are discussed in footnote 25 below. To be eligible to receive duty-free entry for sugars, syrups, and molasses and beef and veal products, a beneficiary country first must submit an acceptable "stable food production plan" to the United States to ensure that the country does not divert food crop production for domestic consumption into agricultural production for export. Sugar imports are subject to U.S. quotas. For a detailed discussion of these provisions, see USITC, *First CBERA Report, 1984-1985*, p. 1-2.

[10] For a more detailed discussion of the proposed 1987 legislation, see USITC, *Third CBERA Report, 1987*, pp. 3-7 to 3-9.

[11] For further background on the proposed legislation to expand the CBERA during 1987 and 1988, see USITC, *Fourth CBERA Report, 1988*, pp. 3-13 to 3-16.

[12] For a more detailed discussion on H.R. 1233 and S. 504, see USITC, *Fifth CBERA Report, 1989*, pp. 1-14 to 1-16.

passed its version of expanded CBERA legislation in October 1989, and the Senate version was approved in April 1990.[13] House and Senate conferees, unable to resolve key differences on U.S. duty treatment of Caribbean Basin leather goods and ethanol, turned discussions over to Congressional committee chairmen (House Ways and Means Committee Chairman Dan Rostenkowski and Senate Finance Committee Chairman Lloyd Bentsen) in June 1990.[14] Expanded CBERA legislation eventually was attached to the Customs and Trade Act of 1990 (H.R. 1594) as the "Caribbean Basin Economic Recovery Expansion Act of 1990," and signed into law by President Bush on August 20, 1990.[15]

Key Provisions

The 1990 CBERA effected changes both to the original CBERA legislation as well as to other legal provisions governing U.S. trade preferences offered to Caribbean Basin countries.

Listed below are the key provisions of the 1990 CBERA:

- *Repeal of termination date.*—Repeals the September 30, 1995 scheduled termination date of duty-free treatment,[16] effectively extending the CBERA program indefinitely;
- *Reduced duties for certain goods.*—Reduces duties by 20-percent, to be implemented in five equal annual stages beginning in January 1992, for handbags, luggage, flat goods, work gloves, and leather wearing apparel;[17]
- *Country eligibility and worker rights.*—Revises language on workers' rights to prohibit the President from designating any country as a CBERA beneficiary if that country has not or is not taking steps to afford internationally recognized worker rights to workers in the country, as defined in the statutes governing the U.S. Generalized System of Preferences (GSP);[18] and
- *Treatment of articles produced in Puerto Rico.*—Provides duty-free entry for articles produced in Puerto Rico that are sent to a CBERA country to be "by any means advanced in value or improved in condition." One source estimates the main impact of this provision will be on operations that U.S. Customs previously found did not meet substantial transformation requirements or did not add enough value to create a product of the CBERA country, such as enameling, minor assembly or finishing operations, and repairs or alterations to merchandise.[19]

Other Changes

The 1990 CBERA also stipulated changes to the U.S. Harmonized Tariff System (HTS) and other legal provisions affecting CBERA countries. These changes are summarized below.[20]

Articles assembled from U.S. components.—Before the 1990 CBERA was enacted, articles assembled in beneficiary countries from U.S.-produced components were treated as foreign articles (if substantially transformed) and thereby subject to U.S. duties and quotas upon reentry into the United States. Furthermore, inputs not locally grown or manufactured in beneficiary countries were required to have been substantially transformed and to meet the 35-percent value-added criterion to be eligible for duty-free entry into the United States. Section 222 of the 1990 CBERA grants duty-free entry into the United States for certain articles "assembled or processed" in CBERA countries from U.S.-origin "components, materials, or ingredients" (other than water).[21] For such products, this new provision eliminates the substantial transformation requirement. In addition, U.S. articles

[13] *Congressional Record*, Apr. 24, 1990, S4920.

[14] "CBI-2 Conferees, at Impasse, Pass Buck to Committee Chairmen," *Washington Report on Latin America and the Caribbean*, June 26, 1990, p. 1.

[15] Public Law 101-382, title II. See "Statement on Signing the Customs and Trade Act of 1990," *Presidential Documents*, Aug. 20, 1990, p. 1266. Subsequent portions of this report use the terms "1984 CBERA" in reference to specific provisions of the original CBERA legislation, and "1990 CBERA" in reference to provisions of the 1990 modifications to the CBERA.

[16] Section 218 of the CBERA (19 U.S.C. 2706(b)).

[17] This amends section 213 of the original CBERA (19 U.S.C. 2703). The goods must be products of a CBERA country. Footwear is excluded. Section 212(a) of the 1990 CBERA establishes a maximum annual reduction of 2.5 percent ad valorem, meaning that the full 20-percent reduction will not apply to any product with a tariff rate higher than 12.5 percent.

[18] This amends section 212 of the 1984 CBERA (19 U.S.C. 2702) to make workers' rights criteria under the CBERA conform to the workers' rights criteria required under the U.S. GSP. The President may waive this requirement for U.S. economic or national security reasons. The GSP program is described below.

[19] Any materials added to such articles must be of U.S. or CBERA-country origin. To be eligible for duty-free entry, the goods must be imported directly into the customs territory of the United States (which includes Puerto Rico but does not include the U.S. Virgin Islands) from the CBERA country. This special treatment does not extend to products excluded from duty-free entry under the CBERA. See LA/C Center, *1991 Guidebook*, p. 58.

[20] The 1990 CBERA also instructed the USITC to undertake an investigation to assess whether revised rules of origin for CBERA products are appropriate. For a more detailed discussion, see the section "CBERA Rules of Origin" below.

[21] Textiles, apparel, and petroleum products and derivatives are excluded. This provision amends note 2 of subch. II of ch. 98 of the HTS. For further discussion of this new provision, see LA/C Center, *1991 Guidebook*, pp. 58-59.

processed in such operations as enameling, finishing, and minor assembly that were not significant enough to create a "new and different article of commerce" under the 1984 CBERA, now may enter free of duty under the 1990 CBERA.[22]

Increase of duty-free allowance for tourists returning from the Caribbean.—The 1990 CBERA increases the duty-free allowance from $400 to $600 and increases the duty-free alcoholic beverage allowances by 1 liter for CBERA-produced alcoholic beverages.[23] The allowance for tourists to U.S. insular possessions was increased from $800 to $1,200.

Cumulation of beneficiary products for countervailing and antidumping determinations.—The 1990 CBERA contains more liberal provisions for CBERA countries in assessing the impact of imports under U.S. countervailing duty and antidumping laws. When imports from a CBERA country are under investigation pursuant to antidumping or countervailing duty laws, the imports from that country will no longer be aggregated with imports from non-CBERA countries under investigation. This measure reduces the likelihood that exports from the CBERA country will be viewed as causing material injury.[24]

Ethyl alcohol.—The act extends the grandfather provisions on ethyl alcohol or ethanol products made with non-CBERA inputs.[25]

Conforming GSP amendment.—The new CBERA amends the U.S. GSP rules-of-origin requirements to conform to the more stringent requirements under the CBERA. This adds the substantial transformation requirement for eligible articles under sec. 213 of the CBERA to the rules-of-origin requirements of U.S. sec. 503(b) of the Trade Act of 1974 (19 U.S.C. 2463(b)), overturning previous judicial decisions. Although this change does not directly alter benefits offered under the CBERA program, the Department of Commerce reports that it "may indirectly make certain CBI-produced goods more competitive, as it may cause selected goods produced in non-CBI countries that do not meet these rules-of-origin requirements to lose GSP status."[26]

Requirement for investment of section 936 funds in Caribbean Basin countries.—The 1990 CBERA formalizes the commitment of the Government of Puerto Rico to provide a minimum of $100 million in section 936[27] funds annually.[28]

New Provisions

The 1990 CBERA also introduced several new provisions for eligible CBERA countries.

Scholarship assistance.—The act directs USAID to establish and administer a scholarship program for students from beneficiary countries to study in the United States.

Promotion of tourism.—The act declares that tourism should be a central part of the CBERA program and directs the Secretary of Commerce to complete a study of Caribbean tourism development strategies that was begun in 1986.

Pilot preclearance program.—The 1990 CBERA requires that the Commissioner of Customs, in fiscal years 1991 and 1992, establish a pilot program in an appropriate Caribbean country, with Aruba and Jamaica to be given priority in site selection, for testing the extent to which having customs preclearance operations can further tourism in the region.

Trade benefits for Nicaragua.—The act authorizes the President to designate Nicaragua as a beneficiary country under CBERA.

Agricultural infrastructure support.—The act states that it is the sense of the Congress that, in order to facilitate trade with and the economic development of the CBERA countries, the Secretary of Agriculture should coordinate with USAID the development of programs to encourage improvements in transportation and cargo and handling infrastructure in the Caribbean Basin in order to improve agricultural trade.

Extension of trade benefits to the Andean Region.—The 1990 CBERA requests the President review the merits of extending the benefits provided under CBERA to the Andean region to help revitalize

[22] For further discussion of this issue, see the discussion of HTS subheadings 9802.00.60.00 and 9802.00.80 below.

[23] This provision amends headings in subch. IV of ch. 98 of the HTS.

[24] This amends sec. 771(7)(C)(iv) of the Tariff Act of 1930 (19 U.S.C. 1677(7)(C)(iv)).

[25] Rule-of-origin requirements for ethyl alcohol or ethanol imported into the United States from CBERA countries using feedstock of both CBERA and of non-CBERA origin were originally established under the Tax Reform Act of 1986. This 1986 legislation required increasing amounts of CBERA-origin (local) feedstock in order for ethyl alcohol and ethanol to qualify for duty-free entry. At least 30-percent local feedstock was required to qualify for duty-free treatment in 1987, and 60 percent in 1988. The 1989 steel voluntary restraint agreement (VRA) bill (Steel Liberalization Act, 19 U.S.C. 2703 note) contained language requiring 75 percent local feedstock in 1989. The 1990 CBERA extends the grandfather provision of the 1986 legislation by allowing companies to operate under pre-1986 criteria subject to an overall cap of 60 million gallons made entirely from non-CBERA inputs. See the discussion of ethyl alcohol in the section "Products that Benefited Most from the CBERA in 1990" in ch. 3 of this report.

[26] LA/C Center *1991 Guidebook*, p. 60.

[27] Section 936 of the U.S. Internal Revenue Code exempts U.S. companies doing business in Puerto Rico from U.S. corporate income taxes on profits deposited in the Puerto Rican banking system. Local financial institutions lend these funds at below-market interest rates for business ventures and development projects in eligible CBERA countries to stimulate trade between the island and countries in the region. In 1986, Puerto Rico pledged to provide a minimum of $100 million in 936 funds annually to projects in qualifying countries. The 1990 CBERA makes such a level of investment a legal requirement. The Section 936 program is discussed below.

[28] This provision amends sec. 936(d) of the Internal Revenue Code of 1986.

the national economies of the Andes and to further U.S. antinarcotics policy in the region.[29]

Removal of Remaining Barriers to CBERA Products

On March 6, 1991, Representative Sam Gibbons introduced a bill (H.R. 1283) amending the CBERA to "repeal the provisions exempting certain articles from duty-free treatment under the act." Under this proposed legislation, duties would be eliminated on imports of textiles, apparel, footwear, and other currently ineligible items from CBERA countries. This bill was referred to the House Ways and Means Committee for further discussion and public comment, where it remained as of September 1, 1991.[30]

Other U.S. Special Duty Programs

Goods from all CBERA countries are afforded most-favored-nation (MFN) tariff treatment. MFN treatment provides the lowest available tariff for specified products. For some products, this tariff rate is zero.

In addition to MFN duty-free treatment, CBERA preferences constitute one of three other major duty elimination or duty reduction programs made available to Caribbean Basin countries by the United States. The other programs are the Generalized System of Preferences (GSP) and duty reductions provided under HTS subheadings 9802.00.60 and 9802.00.80.

U.S. GSP Program

The U.S. GSP program[31] is a temporary tariff preference scheme designed to offer nonreciprocal duty-free entry for designated articles the product of and shipped directly from beneficiary developing countries, provided that at least 35 percent of the value of the product is added in the beneficiary country. The objective of the system is to help these countries to compete better in U.S. markets and to diversify their economic structures away from production of primary goods.[32]

Both GSP and CBERA require direct importation, substantial transformation, and 35-percent value-added for eligible products. Many products are eligible for duty-free entry either under GSP or CBERA provisions. However, benefits under the two programs differ in several ways:

- GSP applies to most developing countries provided they are designated for benefits by the President, whereas CBERA duty-free entry is limited to designated eligible Caribbean Basin countries.
- GSP has a statutory 1993 expiration date, whereas the CBERA, as a result of 1990 legislative changes, has no statutory expiration date.[33]
- GSP requires that the 35-percent value-added be from a single beneficiary country.[34] CBERA allows the 35-percent value-added to be met through processing in several beneficiary countries, and up to 15 percent of the 35 percent value-added required can be accounted for by U.S. materials. Moreover, materials from U.S. insular possessions such as Puerto Rico and the U.S. Virgin Islands may count as beneficiary-country input when computing value-added under CBERA.
- Designated GSP beneficiaries may be "graduated" from the program based on certain economic or trade-related criteria. A country may lose all U.S. GSP privileges if its GNP exceeds an amount computed under a specific formula. In addition, a country may lose GSP benefits for specific products under competitive-need limits. These limits, which are a statutory feature of the U.S. GSP program, restrict the level of GSP benefits that any beneficiary country can enjoy on a product-specific basis during a given year.[35] CBERA has no provisions to suspend eligibility of a beneficiary country on the basis of economic or

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[29] On July 23, 1990, President Bush announced that he would seek legislation for limited-duration nonreciprocal trade preferences, based on the CBERA, for the South American Andean countries Bolivia, Colombia, Ecuador, and Peru. Legislation for the proposed Andean Trade Preference Act of 1990 was submitted to Congress on Oct. 5, 1990. This legislation did not reach congressional committee discussion before the yearend recess of the 101st Congress. Similar legislation, the Andean Trade Initiative Act (ATIA), was reintroduced to the Congress on Jan. 29, 1991. For a more detailed discussion of the proposed Andean program, see ch. 1 of USITC, *Operation of the Trade Agreements Program*, 42d Report, 1989, USITC publication 2403, July 1991.

[30] *Congressional Record*, vol. 137, No. 38, Mar. 6, 1991, H1454.

[31] The original U.S. GSP was established under the Trade Act of 1974 for a period of 10 years, beginning Jan. 3, 1975. The current GSP program, the result of amendments to and renewal of the original act by the Trade and Tariff Act of 1984, has been in effect since Jan. 4, 1985. The program is scheduled to expire on July 4, 1993.

[32] For a more detailed discussion of the GSP program, see ch. 5 of USITC, *Operation of the Trade Agreements Program*, 42d Report, 1990, USITC publication 2403, July 1991.

[33] See the discussion above on the 1990 CBERA and the repeal of the program termination date.

[34] The value-added requirement may also be met by an association of countries, of which one is a GSP beneficiary is a member, has been so designated.

[35] For a more detailed discussion of graduation from duty-free entry privileges and competitive-need limits, see ch. 5 of USITC, *Operation of the Trade Agreements Program*, 42d Report, 1990, USITC publication 2403, July 1991.

trade-related criteria. Eligible products that are excluded from duty-free entry into the United States under GSP because their competitive-need limits have been exceeded can still receive duty-free treatment under CBERA.

HTS Subheadings 9802.00.60 and 9802.00.80

HTS subheadings 9802.00.60 and 9802.00.80 provide for reduced duties for U.S.-origin goods processed or assembled outside of the United States and subsequently returned. U.S. customs duties for such articles, otherwise payable at the normal duty rate, are assessed only on the value added to the goods as a result of processing or assembly in the foreign location or the labor costs involved. Duty is not assessed on the value of the exported and re-imported U.S. content.

HTS subheading 9802.00.60 (formerly TSUS item 806.30) provides reduced duties for metal articles manufactured in the United States, exported for processing, and returned to the United States for further processing. Heading 9802.00.80 (formerly TSUS item 807.00) provides reduced-duty treatment for articles partially or wholly assembled abroad of U.S.-fabricated components and returned to the United States.

In 1986, the United States initiated a special access program under HTS heading 9802.00.80, formerly referred to as 807-A or Super 807. The goal of this program is to liberalize quotas for Caribbean Basin exports of textile and apparel (most of which are excluded from duty-free entry under the CBERA) within the context of the overall U.S. textile policy.[36] CBERA countries are offered the opportunity to enter into bilateral agreements with the United States that will guarantee levels of access for their textile and apparel exports that qualify. These guaranteed access levels (GALs) are separate from quotas applicable to those products that were not assembled solely from U.S.-made and U.S.-cut fabric. Fabric for the articles qualifying for GAL treatment must be formed and cut in the United States, qualifying these articles for 9802 treatment. GAL items are separately treated under the HTS statistical reporting number 9802.00.8010, and duties are levied only on the value-added in the CBERA countries.[37] Costa Rica, the Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago have had GAL agreements for several years. Guatemala signed a GAL agreement with the United States which became effective March 1, 1990.

Section 222 of the 1990 CBERA provides more liberal treatment than was available under HTS subheadings 9802.00.60 and 9802.00.80. The 1990 CBERA permits duty-free (as opposed to duty on value-added under HTS subheadings 9802.00.60 and 9802.00.80) exports to the United States for eligible articles processed or assembled in CBERA countries. The net effect is the extension of duty-free entry to many articles not previously able to qualify, such as footwear, handbags, and luggage made produced or processed of 100 percent U.S. components and ingredients and assembled in CBERA countries in such operations. The Department of Commerce estimates that the 1990 CBERA will make the CBERA countries more attractive offshore production locations relative to non-CBERA countries for this type of production or processing.[38]

[36] For more information on the special access program for apparel and textiles, see USITC, *Second CBERA Report, 1986*, p. 9, and *Third CBERA Report 1987*, p. 1-9.

[37] For further information on the GAL program, see LA/C Center, *1991 Guidebook*, pp. 18-19.

Benefits Under Section 936 of the Internal Revenue Code

Section 936 of the U.S. Internal Revenue Code[39] grants Federal tax preferences to U.S. firms operating in U.S. possessions such as Puerto Rico. The program aims to stimulate economic development in the U.S. possessions by encouraging U.S. firms to reinvest their profits either directly or in local banks. Section 936 funds under the U.S. tax code represent essentially tax-exempt profits of the subsidiaries of U.S. companies operating in U.S. possessions such as Puerto Rico, either retained in local financial institutions (where they are referred to as "qualified possession source of investment income," or QPSII funds) or invested directly in eligible projects.[40] Local legislation governs project eligibility for these funds.[41]

In 1986, Puerto Rican and U.S. tax laws were modified[42] to allow qualified projects in CBERA countries access to low-cost 936 funds, with eligible countries being those CBERA beneficiaries that have concluded Tax Information Exchange Agreements (TIEAs) with the United States.[43] Section 936

[38] LA/C Center, *1991 Guidebook*, p. 59.

[39] Section 936 became effective in 1976, replacing its predecessor section 931. Its original antecedent was section 262 of the Revenue Act begun in 1921 to help U.S. firms compete with foreign firms in the Philippines. Similar provisions have been in effect in Puerto Rico since the mid-1940's. See *Caribbean Business*, 936 conference supplement, Mar. 14, 1991, pp. S2, S13, and "Puerto Rico General Information," *1991 Caribbean Business-to-Business Guide* (San Juan: Casiano Communications, Inc., 1990), p. 34.

[40] Further information on U.S. regulations governing section 936 funds is available in Department of the Treasury, *The Operation and Effect of the Possession Corporation System of Taxation, Sixth Report*, March 1989, ch. 2.

[41] Puerto Rican legislation is described in USITC, *Fifth CBERA Report, 1989*, p. 1-9.

[42] Changes to Puerto Rican and U.S. tax laws are discussed in USITC, *Third CBERA Report, 1987*, pp. 3-5 to 3-6. Prior to the U.S. Tax Reform Act of 1986, QPSII funds were eligible for the Federal tax credit only if earned in Puerto Rico. Under the 1986 Act, however, section 936 was amended to allow income from investments in qualified CBERA countries to be considered QPSII as well. The act took effect Jan. 1, 1987.

[43] See the discussion on TIEAs below.

funds are lent to eligible CBERA countries—for either complementary projects supporting economic development or stand-alone projects—by commercial banks and the Government Development Bank for Puerto Rico (GDB).[44]

Loans must be approved by the Administrator of the Economic Development Administration of Puerto Rico ("Fomento") and by the Puerto Rico Commissioner of Financial Institutions.[45] Loans are made at concessionary rates, typically one or two percentage points below the London Interbank Offer Rate (LIBOR).[46] Nonetheless, borrowers must establish the same creditworthiness they would need for any commercial bank loan. They generally must obtain some type of credit enhancement (i.e., a letter of credit from a commercial bank or a loan guarantee) to compensate the lender in the event of default.[47]

The Government of Puerto Rico pledged in 1986 to provide a minimum of $100 million in section 936 funds annually to projects in qualifying CBERA countries. Section 227 of the 1990 CBERA formally requires Puerto Rico to lend at least $100 million of section 936 funds annually for the program to continue.[48]

On July 2, 1991, the U.S. Department of the Treasury formally notified Puerto Rico that the U.S. Government would no longer guarantee section 936 loans.[49] Such guarantees had been provided in the past by the Overseas Private Investment Corporation (OPIC) and USAID.[50] The reason given for the suspension of U.S. loan guarantees was that Office of Management and Budget Circular A-70 "precludes federal guarantees of tax-exempt obligations."[51] The U.S. Treasury Department reportedly will permit a one-time 12-month transition period for OPIC section 936 loan guarantees to be phased out for projects totaling $20 million or less, with no more than $100 million in such guarantees to be disbursed.[52]

Tax Information Exchange Agreements (TIEA)

A TIEA is a mutual and reciprocal obligation to exchange information with the United States relating to the enforcement of tax laws. To conclude a TIEA with the United States, a country needs to negotiate and sign an agreement with the U.S. Treasury, ratify the agreement in its legislature, and exchange diplomatic notes with the United States concerning the agreement.[53] Signing a TIEA makes a country eligible to receive section 936 loans. A TIEA also allows U.S. companies holding conventions and seminars in the signatory country to deduct expenses from these activities from their Federal income taxes, thus providing a boost to tourism in the signatory country.

Six CBERA countries (along with the U.S. Virgin Islands) were eligible to receive section 936 funding by virtue of having ratified a TIEA with the United States in 1990: Barbados, Dominica, the Dominican Republic, Grenada, Jamaica, and Trinidad and

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[44] Commercial banks may provide financing for either complementary or stand-alone projects. The GDB is restricted by its bylaws to financing only complementary projects. For more information on section 936 financing, see Fomento, *Puerto Rico's Caribbean Development Program: A Progress Report to the Ways and Means Committee*, U.S. House of Representatives, Sept. 15, 1988, p. 11.

[45] Fomento performs an economic analysis to determine if the project will have a negative impact on income, employment, and industries in Puerto Rico and what the effect on interest rates will be as a result of the outflow of section 936 funds. Fomento also scrutinizes projects involving the sale of products in Puerto Rican markets in direct competition with local Puerto Rican producers of similar products or involving competition with Puerto Rico-based producers of identical products outside Puerto Rico. Projects must have a neutral or positive effect on the Puerto Rican economy. The Commissioner reviews the loan transaction to ensure that it complies with relevant banking and legal requirements. Fomento, *Some Common Questions on CBI/936 Financing*, pamphlet (San Juan: Fomento, April 1990) and LA/C Center, *1991 Guidebook*, p. 67.

[46] Commercial banks can charge below-market interest rates on section 936 loans because they are able to pay lower interest rates than in the United States on 936 deposits. The combination of Federal and local tax preferences continue to make it more profitable for section 936 firms to retain profits in Puerto Rico than to repatriate them, despite receiving lower interest rates on their deposits.

[47] Fomento pamphlet and Jane Wagner, "U.S. Liberalizes '936' Rules," *International Business Chronicle*, June 10-23, 1991, p. 3. For more detailed information on CBERA countries' concerns about creditworthiness and loan guarantee requirements, see the discussion of section 936 in ch. 4 of this report.

[48] Despite the establishment of a formal minimum lending requirement under Puerto Rico's 936 program in the 1990 CBERA, there were several legislative efforts in the United States during the past year to restrict section 936 tax preferences. Some U.S. legislators unsuccessfully sought to use section 936 to help provide revenue for the tax portion

[48]*—Continued*
of the federal budget compromise resolution worked out in fall 1990. U.S. labor unions, including the Oil, Chemical and Atomic Workers Union (OCAW), targeted section 936 as a tax loophole that encourages mainland plants to relocate in Puerto Rico and takes jobs away from U.S. workers. A bill introduced in 1990 to close this provision against "runaway shops" failed, but unions have pledged to renew their efforts in the near future. For further discussions on these developments, see "Section 936 May Get Only a Passing Glance," *Caribbean Business*, Oct. 18, 1990, p. 21; "Rep. Schulze Raises 936 Specter Again," *Caribbean Business*, Mar. 21, 1991, p. 28; "Initiative Planned Against Runaway Shops," *Caribbean Business*, Jan. 24, 1991, p. 18; and "Unions Declare War on P.R.'s 936 Program," *Caribbean Business*, June 20, 1991, p. 39.

[49] "Treasury Decision Likely to Cripple 936 CBI Loan Program," *Washington Report on Latin America and the Caribbean*," July 30, 1991, p. 113.

[50] Tom Bryan, "Congress Urged to Overturn 936 Loan Decision" *Caribbean Business*, Aug. 1, 1991, p. 28.

[51] Text of letter from David C. Mulford, Under Secretary, International Affairs, U.S. Department of the Treasury to Puerto Rico Secretary of State Antonio Colorado reproduced in *Washington Report on Latin America and the Caribbean*, July 30, 1991, p. 116.

[52] Ibid.

[53] *Caribbean Business*, 936 conference supplement, Mar. 14, 1991, p. S7.

Tobago.[54] Costa Rica ratified a TIEA with the United States in February, 1991.[55] St. Lucia ratified a TIEA with the United States in April, 1991.[56]

Many CBERA countries are reluctant to negotiate TIEAs with the U.S. Treasury because of fears that an agreement would force them to change their tax systems or reveal sensitive income data.[57] The U.S. Treasury contends that this reluctance is due to misconceptions on the part of the CBERA beneficiaries, and that TIEAs are negotiated agreements that are narrowly focused and take into account the individual set of circumstances of each country.[58]

Caribbean Basin Financing Authority (CARIFA)

In 1990, the Commonwealth of Puerto Rico created an independent Government-backed financing agency, the Caribbean Basin Projects Financing Authority (CARIFA is the Spanish acronym),[59] to help locate projects qualified to receive section 936 funding and to issue revenue bonds to channel section 936 funds into the Caribbean Basin.

CARIFA provides borrowers of section 936 funds the option of bond financing. CARIFA issues bonds at lower costs than commercial bond issues, allowing the possibility of a significant reduction in the overall cost of financing direct section 936 investments for projects requiring $10 million or more.[60] Before CARIFA's creation, only Puerto Rican financial institutions were allowed to make direct investments of section 936 funds outside of the island, with special-purpose financial bodies being established when direct investments by section 936 companies were made.

Twin-Plant Program

Section 936 has also indirectly contributed to an increase in investment in CBERA countries through promotion by Puerto Rico of its "twin plants" program. Fomento encourages firms with operations on the island to seek opportunities for splitting production between Puerto Rico and a "twin" operation in a CBERA country site. In most instances, the labor-intensive portion of the operation is relocated because Puerto Rican wage rates are considerably higher than those in most of the CBERA countries. Twin plants are eligible to receive section 936 funding even if the participating CBERA country has not signed a TIEA. A twin plant operation is eligible for section 936 funds so long as one plant continues to operate in Puerto Rico. Setting up twin operations enables Puerto Rican firms to reap the benefit of lower overall costs.

The 1984 CBERA contained a duty remission provision to encourage U.S. firms to establish twin plants in CBERA countries. Under this provision, Puerto Rican materials and processing could be fully counted towards meeting the 35-percent Caribbean value-added requirement for products to receive duty-free treatment under the CBERA.[61] This provision was expanded by the 1990 CBERA. The 1990 CBERA grants duty-free entry to articles grown, produced, or manufactured in Puerto Rico that are sent to a CBERA country to be "by any means advanced in value or improved in condition" and subsequently imported directly into the United States.[62] The 1990 CBERA thereby eliminates the substantial transformation and value requirement for Puerto Rican products processed in a CBERA country.[63]

CBERA Rules of Origin

The 1990 CBERA requested the Commission to conduct, pursuant to section 332(g) of the Tariff Act of 1930, an investigation for the purpose of assessing whether revised rules of origin for products of CBERA countries are appropriate.[64] The Commission

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[54] Trinidad and Tobago concluded a TIEA in early 1990 (Caribbean Basin Information Center, *CBI Business Bulletin*, April 1990, p. 9). St. Lucia has signed a TIEA with the United States but has yet exchanged the diplomatic notes required to finalize the agreement (*Caribbean Business*, 936 conference supplement, Mar. 14, 1991, p. S7). Honduras has also signed an agreement, but has not ratified it (*Caribbean Business*, 936 conference supplement, Mar. 14, 1991, p. S7). Aruba, El Salvador, Haiti, and Nicaragua are negotiating agreements to qualify (Wagner, "U.S. Liberalizes '936' Rules," p. 3).

[55] Costa Rica signed but did not ratify a TIEA in 1989. *LA/C Business Bulletin*, March 1991, p. 8.

[56] St. Lucia signed, but did not ratify a TIEA in 1987. "U.S.-St. Lucia Tax Treaty Takes Effect," *Washington Report on Latin America and the Caribbean*, May 31, 1991, p. 86.

[57] See the discussions of The Bahamas and section 936 program in ch. 4 of this report. For a discussion of USITC findings in other CBERA countries, see USITC, *Fifth CBERA Report, 1989*, p. 1-11.

[58] Statement of Kenneth W. Gideon, Assistant Secretary for Tax Policy, U.S. Department of the Treasury, before the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, Apr. 3, 1990.

[59] Governor Rafael Hernandez Colon signed the bill creating CARIFA in January 1990.

[60] Typically, an investment bank buys a company's bonds, which the bank then resells to other investors such as other banks. The borrower pays both principal and interest to those who invest in these bonds, as well as the management fee charged by the investment bank for floating the bond issue. This fee is typically a percent of the total

[60]—*Continued*
issue, raising the borrower's cost as more money is borrowed. CARIFA reduces bond financing costs by granting tax-exempt status under section 936 legislation to the income earned by bond investors, which becomes significant as projects borrowing reaches $10 million or more.

[61] See the discussion of trade benefits under the CBERA above.

[62] See the discussion of the 1990 CBERA above.

[63] For more detailed information on the implications of the 1990 CBERA for Puerto Rican products processed in CBERA countries, see the discussion of the treatment of articles produced in Puerto Rico in the section "Key Provisions" above.

[64] Section 223 of the 1990 CBERA.

accordingly initiated an investigation on October 22, 1990. Findings of the investigation were published in May 1991.[65]

The investigation addressed two basic questions:

- Do the present rules of origin limit or impede full utilization of the CBERA program? and
- If current rules are limiting or impeding CBERA exports, what alternatives are available to improve the situation?

The report noted that the United States Trade Representative, the Department of the Treasury, and the U.S. Customs Service, in separate comments to the Commission, expressed concern that the present rules are too susceptible to subjective interpretation and application, making them unpredictable.[66]

In investigating the impact of CBERA rules of origin on utilization of the program, the Commission reported that rules of origin considerations were not likely to play a large role in choices of exporters as to whether to use the CBERA or the GSP. This happens because of three reasons. First, most U.S. imports from CBERA countries (e.g., textiles, apparel, and petroleum and petroleum derivatives) are excluded under the act, while other products (e.g., coffee, aluminum ore, and ammonia) are free of duty on an MFN basis. Second, GSP rules have been modified to make them "essentially the same" as the CBERA rules.[67] Third, the Commission received no quantifiable or anecdotal evidence in support of the thesis that rules of origin may be impeding CBERA exports.

The report indicated that support for changes in rules of origin by U.S. Federal agencies with a direct interest in the administration of the CBERA rules of origin appeared to be based on an interest in gaining consistency and predictability, therein facilitating management of the program and reducing the administrative burden generated by current rules.

In its investigation of alternatives to current CBERA rules of origin, the Commission compared CBERA rules of origin with those applicable to imports from insular possessions, under the GSP, under the United States-Israel Free-Trade Area, from the freely associated states, and under the United States-Canada Free-Trade Agreement, as well as to the proposal put forth by the United States before the General Agreement on Tariffs and Trade (GATT) during the Uruguay Round.

Three alternatives were considered: (1) adoption of a change-of-tariff-classification rule to determine whether substantial transformation has occurred; (2) deletion of the substantial transformation test with reliance entirely on a 50-percent-value-added criterion to determine origin; and (3) variations on or combinations of (1) and (2). Of the three alternatives considered, the report indicated that none was clearly better than any other because "the opportunity for encouraging economic development in the Caribbean Basin through a special tariff preference program is undoubtedly limited"[68] given the low MFN tariffs already in effect and the availability of duty-free entry under the GSP program. "Thus, the potential value of any benefits to beneficiary countries . . . or to exporters and importers making use of CBERA, which might accrue from adoption of one or more of the alternative rules proposed to the Commission, is speculative."[69]

The Commission concluded that a possible GATT agreement on rules of origin and the establishment of origin rules under the proposed United States-Mexico Free-Trade Agreement (FTA) may make it reasonable to postpone revisions to the CBERA until any new rules of origin required by or derived from GATT or a United States-Mexico FTA can be considered.[70]

U.S. Industries' Concerns

In connection with this 6th annual investigation of the CBERA program, the Commission received two submissions from concerned industries. The Rubber and Plastic Footwear Manufacturers Association (RPFMA) commented on section 222 of the 1990 CBERA that allows duty-free entry for articles assembled in beneficiary countries from components produced in the United States.[71]

The RPFMA stated that this provision of the 1990 CBERA "threatens the continued existence of the remaining domestic footwear and slipper companies."[72] In its submission, the RPFMA noted that rubber footwear and slippers were excluded from duty-free entry under the U.S. GSP and the 1984 CBERA. Considering the import sensitivity of rubber footwear and slippers, the RPFMA stated that the labor-intensive nature of the industries and the relatively high current import duties meant that duty-free entry for items assembled in CBERA countries would result in serious problems. U.S. rubber footwear and slipper companies would find themselves "shifting their production from domestic plants to the Caribbean and laying off the majority of their domestic employees."[73]

The Motion Picture Export Association of America (MPEAA) commented on the protection of intellectual property rights in several CBERA countries pursuant to

[65] USITC, *Assessment of Rules of Origin Under the Caribbean Basin Economic Recovery Act* (investigation No. 332-298), USITC publication 2381, May 1991.
[66] Ibid., p. iv.
[67] Ibid., p. 22.

[68] Ibid., p. 24.
[69] Ibid.
[70] Ibid.
[71] See the discussion of the 1990 CBERA above.
[72] Submission dated July 22, 1991, Rubber and Plastic Footwear Manufacturers Association.
[73] Ibid.

section 212(a)(2)(c)(9) and (10) of the 1984 CBERA.[74] These provisions stipulate that, in designating a country as a beneficiary under the act, "the President take into account" (1) the extent to which a country provides "adequate and effective means" to protect intellectual property, "including patent, trademark, and copyright rights" and (2) the extent to which a country "prohibits its nationals from engaging in the broadcast of copyrighted material, including films or television material" belonging to U.S. copyright owners without their express consent.

The MPEAA stated that "the rampant disregard of U.S. copyrights in 8 of the CBI countries alone costs MPEAA member companies an estimated $8 million each year."[75] Eight countries were identified primarily for "signal theft," which is the unauthorized use of satellite-carried U.S. programming including both basic and "premium" pay cable television signals. These countries were Guatemala, Costa Rica, the Dominican Republic, Honduras, Panama, El Salvador, Nicaragua, and Jamaica.[76] In addition to signal theft and retransmission of pirated signals by Caribbean Basin broadcasting companies, the MPEAA noted the problems and costs of signal theft by private owners of satellite dishes in Caribbean Basin countries and video tape piracy in Costa Rica and Panama in particular. The MPEAA stated that the recently started new pay services specifically designed for the Caribbean Basin market area mean that a "lack of legitimate programming alternatives can no longer be offered as an excuse for signal theft in any of these countries."[77]

[74] The MPEAA's concerns also are documented in USITC, *Fifth CBERA Report, 1989*, pp. 1-5 to 1-6.

[75] Submission dated July 26, 1991, Motion Picture Export Association of America.

[76] Ibid.

[77] Ibid.

CHAPTER 2
U.S. TRADE WITH THE CARIBBEAN BASIN

Two-Way Trade

Total U.S. imports from the Caribbean Basin countries (both designated and nondesignated under the CBERA) amounted to $7.6 billion in 1990, a 8.3-percent increase over the 1989 level of $7.0 billion (figure 2-1 and appendix table B-1). Comprising 1.5 percent of overall U.S. imports, the Caribbean Basin was the 16th-largest source of U.S. imports, ranking after Venezuela and Brazil but before Nigeria and Thailand.

Combined U.S. exports to the Caribbean Basin countries in 1990 totaled $9.7 billion, rising 5.6 percent over 1989. Accounting for 2.6 percent of overall U.S. exports in 1990, the Caribbean Basin was the 11th-largest export market of the United States, ranking behind Taiwan and Belgium but before, for example, Australia, or Italy.

For the 5th year in a row, the United States registered a surplus in trade with the Caribbean Basin countries. In 1990, this surplus narrowed from slightly under $2.2 billion in 1989 to $2.1 billion. The consistently positive U.S. trade balance with the Caribbean reflected a 15.6 percent decline in U.S. imports from the region since 1983, the last year before the CBERA program, and a 64.7 percent surge in U.S. exports. The growth in U.S. exports to the area was one of the unexpected developments since enactment of the CBERA program.

The CBERA countries are responsible for most trade between the United States and the Caribbean Basin (figure 2-2 and appendix table B-2). In 1990, the CBERA countries accounted for 99.0 percent of combined U.S. imports from the region, and for 96.0 percent of U.S. exports. Therefore, the data and figures showing combined U.S. trade with the CBERA countries during the period 1986-90 in figure 2-2 and appendix table B-2 are almost identical to the data in figure 2-1 and appendix table B-1 for all the 28 Caribbean countries.

Imports From Nondesignated Countries

U.S. imports from nondesignated Caribbean countries dropped to $76.1 million in 1990, or less than one-fifth their record high level in 1989 (table 2-1). This is largely due to Panama, which regained its CBERA beneficiary status effective March 17, 1990 and is included among the designated countries for the entire year of 1990 in this report.[1] In addition, U.S. imports from the Cayman Islands and Suriname declined in 1990.

[1] For a more detailed discussion of Panama's reinstatement as a CBERA beneficiary, see the section "Designated Eligible Countries" in ch. 1 of this report.

Imports From CBERA Countries

Total U.S. imports from the CBERA countries grew by 13.4 percent in 1990 to over $7.5 billion (table 2-1). Imports increased for the 3d consecutive year, following declines in each of the first 4 years of the CBERA. Growth in 1990 can be explained, in part, by higher petroleum prices on world markets in the wake of the Persian Gulf crisis. These prices allowed the oil-producing CBERA countries to contribute $331 million or 37 percent of the overall increase in U.S. imports from the CBERA countries (appendix table B-2). Notably, 63.0 percent of the increment or $558 million still came from beneficiaries not producing oil. The inclusion of Panama and Nicaragua among designated countries in 1990 accounted for 27 percent of the increase in U.S. imports from CBERA countries.

Total Imports From CBERA-Country Groups

Since the CBERA became effective, the relative weight of the oil-producing CBERA countries—Aruba, the Bahamas, the Netherlands Antilles and especially Trinidad and Tobago—in overall U.S. imports from the region has declined significantly as a result of falling world oil prices. In 1983—the last year prior to the CBERA—the oil-producing CBERA countries accounted for 60.1 percent of overall U.S. imports from all CBERA countries.[2] Their share fell to 22.7 percent in 1988 before rebounding to 24.1 percent in 1989 and 25.7 percent in 1990 as global oil prices rose in the wake of the Persian Gulf crisis (table 2-2).

While the collective share of the non-oil-producing CBERA countries increased accordingly, there were shifts in the ranking of countries in this group. Central America was the largest source of U.S. imports from CBERA countries in all years except 1988[3] and 1989,[4] and was the leading regional source of U.S. imports from CBERA countries in 1990. U.S. imports from the Central American region of $2.8 billion in 1990 were 51.9 percent above their 1983 level of $1.8 billion (table 2-2).[5]

The growth of this trade flow in 1990 reflected a variety of factors. Among these factors were the inclusion of Panama and Nicaragua as designated countries and the continued increase of Costa Rican, Guatemalan, and Honduran exports to the U.S. market. In 1990, for the first time, U.S. imports from Costa Rica exceeded $1 billion. Most notable, however, was the large increase in U.S. imports from Guatemala during the year. After Costa Rica, Guatemala is the

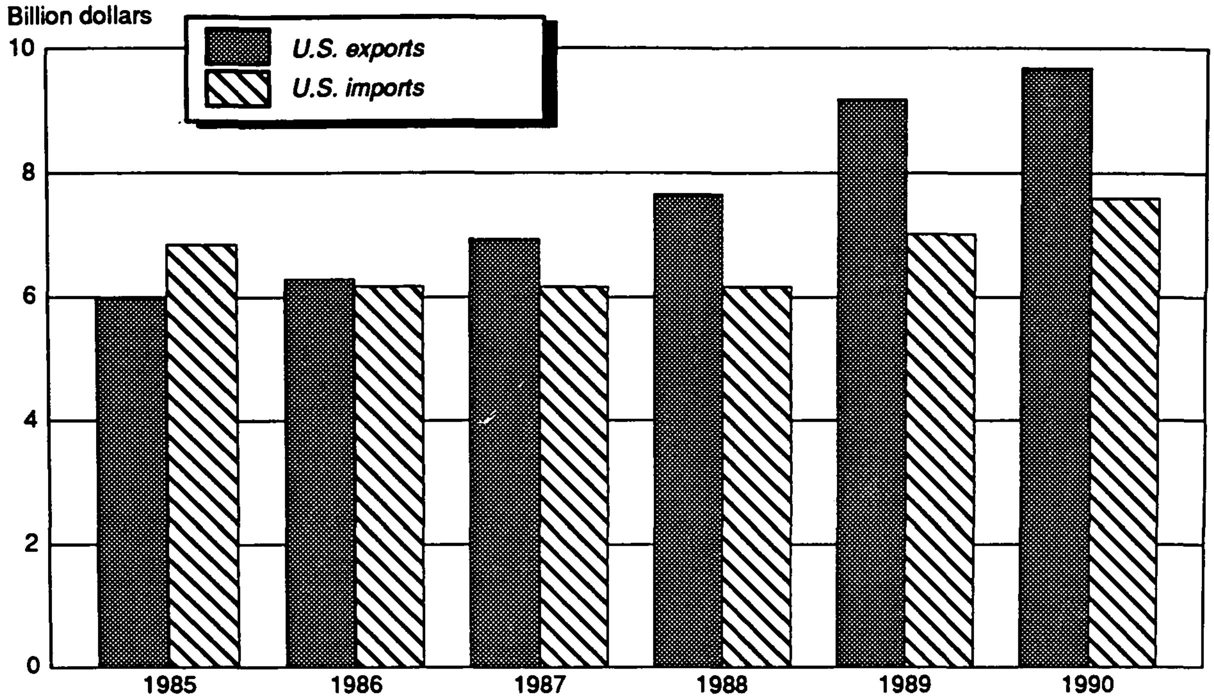
[2] USITC, *Third CBERA Report, 1987*, p. 1-3.

[3] In 1988, the Central Caribbean only marginally surpassed Central America as a source of U.S. imports (table 2-2).

[4] In 1989, Central America would have been the largest exporting region except for the fact that Panama was suspended from CBERA benefits. For further discussion of Panama's suspension from CBERA benefits, see the section "Designated Eligible Countries" in ch. 1 of this report.

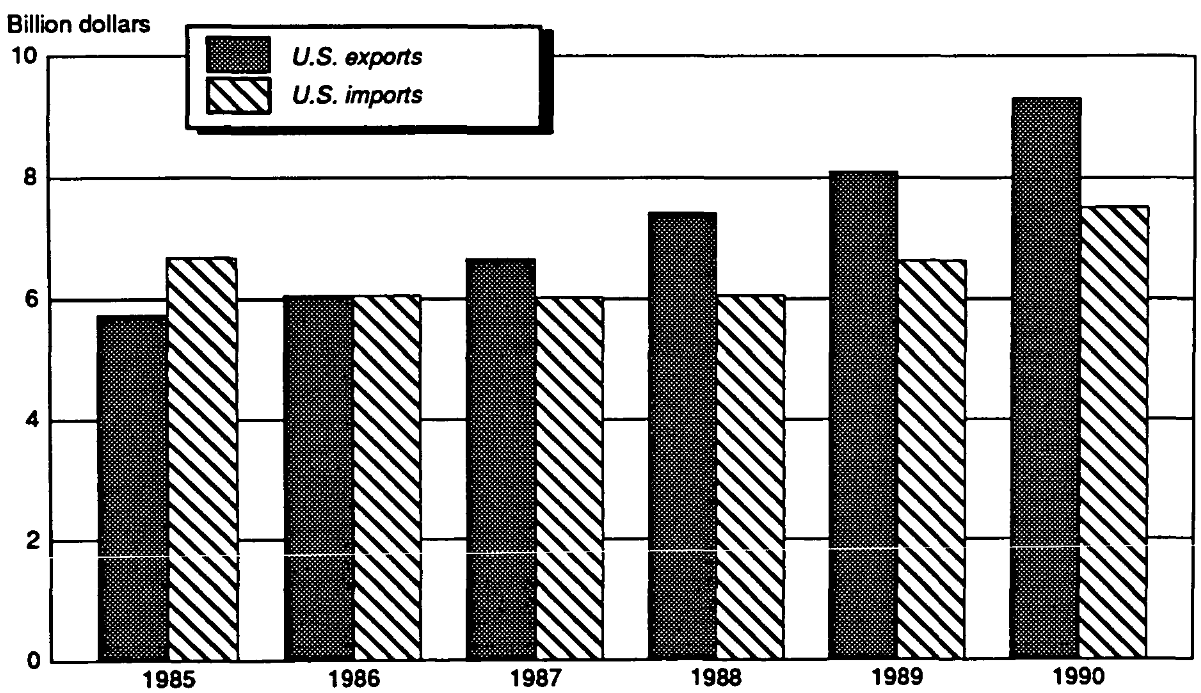
[5] See also USITC, *Third CBERA Report, 1987*, table 1-4, p. 1-4.

Figure 2-1
U.S. trade with the Caribbean Basin countries, 1985-90



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

Figure 2-2
U.S. trade with the countries designated under the CBERA, 1985-90



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

Table 2-1
U.S. imports for consumption, designated and nondesignated countries under the CBERA, 1986-90
(In thousands of dollars, customs-value basis)

Country	1986	1987	1988	1989	1990
Designated:					
Antigua	11,849	8,621	6,893	12,274	4,120
Aruba[1]	1,797	2,452	647	1,156	967
Bahamas	440,985	377,881	268,328	460,723	506,772
Barbados	108,991	59,110	51,413	38,725	30,899
Belize	50,181	42,906	52,049	43,056	43,978
British Virgin Islands	5,904	11,162	684	1,112	1,999
Costa Rica	646,508	670,953	777,797	967,901	1,006,474
Dominica	15,185	10,307	8,530	7,664	8,346
Dominican Republic	1,058,927	1,144,211	1,425,371	1,636,931	1,725,430
El Salvado	371,761	272,881	282,584	243,922	237,538
Grenada	2,987	3,632	7,349	7,862	7,783
Guatemala	614,708	487,308	436,979	608,280	790,900
Guyana[2]	(3)	(3)	50,432	55,858	52,261
Haiti	368,369	393,660	382,466	371,875	339,177
Honduras	430,906	483,096	439,504	456,790	486,330
Jamaica	297,891	393,912	440,934	526,726	563,723
Montserrat	3,472	2,413	2,393	2,285	562
Netherlands Antilles[4]	453,333	478,836	408,100	374,358	421,789
Nicaragua[5]	(3)	(3)	(3)	(3)	15,254
Panama[6]	352,206	342,700	256,046	(3)	226,555
St. Kitts and Nevis	22,278	23,793	20,822	21,447	16,100
St. Lucia	12,269	17,866	26,044	23,985	26,920
St. Vincent and Grenadines	7,836	8,493	13,950	9,244	8,672
Trinidad and Tobago	786,405	802,838	701,738	765,265	1,002,661
Total	6,064,745	6,039,030	6,061,054	6,637,440	7,525,208
Nondesignated:					
Anguilla	89	168	497	348	227
Cayman Islands	14,611	27,670	18,195	48,041	21,387
Guyana[2]	62,928	58,828	(3)	(3)	(3)
Nicaragua[5]	1,071	1,231	1,121	31	(3)
Panama[6]	(3)	(3)	(3)	258,319	(3)
Suriname	38,591	46,445	87,894	73,892	50,901
Turks and Caicos Islands	4,792	4,680	3,517	2,507	3,547
Total	122,081	139,022	111,224	383,137	76,063
Grand total	6,186,826	6,178,052	6,172,278	7,020,577	7,601,271

[1] Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated separately as a beneficiary effective retroactively to Jan. 1, 1986. Trade data for Aruba, however, was not reported separately until June 1986. The 1986 figure for Aruba represents trade for June-December only.
[2] Guyana was designated as a CBERA beneficiary effective Nov. 24, 1988.
[3] Not applicable.
[4] See footnote 1.
[5] Nicaragua was designated as a CBERA beneficiary effective Nov. 8, 1990.
[6] Panama lost its designation as a beneficiary effective Apr. 9, 1988, and was reinstated effective March 17, 1990.

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

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

Table 2-2
U.S. imports for consumption from countries designated under the CBERA, by major groups, 1986-90
(In thousands of dollars, customs-value basis)

Country	*1986*	*1987*	*1988*	*1989*	*1990*
Non-oil-producing countries:					
Central America:					
Belize	50,181	42,906	52,049	43,056	43,978
Costa Rica	646,508	670,953	777,797	967,901	1,006,474
El Salvador	371,761	272,881	282,584	243,922	237,538
Guatemala	614,708	487,308	436,979	608,280	790,900
Honduras	430,906	483,096	439,504	456,790	486,330
Nicaragua[1]	([5])	([5])	([5])	([5])	15,254
Panama[2]	352,206	342,700	256,046	([5])	226,555
Subtotal	2,466,270	2,299,843	2,244,959	2,319,949	2,807,030
Eastern Caribbean:					
Antigua	11,849	8,621	6,893	12,274	4,120
Barbados	108,991	59,110	51,413	38,725	30,899
British Virgin Islands	5,904	11,162	684	1,112	1,999
Dominica	15,185	10,307	8,530	7,664	8,346
Grenada	2,987	3,632	7,349	7,862	7,783
Guyana[3]	([5])	([5])	50,432	55,858	52,261
Montserrat	3,472	2,413	2,393	2,285	562
St. Kitts and Nevis	22,278	23,793	20,822	21,447	16,100
St. Lucia	12,269	17,866	26,044	23,985	26,920
St. Vincent and Grenadines	7,836	8,493	13,950	9,244	8,672
Subtotal	190,771	145,397	188,510	180,457	157,660
Central Caribbean:					
Dominican Republic	1,058,927	1,144,211	1,425,371	1,636,931	1,725,430
Haiti	368,369	393,660	382,466	371,875	339,177
Jamaica	297,891	393,912	440,934	526,726	563,723
Subtotal	1,725,186	1,931,783	2,248,771	2,535,532	2,628,329
Total non-oil producing countries	4,382,227	4,377,024	4,682,240	5,035,938	5,593,019
Oil-producing countries:					
Aruba[4]	1,797	2,452	647	1,156	967
Bahamas	440,985	377,881	268,328	460,723	506,772
Netherlands Antilles[4]	453,333	478,836	408,100	374,358	421,789
Trinidad and Tobago	786,405	802,838	701,738	765,265	1,002,661
Total oil producing countries	1,682,519	1,662,006	1,378,813	1,601,501	1,932,189
Grand total	6,064,745	6,039,030	6,061,054	6,637,440	7,525,208

[1] Nicaragua was designated a beneficiary country effective Nov. 8, 1990.

[2] Panama lost its designated beneficiary status effectivd Apr. 9, 1988, and was reinstated effective March 17, 1990.

[3] Guyana was designated as a beneficiary effective Nov. 24, 1988.

[4] Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated separately as a beneficiary effective retroactively to Jan. 1, 1986. Trade data for Aruba, however, was not reported separately until June 1986. The 1986 figure for Aruba represents trade for June-December only.

[5] Not applicable.

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

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

second-largest source of U.S. imports from the region. While imports from Costa Rica edged up by 4.0 percent and imports from Honduras grew by 6.4 percent in 1990, imports from Guatemala surged by 30.0 percent. El Salvador was the only Central American country whose sales to the U.S. market dropped in 1990, continuing a downward trend (table 2-2).

The share of Central Caribbean region in U.S. imports from CBERA countries has also increased since the act became operative. U.S. imports from this region increased from 16.1 percent of the total in 1983[6] to a high of 38.2 percent in 1989,[7] declining somewhat to 34.9 percent in 1990. Overall, U.S. imports from the Central Caribbean countries have expanded by 52.4 percent over their 1983 level, making this the fastest-growing CBERA export region. The Dominican Republic is the leading source of U.S. imports in this group (as well as among all CBERA countries). Dominican sales to the U.S. market totaled $1.7 billion in 1990, continuing the steady climb evident since the beginning of the CBERA program. While U.S. imports from the Dominican Republic and Jamaica continued to grow in 1990, imports from Haiti dropped by 8.8 percent (table 2-2).[9]

The Eastern Caribbean is the smallest regional source of U.S. imports from CBERA countries. Its share of U.S. imports peaked in 1985 at 4.4 percent, declining to 2.1 percent by 1990. A significant factor in declining imports from the Eastern Caribbean is the sharp drop in U.S. imports from Barbados. They totaled $202.2 million in 1983[10] but declined steadily thereafter, registering $30.9 million in 1990 (table 2-2). Much of the 1990 decline in imports from the Eastern Caribbean can also be traced to lower imports from Guyana and sharply lower imports from Antigua and Montserrat. The Eastern Caribbean was the only CBERA subregion with weakening sales to the U.S. market in 1990.

Product Composition of Total Imports

U.S. imports from the CBERA countries have traditionally consisted of a few items, such as petroleum and petroleum products, sugar, rum, coffee, cocoa, bananas, and aluminum ores and concentrates.[11] Although these products continue to weigh heavily in the total, their relative importance has been diminished with the deterioration in the applicable terms of trade on world markets and the efforts of CBERA countries to diversify exports. Conversely, nontraditional items, predominantly wearing apparel, gained major significance in U.S. imports from CBERA countries, reaching some 58 percent of the total by 1990.[12]

Table 2-3 shows U.S. imports during 1986-90 of the 30 leading items on an 8-digit HTS basis. These items together accounted for 64.2 percent of total imports from the CBERA countries in 1990. In addition to traditional items listed above and numerous textile and apparel products, major U.S. import items from the CBERA countries in 1990 included beef, fresh fruit and fruit juices, shrimp and other seafood, U.S. goods returned,[13] gold, cigars and tobacco, ethyl alcohol, jewelry, footwear, and electrical and other miscellaneous manufactured items.

Petroleum and petroleum products accounted for 57.1 percent of total U.S. imports from CBERA countries in 1983, the last year before the CBERA.[14] Their share of the total declined almost steadily to 15.7 percent by 1989, recovering in 1990 to 17.8 percent as a result of higher oil prices following the Persian Gulf crisis. Combined U.S. imports of petroleum and petroleum-related products amounted in 1990 to $1.3 billion, up from $1.0 billion in 1989 (appendix table B-3).[15]

U.S. imports of raw cane sugar from CBERA countries continued to recover in 1990.[16] However, at $229.8 million, imports remained below their peak value of $234.7 million in 1985.[17] Even though generating smaller export revenues in recent years, sugar remained a significant source of foreign exchange for the CBERA countries in 1990.[18]

U.S. imports of Caribbean coffee, which surged in 1986 to slightly under $1 billion, fell in value terms by 40.0 percent in 1987, 37.1 percent in 1988 and 3.3 percent in 1989. In 1990, despite of the continued decline in coffee prices on world markets, larger coffee volumes shipped allowed the dollar value of this trade to expand by 11.6 percent to reach $401.9 million.[19]

[6] USITC, *Third CBERA Report, 1987*, table 1-4, p. 1-4.
[7] USITC, *Third CBERA Report, 1987*, table 1-4, p. 1-4 and *Fifth CBERA Report, 1989*, table 2-2, p. 2-5.
[8] For a more detailed discussion of Dominican exports to the United States, see the discussion of the Dominican Republic in ch. 4 of this report.
[9] For additional information on Jamaican and Haitian exports to the United States, see the discussions of Jamaica and Haiti in ch. 4 of this report.
[10] USITC, *Third CBERA Report, 1987*, table 1-3, p. 1-2.
[11] U.S. imports discussed in this section include imports eligible for duty-free entry under the CBERA and other U.S. provisions as well as imports ineligible for duty-free entry.

[12] *Latin American and Caribbean Business Bulletin*, April-May 1991, p. 8.
[13] U.S. goods returned refers to products of the United States that are returned after being exported without having been advanced in value, such as articles exported for temporary use abroad or those returned to the United States for repair.
[14] USITC, *Third CBERA Report, 1987*, p. 1-3.
[15] With regard to petroleum and related products, see also table 2-3, and the section on "Product Eligibility Under the CBERA" later in this chapter.
[16] For more detail on U.S. sugar imports from CBERA countries by volume and U.S. sugar quotas, see the discussion of sugar in ch. 3 of this report.
[17] USITC, *Fifth CBERA Report, 1989*, table 2-3, p. 2-7.
[18] See sugar also under "Imports Entering Under the CBERA" later in this chapter.
[19] For additional information on Caribbean coffee exports, see USITC, *Fifth CBERA Report 1989*, p. 2-8.

Table 2-3
Leading U.S. imports for consumption from countries designated under the CBERA, 1986-90

(In thousands of dollars, customs value)

HTS item	Description	1986	1987	1988	1989	1990
2709.00.20	Petroleum oils and oils from bituminous minerals, crude	576,476	521,755	413,181	474,046	649,365
0803.00.20	Bananas, fresh or dried	398,820	467,736	468,021	443,548	441,861
2710.00.05	Distillate and residual fuel oils (including blends)	466,485	516,056	412,005	309,632	426,916
0901.11.00	Coffee, not roasted, not decaffeinated	986,975	592,130	372,559	360,225	401,969
6203.42.40	Men's or boys' trousers, breeches and shorts, not knitted	101,319	147,205	201,960	272,130	314,361
2918.90.30	Aromatic drugs derived from carboxylic acids with additional oxygen	105,387	74,470	50,212	277,732	294,757
1701.11.00	Raw cane sugar[1]	181,074	101,431	133,721	172,401	229,762
9801.00.10	U.S. goods returned without having been advanced in value ...	95,844	85,217	108,960	110,473	183,228
6204.62.40	Women's or girls' trousers, breeches and shorts, not folklore ...	37,003	63,432	100,689	146,413	150,722
2606.00.00	Aluminum ores and concentrates	77,900	106,692	114,791	131,678	138,182
6212.10.20	Brassieres, other than containing lace, net or embroidery	23,992	24,326	28,668	105,398	133,442
2710.00.15	Motor fuel derived from bituminous minerals	185,528	175,614	134,671	145,453	126,757
6406.10.65	Footwear uppers, other than formed, of leather	36,662	56,588	63,865	71,488	116,656
0306.13.00	Shrimps and prawns, cooked in shell or uncooked, frozen	143,835	140,225	147,681	89,046	115,268
6205.20.20	Men's or boys' shirts, not knitted or crocheted, of cotton	55,226	69,168	86,659	89,218	111,463
2818.20.00	Aluminum oxide, except artificial corundum	25,826	16,989	49,174	92,144	100,762
0202.30.60	Frozen boneless beef, except processed	112,444	111,263	118,837	73,134	85,376
6109.10.00	T-shirts, singlets, tank tops and similar garments, ...	3,818	21,490	41,298	46,648	84,042
9018.90.80	Instruments and appliances, medical, surgical, dental	2,628	1,494	17,101	63,353	83,451
6110.20.20	Sweaters, pullovers and similar articles, knitted or	18,860	41,952	46,090	36,454	82,323
2814.10.00	Anhydrous ammonia	38,724	38,446	56,693	77,429	71,235
0306.11.00	Rock lobster and other sea crawfish, cooked in shell	36,654	39,110	35,069	29,425	70,882
7202.60.00	Ferronickel	21,433	32,390	59,938	56,634	67,426
6105.10.00	Men's or boys' shirts, knitted or crocheted, of cotton	20,861	43,188	53,672	59,780	59,084
2710.00.10	Distillate and residual fuel oils (including blends)	122,712	131,612	59,329	56,953	56,740
6110.30.30	Sweaters, pullovers and similar articles, knitted or	10,503	17,661	16,212	31,359	54,612
7113.19.50	Articles of jewelry and parts thereof of precious metals	4,697	11,449	12,954	42,245	54,346
6203.43.40	Men's or boys' trousers, breeches and shorts, not knitted	49,679	57,971	61,718	67,668	53,001
7108.12.10	Unwrought gold bullion and dore, nonmonetary	72,841	60,553	48,314	64,108	49,485
1801.00.00	Cocoa beans, whole or broken, raw or roasted	65,858	68,734	70,108	47,285	48,276
	Total of items shown	4,083,065	3,836,245	3,584,153	4,043,498	4,855,752
	Total all commodities	6,064,745	6,039,030	6,061,030	6,637,440	7,525,208

[1] HTS item 1701.11.00 became obsolete effective Oct. 1, 1990, when it was replaced by items 1701.11.01, 1701.11.02, and 1701.11.03. In this report, 1990 data on all three of these items are included under item 1701.11.00.

Note.—1986-88 data are estimated under the HTS classification system.

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

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

Similarly, larger volumes of cocoa bean shipments from CBERA countries to the U.S. market allowed the value of this trade to recover somewhat, despite a continuing decline in prices, to $48.2 million from a 5-year low the previous year (table 2-3).[20]

A wide variety of apparel products and other nontraditional Caribbean goods have taken the place of petroleum, sugar, coffee, cocoa, and other traditional U.S. imports from the region. Textiles and apparel accounted for only 4.5 percent of total U.S. imports from the Caribbean in 1983. They increased to 26.7 percent of total imports by 1990.[21] Since 1988, the value of U.S. imports of textiles and apparel has consistently surpassed the value of petroleum and petroleum product imports. Textiles and apparel now represent the principal U.S. import category from the CBERA countries.[22]

Dutiability and Special Duty-Free Programs

Table 2-4 breaks down U.S. imports from the CBERA countries in 1988 and 1990 into their dutiable and duty-free portions.[23] Since the CBERA has been in effect, the dutiable portion of U.S. imports from CBERA countries declined, reflecting, in part, the diminishing significance of petroleum and petroleum products (which are dutiable) in this trade. In 1983, the dutiable value of imports from CBERA countries amounted to $5.7 billion or 64.7 percent of the total.[24] In 1986, these numbers were $1.9 billion and 31.6 percent, respectively.[25] In the last 3 years, the absolute and relative decline in the dutiable portion of U.S. imports from the CBERA countries reversed itself to some degree. Dutiable imports climbed to $2.6 billion or 34.2 percent of overall U.S. imports from the CBERA countries in 1990 (table 2-4).

[20] Ibid.

[21] See also table 2-3 and the section on "Product Eligibility Under the CBERA" later in this chapter.

[22] See discussion on textiles also under "Product Eligibility Under the CBERA" later in this chapter.

[23] Some CBERA-eligible products are eligible for duty-free entry into the United States under other provisions. Consequently, the CBERA value of $1.021 billion shown in table 2-4 exceeds the value of items benefiting only from the CBERA of $422 million calculated in ch. 3 of this report.

[24] USITC, *Third CBERA Report, 1987*, table 1-7, p. 1-8.

[25] USITC, *Fifth CBERA Report, 1989*, table 2-4, p. 2-9.

Meanwhile, as the tabulation below shows, the adjusted calculated duties the United States collected from the CBERA countries grew from $75.3 million in 1983 to $209.9 million by 1990. The increase in U.S. tariff revenues from CBERA countries, despite the decline in the dutiable part of the total, reflects the sharp shift in the product mix of dutiable U.S. imports from these countries from low-duty petroleum products towards high-duty goods, mostly wearing apparel.[26] The average rate of duty has risen markedly since the CBERA has been in effect: from 1.33 percent in 1983[27] to 8.16 percent in 1990.

As the dutiable portion of total U.S. imports has tended to decline, the duty-free portion of imports from the CBERA countries under various U.S. duty-free or duty-reduction programs surged from little more than one-third of total imports in 1983[28] to approximately two-thirds in 1990 (table 2-4).

Imports that enter unconditionally duty-free under MFN have consistently comprised an important but declining portion of overall U.S. imports from the CBERA countries. MFN duty-free imports peaked at 38.6 percent of the total in 1986,[29] declining to 26.2 percent by 1990 (table 2-4).

Imports paying reduced duties under HTS subheadings 9802.00.60 and 9802.00.80 continued to increase in terms of value, reflecting more investment and production in the textile sectors of many Caribbean countries and more U.S. imports from these countries in recent years. However, their share of total imports has declined in 1990 (table 2-4).

Duty-free imports under the GSP program were responsible for 6.3 percent of U.S. imports from the CBERA countries in both 1989 and 1990. This share was 6.5 percent in 1983[30]; it peaked at 8.0 percent in 1985[31]; dropped to 5.0 percent in 1988, edging up again in the last three years (table 2-4).

[26] With regard to textiles and apparel, see also section on "Product Eligibility Under the CBERA" later in this chapter.

[27] USITC, *Third CBERA Report, 1987*, table 1-8, p. 1-9.

[28] For 1985 data, see USITC, *Third CBERA Report, 1987*, table 1-7, p. 1-8.

[29] USITC, *Fifth CBERA Report, 1989*, table 2-4, p. 2-9.

[30] USITC, *Third CBERA Report, 1989*, table 1-7, p. 1-8.

[31] Ibid.

Item	*1986*	*1987*	*1988*	*1989*	*1990*
Dutiable value[1]	1,916,553	2,110,950	1,975,850	2,101,839	2,573,813
Calculated duties[2]	83,056	127,977	157,605	180,130	209,913
Average duty[3]	4.33	6.06	7.98	8.57	8.16

[1] Reported dutiable value and calculated duty were adjusted to account for the duty-free value of imports entering under HTS subheadings 9802.00.60 and 9802.00.80 and for the value of ineligible imports that were reported in the official trade statistics as entering the United States under the GSP and CBERA programs. Figures for 1986-90 are based on product eligibility corresponding to each year.

[2] Ibid.

[3] Average duty = (calculated duty/dutiable value) x 100.

Table 2-4
U.S. imports for consumption from countries designated under CBERA,[1] by duty treatment, 1988-90

Item	*1988*	*1989*	*1990*
	Value (1,000 dollars, customs value)		
Total imports	6,061,054	6,637,440	7,525,208
Dutiable value[2]	1,975,850	2,101,839	2,573,813
HTS 9802.00.60 and 9802.00.80	427,144	504,882	520,107
HTS 9802.00.80.10	57,636	106,055	112,770
HTS 9802.00.80.50	369,483	398,241	406,235
Other	1,548,706	1,596,957	2,053,706
Duty-free value[3]	4,085,204	4,535,601	4,951,395
MFN[4]	1,927,912	1,854,400	1,968,007
CBERA[5]	790,941	905,762	1,020,686
GSP[5]	353,079	415,859	472,303
HTS 9802.00.60 and 9802.00.80	906,518	1,089,694	1,153,325
HTS 9802.00.80.10	161,708	286,437	318,106
HTS 9802.00.80.50	744,723	785,766	815,542
Other duty free[6]	106,754	269,886	337,042
	Percent of total		
Total imports	100.0	100.0	100.0
Dutiable value[2]	32.6	31.7	34.2
HTS 9802.00.60 and 9802.00.80	7.0	7.6	6.9
HTS 9802.00.80.10	1.0	1.6	1.5
HTS 9802.00.80.50	6.1	6.0	5.4
Other	25.6	24.1	27.3
Duty-free value[3]	67.4	68.3	65.8
MFN[4]	31.8	27.9	26.2
CBERA[5]	13.0	13.6	13.6
GSP[5]	5.8	6.3	6.3
HTS 9802.60 and 9802.00.80	15.0	16.4	15.3
HTS 9802.00.80.10	2.7	4.3	4.2
HTS 9802.00.80.50	12.3	11.8	10.8
Other duty free[6]	1.8	4.1	4.5

[1] Panama is included as a beneficiary country in figures for 1988 and 1990. Nicaragua is included for 1990.

[2] Reported dutiable value has been reduced by the duty-free value of imports entering under HTS subheading 9802.00.60 and 9802.00.80 and increased by the value of ineligible items that were reported as entering under the CBERA and GSP programs.

[3] The total duty-free value is calculated as total imports less dutiable value.

[4] Figures for MFN duty-free imports represent the value of imports which have a col. 1-general duty rate of zero.

[5] Values for CBERA and GSP duty-free imports have been reduced by the value of MFN duty-free imports and ineligible items that were misreported as entering under the programs. Some items are eligible for duty-free entry into the United States under either CBERA or GSP.

[6] The value for other duty-free imports was calculated as a remainder and represents imports entering free of duty under special rate provisions.

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

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

CBERA Duty-Free Imports

Imports entering the United States duty-free under the CBERA totaled over $1 billion in 1990 (table 2-4), an increase of 76.6 percent from $577.7 million in 1984, the 1st year of the program.[32] The share of CBERA duty-free imports in total U.S. imports from the designated countries more than doubled from 6.7 percent in 1984,[33] to 13.6 percent in 1990.

Table 2-5 shows the leading U.S. duty-free CBERA imports in 1987-90, the value of these imports, the percentage of these imports to total imports of the products from the CBERA countries,[34] and each product's principal CBERA source in 1990. As noted above, some of the products shown in table 2-5 also were eligible for duty-free entry into the United States under GSP provisions. Products that gained their duty-free access almost exclusively under the CBERA[35] were beef, sugar, cigars, orange juice, tobacco, and iron and steel bars.

As in recent years, in 1990 beef (HTS subheadings 0202.30.60 and 0201.30.60 together) was the leading product the United States imported under CBERA duty-free provisions. Combined U.S. imports under the CBERA amounted to $129.8 million ($118.5 million in 1989) or 12.7 percent of all 1990 imports under the CBERA. Imports of raw cane sugar (HTS 1701.11.00)[36] under the CBERA totaled $115.5 million in 1990 ($106.4 in 1989) or 11.3 percent of overall CBERA imports. Imports of medical-surgical-dental instruments and appliances (HTS item 9018.90.80) under the CBERA more than doubled from $27.1 million in 1989 to $55.2 million in 1990, making this item the third-ranking CBERA import during the year under review. Cigars, pineapples, baseballs and softballs, jewelry of precious and semiprecious stones, electrical apparatus for switching, and ethyl alcohol (ethanol) also ranked among the leading CBERA duty-free imports in 1990.

Product Eligibility Under the CBERA

Figure 2-3 and appendix table B-3 show U.S. imports of certain categories of goods not eligible for duty-free entry under the CBERA. Neither of the two largest product groups from Caribbean countries is eligible: textiles and apparel and petroleum and petroleum-related products. Textiles and apparel imports remained the leading U.S. import category from CBERA countries in 1990, totaling $2.0 billion, while imports of petroleum products totaled $1.3 billion.

Among these two large categories of noneligible imports, textiles and apparel carry the higher duties. Therefore, their exclusion limits the trade benefits from CBERA duty-free treatment more than the exclusion of petroleum and petroleum products. Nonetheless, Caribbean textiles and apparel exports have expanded steadily and rapidly in the CBERA years. In 1990, almost 6 percent of overall U.S. textile and apparel imports originated in CBERA countries. In 1986, the comparable figure was only 3 percent.

The growing U.S. demand for Caribbean textile and apparel products is a result of several different factors. These factors include the closeness of the CBERA countries to the U.S. mainland, the lower production costs of Caribbean producers relative to some producers in Asia, and quotas on Asian textile products.[37] In addition, while textiles and apparel are not CBERA-eligible products, they do benefit from bilateral agreements (GALs) guaranteeing their access to the U.S. market.[38]

The $2.0 billion value of U.S. textile and apparel imports from CBERA nations in 1990 were nearly two-and-one-half times the value of comparable imports in 1986, and up 14.4 percent from 1989. Dutiable imports entering the United States under HTS subheadings 9802.00.60 and 9802.00.80 totaled $520 million in 1990, with GAL imports (HTS 9802.00.8010) accounting for 21.6 percent of this amount, or $112.7 million.

U.S. imports of other goods not eligible for duty-free entry under CBERA are shown in appendix table B-3. CBERA countries are comparatively important suppliers of the U.S. market of leather products such as wearing apparel and work gloves.[39] They were responsible for almost 6 percent of all U.S. imports of such products in 1990. Even though ineligible for duty-free entry in 1990, U.S. imports of Caribbean leather wearing apparel have increased spectacularly from $1.8 million in 1986 to $15.2 million in 1990. Meanwhile, U.S. imports of

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[32] USITC, *Third CBERA Report, 1987*, table 1-7, p. 1-8.

[33] Ibid.

[34] The value of total imports for some of these products are listed in table 2-3.

[35] For the purposes of this chapter, these products, many of which were also eligible for duty-free entry under the GSP program, are defined as having more than 95 percent of the overall U.S. imports of the item from CBERA-country origin. An alternative definition is used in ch. 3, although the product list is largely identical.

[36] HTS item 1701.11.00 became obsolete effective Oct. 1, 1990, when it was replaced by items 1701.11.01, 1701.11.02, and 1701.11.03. In this report, 1990 data on all three of these items are included under item 1701.11.00. For further information, see the discussion of sugar in ch. 3 of this report.

[37] The 1986 Multifiber Arrangement (MFA) limited the growth of textile quotas for the then-dominant Asian suppliers, Taiwan, Korea, and Hong Kong. This limited quota growth raised the prices of these products, forcing Asian producers to shift production of basic goods to lower cost nations in the Caribbean and elsewhere. For further information, see USITC, *Operation of the Trade Agreements Program*, 42d Report, 1990, USITC publication 2403, July 1991, p. 83.

[38] For more information on the GAL program, see the discussion of HTS subheading 9802.00.8010 in ch. 1 of this report.

[39] The 1990 CBERA provides for a 20-percent duty reduction for handbags, luggage, flat goods, work gloves, and leather wearing apparel, to be implemented in five equal annual stages beginning in January 1992. For further discussion of this new provision, see the discussion of the 1990 CBERA in ch. 1 of this report.

Table 2-5
Leading U.S. imports for consumption from CBERA countries, by descending customs value of duty-free CBERA imports, 1987-90

HTS item	Description	1987 CBERA duty-free imports	1987 CBERA imports as a percent of total imports	1988 CBERA duty-free imports	1988 CBERA imports as a percent of total imports	1989 CBERA duty-free imports	1989 CBERA imports as a percent of total imports	1990 CBERA duty-free imports	1990 CBERA imports as a percent of total imports	Leading Source[1]
		1,000 dollars		1,000 dollars		1,000 dollars		1,000 dollars		
1701.11.00	Cane sugar, raw, not containing added flavoring or coloring[2]	73,785	72.7	93,137	69.7	106,446	61.7	117,377	51.1	Dominican Republic
0202.30.60	Frozen boneless beef, except processed	102,861	92.4	109,989	92.6	70,804	96.8	84,320	98.8	Costa Rica
9018.90.80	Instruments and appliances, medical, surgical dental and other	288	19.3	8,660	50.6	27,054	42.7	55,164	64.6	Dominican Republic
0201.30.60	Fresh or chilled boneless beef, except processed	11,429	92.4	12,218	92.6	47,685	96.2	45,525	99.7	Costa Rica
2402.10.80	Cigars, cheroots and cigarillos containing tobacco valued over $.23	23,049	65.9	22,121	62.5	25,613	78.8	35,459	96.2	Dominican Republic
0804.30.40	Pineapples, fresh or dried, not reduced in size, in crates	15,692	68.3	29,438	98.3	32,000	87.5	34,195	84.5	Costa Rica
9506.69.20	Baseballs and softballs	21,189	56.6	26,293	69.2	28,833	77.8	33,607	77.7	Haiti
7113.19.50	Articles of jewelry and parts of precious metal, nesi	1,933	16.9	1,226	9.5	16,106	38.1	27,099	49.9	Dominican Republic
6406.10.65	Footwear uppers, other than formed, of leather .	8,695	15.4	12,320	19.3	11,877	16.6	25,148	21.6	Dominican Republic
0807.10.20	Cantaloupes, fresh, if entered at any other time	6,232	75.6	8,517	76.1	12,167	64.3	22,466	95.0	Costa Rica
8536.90.00	Electrical apparatus nesi, for switching/ making connections	2,745	47.9	3,406	52.4	21,326	55.1	21,802	60.8	Haiti
2009.11.00	Frozen orange juice, concentrated	7,112	96.8	6,202	99.5	9,627	98.3	20,412	100.0	Belize
0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh, chilled	7,285	44.1	7,785	34.0	11,054	45.7	16,828	50.1	Costa Rica
2207.10.60	Undenatured ethyl alcohol	27,468	95.5	10,641	62.2	21,093	100.0	14,534	84.6	Jamaica
2208.40.00	Rum and tafia	4,772	77.8	4,065	64.7	7,770	79.9	13,669	89.6	Jamaica
2401.20.80	Tobacco, partly or wholly stemmed	3,338	86.1	2,590	76.1	9,617	99.7	13,272	99.9	Guatemala
8538.90.00	Parts nesi, suitable for use solely or principally with apparatus of heading 8535, 8536, 8537	4,076	65.2	4,737	60.9	11,850	62.1	12,457	71.4	Dominican Republic
0201.30.40	Fresh or chilled boneless beef, except high-quality	0	0.0	0	0.0	1,217	100.0	12,110	100.0	Guatemala
7213.31.30	Bars and rods, hot-rolled, of iron or non-alloy steel	1,914	47.5	1,094	100.0	5,322	60.7	10,211	100.0	Trinindad and Tobago
0807.10.70	Melons, fresh	11,055	85.2	8,406	80.2	7,182	72.0	9,599	92.1	Costa Rica
	Total of above items	335,418	5.6	372,845	6.2	484,643	7.3	625,255	8.3	
	Total, all items entering under CBERA	768,467	12.7	790,941	13.0	905,762	13.6	1,020,686	13.6	

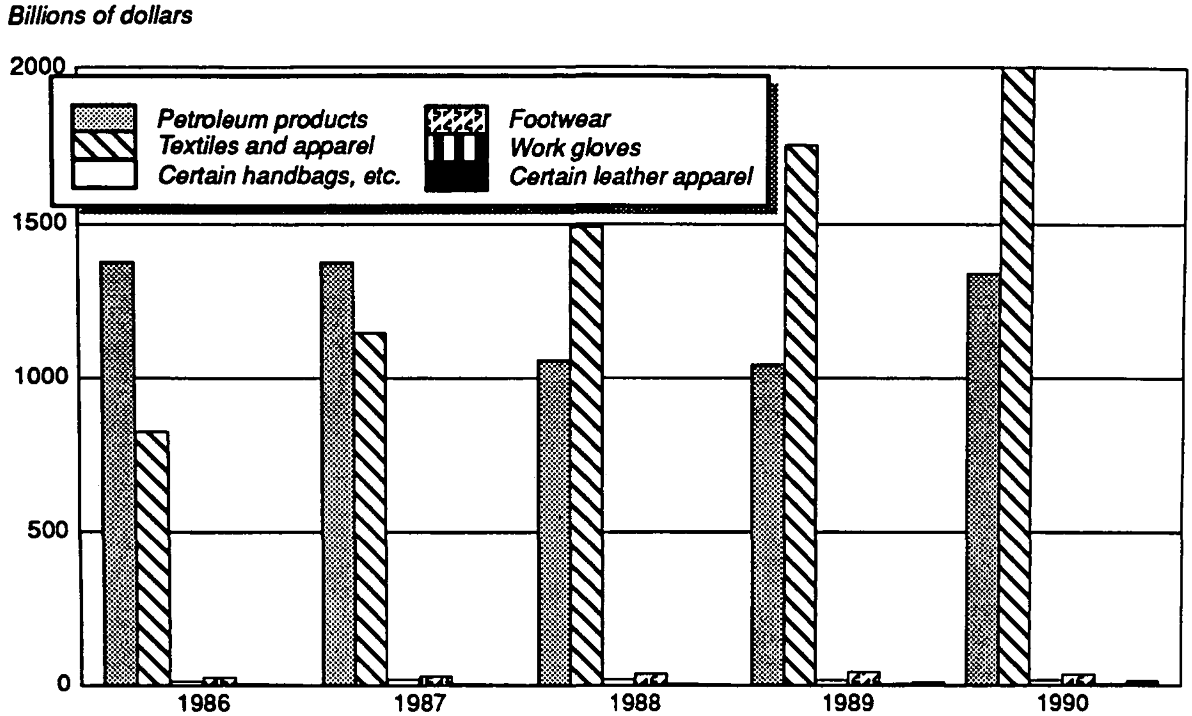
Table 2-5—*Continued*
Leading U.S. imports for consumption entered under CBERA provisions, by descending customs value of duty-free imports, 1986-89

[1] Indicates leading CBERA source based on total U.S. imports for consumption.
[2] HTS item 1701.11.00 became obsolete effective Oct. 1, 1990, when it was replaced by items 1701.11.01, 1701.11.02, and 1701.11.03. In this report, 1990 data on all three of these items are included under item 1701.11.00.

Note.—Figures for 1987-88 are estimated under the HTS classification system.
Note.—Because of rounding, figures may not add to totals given.

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

Figure 2-3
U.S. imports for consumption from CBERA countries of goods not eligible for duty-free treatment under CBERA, 1986-90



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

Caribbean work gloves totaled $4.4 million in 1990, which was less than the $5.5 million level of imports in 1989.[40] U.S. imports of footwear from CBERA countries declined from $45.2 million in 1989 to $35.8 million in 1990. Imports of handbags, luggage, and flat goods edged up from $16.7 million in 1989 to $18.3 million in 1990, but remained lower than the $20.4 million level attained in 1988.

Imports of goods not excluded conditionally[41] or unconditionally from CBERA benefits by statute totaled $4.3 billion in 1990, or 57.3 percent of all U.S. imports from designated countries.[42] However, this broad scope of nonexcluded products may be a deceptive indicator of the additional preferential access to the U.S. market afforded by the CBERA because many of the nonexcluded products are also eligible for duty-free entry into the United States under other provisions.

Of the nonexcluded Caribbean goods the United States imported in 1990, over $1.9 billion worth was already free of duty under MFN (table 2-4). Thus, the MFN-eligible products with a column 1 general duty rate of zero gained no new advantages under the CBERA. Discounting these MFN-eligible products, only $2.1 billion of U.S. imports from CBERA countries might otherwise have been subject to duties if entered at MFN rates (table 2-6). However, some of these products also were eligible for duty-free entry under the GSP program.[43]

The CBERA utilization ratio is calculated as the percentage of total products eligible for duty-free entry under the CBERA that are actually imported under the CBERA. Although the goods actually imported under

[40] Some two-thirds of the work gloves from CBERA countries consisted of fabric work gloves, covered by textile agreements.

[41] Sugar, for example, is not excluded, and is thus CBERA-eligible. However, its eligibility is conditional since its imports are also subject to U.S. quotas.

[42] Calculated as the difference between 1990 imports from designated beneficiaries and the 1990 imports of CBERA ineligible products in app. table B-3.

[43] Products also eligible for duty-free entry under GSP provisions are discounted in the section "Products Most Affected by the CBERA" in ch. 3 of this report.

Table 2-6
U.S. imports for consumption from the CBERA countries: Eligibility and utilization of the GSP and CBERA programs, 1986-90

(In thousands of dollars or percent)

Item	*1986*	*1987*	*1988*	*1989*	*1990*
Eligible duty-free under CBERA[1]	1,491,289	1,427,192	1,559,577	1,945,165	2,136,701
Duty-free under CBERA[2]	670,711	768,467	790,941	905,762	1,020,686
CBERA utilization ratio[3]	44.97	53.84	50.68	46.56	47.86
Eligible duty-free under GSP[4]	998,604	962,905	1,061,115	1,547,285	1,660,467
Duty-free under GSP[2]	476,151	300,531	353,079	415,859	472,303
GSP utilization ratio[5]	47.68	31.22	33.27	26.88	28.44

[1] Excludes all HTS items that are already duty-free under MFN and that at a 10-digit level are either conditionally or unconditionally exempt from the program. Items also eligible for GSP duty-free entry are, however, included.
[2] Imports reported as entering duty-free under the CBERA and GSP programs were reduced by the value of misreported items that were already duty-free under MFN or that were ineligible for duty-free treatment under the programs.
[3] CBERA utilization ratio = (Actual entries/eligible entries under the CBERA) * 100.
[4] Figures for 1986-1988 are based on 1990 product eligibility. This figure includes products that also may be eligible for CBERA duty-free entry.
[5] GSP utilization ratio = (Actual entries/eligible entries under the GSP) * 100.

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

the CBERA include products also eligible for duty-free entry under GSP, the ratio provides an estimate of the extent to which the CBERA is used.

The CBERA utilization ratio rose from 33.5 percent in 1984[44] to a peak of 53.8 percent in 1987, declining to 50.7 percent in 1988 and 46.6 percent in 1989.[45] The ratio increased to 47.9 percent in 1990 (table 2-6).

Import Profiles of Leading CBERA Countries

Table 2-7 ranks the CBERA-eligible countries by the value of their shipments to the United States under CBERA provisions in 1990. The table also shows the shifts in position as CBERA countries over time. Appendix table B-4 lists the leading items the United States imported under the CBERA from each of the beneficiaries in 1990.

The Dominican Republic, Costa Rica, and Guatemala continued to lead the countries taking advantage of the CBERA. U.S. imports under CBERA provisions increased from each of these sources in 1990. As in 1989, these three countries collectively were responsible for more than two-thirds of overall U.S. imports under the CBERA (table 2-7).

From the beginning of the program, the Dominican Republic has been the leading source of CBERA imports. In 1990 it was the leading Caribbean source of U.S. imports of raw cane sugar, medical instruments, certain jewelry items, and cigars. Costa Rica, the second largest source of CBERA imports in all years except 1984,[46] led as a source of beef, pineapples, electrical resistors, and fish. Guatemala remained the leading Caribbean source of partly or wholly stemmed tobacco in 1990 (table 2-5 and appendix table B-4).

U.S. imports from Honduras under the CBERA were also up in 1990, enabling Honduras to replace Haiti as the fourth largest source of imports under the CBERA. While not a leading source of any particular CBERA import item in 1990, Honduras continued to ship significant volumes of beef, cigars, cantaloupes, and baseballs and softballs to the U.S. market. Haiti was the fifth leading source of imports under the CBERA in 1990. Although overall U.S. imports from Haiti declined as Haitian shipments to the U.S. market continued to fall,[47] Haiti remained the leading CBERA source of electrical switching apparatus and baseballs and softballs for the United States (appendix table B-4).

U.S. imports from Jamaica under the CBERA increased in 1990 for the second year in a row. As in 1989, Jamaica was again the sixth-leading source of CBERA imports and the leading Caribbean source of both rum and ethyl alcohol (ethanol). Although U.S. imports of ethyl alcohol declined in 1990, overall imports from Jamaica were boosted by larger shipments than in 1989 of raw cane sugar, rum, cordials and liqueurs, and cigars (appendix table B-4).

Some smaller CBERA countries were also leading sources of particular U.S. imports under the CBERA in 1990. For example, Belize was the principal CBERA supplier of frozen orange juice,[48] and Trinidad and Tobago of iron and steel bars and rods (table 2-5).

[44] USITC, *Fourth CBERA Report, 1988*, table 1-7, p. 1-10.
[45] USITC, *Fifth CBERA Report, 1989*, table 2-6, p. 2-15.
[46] USITC, *Third CBERA Report, 1987*, table 2-7, p. 2-25.
[47] For a more detailed discussion of Haitian exports to the United States, see the discussion of Haiti in ch. 4 of this report.
[48] For additional information, see the discussion of orange juice in ch. 3 of this report.

Table 2-7
U.S. imports for consumption under CBERA provisions, by designated country, 1986-90
(In thousands of dollars)

Rank	Country	1986	1987	1988	1989	1990
1	Dominican Republic	189,708	178,938	242,549	299,173	311,074
2	Costa Rica	112,710	129,577	141,076	190,756	218,380
3	Guatemala	54,143	57,621	77,256	112,627	154,205
4	Honduras	53,765	53,150	56,181	52,647	67,891
5	Haiti	60,463	77,906	83,309	67,548	63,792
6	Jamaica	51,017	58,293	42,022	51,542	60,689
7	Trinidad and Tobago	26,485	26,044	41,938	32,368	38,274
8	El Salvador	12,712	22,135	22,177	27,606	28,313
9	Belize	19,200	11,579	18,845	14,028	18,566
10	Barbados	10,223	20,223	19,125	14,850	15,198
11	Panama[1]	13,775	18,539	9,717	([2])	12,343
12	St. Kitts and Nevis	6,192	9,592	9,417	14,033	10,136
13	Bahamas	53,087	95,488	10,692	9,085	8,578
14	Netherlands Antilles[3]	1,874	1,199	2,603	2,529	4,518
15	St. Lucia	2,183	2,568	3,007	2,971	3,552
16	Grenada	39	31	118	2,200	2,808
17	St. Vincent and Grenadines	2,089	4,583	9,990	5,642	1,516
18	Dominica	494	626	358	844	1,329
19	Antigua	533	333	255	2,309	675
20	Guyana[4]	([2])	([2])	131	2,769	521
21	Nicaragua[5]	([2])	([2])	([2])	([2])	174
22	British Virgin Islands	18	28	56	138	157
23	Aruba[3]	0	14	0	0	4
24	Montserrat	3	0	118	96	0
	Total	670,711	768,467	790,941	905,762	1,020,686

[1] Panama lost its beneficiary status effective Apr. 8, 1988 and was reinstated effective March 17, 1990.

[2] Not applicable.

[3] Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated separately as a beneficiary effective retroactively to Jan. 1, 1986. Trade data for Aruba, however, was not reported separately until June 1986. The 1986 figure for Aruba represents trade for June-December only.

[4] Guyana was designated as a beneficiary effective Nov. 24, 1988.

[5] Nicaragua was designated as a beneficiary effective Nov. 8, 1990.

Note.—Figures may not add to the totals given due to rounding.

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

Other notable 1990 developments concerning other beneficiaries included much larger overall imports from Dominica and Grenada. Products from Dominica included grapefruit juice and ginseng. From Grenada, higher U.S. imports of cosmetic and electrical articles more than offset the decline in imports of pumps for liquids (appendix table B-4).

On the other hand, imports from St. Vincent and Grenadines of lawn-tennis rackets, the chief CBERA export, dropped precipitously in 1990, possibly because of a closed U.S. sporting goods plant in St. Vincent.[49] Overall imports from the Bahamas also declined despite a significant increase in sales of papayas, up from zero CBERA imports in 1988 to $1.2 million in 1990 (appendix table B-4).

[49] *Caribbean Update*, August 1990, p. 17. See also the discussion of the Eastern Caribbean in ch. 4 of this report.

CHAPTER 3
IMPACT OF THE CBERA IN 1990

Since it began in 1984, the CBERA has had almost no economic effects on industries, consumers, or the overall economy of the United States.[1] In each year between 1984 and 1990, the value of CBERA duty-free U.S. imports from CBERA countries was equal to about 0.02 percent of U.S. GNP. The total value of imports from CBERA-beneficiary countries remained small—averaging 1.5 percent of total U.S. imports since 1987.

This chapter presents estimates of the net-welfare effects of the CBERA on the U.S. economy in 1990. The first section describes the imported products that benefited most from the CBERA in 1990. The second section discusses how the analytical approach used here measures the net-welfare effects of CBERA in 1990. The third section discusses quantitative estimates of CBERA impact in terms of net welfare and domestic output, leading to the conclusion that the economic impact of CBERA imports on the U.S. economy was minimal again in 1990.

Products Most Affected by the CBERA

Since the program's inception, U.S. imports that benefited from CBERA elimination of duties have accounted for a very small portion of total U.S. imports from CBERA countries. This report defines these imports as products that are not excluded by the CBERA,[2] or that would not otherwise have entered the United States free of duty either at most-favored-nation (MFN) rates or under GSP.[3] This definition includes imports that either exceeded the GSP competitive-need limits or that had never been eligible for GSP treatment, but that nevertheless were eligible for duty-free entry under the CBERA.

Between 1989 and 1990, the value of imports that benefited from the CBERA, or that would not have received duty-free entry without the CBERA, increased by 27 percent from $331 million to $422 million (table 3-1).

[1] For discussions of the Commission's findings on economic effects of CBERA on the United States between 1984 and 1989, see USITC, *First CBERA Report, 1984-1985*, p. 2-6, *Second CBERA Report, 1986*, pp. 16-17, *Third CBERA Report, 1987*, p. 2-6, Fourth CBERA Report, *1988*, pp. 2-5 to 2-6, and *Fifth CBERA Report, 1989*, pp. 3-4 to 3-5.

[2] For more detailed information on items excluded from duty-free entry under the CBERA, see the discussions of the 1984 and the 1990 CBERA in ch. 1 of this report.

[3] For discussions of MFN and GSP duty-free entry, see the section "Other U.S. Special Duty Programs" in ch. 1 of this report.

Imports that benefited from the CBERA were equal to 5.6 percent of total U.S. imports from CBERA countries in 1990, a slight increase from 5.0 percent of total imports in 1989.

Since 1984, there has been little change in the product mix of CBERA imports (table 2-5). As in previous years, some leading items imported under the CBERA free of duty in 1990 were also eligible for GSP duty-free treatment (for example, medical instruments, baseballs and softballs, cantaloupes, and jewelry). These products did not exceed the GSP competitive-need limits and thus could have received duty-free entry (under GSP) even if CBERA duty-free eligibility had been eliminated. For the reasons stated above, these GSP-eligible products were not considered to contribute to the effects of the CBERA. Two GSP eligible products exceeded the competitive-need limits and thus are included in this report's analysis. These products are cigars, cheroots, and cigarillos (HTS subheading 2402.10.80) from the Dominican Republic, which lost GSP eligibility on July 1, 1989, and raw cane sugar (HTS subheading 1701.11.00)[4] from the Dominican Republic, which lost GSP eligibility on July 1, 1990.

Products that were identified in previous annual CBERA reports as benefiting the most from the CBERA between 1984 and 1989 continued to rank among those that benefited most from CBERA duty-free entry in 1990.[5] Beef, pineapples, frozen concentrated orange juice, and rum have consistently ranked among the leading items benefiting from the CBERA since 1984. Raw cane sugar from the Dominican Republic also ranks as one of the products that has consistently benefited from the CBERA during the past 7 years, with the exception of 1989, a year when it also was eligible for GSP duty-free entry.[6]

[4] HTS item 1701.11.00 became obsolete effective Oct. 1, 1990, when it was replaced by items 1701.11.01, 1701.11.02, and 1701.11.03. In this report, 1990 data on all three of these items are included under item 1701.11.00. See the discussion of sugar below for additional information.

[5] The first CBERA report analyzed the effects of the one-time duty change in 1984 and identified those products most affected by the CBERA. The products that were identified as most likely to benefit from the duty elimination in 1984 were selected from a 1983 list stating the leading U.S. dutiable imports from CBERA beneficiary countries. In addition, import data from years prior to 1983 and actual leading CBERA duty-free imports from 1984 and 1985 were examined to construct the list of most affected products. For further discussion, see USITC, *First CBERA Report, 1984-1985*, pp. 2-2 to 2-4, *Second CBERA Report, 1986*, pp. 13-15, *Third CBERA Report, 1987*, pp. 2-2 to 2-3, *Fourth CBERA Report, 1988*, p. 2-3, and *Fifth CBERA Report, 1989*, pp. 3-2 to 3-3.

[6] Because sugar from the Dominican Republic is subject to export quotas, the elimination of tariffs on Dominican Republic sugar will not affect its price to U.S. consumers. The effect of the CBERA-tariff elimination on sugar is composed solely of a redistribution of tariff revenue from the U.S. Treasury to the quota rents of Dominican Republic sugar exporters. There is no benefit to U.S. consumers nor is there any displacement of U.S. producers' domestic shipments with the elimination of the tariff on sugar.

Table 3-1
Customs value of products that benefited from CBERA duty elimination, 1988-90

Item	*1988*	*1989*	*1990*
Items benefiting from CBERA[1]:			
Value (million dollars)	297	331	422
Percent of total	4.9	5.0	5.6
Items entered under CBERA[2]:			
Value (million dollars)	791	906	1,021
Percent of total	13.1	13.6	13.6
Total CBERA country imports:			
Value (million dollars)	6,061	6,637	7,525

[1] CBERA duty-free imports less MFN duty-free imports and less GSP duty-free imports (except imports that exceeded GSP competitive-need-limits and were eligible for duty-free entry under the CBERA).
[2] CBERA duty-free imports less MFN duty-free imports.

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

Ethyl alcohol ranked as one of the leading items benefiting from the CBERA in each of the past 6 years. Table 3-2 presents the leading 30 eligible items, on an 8-digit HTS basis, imported under the CBERA that were not GSP-eligible (except those that exceeded the competitive-need limits) or MFN free of duty.

Products That Benefited Most from the CBERA in 1990

Recent industry highlights of the seven leading eligible items that benefited from the CBERA in 1990 and that were not unconditionally free of duty or that were not GSP-eligible goods—beef and veal, pineapples, frozen concentrated orange juice, rum, ethyl alcohol, cigars, and sugar—follow.

Beef and Veal

U.S. imports of beef and veal (HTS subheadings 0201.30.20, 0201.30.40, 0201.30.60, 0202.30.20, 0202.30.40, and 0202.30.60) from CBERA countries increased by 17 percent, from $142 million in 1989 to $166 million in 1990. The quantity of imports increased by 12 percent, from 121 million pounds to 135 million pounds during the same period.[7] A 51-million-pound decline in U.S. imports of beef and veal from New Zealand[8] may have given CBERA countries a chance to increase exports to the United States. In 1990, New Zealand reduced its shipments to the United States because of herd rebuilding after a period of drought in which the herd was reduced.[9] In addition, beef and veal production in the United States declined by 368 million pounds from 1989 to 1990[10] and wholesale beef prices in the United States rose by about 7 percent.[11]

U.S. imports from Guatemala increased from $33 million in 1989 to $48 million in 1990 (from 34.0 million pounds to 41.4 million pounds). Guatemalan beef and veal consumption declined in 1990 from year earlier levels as low- and middle-income consumers opted for lower priced poultry meat.[12] The decline in consumption may have made additional quantities of beef available for export. Also, an estimated 100,000 cattle were imported into Guatemala in 1989[13]. These animals may have been raised to slaughter weights in Guatemala and may have increased the beef supply in that country in 1990.

U.S. imports from Honduras increased from $21 million to $26 million (from 17.9 million pounds to 23.1 million pounds). Beginning in March of 1990, Honduran regulations were changed to allow beef-exporting plants to pay higher prices for cattle.[14] Also, during the last quarter of 1990 a new packing plant was approved to export beef to the United States.[15] Probably as a consequence, export-oriented plants increased their cattle purchases, beef production, and exports. Changes in U.S. imports from the other CBERA countries supplying boneless beef and veal were not significant.

[6]*—Continued*
In terms of the conditional CBERA eligibility of sugar which is discussed in the earlier section entitled "Product eligibility under the CBERA," the duty-free entry itself under CBERA does not affect the quota allocations for sugar. The allocation of quotas is discussed below in further detail in the section entitled "Products That Benefited the Most from the CBERA in 1990."

[7] Compiled from official statistics of the U.S. Department of Commerce.

[8] Facsimile transmission from USDA Foreign Agricultural Service (FAS) June 25, 1991.

[9] USDA Economic Research Service *Livestock and Poultry Situation and Outlook Report* (LPS-47) May 1991, p. 25.

[10] Ibid., table 49, p. 33.

[11] Ibid., table 47, p. 32.

[12] USDA FAS, *Agricultural Situation Annual—Guatemala,* (GT1004) Mar. 1, 1991, p. 12.

[13] USDA FAS *Guatemala—Livestock Annual Report* (GT0027), Aug. 1, 1990, p. 4.

[14] USDA FAS Report No. HO020/CODE No. 9005Q3, July 1990.

[15] USDA FAS *Honduras—Meat Import Quarterly (Amended)* (AGR Number HO1003) Feb. 4, 1991.

Table 3-2
C.i.f. value of leading imports that benefited from CBERA duty-free entry in 1990
(In thousand dollars)

HTS item no.	*Description*	*CBERA-beneficiary imports*
0202.30.60	Frozen boneless beef, except processed	90,312
0201.30.60	Fresh or chilled boneless beef, except processed	48,780
0804.30.40	Pineapples, in crates or other packages	39,501
1701.11.01[1]	Raw cane sugar	24,759
2402.10.80[2]	Cigars, cheroots and cigarillos valued ≥ 23¢	24,239
2009.11.00	Frozen orange juice, concentrated	21,516
2207.10.60	Undenatured ethyl alcohol	15,095
2208.40.00	Rum and tafia	14,343
2401.20.80	Tobacco, partly or wholly stemmed	13,802
0201.30.40	Fresh or chilled boneless beef, except high-quality	12,954
0710.80.95	Frozen vegetables, n.e.s.i., reduced in size	12,123
7213.31.30	Irregularly wound coils of hot-rolled rod	11,217
8532.24.00	Ceramic dielectric fixed capacitors	8,572
8533.21.00	Electrical fixed resistors	8,455
8533.40.00	Electrical variable resistors	8,401
7214.40.00	Hot-rolled bars and rods containing < .25% carbon	6,888
0202.30.20	Frozen, boneless, processed, high-quality beef	6,290
2401.10.60	Cigarette leaf, not stemmed	5,839
0202.30.40	Frozen, boneless, processed beef, except high-quality	5,493
0802.90.90	Nuts, n.e.s.i.,	4,597
2009.20.40	Grapefruit juice	4,375
0804.30.20	Pineapples, bulk	3,730
0603.10.60	Roses, fresh cut	3,530
2402.10.60	Cigars, cheroots and cigarillos valued > 15¢ and < 23¢	3,067
2207.20.00	Ethyl alcohol and other spirits, denatured	2,904
8532.21.00	Tantalum electrolytic fixed capacitors	2,894
2009.40.40	Pineapple juice, concentrated	2,866
9507.90.70	Artificial baits and flies	2,502
0201.30.20	Fresh or chilled, boneless, processed, high-quality beef	2,363
7214.20.00	Concrete reinforcing bars	2,271

[1] Raw cane sugar that benefited from CBERA duty-free treatment is from the Dominican Republic, which lost its GSP eligibility in July 1990. Prior to Oct. 1, 1990, imports of raw cane sugar were reported under HTS subheading 1701.11.00.

[2] Cigars that benefited from CBERA duty-free treatment are from the Dominican Republic, which lost its GSP eligibility in July 1989.

Source: U.S. Department of Commerce.

The 14.4-million-pound increase in U.S. imports of beef and veal from CBERA countries during 1990 was equivalent to 0.06 percent of U.S. consumption (23.4 billion pounds) during the year.[16] However, the change in imports from CBERA countries is thought to have had little overall effect on the U.S. beef and veal sector or on U.S. consumers.

Pineapples

U.S. imports of pineapples (HTS subheadings 0804.30.20 and 0804.30.40) from CBERA countries increased 10.4 percent in quantity and 4.3 percent in value from 1989 to 1990.[17] Total CBERA pineapple imports rose from 80,221 metric tons (mt) in 1989 to 88,535 mt in 1990, valued at $41 million and $43 million, respectively.[18]

[16] LPS-47, table 49.
[17] Compiled from official statistics of the U.S. Department of Commerce.
[18] Ibid.

The greatest part of the increase in U.S. imports came from the Dominican Republic, which has been steadily increasing exports to the United States during the past several years. Imports from the Dominican Republic totaled 24,130 mt valued at $7.6 million in 1989, rising to 34,068 mt valued at $10.6 million in 1990. According to analysts at the U.S. Department of Agriculture, this increase appears to be the result of a gearing up of Dominican production that began in 1985. Overall, the CBERA countries' import market share remained stable at 81.9 percent of total U.S. imports in 1990. The share of the CBERA countries of the U.S. domestic market increased by about 3 percent to 33 percent.[19]

U.S. domestic production of fresh pineapples in 1989 and 1990 remained steady at approximately 66,000 mt, although processed domestic production

[19] Compiled from official statistics of the U.S. Department of Commerce.

declined slightly from 197,000 mt to 195,000 mt. Hawaii is the single source of U.S. domestic production. Factors other than increased imports from CBERA countries appear to be contributing to the slight decline in Hawaiian pineapple production. These factors include (1) a greater development in Hawaii, with a consequent a reduced area planted in pineapple, and (2) a lack of available labor. Data are not available on the effects of increased exports to the United States on the pineapple industries of CBERA countries.

The duties on imports of pineapple from Mexico in bulk differ from duties on imports in crates and packages (HTS items 0804.30.20 and 0804.30.40 at \$0.64/kilogram and \$1.31/kilogram, respectively). This discrepancy suggests that tariffs might play a role in determining the means of pineapple transport. The CBERA countries, which do not pay tariffs, ship the majority of their product in crates and packages. Mexico, however, sends the most of its pineapple exports in bulk—97 percent in 1989 and 72 percent in 1990, which has a lower tariff rate. Mexico's bulk shipments might reflect the lower rate of duty or the availability of rail and truck transportation. Consequently, a United States-Mexico Free-Trade Agreement might result in Mexican exporters shipping more of their pineapples in crates and packages rather than in bulk.

Frozen Concentrated Orange Juice

U.S. imports of orange juice (HTS subheading 2009.11.00) from CBERA countries in 1990 were up 110 percent in value over those in 1989. Total CBERA imports increased from \$10.1 million in 1989 to \$21.5 million in 1990.[20] This was equivalent to about 2.5 percent of the value of U.S. production of frozen orange juice in 1990, which was approximately \$873 million.

High prices for orange juice in 1990 may have contributed to the increase in imports from CBERA countries both in quantity and even more in value. The price of frozen concentrated orange juice averaged 44 cents per liter in 1990 versus 37 cents per liter in 1989.[21] This change was due in large part to a December freeze in Florida in 1989 that reduced U.S. domestic supply.

The increased imports from CBERA countries are not expected to continue. Florida has now replaced orange trees killed or seriously damaged by the freeze. Prices have already fallen as low or to lower than historic averages because freeze-damaged trees have recovered faster than expected. Domestic supplies are greater than anticipated.

Increased competition in the frozen concentrated orange juice market is expected to keep prices low for the remainder of the decade. This competition will derive from both the projected increase in domestic supply and the projected increases in supplies from new plantings in Brazil and Mexico. The freezing weather in Florida and the resulting supply of the last decade allowed Brazil to establish a strong infrastructure for transporting, storing, and marketing frozen concentrated orange juice in the United States. Brazil is expected to mount an intense effort to maintain market share while Florida tries to regain lost market share.

CBERA imports were about 3 percent of total U.S. frozen concentrated orange juice imports in 1990. Brazil and Mexico supplied almost all of the remainder. Because of the relatively small percentage of total imports represented by CBERA countries, it is not expected that these imports will have a large impact on domestic producers or consumers, although these imports are important to CBERA exporters—especially Belize, for which orange juice comprised 56.9 percent of 1990 CBERA exports to the United States.

If a United States-Mexico Free-Trade Agreement is signed, any trade advantage for the CBERA countries resulting from duty-free entry under CBERA could be eliminated.[22] Under this scenario, the CBERA countries would be hard pressed to compete with Mexico, which has a larger concentrated frozen orange juice industry than any of the CBERA countries and which enjoys a considerable cost advantage in transport as compared to CBERA countries.[23]

Rum

U.S. imports of rum and tafia (HTS subheading 2208.40.00) from CBERA countries in 1990 increased 37 percent in value, from \$9.7 million in 1989 to \$15.3 million in 1990,[24] and by 26 percent in quantity, from 3.3 million proof liters to 4.6 million proof liters during the same period.[25] Rum imports from CBERA countries accounted for 90 percent of the value of total U.S. rum imports during 1990.

The increase in imports reflects a shift to higher value types of rum. Jamaica, the leading CBERA supplier and source of two-thirds of the value of U.S. rum imports, produces certain rum brands with established reputations that command higher prices. The average value of rum imported from Jamaica increased from \$3.80 per proof liter in 1989 to \$4.73 per proof liter in 1990. Shipments from the Dominican Republic increased likewise in average unit value, although Dominican rum has a much smaller share of total imports than does Jamaican. The rise in

[20] Compiled from official statistics of the U.S. Department of Commerce.

[21] Compiled from official statistics of the U.S. Department of Commerce.

[22] The duty rate per liter for frozen concentrated oranges juice has a high ad valorem equivalent—periodically as high as 50 percent when world prices are low. Data compiled from official statistics of the U.S. Department of Commerce.

[23] For further discussion of the implications of a United States-Mexico FTA on the CBERA countries, see the section "Impact of a United States-Mexico Free-Trade Agreement" in ch. 4 of this report.

[24] Data on rum and tafia are calculated in terms of U.S. customs value.

[25] USITC, *Annual Report Covering 1989 and 1990 on Selected Economic Indicators*, USITC publication No. 2298.

the value of rum from leading CBERA countries coincides with the trend in the alcoholic beverage industry of marketing success for premium-priced brands.

Imports of lower priced rum also increased. Imports from Barbados in 1990 increased by 30 percent in quantity. It rose from 1.6 million proof liters to 2.1 million proof liters but by only 6 percent in value.[26] Rum from Barbados goes chiefly into the bulk, unbranded market. It is much cheaper per proof liter than Jamaican rum.

An increase in the U.S. Federal excise tax beginning in January 1991 may have stimulated imports near the end of calendar year 1990, to be marketed before the tax increase.

The 1.3 million-proof-liter increase in U.S. imports of rum from CBERA countries amounted to 1.2 percent of U.S. consumption (106 million proof liters) in 1990. Some representatives of the U.S. rum industry have complained that duty-free imports of bulk rum from CBERA countries may affect sales by U.S. companies that specialize in the unbranded market segment. Other U.S. producers enjoy substantial brand recognition for their products and are not likely to be much affected by CBERA imports. Because the U.S. rum market is prominent, the increase in shipments attributable to duty-free treatment may have helped the economies of the CBERA countries.

Ethyl Alcohol

U.S. imports of ethyl alcohol and ethanol for nonbeverage uses[27] (HTS subheadings 2207.10.60 and 2207.20.00) from CBERA countries totaled $18.0 million in 1990. This figure represents a decline of 25 percent from imports valued at $24.0 million in 1989. In terms of volume, U.S. imports declined by 33 percent, from 94.1 million liters in 1989 to 63.0 million liters in 1990. A combination of conditions, including poor weather, increased production in the United States and higher demand elsewhere contributed to the decline in U.S. imports.

The two major CBERA suppliers in 1990 were Jamaica, which supplied 54.1 million liters valued at $15.1 million, and Costa Rica, which supplied 8.8 million liters valued at $2.9 million. Guatemala had supplied $2.2 million worth of nonbeverage alcohol in 1989, but it did not export any to the United States in 1990, primarily due to plant startup problems and poor weather. The Dominican Republic supplied no imports in 1989 and only about 22,000 liters, valued at $16,000, in 1990. However, these Dominican imports entered the United States duty-free entry under the GSP program. Imports of nonbeverage ethyl alcohol from CBERA countries made up 20 percent of total c.i.f. value of imports from all countries during the year. Brazil has become an alternate market for exports of fuel-grade ethyl alcohol from both the United States and the CBERA countries. An increase in Brazilian demand may partially explain lower CBERA ethyl alcohol exports to the United States.

Although duty-free entry is granted for most imports of ethyl alcohol from CBERA countries, Caribbean-origin content restrictions are imposed to prevent pass-through operations (largely using European wine alcohol).[28] The 1990 CBERA allowed a "base quantity" of 60 million gallons (227 million liters) of fuel-grade ethyl alcohol to be imported in 1990 from CBERA countries without any additional certification of alcohol content produced from local (CBERA-beneficiary) feedstocks.[29] Imports in 1990 did not exceed the base quantity. Amounts above the 60-million-gallon base quantity require an increased percentage of ethanol that is produced from local feedstocks, up to a local content of 75 percent. In addition to the cap on noncertified ethanol imports, additional duties of 15.85 cents per liter may apply to ethyl alcohol to be used for fuel.

Cigars, Cheroots, and Cigarillos

U.S. imports of cigars, cheroots, and cigarillos (HTS subheadings 2402.10.30, 2402.10.60, and 2402.10.80) from CBERA countries in 1990 increased by 38 percent in value, from $30 million in 1989 to $41 million in 1990, and by 37 percent in quantity, from 73.0 million cigars in 1989 to 100.2 million cigars in 1990. Some of the increase in U.S. may derive from the recent shift in production of certain premium-brand cigars from Cuba to the Dominican Republic, as cigar manufacturers tried to increase their U.S. market share. The U.S. market has been closed to Cuban cigars since 1962.

As a result of the availability of labor and local supplies of tobacco, CBERA countries are the leading suppliers of cigars to the United States, particularly hand-rolled cigars believed to be of high quality. Duty-free treatment under CBERA has probably helped the cigar industry in CBERA countries, where producing industries in free trade zones (FTZs) have been expanding in recent years. The FTZs enable manufacturers to economize on the imported wrapper tobacco used in premium cigars. The United States is the single largest world market for cigars. Western European countries are also important purchasers.

Imports resulting from duty-free entry under CBERA have probably not done much harm to the U.S. industry. Labor costs are a much more important factor than duty savings in the long-term decline in U.S. production of premium, hand-rolled cigars.

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[26] Ibid.

[27] These imports are made up almost wholly of imports intended to become fuel.

[28] LA/C Center, *1991 Guidebook*, p. 60.

[29] See the discussion of the 1990 CBERA in ch. 1 of this report.

Raw Sugar

U.S. imports of raw cane sugar (HTS subheadings 1701.11.00, 1701.11.01, 1701.11.02, and 1701.11.03[30]) from CBERA countries are under a newly implemented tariff rate quota, for which the authority derives from additional U.S. note 3 in chapter 17 of the HTS.[31] The tariff rate quota allows a specified amount of sugar (that changes annually) to be imported into the United States at a duty levels of 0.625 cents per pound, with tariffs of 16 cents per pound on imports exceeding the specified yearly amount. The yearly amount is divided among the traditional quota-holding countries as based on precedents of historical shipments to the United States. Consequently, any increase in U.S. imports from CBERA countries is the result of: (1) an increase in the amount of sugar allowed entry at the low-duty rate; (2) countries with low-duty allotments utilizing a larger percentage of their allotment than in the previous year; or (3) countries exceeding their yearly allotted amount of low-duty sugar and paying the higher duty rate.

The 1989-90 U.S. sugar quota was 3.125 million short tons raw value (strv). Of this amount, 1.092 million strv, or 35 percent of the total quota, was allocated to CBERA countries. As of October 19, 1990, the CBERA countries had exported 1.033 million strv (95 percent of their 1990 quota) to the United States. Barbados, Guyana, Panama, and St. Kitts-Nevis all failed to meet their quota allocation. Barbados, Guyana, and St. Kitts-Nevis stated that their quota shortfall was temporary and would apply only to the 1989-1990 quota year. None of the four CBERA countries that failed to meet the quota in the period 1989-1990 had had significant shortfalls in previous quota periods. The fixed amount of low-duty sugar allocated for the quota year October 1, 1990-September 30, 1991 is significantly lower, set at 2.3 million strv, with CBERA countries allocated 807,000 strv, or 35 percent of the total.

U.S. imports from individual CBERA countries are established through the country-by-country allocations of the U.S. sugar quota. The Dominican Republic, with 17.6 percent of the quota, is the largest foreign supplier of sugar. Since 1986, imports from all countries have accounted for about 20 percent of total U.S. consumption, with CBERA countries accounting for about 7 percent of U.S. consumption.

Imports from the CBERA countries have almost no affect at all on U.S. consumers because the U.S. sugar program maintains a minimum processor price for raw cane sugar and a support price for beet sugar. These maintained prices support the U.S. industry when downward price changes caused by Caribbean imports might hurt the U.S. sugar industry. At the same time, the U.S sugar quota guarantees CBERA producers a high-priced market for certain amounts of their sugar.

Measuring the Net-Welfare Cost of CBERA in 1990

Analytical Approach

What follows is a brief description of the approach that was used to analyze the net-welfare effects of CBERA duty-free entry in 1990 on the U.S. economy, consumers, and industries that compete with CBERA imports. A more detailed explanation is found in the "Technical Notes" in appendix C. The net-welfare effect of CBERA duty elimination has three components: (1) the loss in tariff revenues to the U.S. Treasury and (2) loss of profits to U.S. competing industries minus (3) the gain to U.S. consumers that results from the lower priced CBERA imports.[32]

The effects of CBERA were analyzed by estimating the change in net welfare that should have occurred if the tariffs had been in place for beneficiary countries in 1990. In the presence of the duties, tariff revenues to the U.S. Treasury and profits for U.S. competing industries would have been larger. But consumers would also have paid higher prices for CBERA-designated imports. The model estimates these effects. The sum of these three effects allows measurement of the net-welfare costs of CBERA in 1990.

In this analysis, imports from CBERA-beneficiary countries, imports from non-CBERA countries, and competing domestic output are considered imperfect substitutes for each other.[33] Therefore, each of these three types of products has a separate market in which equilibrium prices are established. Moreover, CBERA countries export a substantial portion of their

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[30] HTS item 1701.11.00 (raw sugar) became obsolete effective Oct. 1, 1990. Following the implementation of the tariff-rate quota on Oct. 1, 1990, raw sugar was directed among 3 HTS subheadings: 1701.11.01, 1701.11.02, and 1701.11.03.

[31] The former import quota scheme had been found to be inconsistent with General Agreement on Tariffs and Trade (GATT) trading rules. Gregory Wright, "New U.S. Sugar Tariff Seen Unlikely to Affect Market," *Journal of Commerce*, Sept. 10, 1990 and Organization of American States, "U.S. to Adopt New Sugar System," *OAS/CECON Trade News*, October 1990, p. 6. The new sugar tariff rate quota was announced in Presidential Proclamation 6174, Sept. 13, 1990, *Weekly Compilation of Presidential Documents*, Sept. 14, 1990, p. 1367. The tariff-rate quota also applies to HTS items 1701.12.01, 1701.91.21, 1701.99.01, 1702.90.30, 1806.10.41, and 2106.90.11.

[32] See Donald J. Rousslang and John W. Suomela, *Calculating the Consumer and Net Welfare Costs of Import Relief*, USITC, Office of Economics, Staff Research Study No. 15, July 1985, p. 2. Rousslang and Suomela provide a detailed exposition of this topic.

[33] Imperfect suitability for substitution between imports and competing domestic output is a standard assumption from one of the two basic models that have traditionally been used to analyze the effects of tariff reductions. See R. E. Baldwin, "Trade and Employment Effects in the United States of Multilateral Tariff Reductions," *American Economic Review*, Papers and Proceedings, vol. 66 (1976), pp. 142-148, for further discussion.

production to the United States and have limited excess capacity to expand their production in the near term. Therefore, this analysis assumes that increases in U.S. demand cause the prices of CBERA imports to increase.[34]

Measurement of Net-Welfare Effects of the CBERA

The increased cost to consumers of eliminating duty-free treatment under CBERA should be reflected in the higher price U.S. consumers would pay for CBERA imports. It is measured by the loss in consumer surplus. Consumer surplus is defined as the "net benefit consumers receive from being able to purchase a good at prevailing market prices and is the difference between the maximum amount that consumers would have been willing to pay and what they actually pay for a good."[35] Similarly, the increased benefits to the domestic competing industry and its factors of production should be reflected in the increased demand that would result for the U.S. domestic product. The benefit to the domestic industry and its factors is measured by the increase in producer surplus. Producer surplus is defined as the "net benefit that producers get from being able to sell a good at the existing price." Producer price is the return to capital and entrepreneurship in excess of the alternative return that these factors might have earned in their next-best opportunities.[36]

In this analysis, the domestic supply curve was assumed to be horizontal. Because the effects of the CBERA on U.S. producers will be small in any case, assuming a horizontal supply curve provides the maximum, or upper-bound, estimates of U.S. production that might be displaced. In this case, when the domestic supply is horizontal, changes in producer surplus resulting from a shift in the demand curve are always equal to zero.[37] Consequently, there is no corresponding increase in domestic producer surplus resulting from the elimination of duty-free status. Therefore, we report only the value of domestic output displaced by CBERA imports.

[34] The price response of non-CBERA and CBERA imports to duty-free entry, as well as the price response of competing domestic products, is discussed in further detail in appendix C.

[35] Consumer surplus is measured by the area beneath the demand curve and above the equilibrium price. See Paul Wonnacott and Ronald Wonnacott, *Economics*, McGraw-Hill Book Co., New York, 1979 for further discussion on consumer surplus.

[36] Producer surplus is measured by the area above the supply curve and beneath the equilibrium price. See Wonnacott and Wonnacott, *Economics* for further discussion on producer surplus.

[37] Graphically, producer surplus is measured as the area above the supply curve and beneath the equilibrium price. When the supply curve is horizontal, it is equal to the equilibrium price at all points, and producer surplus is, therefore, equal to zero.

In addition, a benefit should be realized in the absence of CBERA duty-free treatment through the increase in tariff revenue to the U.S. Treasury.[38] Increased tariff revenues should be received from both CBERA and non-CBERA imports. The increase in non-CBERA import tariff revenue results from an increase in the demand for non-CBERA imports. This means that with an increase in the price of CBERA imports, the sales of competing non-CBERA imports would also increase.[39]

Quantitative results

In 1990, the value of U.S. imports from CBERA-beneficiary countries was $7.5 billion, which is only 1.5 percent of total U.S. imports. The imports that actually benefited from the CBERA are those that were not specifically excluded under the act or that could not have entered free of duty under GSP or MFN. These amounted to $422 million. This figure represents 5.6 percent of total imports from CBERA-beneficiary countries, or about 0.1 percent of total U.S. imports. Since total U.S. imports as a percentage of U.S. GNP is already small (9.1 percent in 1990), the effects of the CBERA on the U.S. economy overall were very slight.

This section presents dollar estimates of the net-welfare costs of duty-free entry of the leading 30 products that actually benefited from the CBERA in 1990. In addition, estimates are presented of the tariff revenue forgone, the consumer surplus generated, and the domestic shipments displaced in 1990.

Items analyzed.—The effects of the CBERA were calculated for the 30 items listed in table 3-2. These items accounted for 90 percent of the c.i.f. value of imports that actually benefited from CBERA duty-free treatment in 1990. The value of these imports as a ratio of competing U.S. producers' domestic shipments was varied in magnitude (see table 3-3). For instance, in 1990, the value of U.S. imports of beef from CBERA countries—the largest import category in value benefiting from CBERA—was approximately 0.39 percent of the value of domestic shipments. Conversely, the value of CBERA imports of cigars, cheroots, and cigarillos from the Dominican Republic was approximately 60 percent of the value of U.S. producers' domestic shipments.

The economic effects of duty-free entry for these leading 30 items are summarized in tables 3-4 and 3-5. Table 3-4 presents dollar estimates of the consumer surplus that was generated and tariff revenue from CBERA and non-CBERA imports that was foregone. Table 3-5 presents dollar estimates of U.S. shipments displaced by CBERA imports.[40]

[38] See Rousslang and Suomela, *Consumer and Net Welfare Costs*, for further discussion.

[39] See the Technical Notes in app. C for a more complete discussion of the methodology.

[40] See Technical Notes in app. C for a more complete discussion of the data used to estimate the effects shown in tables 3-4 and 3-5.

Table 3-3
C.i.f. value of imports that benefited from CBERA, and U.S. producers' domestic shipments that competed with CBERA duty-free imports, 1990

(In thousand dollars)

HTS item no.	*Description*	*CBERA beneficiary imports (c.i.f. value)*	*Value of U.S. producers' domestic shipments*	*Ratio of CBERA duty-free imports to competing U.S. shipments*
0202.30.60[1]	Frozen boneless beef, except processed	90,312	42,100,000	0.01
0201.30.60	Fresh or chilled boneless beef, except processed	48,780	(1)	(1)
0804.30.40[2]	Pineapples, in crates or other packages	39,501	9,4500	45.75
1701.11.00	Raw cane sugar	24,759	1,300,000	1.90
2402.10.80	Cigars, cheroots and cigarillo valued ≥ 23¢	24,239	40,600	59.70
2009.11.00	Frozen orange juice, concentrated	21,516	682,000	3.15
2207.10.60[3]	Undenatured ethyl alcohol	15,095	1,872,000	0.97
2208.40.00	Rum and tafia	14,343	118,600	12.09
2401.20.80	Tobacco, partly or wholly stemmed	13,802	1,156,000	1.19
0201.30.40	Fresh or chilled boneless beef, except high quality	12,954	(1)	(1)
0710.80.95	Frozen vegetables, n.e.s.i., reduced in size	12,123	539,460	2.25
7213.31.30	Irregularly wound coils of hot-rolled rod	11,217	231,000	4.86
8532.24.00	Ceramic dielectric fixed capacitors	8,572	325,500	2.63
8533.21.00	Electrical fixed resistors	8,455	323,100	2.62
8533.40.00	Electrical variable resistors	8,401	114,200	7.36
7214.40.00	Hot-rolled bars and rods containing < .25% carbon	6,888	626,100	1.10
0202.30.20	Frozen, boneless, processed, high-quality beef	6,290	(1)	(1)
2401.10.60	Cigarette leaf, not stemmed	5,839	78,000	7.49
0202.30.40	Frozen, boneless, processed beef, except high-quality	5,493	(1)	(1)
0802.90.90	Nuts n.e.s.i.,	4,597	36,000	12.77
2009.20.40	Grapefruit juice	4,375	89,000	4.92
0804.30.20	Pineapples, bulk	3,730	(2)	(2)
0603.10.60	Roses, fresh cut	3,530	198,000	1.78
2402.10.60	Cigars, cheroots and cigarillo valued > 15¢ and < 23¢	3,067	87,800	3.49
2207.20.00	Ethyl alcohol and other spirits, denatured	2,904	(3)	(3)
8532.21.00	Tantalum electrolytic fixed capacitors	2,894	220,800	1.31
2009.40.40	Pineapple juice, concentrated	2,866	(4)	(4)
9507.90.70	Artificial baits and flies	2,502	89,000	2.81
0201.30.20	Fresh or chilled, boneless, processed, high-quality beef	2,363	(1)	(1)
7214.20.00	Concrete reinforcing bars	2,271	783,500	0.29

[1] The value of U.S. producers' domestic shipments and the ratio of CBERA duty-free imports to competing U.S. shipments for frozen boneless beef, except processed includes values of HTS subheadings 0201.30.20, 0201.30.40, 0211.30.60, 0202.30.20, 0202.30.40, and 0202.30.60.

[2] The value of U.S. producers' domestic shipments and the ratio of CBERA duty-free imports to competing U.S. shipments for pineapples, in crates or other packages includes values of HTS subheadings 0804.30.20 and 0804.30.40.

[3] The value of U.S. producers' domestic shipments and the ratio of CBERA duty-free imports to competing U.S. shipments for undenatured ethyl alcohol includes values of HTS subheadings 2207.10.60 and 2207.20.00.

[4] Not available.

Source: Estimated by staff of USITC.

Table 3-4
The estimated range[1] of U.S. net-welfare effects of CBERA duty-free entry, by leading imports, 1990

(In thousands of dollars)

HTS Item No.	Description	Gain in consumer surplus: Lower range	Gain in consumer surplus: Upper range	Loss in tariff revenue from CBERA countries: Lower range	Loss in tariff revenue from CBERA countries: Upper range	Loss in tariff revenue from non-CBERA countries: Lower range	Loss in tariff revenue from non-CBERA countries: Upper range	Net-welfare effect: Lower range	Net-welfare effect: Upper range
0202.30.60[2]	Frozen boneless beef, except processed	1,712	2,219	2.740	2,739	2	3	-1,031	-523
0201.30.60[2]	Fresh or chilled boneless beef, except processed	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
0804.30.40[3]	Pineapples, in crates or other packages	746	1,039	1,384	1,376	3	4	-641	-341
1701.11.00[4]	Raw cane sugar	0	0	448	693	0	0	-448	-693
2402.10.80[5]	Cigars, cheroots and cigarillo valued ≥ 23¢	1,210	1,644	2,064	2,044	3	4	-857	-405
2009.11.00	Frozen orange juice, concentrated	1,487	2,326	3,430	2,996	840	1,382	-2,782	-2,052
2207.10.60[6]	Undenatured ethyl alcohol	4,498	6,117	5,812	5,451	0	0	-1,315	666
2208.40.00	Rum and tafia	1,559	2,047	2,329	2,301	16	21	-787	-275
2401.20.80	Tobacco, partly or wholly stemmed	996	1,342	1,622	1,599	48	65	-674	-322
0201.30.40[2]	Fresh or chilled boneless beef, except high-quality	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
0710.80.95	Frozen vegetables, n.e.s.i., reduced in size	820	1,122	1,382	1,358	60	82	-622	-318
7213.31.30	Irregularly wound coils or hot-rolled rod	54	92	178	175	2	4	-126	-87
8532.24.00[7]	Ceramic dielectric fixed capacitors	731	904	1,026	1,027	27	34	-322	-156
8533.21.00	Electrical fixed resistors	344	417	473	.474	5	6	-134	-63
8533.40.00	Electrical variable resistors	241	336	442	38	17	23	-217	-125
7214.40.00	Hot-rolled bars and rods containing < .25% carbon	129	186	261	259	1	1	-134	-73
0202.30.20[2]	Frozen, boneless, processed beef, high-quality beef	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
2401.10.60	Cigarette leaf, not stemmed	437	586	704	694	16	22	-283	-129
0202.30.40[2]	Frozen, boneless, processed beef, except high-quality	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
0802.90.90	Nuts n.e.s.i.,	22	32	48	48	(8)	(8)	-27	-16
2009.20.40	Grapefruit juice	776	1,006	1,059	1,046	8	11	-291	-50
0804.30.20[3]	Pineapples, bulk	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
0603.10.60	Roses, fresh cut	108	153	204	201	7	10	-103	-58
2402.10.60[5]	Cigars, cheroots and cigarillos valued ≥ 15¢ and 23¢	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
2207.20.00[6]	Ethyl alcohol and other spirits, denatured	(6)	(6)	(6)	(6)	(6)	(6)	(6)	(6)
8532.21.00[7]	tantalum electrolytic fixed capacitors	(7)	(7)	(7)	(7)	(7)	(7)	(7)	(7)
2009.40.40[9]	Pineapple juice, concentrated	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
9507.90.70	Artificial baits and flies	50	87	179	165	8	15	-137	-92
0201.30.20[2]	Fresh or chilled, boneless, processed, high-quality beef	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)
7214.20.00	Concrete reinforcing bars	46	67	95	94	(8)	1	-49	-27
	Total	15,966	21,722	25,889	25,178	1,063	1,688	-10,980	-5,139

[1] Ranges correspond to the lower range and upper range of the CBERA import supply elasticities, 2 and 5, that were used to make these calculations.
[2] Values of HTS subheadings 0201.30.20, 0201.30.40, 0211.30.60, 0202.30.20, 0202.30.40, and 0202.30.60 were aggregated into one category to estimate 'he net welfare effects and were reported on the line for HTS 0202.30.60.
[3] Values of HTS subheadings 0804.30.20 and 0804.30.40 were aggregated into one category to estimate the net welfare effects and were reported on the line for HTS 0804.30.40.
[4] Sugar from the Dominican Republic is suject to export quotas; therefore, the net-welfare effect of a tariff elimination is composed solely of a transfer to tariff revenue from the U.S. Treasury to Dominican Republic sugar exporters. In this case, the lower and upper ranges correspond to the lower and upper tariff rates that apply to sugar.
[5] Values of HTS subheadings 2402.10.60 and 2402.10.80 were aggregated into one category to estimate the net welfare effects and were reported on the line for HTS 2402.10.80.
[6] Values of HTS subheadings 2207.10.60 and 2207.20.00 were aggregated into one category to estimate the net welfare effects and were reported on the line for HTS 2207.10.60.
7 Values of HTS subheadings 8532.21.00 and 8532.24.00 were aggregated into one category to estimate the net welfare effects and were reported on the line for HTS 8532.24.00.
8 Less than $500.
9 Not available.

Source: Estimated by USITC staff from official satistics of U.S. Department of Commerce, U.S. Department of Agriculture, and the U.S. Treasury.

Table 3-5
The estimated range[1] of the effects of CBERA duty-free entry on U.S. domestic shipments by the CBERA imports, by the HTS items, 1990

HTS Item No.	Description	Lower range Value	Lower range Share of value	Upper range Value	Upper range Share of value
		1,000 dollars	*percent*	*1,000 dollars*	*percent*
0202.30.60[2]	Frozen boneless beef, except processed	1,953	(3)	2,533	0.01
0201.30.60[2]	Fresh or chilled boneless beef, except processed	(2)	(2)	(2)	(2)
0804.30.40[4]	Pineapples, in crates or other packages	860	0.91	1,204	1.27
1701.11.00[5]	Raw cane sugar	0	0.00	0	0.00
2402.10.80[6]	Cigars, cheroots and cigarillo valued ≥ 23¢	1,405	1.09	1,920	1.50
2009.11.00	Frozen orange juice, concentrated	1,866	0.27	3,071	0.45
2207.10.60[7]	Undenatured ethyl alcohol	7,893	0.42	10,839	0.58
2208.40.00	Rum and tafia	1,819	1.53	2,404	2.03
2401.20.80	Tobacco, partly or wholly stemmed	1,157	0.10	1,568	0.14
0201.30.40[2]	Fresh or chilled coneless beef, except high-quality	(2)	(2)	(2)	(2)
0710.80.95	Frozen vegetables, n.e.s.i., reduced in size	956	0.18	1,318	0.24
7213.31.30	Irregularly wound coils of hot-rolled rod	109	0.05	188	0.08
8532.24.00[8]	Ceramic dielectric fixed capacitors	364	0.07	451	0.08
8533.21.00	Electrical fixed resistors	172	0.05	208	0.06
8533.40.00	Electrical variable resistors	122	0.11	171	0.15
7214.40.00	Hot-rolled bars and rods containing < .25% carbon	260	0.04	379	0.06
0202.30.20[2]	Frozen, boneless, processed, high-quality beef	(2)	(2)	(2)	(2)
2401.10.60	Cigarette leaf, not stemmed	509	0.65	687	0.88
0202.30.40[2]	Frozen, boneless, processed beef, except high-quality	(2)	(2)	(2)	(2)
0802.90.90	Nuts n.e.s.i.,	25	0.07	37	0.10
2009.20.40	Grapefruit juice	902	1.01	1,172	1.32
0804.30.20[3]	Pineapples, bulk	(3)	(3)	(3)	(3)
0603.10.60	Roses, fresh cut	104	0.05	148	0.07
2402.10.60[6]	Cigars, cheroots and cigarillos valued > 15¢ and < 23¢	(6)	(6)	(6)	(6)
2207.20.00[7]	ethyl alcohol and other spirits, denatured	(7)	(7)	(7)	(7)
8532.21.00[8]	tantalum electorlytic fixed capacitors	(8)	(8)	(8)	(8)
2009.40.40[9]	Pineapple juice, concentrated	(9)	(9)	(9)	(9)
9507.90.70	Artificial baits and flies	198	0.22	359	0.40
0201.30.20[2]	Fresh or chilled, boneless, processed, high-quality beef	(2)	(2)	(2)	(2)
7214.20.00	Concrete reinforcing bars	94	0.01	137	0.02
	Total	20,768		28,794	

[1] Ranges correspond to the lower range and upper range of the CBERA import supply elasticities, 2 and 5, that were used to make these calculations.
[2] Values of HTS subheadings 0201.30.20, 0201.30.40, 0211.30.60, 0202.30.20, 0202.30.40, and 0202.30.60 were aggregated into one category to estimate the value of U.S. shipments that were displaced by CBERA import and are reported on the line for HTS 0202.30.60.
[3] Less than 0.005 percent.
[4] Values of HTS subheadings 0804.30.20 and 0804.30.40 were aggregated into one category to estimate the value of U.S. shipments that were displaced by CBERA imports and were reported on the line for HTS 0804.30.40.
[5] Sugar from the Dominican Republic is suject to export quotas; therefore, the net-welfare effect of a tariff elimination is composed solely of a transfer to tariff revenue from the U.S. Treasury to Dominican Republic sugar exporters. In this case, the lower and upper ranges correspond to the lower and upper tariff rates that apply to sugar.
[6] Values of HTS subheadings 2402.10.60 and 2402.10.80 were aggregated into one category to estimate the value of U.S. shipments that were displaced by CBERA imports and were reported on the line for HTS 2402.10.80.
[7] Values of HTS subheadings 2207.10.60 and 2207.20.00 were aggregated into one category to estimate the value of U.S. shipments that were displaced by CBERA imports and were reported on the line for HTS 2207.10.60.
[8] Values of HTS subheadings 8532.21.00 and 8532.24.00 were aggregated into one category to estimate the value of U.S. shipments that were displaced by CBERA imports and were reported on the line for HTS 8532.24.00.
[9] Not available.

Source: Estimated by USITC staff from official statistics of U.S. Department of Commerce, U.S. Department of Agriculture, and the U.S. Treasury.

Effects on the U.S. economy in 1990: Net-welfare costs and the displacement of domestic output.—In 1990, the estimated net-welfare cost to U.S. residents of granting CBERA duty-free entry to the items listed in table 4-4 ranged from $5.1 million to $11 million.[41] When compared with the total value of CBERA-country imports in 1990, net-welfare cost amounted to approximately 0.07 to 0.15 percent.[42] As noted above, this range reflects the welfare cost for 90 percent of the total value of the items that actually benefited from CBERA duty-free entry.

Except for ethyl alcohol, the loss in tariff revenues was not offset by the corresponding increase in consumer surplus for the items analyzed. In 1990, frozen concentrate orange juice was the item with the largest net-welfare cost resulting from CBERA duty-free entry. The only item to show a potential net-welfare gain was ethyl alcohol.[43] The net-welfare effect for ethyl alcohol ranged from a loss of $1.3 million to a gain of $0.7 million.

Eight items with high net-welfare costs, in value terms, were frozen orange juice, beef,[44] cigars,[45] rum, raw cane sugar, partly or wholly stemmed tobacco, pineapples,[46] and frozen vegetables. The high net-welfare costs associated with these eight items is mainly due to the higher levels, relative to other imports that benefited from CBERA, at which they are imported. In terms of c.i.f. value, these eight imports accounted for 70 percent of the total imports that benefited from CBERA in 1990.

In 1990, the percentage varied widely in domestic shipments from competing domestic industries that were displaced by the 30 leading imports benefiting from CBERA. The five products with the largest displacement effects, in value terms, were ethyl alcohol, beef, frozen concentrated orange juice, rum, and cigars. In value terms, the largest effect occurred for ethyl alcohol, for which the displacement of domestic shipments ranged from $7.9 million to $10.8 million or between 0.4 and 0.6 percent of the value of total domestic shipments.

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[41] In general, summing partial-equilibrium results (in this case net-welfare costs) will misstate total, economy-wide welfare effects because of the interdependence among product and factor prices across sectors. As a result, such estimates are only appropriately obtained through a computable general equilibrium (CGE) framework. However, imports that benefited from the CBERA equaled only 0.1 percent of total U.S. imports. Given the minimal level of these imports relative to the size of total U.S. imports and total U.S. consumption, both in the aggregate and for specific products, we do not believe that aggregation of partial results poses serious problems in this case. A similar partial-equilibrium approach was employed by Rousslang and Lindsey to measure the net-welfare effects of the CBERA in an earlier article. See Donald Rousslang and John Lindsey, "The Benefits to Caribbean Basin Countries from the U.S. CBI Tariff Eliminations," *Journal of Policy Modeling*, Vol. 6, 1984, pp. 513-530 for further discussion.

[42] As noted in the Technical Notes, app. C, the range of the welfare costs reflects the range of the elasticity of the CBERA import supply curve, 2 to 5, that was used to make these calculations.

[43] Includes imports of HTS subheadings 2207.10.60 and 2207.20.00. See table 3-4.

[44] Includes imports of HTS subheadings 0201.30.20, 0201.30.40, 0201.30.60, 0202.30.20, 0202.30.40, and 0202.30.60. See table 3-4.

[45] Includes imports of HTS subheadings 2402.10.60 and 2402.10.80. See table 3-4.

[46] Includes imports of HTS subheadings 0804.30.20 and 0804.30.40. See table 3-4.

CHAPTER 4
PROBABLE FUTURE EFFECTS OF THE CBERA

Previous reports have noted that most of the initial effects of the one-time elimination of duties on imports originally granted by the Caribbean Basin Economic Recovery Act (1984 CBERA) took place during the first 2 years after passage of the act.[1] The effects analyzed by the Commission on U.S. imports and competing U.S. products included: (1) CBERA products displacing sales of U.S. products as well as sales of other foreign suppliers, and (2) an increase in total sales of the affected products as lower-priced CBERA articles prompt other producers to lower their prices, stimulating consumption of these products, with displaced U.S. sales less than the increase in CBERA sales.[2] The effects analyzed by the Commission on U.S. consumers included: (1) the benefit of lower prices for CBERA products and (2) the benefit of lower prices for competing U.S. products as prices are bid down in response to the CBERA price advantage due to the tariff elimination.[3]

Any future effects on U.S. industries and consumers, it was reported, were expected to occur through export-oriented investment in the region as investors attempted to take advantage of the lowered tariff levels and as they increasingly sought business opportunities in the region.[4] However, export-oriented investment has increased significantly in only a few CBERA countries so far.

Duty reduction and duty elimination as a result of the Caribbean Basin Economic Recovery Expansion Act of 1990 (1990 CBERA)[5] may have effects like those that followed the enactment of the 1984 CBERA. The effects of the 20-percent phased reduction of tariffs on certain products may cause trade in these articles to change over a longer period.[6] Future effects of the 1990 CBERA, as with the 1984 CBERA, are expected to occur through export-oriented investment. This investment may stimulated as a result of two new provisions: (1) the extension of duty-free entry to articles produced in Puerto Rico and advanced in a CBERA beneficiary country and (2) the extension of duty-free entry to most articles assembled from U.S. components in a CBERA country and returned as U.S. goods.[7]

This chapter surveys investment activity in the CBERA countries during 1990, including investment activities under section 936 of the U.S. Internal Revenue Code. This chapter also considers the possible impact a United States-Mexico Free-Trade Agreement may have on investment in CBERA countries. Finally, this chapter summarizes CBERA-related 1990 investment activity and the how much such investments may U.S. imports in the near term. This summary section describes the general investment environment of the region, including political, economic, and social factors within beneficiary countries that affect the likelihood of investment-induced exports to the United States under the act.

Methodology

This chapter uses information from various published sources. It also uses additional data and information on investment obtained from U.S. Embassy reports from CBERA countries and from the U.S. Department of Commerce.[8] The Commission also gained more detailed information from field interviews during June 1991 in four CBERA countries—the Bahamas, the Dominican Republic, Haiti, and Jamaica.

Summary of Investment Activities and Trends

Although some of the new investment taking place in specific Caribbean Basin countries during the past year focused on products eligible for duty-free entry under the CBERA, in general the act has not fueled economic growth and development in the region. Moreover, the act has not encouraged the expansion of Caribbean exports in a way likely much to affect U.S. industries or consumers in the near future.

Two factors may explain the lack of development-oriented investment in the CBERA countries. The first factor is that despite significant achievements in attracting new investors by a few CBERA countries with aggressive investment promotion agencies, most notably Costa Rica, Guatemala, the Dominican Republic, and Trinidad and Tobago,[9] the overall level of private sector investment in the region remains relatively low. The other CBERA countries continue to have difficulties attracting CBERA-eligible projects for a variety of reasons:

[1] For a more detailed discussion, see USITC, *First CBERA Report, 1984-85*, p. 4-1.

[2] Ibid., pp. 2-4 to 2-5.

[3] The gain to U.S. consumers from a reduction in the price of competing U.S. output is offset by the loss to U.S. producers as sales of CBERA products increase. Moreover, U.S residents may become liable for greater taxes if revenues lost from the CBERA tariff elimination are made up from by other means. Ibid., p. 2-5.

[4] Ibid., p. 4-1.

[5] See the discussion of the 1990 CBERA in ch. 1 of this report.

[6] For further discussion of the phased duty reduction for handbags, luggage, flat goods, work gloves, and leather wearing apparel, see the discussion of the 1990 CBERA in ch. 1.

[7] For a more detailed discussion of these and other provisions of the 1990 CBERA, see the discussion of the 1990 CBERA in ch. 1.

[8] Some investment data were obtained from the U.S. Department of Commerce, Caribbean Basin Information Center. See also, "Data Problems and the USITC CBERA Report," in app. B of USITC, *Second CBERA Report, 1986*, p. B-2.

[9] For a discussion of increased U.S. imports from these countries in 1990, see the section "Imports from CBERA Country Groups" in ch. 2 of this report.

political instability, insufficient investment incentives, restrictions on foreign exchange and profit repatriation, and inadequate infrastructure in many CBERA countries.[10] In some cases, major investments that have been attracted have stopped operations or are producing below capacity. This failure could be attributed to a deteriorating economic infrastructure, to external factors such as the U.S. recession, to slower global economic growth during 1990, and to investors awaiting the outcome of negotiations for a United States-Mexico Free-Trade Agreement.

The second factor to explain lack of investment is the limited scope of products produced in the region that are eligible for duty-free entry under the CBERA and not otherwise eligible for duty-free entry under either MFN or GSP provisions. Tourism projects in the Caribbean such as hotel construction and expansion get much of the new investment, but these projects are not eligible for CBERA benefits. Investment in service industries such as data entry is spreading in some CBERA countries, but trade in services also is not included in the CBERA. Completed footwear and textiles of CBERA origin, but not from U.S. components, are two more important manufacturing industries in many CBERA countries that are not eligible for CBERA duty-free treatment.

New CBERA-Related Investment in 1990

Information from U.S. Embassies in the Caribbean Basin and data supplied by Caribbean Basin investment promotion offices allowed the Commission to identify 44 new investments in CBERA-related projects and 18 expansion projects in 1990, as indicated in table 4-1.[11]

A general description follows of regional investment activity in new and expansion CBERA-related projects in Central American, Eastern Caribbean, and other Caribbean and South American CBERA countries. For more detail about the Central Caribbean countries, see the discussions of Jamaica, the Dominican Republic, Haiti, and the Bahamas below.

Central America

The Commission identified 18 new and 13 expansion CBERA-related investments in Belize and Honduras in 1990. Belize reported eight new and five expansion agricultural projects, and three new and seven expansion manufacturing projects. Total 1990 investments in Belize were over $30.8 million for new projects and $4.9 million for expansion projects.[12] Nevertheless, labor shortages may have limited the growth of manufactured exports in Belize, prompting the Belizean Government to consider relaxing restrictions on immigrant labor.[13]

Honduras reported seven new CBERA-related manufacturing investments.[14] Construction started in 1990 on a new industrial FTZ in Honduras to support additional CBERA-related manufacturing operations, with completion scheduled for 1991.[15] U.S. imports of non-CBERA-eligible products from Honduras continued to increase in 1990. U.S. imports of Honduran textile and apparel products under HTS subheading 9802.00.80 (formerly TSUS 807.00) increased by 29.8 percent in 1990, from $68.0 million to $88.0 million.[16]

While no new CBERA-related projects were identified in Guatemala, the Commission noted investment expansion in several areas. In nontraditional agricultural exports, there were CBERA-related expansion projects involving blackberries and ginger.[17] Investment and output non-CBERA-eligible operations in Guatemala, especially in the mostly Korean-controlled textile and apparel assembly sector, increased significantly in 1990. U.S. imports of Guatemalan textile and apparel products under HTS subheading 9802.00.80 (formerly TSUS item 807.00) increased by 47.6 percent in 1990, from $79.3 million to $117.0 million.[18] One source projected the textile and apparel sector of Guatemala to grow from 250 factories to 350 factories in 1991 with total employment in the sector reaching 65,000 workers.[19] Manufacturers in Guatemala producing for the U.S. market identified during 1990 included Levi-Strauss, Van Heusen, Calvin Klein, Liz Claiborne, and Arrow.[20] One U.S. manufacturer of women's sportswear closed its U.S. facility and relocated to Guatemala in 1990 to take advantage of lower cost labor.[21] Two new private free trade zones (FTZs) were authorized to operate in Guatemala during 1990. The Zeta Industrial Park began operations on July 1, and the Guatemala Woo Yang Desarrollo S.A. FTZ is scheduled to open in January 1992.[22]

Costa Rica reported new export-oriented investments in its seven FTZs, totaling $16.6 million in

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[10] These problems are discussed in more detail in the section "Experience Under the CBERA" below.

[11] No comprehensive and reliable source of investment data was available during the course of the research on this report. As a result, the Commission obtained data on new investment from a wide variety of sources. These sources included the U.S. Embassies in the Caribbean Basin, which were asked to report significant CBERA-related investment during 1990. Thus the Commission does not maintain that the figures based on this information are all-inclusive.

[12] Based on data derived from enclosures to U.S. Embassy Belize, U.S. Department of State, letter to USITC staff, June 19, 1991.

[13] *Caribbean Update*, July 1990, p. 5.

[14] Data derived from U.S. Department of State Telegram, July 18, 1991, Tegucigalpa, message reference No. 10137.

[15] *Caribbean Update*, June 1991, p. 12.

[16] *Caribbean Update*, April 1991, p. 23.

[17] *Caribbean Update*, April 1991, p. 11.

[18] *Caribbean Update*, April 1991, p. 23.

[19] Jane Wagner, "Guatemalan Textile Exports Increase," *International Business Chronicle*, July 8-21, 1991, p. 4.

[20] *Caribbean Update*, August 1990, p. 10.

[21] Ibid.

[22] *Caribbean Update*, June 1991, p. 11.

Table 4-1
Reported CBERA-Related Investment Activity, 1990

Number of new projects	*Number of expansion projects*	*New investment ($ millions)*	*Expansion investment ($ millions)*	*Total investment ($ millions)*
44	18	$87.2	$5.1	$92.3

1990.[23] The Taiwan Government-owned investment company Corporacion de Inversion y Desarrollo BES announced plans to invest $8 million to construct a new industrial FTZ in Costa Rica.[24] Among the new investors establishing CBERA-eligible operations in Costa Rica during 1990 was Rawlings Sporting Goods, a U.S.-based firm that shifted its baseball production from Haiti because of political unrest in that country.[25] Costa Rican non-CBERA-eligible exports to the United States under HTS subheading 9802.00.80 increased by 15.8 percent in 1990, from $253.1 million to $293.2 million.[26]

Nicaraguan President Violeta Chamorro signed a decree on January 28, 1991, permitting exports by private individuals for the first time in a decade and eliminating a state monopoly on foreign trade instituted by the Sandinista Government.[27] In late 1990, the Nicaraguan Legislative Assembly began consideration of a bill to create multisector FTZs[28] and to offer export promotion incentives.[29] One U.S. shoe manufacturer initiated plans to invest $1 million in an idle Nicaraguan factory to produce work shoes for U.S. and Canadian markets.[30]

Eastern Caribbean

In 1990 the Commission identified only one new CBERA-related investment in the Eastern Caribbean region of Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St Lucia, and St. Vincent and the Grenadines.[31] This project had a total value of $500,000 and involved the acquisition of an existing firm by a Puerto Rican company to produce disposable gowns, coats, aprons, and face masks in a plant in Grenada for use by pharmaceutical firms, hospitals, and laboratories.[32] The Government of Antigua and Barbuda finalized plans to invest $50 million to construct an FTZ.[33] The Commission identified several disinvestments in CBERA-related activities. One U.S. electronics assembly plant was scheduled to close in St. Kitts-Nevis in July 1990 and one U.S. sporting goods manufacturer closed after 8 years of operation in St. Vincent.[34]

Other Caribbean and South American

The Commission identified no new CBERA-related investments in Barbados, Trinidad and Tobago, and Guyana. Both Barbados and Trinidad and Tobago initiated new policies to attract foreign investment during 1990. The Government of Barbados launched an investment promotion program to give new incentives to higher technology operations in Barbados. The Government saw these as necessary to compensate for that country's declining manufacturing output and its relatively high wages.[35] Trinidad is developing a "Far East Investor Program" to attract new export-oriented plants to produce for North American markets.[36] Port-of-Spain approved a new foreign investment law in 1990. The new law lifts certain restrictions on foreign commercial and residential investments and reduces licensing requirements. Foreign investors will be allowed to purchase up to 30 percent of shares in public companies without a license.[37]

Section 936 Financing

Bank deposits of section 936 funds in Puerto Rico during 1990 reached a record high estimated at $14.9 billion.[38] U.S. firms operating in Puerto Rico may have held more of their funds as section 936 deposits to make greater use of the U.S. Federal tax-exempt status of these deposits.[39]

Although the overall level of section 936 deposits increased, seasonal repatriations of section 936 deposits may have been as much as $3 billion higher than usual in 1990.[40] Increased seasonal repatriations

[23] U.S. Department of State Telegram, June 5, 1991, San Jose, message reference No. 05978.
[24] *Caribbean Update*, July 1990, p. 6 and November 1990, pp. 4-5.
[25] *Caribbean Update*, January 1991, p. 5.
[26] *Caribbean Update*, April 1991, p. 23.
[27] *Caribbean Update*, March 1991, p. 14.
[28] *Caribbean Update*, October 1990, p. 15.
[29] LA/C Center, "An Interview with Dr. Silvio de Franco, Minister of Economy and Development," *LA/C Business Bulletin*, March 1991, p. 3.
[30] *Caribbean Update*, August 1990, p. 14.
[31] Eastern Caribbean Investment Promotion Service, informal communication with USITC staff, Aug. 2, 1991.
[32] *Caribbean Update*, May 1991, p. 9.
[33] *Caribbean Update*, July 1990, p. 3.
[34] *Caribbean Update*, August 1990, p. 17.
[35] *Caribbean Update*, July 1990, p. 4.
[36] *Caribbean Update*, December 1990, p. 20.
[37] *Caribbean Update*, November 1990, p. 18.
[38] Alexander F. Diaz, "936 Companies Depositing More of Profits for More Than One Year," *Caribbean Business*, 936 conference supplement, Mar. 14, 1991, p. S14.
[39] Ibid.
[40] Repatriations of section 936 funds typically increase for accounting purposes in June and December each year to help adjust the parent corporation balance sheet. Alexander F. Diaz, "Higher Than Usual 936 Repatriations Seen," *Caribbean Business*, Dec. 20, 1990, p. 8.

may have been the result of fewer investment options and lower credit quality among the financial institutions operating in Puerto Rico.[41] Repatriations also may have increased from concern over proposed U.S. legislation that would have Puerto Rico hold a referendum to decide its political status,[42] originally scheduled for summer 1991, which could eliminate the benefits of the section 936 program. Concerning Puerto Rico's political status, the three options under consideration of enhanced commonwealth, statehood,[43] or independence[44] all have different implications for the section 936 program. The Puerto Rico plebiscite appears to be postponed until 1993 at the earliest.[45]

An estimated $4.9 billion of 1990 deposits of section 936 funds were invested directly in eligible projects.[46] The remaining $10 billion[47] of 1990 deposits of section 936 funds were held in commercial, savings, and investment banks in Puerto Rico for lending. Of this amount, $5.9 billion was lent to mostly non-936 companies. Another $3.9 billion provided mortgage finance including for low- and middle-income housing.[48]

By yearend 1990, a total of $358.4 million in section 936 funds had been disbursed for 15 projects in eligible CBERA countries since 1987 (see appendix table B-2). Both Fomento and the local Financial Commissioner's Office have approved an additional 7 projects that were worth approximately $204.1 million, which await closing and disbursement (appendix table B-3). As of January 1, 1991, five additional projects with loan amounts totaling $50.8 million, were pending regulatory approval. Following Costa Rica's February 1991 ratification of a tax information exchange agreement (TIEA),[49] Searle Costa Rica, Inc. received a $1.6 million section 936 loan to finance plant construction under Puerto Rico's twin plant[50] program.[51]

As of January 1, 1990, Jamaica, with $178 million in disbursements, was the leading recipient of section 936 funds. Trinidad and Tobago, the leading recipient of 1990 disbursements, and the Dominican Republic have received $135 million and $127 million in section 936 loans respectively (appendix table B-6).

CARIFA

CARIFA's (Caribbean Basin Financing Authority) first bond issue was announced in February 1991.[52] Alcan Aluminum, Ltd. of Canada raised $60 million through a CARIFA bond issue to finance part of the $200 million modernization program of its two alumina handling facilities of the company in Port Esquivel, Jamaica.[53]

Twin Plants

Since January 1986, Fomento has promoted 89 complementary projects, estimated at a total investment of $513 million near yearend 1990.[54] Fomento estimates that 19,000 new direct jobs have been created in both Puerto Rico and CBERA countries as a result of these investments. Of this investment, $358 million stems from projects undertaken with section 936 financing. The Dominican Republic, with 44 twin plant projects, is the largest beneficiary of the program. Other leading beneficiaries include Barbados, Costa Rica, Grenada, Guatemala, Haiti, Jamaica, Panama, St. Kitts-Nevis, and Trinidad and Tobago. Twin plants with investments of more than $1 million are listed in table B-5 in the appendix.

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[41] Puerto Rican operations of Citibank and Chase Manhattan Bank, which have dominated the section 936 deposit market for years, reportedly were hurt in 1990 by the reduction of their U.S. parent corporations' credit ratings. The number of savings and loan institutions operating in Puerto Rico declined as a result of the savings and loan crisis in Puerto Rico. The number of investment banks declined as a result of the departure from Puerto Rico of Drexel Burnham Lambert (in 1989) and Prudential-Bache Capital Funding in 1990. Ibid.

[42] For a detailed discussion of this U.S. legislation, see USITC, *Fifth CBERA Report, 1989*, p. 1-13.

[43] The Senate Finance Committee requested the Congressional Budget Office (CBO) to estimate the effects of changing Puerto Rico's political status. According to the CBO report, a possible outcome was a "significant reduction in the growth of the Puerto Rican economy" should Puerto Rico choose statehood. This predicted economic downturn would be triggered by decreased investment, production, and employment in the manufacturing sector following elimination of tax benefits under section 936 with statehood. The CBO report assumes the island's rapid development as a manufacturing economy in the past 40 years is due to the tax advantages U.S. companies have been able to realize there under section 936. See Congressional Budget Office, *Potential Economic Impacts of Changes in Puerto Rico's Status Under S. 172*, April 1990.

[44] Public opinion polls in Puerto Rico reflect little support for independence, which would terminate the section 936 program. If Puerto Rico became a State under S. 712, section 936 would remain effective until January 1994 and then be phased out over 5 years by reducing the credit 20-percent annually.

[45] *Caribbean Business*, "Rep. Schulze Raises 936 Specter Again," Mar. 21, 1991, p. 28.

[46] *Caribbean Business*, 936 conference supplement, Mar. 14, 1991, pp. S3, S14.

[47] *Caribbean Business*, "Banco Popular Takes the Lead in 936 Market," Mar. 14, 1991, p. 4.

[48] *Caribbean Business*, 936 conference supplement, Mar. 14, 1991, pp. S2, S14.

[49] See the discussion of TIEAs in ch. 1 of this report.

[50] See the discussion of Puerto Rico's twin plant program in ch. 1 of this report.

[51] *Caribbean Update*, April 1991, p. 7 and August 1991, p. 5.

[52] Representatives of Citicorp Financial Services Corporation, the managing agent for the issue, said that twice as many bids were received for the bonds as were available. *Caribbean Business*, "Alcan Aluminum to Upgrade Jamaica Plants," Feb. 28, 1991, p. 33.

[53] Alcan will provide the remaining $140 million. *Caribbean Business*, 936 conference supplement, Mar. 14, 1991, p. S12.

[54] Puerto Rico Information Bureau, "Production Sharing/Twin Plants Generate 19,000 Jobs for Puerto Rico, Caribbean Neighbors," Commonwealth of Puerto Rico, Economic Development Administration, Dec. 4, 1990, p. 3.

Impact of a United States-Mexico Free-Trade Agreement

Caribbean officials are increasingly concerned that a United States-Mexico Free-Trade Agreement (FTA) will have a negative impact on trade and investment activity in the Caribbean Basin.[55] Two areas of concern mentioned during interviews with business and government officials in the Caribbean[56] were Caribbean wage competitiveness and the ability of Caribbean products to compete with Mexican products in the U.S. market under an FTA.

Table 4-2 compares minimum wages in Mexico and in selected CBERA countries. Twelve CBERA countries had wages ranging from marginally above to as much as four times higher than the Mexican minimum wage in 1990. However, seven CBERA countries had minimum wages lower than that of Mexico—including the largest exporter under the CBERA, the Dominican Republic. Consequently, even under an FTA, these seven CBERA countries stand to offer investors the advantage of relatively lower labor costs than does Mexico. Moreover, if Mexican wages rise as a result of an FTA, Mexican labor could become relatively more expensive compared to alternate labor sources in some Caribbean Basin countries.

To assess the future impact of an FTA on leading CBERA exports and measure the extent of CBERA-Mexican competition in the U.S. market, U.S. 1990 import trade data were analyzed (table 4-3). Four of the leading U.S. imports from Mexico, peppers, melons, electrical switching apparatus, and medical and surgical instruments, were also leading U.S. imports entering duty-free under the CBERA. These products represented from as little as 3 percent to as much as 25 percent of total U.S. duty-free imports under the CBERA for six Caribbean Basin countries—Costa Rica, the Dominican Republic, El Salvador, Haiti, Honduras, and St. Vincent and the Grenadines.

An FTA stands to make the dutiable Mexican products, peppers, melons, and electrical switching apparatus, less expensive in the United States. Combined with lower transportation costs, this could result in Mexican items displacing some competing Caribbean products. Surgical and medical instruments imported from Mexico already receive GSP duty-free treatment. Table 4-4 compares total U.S. duty-free imports of these products from Mexico (entered under GSP) and the Dominican Republic (eligible for duty-free entry under either CBERA or GSP provisions). U.S. imports from the Dominican Republic increased from 33.3 percent of combined Dominican-Mexican products exported to the United States in 1989 to 34.1 percent in 1990. Moreover, imports from the Dominican Republic reported only under the CBERA increased from 17.6 percent of combined Dominican-Mexican products in 1989 to 26.0 percent in 1990. Thus, the Dominican Republic provides one example of a CBERA country that was able to maintain its share of 1990 U.S. duty-free imports even while a similar product was imported duty-free from Mexico.

[55] These concerns are explored in more detail below.

[56] Interviews with Caribbean business and government officials, June 10-15, 1991.

Investment and Export Potential in Selected CBERA Countries

The four countries visited during 1991—Jamaica, the Dominican Republic, Haiti and the Bahamas—have had varying experiences with the CBERA. Jamaica and the Dominican Republic were selected for fieldwork because of the relatively high levels of CBERA-related investments in these countries and their experience with section 936 funding. The Commission selected the Bahamas and Haiti, two countries with very different levels of economic development, investment, and histories of exports to the United States, because they had not received indepth coverage in previous reports. Interviews were conducted with host Government officials, representatives from investment and export promotion organizations, owners and managers of local businesses, representatives of local business associations, and U.S. Embassy officials.

In Haiti, and to a lesser extent in Jamaica, most officials who gave interviews indicated that the CBERA has yielded neither substantial investments nor significant increases in nontraditional exports to the United States. Haitian officials acknowledged that the country's declining trade and its poor investment climate are due principally to years of political instability and the lack of effective economic policies.

Bahamian officials stated that the Bahamas historically has neither relied on nor especially promoted its export sector. A downturn in the tourism sector, however, prompted the Bahamian Government to reconsider its export policies in 1990.

Individuals interviewed in the Dominican Republic were generally satisfied with that country's experience with the CBERA, but they were disappointed with the failure of the program to benefit the domestic economy as a whole. One Dominican businessman said that CBERA should be regarded as a "transitional measure" and "not an end in itself." Most Dominicans credited that country's position as the leading CBERA exporter to the United States to the Dominican Republic's relatively liberal trade and investment regimes and the Government policies encouraging growth in the country's free-trade export-processing zones.

In general, Caribbean business and government representatives reported diminished expectations of the program. They were disappointed and discouraged with the CBERA failure to encourage new investments in nontraditional industries and to promote economic development in the Caribbean Basin. Most interviewees stated that the CBERA does not compare favorably with assistance offered by the European Community's Lome Convention in the areas of trade

Table 4-2
Minimum wage in selected CBERA beneficiaries and in Mexico, 1990

$/Hour	*Country*	*$/Hour*	*Country*
2.86	Aruba	0.75	Guatemala
2.20-3.00	Bahamas	0.59-0.78	Panama
2.14	Trinidad & Tobago	0.67	Mexico
1.18-3.08	Neth. Antilles	0.50	Dominican Republic
1.10	Antigua & Barbuda	0.50	El Salvador
1.08	St. Kitts-Nevis	0.48	Grenada
0.87	Belize	0.39	Haiti
0.76	St. Vincent	0.38	Guyana
0.71-0.84	Costa Rica	0.33	Honduras
0.75	Dominica	0.27	Jamaica

Source: International Trade Administration, U.S. Department of Commerce, *1990 Caribbean Basin Investment Survey*, Appendix I, p. 85. Data on Mexico based on information provided by U.S. Department of Commerce.

Table 4-3
Leading U.S. imports for consumption from Mexico also supplied by CBERA beneficiaries, 1990[1]

HTS No.	*Description*	*Mexico*	*CBERA beneficiaries Country*	*CBERA beneficiaries Imports*	*Percent of imports*
		$1,000		*$1,000*	*Percent*
0709.60	Fruits of genus capsicum or the genus pimenta (peppers)[2]	$136,031	St. Vincent/ Grenadines	$48	3.2
0807.10	Melons, including cantaloupes & watermelons, fresh[3]	87,031	Costa Rica	10,188	4.7
			El Salvador	1,752	6.2
			Honduras	6,845	10.1
8536.90	Electrical apparatus n.e.s.i. for switching[4]	174,768	Haiti	16,063	25.2
9018.90	Instruments & appliances for medical, surgical use[5]	152,506	Dominican Republic	53,535	17.2

[1] Leading imports among top 30 U.S. imports from Mexico and top 5 U.S. imports from specified Caribbean countries.
[2] Products from Mexico are subject to the col. 1 general duty of $0.055/kg.
[3] The only Mexican product in this subheading granted duty-free entry into the United States (under GSP) is HTS item 0807.10.30 (watermelons). The following col. 1 general duties apply for other Mexican products in this subheading: 35 percent for HTS item 0807.10.20 (cantaloupes, entered between Sept. 16 and July 31, also exported by Costa Rica and Honduras) and 8.5 percent for HTS item 0807.10.70 (other melons, entered between Dec. 1 and May 31, also exported by El Salvador).
[4] Products from Mexico are subject to the col. 1 general duty of 5.3 percent.
[5] Products from Mexico enter the United States duty-free under the GSP program.

Source: Compiled from official statistics of the U.S. Department of Commerce and USITC, *Harmonized Tariff Schedule of the United States (1990)*, publication No. 2232, Sept. 30, 1990.

Table 4-4
U.S. duty-free imports of surgical and medical instruments (HTS 9018.90) from the Dominican Republic and Mexico, 1989 and 1990

(In thousands of dollars, unless otherwise indicated)

	1989		1990	
	Imports	Percent of Total	Imports	Percent of Total
Mexico[1]	$121,010	66.7	$152,506	65.9
Dominican Republic[2]	60,284	33.3	78,897	34.1
Total	$182,294	100.0	$205,941	100.0
Dominican Republic[3]	$25,851	17.6	$53,435	26.0

[1] Eligible for duty-free entry under GSP.
[2] Eligible for duty-free entry under either CBERA or GSP.
[3] CBERA duty-free imports only.

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

promotion and economic development assistance.[57] When asked about financing available through the section 936 program, all of the interviewees stated that the de facto unavailability of these funds for small and medium-size firms is a serious drawback.

Almost all people interviewed stated that the CBERA program is "better than nothing" and that they would not like to see benefits under the program terminated. But they also stated that it has not lived up to its original billing as a regional economic development program. Despite their dissatisfaction with the low level of CBERA-related investment activity, many respondents spoke favorably of the CBERA duty-free benefits. In addition, many noted that the CBERA program helped focus world attention on the Caribbean Basin as an offshore investment location or at least that it had done so initially.

[57] The Lome Convention is a multi-year aid and trade agreement between the European Community (EC) and African, Caribbean, and Pacific (ACP) countries. The convention was first signed in 1975, and renewed, after new negotiations, in 1979, 1984, and 1989 (Lome IV). Caribbean members of the Lome ACP group are Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago. The ACP countries are considered a single customs territory, permitting articles to be processed in more than one ACP country before entering the EC duty-free. Lome's trade arrangements provide nonreciprocal duty- and quota-free access to the EC market for most ACP exports (except products covered directly or indirectly by the EC common agricultural policy). ACP exports of bananas, rum, and sugar remain subject to European quotas and are handled by separate protocol arrangements. Lome has two aid components. The European Investment Bank provides loans for national and regional development programs. The European Development Fund provides grants, risk capital, and interest rate subsidies for development projects, supplies funds to offset agricultural losses, aid mining industries, provide disaster relief assistance, finance special refugee assistance programs, and support structural economic reforms.

Experience under the CBERA

Several factors may be slowing the growth of investment in the CBERA countries, therein contributing to underutilization of the program.[58] During 1990, Caribbean Basin export and investment conditions were hurt by the U.S. recession and slower global economic growth, by stiff competition in the U.S. market from Mexico and the Far East for certain products, and by U.S. nontariff barriers. In addition to the less favorable global economic conditions, some of the people interviewed cited problems related to the design and administration of the CBERA program itself. Still others mentioned longstanding constraints and problems related to overall investment conditions and inefficiencies in the economic and political systems of many Caribbean countries. The primary reasons they offered[59] for the relatively low levels both of overall investment and CBERA-related investment in the region were as follows:

- Local policies governing foreign investment and trade, particularly restrictions on foreign exchange acquisition and holdings and limitations on profit repatriation[60];
- Lack of transparency in local government regulations, including those related to customs procedures;

[58] See the discussion of utilization of the CBERA in ch. 2.

[59] Based on USITC staff interviews with Government and business officials in the Bahamas, the Dominican Republic, Haiti, and Jamaica during June 1991.

[60] Most CBERA countries have unrestricted profit and capital repatriation investment incentive laws. Two notable exceptions are Costa Rica, which permits unrestricted profit repatriation after 4 years, and the Dominican Republic, which permits profit repatriation of 25 percent of registered investment annually. The restrictions investors experience in repatriating profits are largely due to restrictions on foreign exchange acquisition. See ITA, *1990 Caribbean Basin Investment Survey*, appendix H, p. 83.

- Lack of political stability and sound economic management in some Caribbean Basin countries;
- Inadequate physical infrastructure in most Caribbean Basin countries; and
- Inexperience in exporting and lack of familiarity with the CBERA program on the part of local exporters and trade promotion officials.

Criticism centered on two matters: (1) the lack of duty-free provisions or investment incentives in the CBERA for the most important Caribbean exports, such as completed footwear, and key economic activities, such as tourism and services such as data entry and (2) limited access to the U.S. market as a result of quotas and duties on such industries as textiles and sugar. Some officials interviewed noted that CBERA duty-free imports make up only a small share of total U.S. imports from the Caribbean region (13.6 percent of the total in 1990[61]), and that investments in non-CBERA eligible industries, such as textile operations, have been increasing.[62]

Officials contacted suggested several matters not directly CBERA-associated that may contribute to problems the countries face in reaching the U.S. market, including:

- Inadequate promotion of duty-free benefits available under the CBERA in the Caribbean Basin countries;
- Lack of awareness on the part of U.S. businesses due to inadequate promotional activities or information resources in the United States; and
- The availability of other duty-free programs, such as the GSP and HTS subheadings 9802.00.60 and 9802.00.80.[63]

This chapter continues with an indepth discussion of climate for CBERA exports and CBERA-related investment in Jamaica, the Dominican Republic, Haiti, and the Bahamas.

Jamaica

Economic and trade performance

Sugar, bauxite mining, tourism, textiles, and food processing are the leading foreign exchange-earning industries of Jamaica. Total exports increased from $998 million during 1989 to $ 1.126 billion in 1990. Imports rose from $1.820 billion to $1.850 billion during the same period, resulting in a trade deficit of $724 million in 1990.[64] The economy of Jamaica grew by an estimated 2 percent during 1990,[65] continuing a slow recovery from a downturn in the bauxite and alumina industry in 1985 and from the destruction by Hurricane Gilbert in 1988.

On January 30, 1990, the Jamaican Government concluded a standby loan agreement with the International Monetary Fund (IMF). In exchange for over $100 million in standby credits to be disbursed over 15 months, Jamaica promised to clear its external debt payment arrears, reduce the public sector deficit, reduce the current account deficit, and increase its international reserves through a national economic austerity program.[66] When Jamaica failed to meet the international reserves target in March, the IMF froze disbursements on the loan.[67]

Beginning in mid-1990, the Jamaican Government introduced several economic measures to improve the country's prospects for resumed IMF lending. In June, banking regulations were liberalized to allow nonresidents to open foreign exchange accounts at Jamaican commercial banks. This measure was intended to encourage investment and remittances of savings from Jamaicans in the United States by offering high interest rates and tax exemptions on savings accounts.[68] In September and November, the Jamaican Government announced several new programs to deregulate the economy and liberalize its trade and investment regimes. Although the Central Bank continued to intervene in the exchange market,[69] a freely floating exchange rate was announced in September 1990, and plans to sell the Government share of the national telecommunications company and one-half of its interests in the state-owned oil refinery were announced.[70] Continued deregulation and liberalization of the economy became part of Jamaica's modified agreement with the IMF, which was approved by the Fund in November 1990.[71]

As of July 1991, Jamaica had removed subsidies on imported basic foods and announced plans to limit the scope of the state-owned Jamaica Commodity Trading

[61] See table 3-4 in ch. 3 of this report.

[62] See the discussions of U.S.-Caribbean trade in ch. 2 and the economic impacts of the CBERA on the United States in ch. 3 of this report.

[63] For discussions of the relative advantages of using the CBERA as opposed to the GSP or HTS programs, see the discussions of GSP and HTS benefits and CBERA rules of origin in ch. 1.

[64] Preliminary data, provided by U.S. Department of Commerce.

[65] Comision Economica para America Latina y el Caribe (CEPAL), "Preliminary Overview of the Economy of Latin America and the Caribbean," *Notas Sobre la Economia y el Desarrollo* (Santiago, Chile: United Nations, December 1990), table 2, p. 25.

[66] "Manley Fights to Get Jamaican Public to Accept IMF Deal," *Caribbean Insight*, March 1990, p. 3.

[67] "IMF Reported to Seek New Devaluation," *Caribbean Insight*, September 1990, p. 13.

[68] "Debt Servicing is Major Budget Item," *Caribbean Insight*, May 1990, p. 11 and Luisa Esquiroz Arellano, "Jamaican Banks Attracting Florida Deposits," *International Business Chronicle*, June 10-June 23, 1991.

[69] "Government Beset by Shortage of Foreign Exchange," *Caribbean Insight*, January 1991, p. 12.

[70] Ibid.

[71] "Patterson Takes Over Finance in Jamaican Cabinet Shuffle," *Caribbean Insight*, December 1990, p. 4.

Company, which holds a monopoly on imports of certain items such as automobiles and pharmaceuticals.[72] In a May 1991 presentation to the IMF during negotiations for a new standby loan, the Jamaican Government committed to undertake steps to significantly reduce Central Bank intervention in the foreign exchange market.[73]

Investment activity

Foreign investment plays a significant role in the Jamaican economy. Most foreign investment in Jamaica is in the tourism and mining sectors. The majority of foreign investment operations in Jamaica's assembly and manufacturing sectors are in the Government-run Kingston and Montego Bay FTZs. Zone firms may import materials and components duty-free to be assembled or processed for re-export. Jamaica Promotions, Ltd. (JAMPRO), a Government-operated economic development agency, acts as a one-stop shop for investors and exporters, providing a variety of information and services. In 1990, JAMPRO received a $7 million grant from the United States for technical assistance and training in the areas of export promotion and investment financing.[74]

JAMPRO assisted the establishment of 79 new and expansion investment projects in Jamaica during 1990.[75] These projects, shown in table 4-5, had total capital outlays of approximately $71 million. They created 2,800 jobs in 1990, with a potential total employment creation of over 4,300 jobs. Of these projects, 17 were foreign-owned involving total capital outlays of approximately $8 million and creating over 1,240 jobs.

The 6 largest foreign-owned manufacturing projects in operation in 1990 are identified in table 4-6. JAMPRO identified these 6 operations as the largest in Jamaica in terms of capital outlays and/or employment creation. All 6 projects involve exports to the United States under the CBERA or, for textiles and apparel, HTS subheadings 9802.00.8010 and 9802.00.8050.

The Commission found no new CBERA-related investments that started in Jamaica during 1990. Two business association representatives reported a net decline in manufacturing-related investment in Jamaica during 1990, with at least one major U.S.-based manufacturer postponing its expansion plans. Reasons for slower investment activity are explored below.

Investment climate

Jamaica's Export Industries Encouragement Act embodies most of the benefits for investors in the manufacturing sector. This act allows approved manufacturers up to a 10-year exemption from Jamaican income tax and allows an automatic exemption from all duties on raw materials used in the production process. Other tax exemptions are available to investors in agriculture (under the Income Tax Act) and in the hotel industry (under the Hotel Incentives Act and the Resort Cottages Incentives Act).[76] In July 1991, Kingston announced new incentives for exporters and manufacturers. These incentives allow exporters to retain up to 15 percent of their foreign exchange earnings—double the previous limit. They also grant manufacturers a 100-percent tax exemption on purchases of new machinery and equipment, excluding furniture, fixtures, and automobiles.[77]

Some officials were pleased with prospects for future investments in areas such as information processing, tourism, agribusiness, and fish exports,[78] but several business and government officials still thought that U.S. entrepreneurs are generally pessimistic about investing in Jamaica at this time. Individuals contacted tended to explain recent reductions in investments or plans to relocate manufacturing facilities as caused by delays and problems in repatriating earnings due to the hard currency shortage of Jamaica.[79]

Jamaican export promotion officials faulted U.S. investors and exporters for not focusing their attention on the Caribbean Basin during 1990. As a result, one said, investors failed to "mobilize the money for investment."[80] One Jamaican official stated that the benefits offered under the CBERA "never caught the imagination of the local community," and that Jamaica has never really felt any CBERA impact.[81] Moreover, interviewees said that CBERA-related investments in Jamaica remain focused on traditional exports, and that there have been only limited beneficial spillover effects into the rest of the economy. With most CBERA-related operations in Jamaica consisting of assembly facilities for a U.S. parent company, several businesses and government representatives remarked that there has been little progress towards the development of local suppliers to support these CBERA industries.

[72] *Caribbean Insight*, March 1991, p. 9 and June 1991, p. 2.
[73] "Jamaican Budget Reflects Terms of Coming IMF Agreement," *Caribbean Insight*, June 1991, p. 1.
[74] *Caribbean Insight*, May 1990, p. 11.
[75] Data provided by JAMPRO.

[76] JAMPRO, *Starting and Operating a Business in Jamaica*, March 1990.
[77] "Foreign Exchange Market Reformed," *Caribbean Insight*, July 1991, p. 10.
[78] Interviews with Jamaican export promotion officials, June 10, 1991 and an investment banker, June 12, 1991.
[79] Interview in with U.S. businessperson, June 10, 1990. Jamaican incentive laws impose no restrictions on profit repatriation; restrictions are a result of regulations governing access to foreign exchange. ITA, *1990 Caribbean Basin Investment Survey*, appendix H, p. 83.
[80] Interview with Jamaican business association representatives, June 10, 1991.
[81] Interview with investment banker, June 12, 1991.

Table 4-5
Selected new investments in Jamaica, 1990

Sector	*No. of Projects*	*No. of Foreign-owned Projects*
Agriculture		
Papaya	8	1
Seafood	1	-
Processed foods	2	-
Other	5	-
Manufacturing		
Textiles	12	8
Other	2	1
Information Processing	4	3
Tourism	4	-
General Services	2	2
Minerals & Chemicals	3	2
Other	3	-
Total	79	17

Source: JAMPRO.

Table 4-6
Jamaica's largest new investment projects exporting to the United States, 1990

Company	*Product*	*Capital Outlays*	*New employment*	
			Actual	*Potential*
		$1,000		
Hanover Manufacturing, Ltd.	Electrical switches	2,100	14	25
Manchester Apparel, Ltd.	Men's shirts	2,300	60	395
Meigao, Ltd.	Garments	180	150	150
Sportswear Producers, Ltd.	Ladies undergarments	1,090	135	185
Cotton City, Ltd.	Dress shirts	500	109	220
Danscha Manufacturing, Ltd.	Ladies undergarments	760	85	265

Source: JAMPRO.

Several sources provided insights into problems facing Jamaican exporters and foreign investors in Jamaica. The Jamaican Exporters' Association identified the following problems:[82]

- Poor infrastructure at Jamaican customs clearing facilities;
- Lack of centralization of Jamaican Government offices in charge of export and import regulations; and
- Short, inflexible hours and untrained staff at Jamaican port and customs clearing facilities.

Manufacturers interviewed said that their most serious problems include the Jamaican Government's bureaucracy, the lax Jamaican corporate culture, the lack of competitive domestic markets, and low Jamaican labor productivity. One manufacturer said that Jamaican producers have been unable to achieve the economies of scale needed to export.[83] On the subject of barriers to trade in the United States, one business association president expressed concern that new U.S. Food and Drug Administration (USFDA) labeling requirements for fat and cholesterol content on food products would create new barriers and expenses for Jamaican food exporters.[84]

[82] Jamaica Exporters' Association, "Some Progress, But Still Much Too Difficult to Export," *The Jamaican Exporter: Official Year Book and Membership Directory, 1989-90* (Kingston, Jamaica: Jamaica Exporters' Association, 1990), p. 30.

[83] Interview with Jamaican manufacturer, June 11, 1991.

[84] Interview with Jamaican association representatives, June 10, 1991. Jamaican manufacturers have petitioned the Jamaican Government to seek a delay of new USFDA labeling requirements. *Caribbean Update*, January 1991, p. 12. For a discussion of the difficulties other Caribbean officials have encountered in gaining USFDA approval, see USITC, *Fifth CBERA Report, 1989*, p. 1-3.

Officials interviewed made it clear that an uncertain labor situation posed many problems for investors. Shortages of middle- and upper-level managers—many of whom have emigrated—make it difficult for investors to find qualified personnel to manage local operations.[85] Views diverged on the short-term prospects for labor stability. Some businessmen responded stated that Jamaican labor unions have "matured" and are more inclined to accept peaceful collective bargaining. However, some manufacturers said they were accumulating inventories to ensure uninterrupted supplies in the event of renewed labor unrest.[86]

Most of those interviewed mentioned Jamaica's physical infrastructure as the key impediment to exporters and investors. While electricity shortages were less frequent in 1990 than in past years, such shortages still made it necessary for several of the manufacturers interviewed to maintain backup generators to ensure continuous electricity. A few individuals stated that the road system, while deficient or nonexistent in some parts of Jamaica, is adequate for operations in Kingston and Montego Bay. By some accounts, roads are in better condition in Jamaica compared to roads in other Caribbean countries.[87] However, at least one business association representative said that the country's infrastructure is in a "rotten state," and that Kingston is not putting sufficient emphasis on implementing road and telecommunications improvement programs.[88] A fiber optics cable system is being installed in Jamaica, and there are plans to digitize all local telephones exchanges. Several of the business officials interviewed, however, maintain back-up telephone lines to avoid service interruptions.[89] Insufficient water pressure, even in the FTZs, also forces manufacturers to maintain their own pumps.[90]

Some businessmen also report that the high crime rate in some areas of Jamaica is a disincentive to investors. One banking official stated, however, that he knew no case of a potential investor declining to locate in Jamaica because of local crime.[91]

Individuals contacted offered several suggestions for improving the export and investment climate in Jamaica. One suggestion was that the United States offer greater direct financial assistance to small firms, as is done in the Lome Convention's aid programs.[92] Export promotion officials mentioned the hardships and high costs incurred in export promotion campaigns in the United States. The costs of printed advertisements and of sending trade missions to the United States were mentioned as particularly onerous for cash-strapped countries.[93]

While Jamaica is the overall leading recipient of loans under the section 936 program (see appendix table B-7), the country has mixed experience with the program. In Jamaica, most section 936 loans have gone to the tourism sector and to improve the telecommunications infrastructure (appendix table B-5). Officials contacted stated that the relatively low CBERA-related use of section 936 funds was largely due to the difficulties in obtaining loan guarantees.[94] One individual stated that the costs associated with obtaining loan guarantees and letters of credit required for a section 936 loan often outweigh any savings that might result from the below-market interest rate charged on section 936 loans.[95] Small companies encounter difficulties qualifying for section 936 loans because, among other things, they tend to generate only local currency—not the dollars needed to service the loan. This problem is particularly acute in countries such as Jamaica where the government limits access to foreign exchange.[96] Jamaican export promotion officials said that the unavailability of OPIC loan guarantees has become a significant problem, and cited the example of a hotel project that had recently been denied OPIC financing for a section 936 loan.[97] To alleviate the loan guarantee problem, one individual suggested that the Inter-American Development Bank borrow the section 936 funds and lend it to eligible firms.[98]

Jamaican officials were less concerned about the impact of a United States-Mexico Free-Trade Agreement on Jamaica's exports to the United States than officials in other Caribbean Basin countries visited in 1991. According to one Jamaican businessman, Jamaica's leading exports either are not produced in Mexico, such as bauxite and alumina, or are handled through special bilateral trade arrangements as is the case with sugar.[99] Other Jamaican officials added that,

[85] Interview with U.S. businessman, June 10, 1991.

[86] Interviews with investment banker, June 12, 1991 and manufacturer, June 11, 1991.

[87] Interviews with U.S. businessman, June 10, 1991 and investment banker, June 12, 1991.

[88] Interview with Jamaican industry association representation, June 11, 1991.

[89] Visit to investment facility June 11, 1991.

[90] Interview with CBERA beneficiary in a Jamaican FTZ, June 11, 1991.

[91] Interviews with U.S. businessman, June 10, 1991 and investment banker, June 12, 1991.

[92] See the discussion of the Lome Convention in footnote 57 above.

[93] Interview with Jamaican export promotion officials, June 10, 1991.

[94] The requirement for loan guarantees is discussed in more detail in ch. 1 of this report.

[95] Interview with a Jamaican business association president, June 11, 1991.

[96] Interview with a Jamaican banking official, June 12, 1991.

[97] Officials interviewed stated that this project illustrated a contradiction between the section 936 program, which excludes the use of 936 funds for the purchase of existing assets, and U.S. Government encouragement of privatization. Interview with Jamaican export promotion officials, June 10, 1991. See also the discussion of OPIC loan guarantees and section 936 loans above.

[98] Interview with a Jamaican businessman, June 10, 1991.

[99] Interview with a Jamaican business association president, June 11, 1991.

unlike Mexico, the English-speaking Caribbean Basin countries such as Jamaica are well-placed to provide labor for offshore service industries such as data processing and telemarketing, where English-language use is important for access to the U.S. market.[100]

Dominican Republic

Economic and trade performance

Ferronickel and sugar are the Dominican Republic's two largest export commodities, with 1990 exports valued at $372.0 million and $217.8 million respectively.[101] Mining accounted for over 45 percent of the value of Dominican exports, while agriculture, including sugar, coffee, cocoa, tobacco, pineapples, bananas, and other fruits and vegetables, accounted for about one-half of export earnings.[102] The agriculture role in the Dominican economy has declined in recent years from 17 percent of GDP in 1985 to 15 percent of GDP in 1990,[103] largely due to rapid expansion in the manufacturing sector. Manufacturing output in the Dominican Republic has increased because of the established FTZs and the rapid expansion of manufacturing for export in sectors such as apparel, electronics, and jewelry.[104] Dominican exports to the United States under HTS subheading 9802.00.80 increased by 4.3 percent from $554.7 million in 1989 to $580.9 million in 1990.[105] Food and beverages account for nearly 70 percent of total manufacturing output, followed by chemicals (11 percent), iron and metal products (5.5 percent), and textiles (5 percent).[106] Less than 3 percent of all Dominican firms produce 47 percent of value-added in the manufacturing sector.[107]

During 1990, the Dominican Republic's merchandise exports totalled $703.9 million (a 15-year low)[108] and imports totalled $1.8 billion, resulting in a merchandise trade deficit of $1.1 billion.[109] Slower U.S. and global economic growth in the past year, exacerbated by the Persian Gulf crisis and fuel shortages, adversely affected Dominican export industries and the tourism sector, resulting in the Dominican Republic posting a 4-percent real decline in economic growth in 1990.[110]

The Dominican Republic faced an energy crisis during most of 1990, precipitated by rapidly rising demand, technical difficulties at power plants, insufficient fuel imports, and illegal tapping into power lines. Power outages—which had lasted 4 to 6 hours per day in early 1990[111]—lasted as long as 16 to 18 hours per day by midyear.[112] In early 1990, the Dominican Congress passed a bill allowing partial privatization of the state-owned electricity utility company. The new private companies were authorized to sell electricity to large consumers such as FTZs and hotels, as well as to the state-run electricity utility.

The Dominican Republic experienced a foreign exchange crisis during most of 1990. Only widespread criticism prevented Santo Domingo from enforcing a decree announced in June that would have required all arriving passengers to exchange $100.00 at the official exchange rate. In October 1990, the Dominican Government launched a program to eliminate the country's foreign exchange black market.[113] As part of this operation, importers were required to provide proof that the foreign exchange they were using was acquired through the official exchange system.[114] This step "paralysed" trade[115] and ports became clogged as the Government forbade removing any merchandise not supported by an import permit that certified that foreign exchange had been obtained through the Dominican Republic Central Bank.[116]

In August 1990, the Government of the Dominican Republic introduced an economic austerity program that devalued the currency by 28.5 percent and nearly doubled food and fuel prices.[117] This program was implemented to cut state subsidies, reign in the fiscal deficit and, according one administration source, implement an economic program that would make a favorable impression for a future IMF agreement.[118] In December, Santo Domingo announced a comprehensive program to privatize most of the country's 25 Government-owned companies.[119]

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[100] Interview with Jamaican export promotion officials, June 10, 1991.

[101] The Economist Intelligence Unit (EIU), *Country Report: Cuba, Dominican Republic, Haiti, Puerto Rico*, No. 2, 1991, p. 5.

[102] Ibid. and Centro de Investigation y Estudio de Derecho Empresarial, Inc. (CEDEMPRESA), *Republica Dominicana: Situacion y Perspectiva*, January 1991, pp. 12-14.

[103] Central Bank of the Dominican Republic, "Business and Trade," *The Dominican Republic: 1492-1992*, pamphlet (Santo Domingo, Dominican Republic: Santo Domingo News Company, no date).

[104] CEDEMPRESA, "Zona Franca," *Republica Dominicana*, p. 11.

[105] *Caribbean Update*, April 1991, p. 23.

[106] "The Dominican Republic Today," *The Santo Domingo News*, special supplement, June 1991.

[107] Ibid.

[108] Dominican export data do not include exports from the FTZs. FTZ exports are calculated as exports of services. See EIU, p. 28.

[109] *International Financial Statistics*, IMF, June 1991.

[110] EIU, p. 5.

[111] "Bosch Holds Lead Over Split Parties," *Caribbean Insight*, February 1990, p. 6.

[112] *Caribbean Update*, August 1990, p. 8.

[113] "Loyalty Pledge by Dominican Army Follows Coup Rumors," *Caribbean Insight*, November 1990, p. 3 and "Dominican Republic Gripped by a New General Strike," *Caribbean Insight*, December 1990, p. 6.

[114] Ibid.

[115] *Caribbean Insight*, December 1990, p. 6.

[116] *Caribbean Update*, December 1990, p. 8.

[117] "Strike Deaths Follow Price Rises in Dominican Republic," *Caribbean Insight*, September 1990, p. 7.

[118] Ibid.

[119] Hilda L. Quinones Rivera, "Dominican Republic Embraces Privatization," *Caribbean Business*, Dec. 20, 1990, p. 22.

Facilities considered of primary importance to the economy, including flour and boot manufacturing, reportedly will remain under state control.[120]

An IMF team visited the Dominican Republic in January 1991 as negotiations commenced for a standby loan. Dominican Republic President Joaquin Balaguer stated his commitment to sign an agreement with the IMF in February 1991 shortly after ending the Central Bank's monopoly on foreign exchange transactions. Balaguer established a dual foreign exchange market system that allowed commercial banks to operate at a free market rate while the Central Bank set the exchange rate for official transactions.[121] President Balaguer announced an IMF agreement had been successfully concluded on July 1, 1991.[122] At that time, he also announced a plan to unify the exchange rate at a level "to be determined by market forces."[123]

Investment activity

Foreign investment plays a key role in the economy of the Dominican Republic. In the manufacturing sector, most foreign investment operations center on production in one of the country's 22 FTZs, which employ an estimated from 120,000 to 130,000 workers. The three largest Dominican FTZs are Itabo, San Pedro de Macoris, and Las Americas. The Dominican Republic Investment Promotion Council (IPC) is a nonprofit quasi-governmental agency that assists investors with local administrative and regulatory issues. In 1990, the IPC signed an agreement with USAID extending a U.S.-Dominican Investment and Export Promotion Program through 1993,[124] and adding $4 million in assistance from the United States.[125]

Firms operating in Dominican FTZs generated over $800 million in total exports in 1990.[126] About 340 companies—240 producing textiles, 41 producing footwear and leather goods, and 22 producing electronics components—operated in the Dominican Republic's FTZs by the end of 1990. There were 272 at the end of 1989.[127] Some individuals interviewed attributed the increase in part to investors relocating to the Dominican Republic from Haiti and other Caribbean locations. Foreign corporations identified in Dominican FTZ's included Abbott Laboratories, Bristol Myers, General Electric, GTE, Hanes, and Westinghouse.[128] Jewelry manufacturing is expanding rapidly in the Dominican Republic. Jewelry exports rose from $65.2 million in 1989 to $84.6 million in 1990. There are now 13 jewelry manufacturing firms at Dominican FTZs, with total employment of 2,300, and another five firms outside the zones.[129]

The Commission identified 23 new investments in Dominican FTZs in 1990, including one twin-plant operation (table 4-7).

Investment climate

The Government of the Dominican Republic has enacted several measures to attract foreign investors. There are several laws,[130] including law 8-90, enacted in January 1990, to encourage investment in the country's 12 privately owned and 10 Government-owned FTZs. Incentives include a 15- to 20-year tax holiday, duty-free imports of raw materials and other goods destined for re-export, freedom from the foreign currency holding and exchange restrictions that apply to local operations, and expedited customs procedures.[131] FTZs offer investors better infrastructure, particularly telecommunications services and utilities, than is available outside of the zones.[132] Pay and benefits are higher in the zones—which attract better trained workers and which results in lower labor turnover. The Dominican Republic also offers "Special Free Zone" status, for operations such as agribusinesses and ship repairing that must operate outside the physical boundaries of the zones.[133] Interview respondents cited the country's close proximity to Puerto Rico and regular shipping service to the United States as factors making just-in-time delivery feasible for most firms. As a result, FTZ manufacturers reported needing to carry only 1-week inventories.[134]

Interviewees stated that the CBERA has created new jobs in the Dominican Republic and has helped raise exports. However, some businessmen indicated that the growth of the FTZs has been less beneficial for the domestic economy than they had hoped. Several stated that Dominican FTZs are "isolated" from the rest of the economy in that they have no linkages and make

[120] Ibid.
[121] *Caribbean Insight*, April 1991, p. 7.
[122] *Latin American Weekly Report*, July 11, 1991, p. 12.
[123] Ibid.
[124] The original IPC-USAID agreement was in effect from March 1987 through Jan. 31, 1990.
[125] Consejo Promotor de Inversiones de la Republica Dominica (Investment Promotion Council of the Dominican Republic, IPC), *Memoria Anual 1990*, p. 1.
[126] "The Dominican Republic Today," *The Santo Domingo News*, special supplement, June 1991.
[127] EIU, *Country Report: Cuba, Dominican Republic, Haiti, Puerto Rico*, No. 2, 1991, p. 29 and data provided by IPC.
[128] Information provided by IPC.
[129] *Caribbean Update*, June 1991, p. 9.
[130] See IPC, *Legal Guide to Investment, Free Zones and Exporting in the Dominican Republic*, translated by the law firm of Pellerano & Herrera.
[131] IPC, *Law 8-90: Encouraging the Establishment of New Free Zones and Growth of Existing Ones*, translated by the law firm of Pellerano & Herrera, and *Free Zones in the Dominican Republic*, March 1990. Law 8-90 was enacted Jan. 15, 1990. The IPC identified 70 firms as authorized to operate under Law 8-90 during 1990, including 6 twin-plant operations.
[132] Interview with a Dominican FTZ official, June 15, 1991.
[133] IPC, *Free Zones in the Dominican Republic*, March 1990.
[134] Interview with a manufacturer in the Itabo FTZ, June 13, 1991.

Table 4-7
New investments in Dominican FTZs, 1990

Sector	*Number of Firms*	*Investment*	*Employment*
Apparel	8	$9.2 million	1,001
Electronics	4	6.0 million	539
Footwear	6	0.9 million	577
Agroindustry	1	0.5 million	60
Other*	4	11.7 million	244
Total	23	$28.3 million	2,421

* Other sectors were: jewelry (a twin plant), printing, plastic products, and furniture.

Source: IPC.

only minimum use of local outside suppliers.[135] A USAID program is currently in place to promote the development of such linkages.[136]

In general, manufacturers indicated that 1990 was a difficult year, particularly on the heels of a banner 1989. Special problems were the uncertainties following the Dominican Presidential election and the impact of the U.S. recession on the Dominican economy.[137] Despite the 53 new companies that started operations in Dominican FTZs during the year, employment fell by an estimated 20,000 jobs.[138] The apparel sector was hit especially hard by declining investment as the Dominican Republic lost some investment to Costa Rica and Mexico.[139] Labor unrest also detracted from 1990 economic performance. Although Dominican workers were generally described by manufacturers as highly trainable and dependable, there were 117 labor strikes during the year. Several businessmen spoke of the difficulty finding local midlevel managers because of a "brain drain" through emigration.

According to U.S. officials, the main problem for investors in the Dominican Republic are the unpredictablities associated with the Dominican legal system. Difficulties have arisen with regard to honoring the terms of business contracts and exaggerated promises by the Dominican Government. Foreign investors reportedly have had trouble seeking redress for their grievances. Dominican officials and FTZ manufacturers all said that bureaucracy has led to many delays and setbacks for investors. Restrictions on foreign investment also were mentioned during interviews as an ongoing impediment to foreign investment. Foreign ownership is restricted to 30 percent in communications, defense, transportation, and forestry, and up to 49 percent in agriculture and financial services.[140] According to the U.S. Embassy, the process of deregulation and introducing competition into the Dominican economy has been fairly slow.[141]

Many officials cited stabilization of the exchange rate and repatriation of foreign exchange as serious obstacles to investment. Individuals interviewed reported that companies can legally repatriate only 25 percent of their profits,[142] although legislation that would allow 100-percent repatriation reportedly is being considered by the Dominican Government.[143] One respondent spoke of the inability of Dominican exporters to obtain export insurance because of the lack of adequate financing.[144] Several respondents expressed the desire that the CBERA include a development bank, as is offered under the Lome Convention.[145] Some respondents favored the lifting of U.S. textile quotas, while others believed that the quotas protect the Dominican Republic's share of the U.S. market in the face of highly competitive Far Eastern countries. They suggested that the Dominican Republic could lose sales if the United States lifted quotas.

Respondents spoke of bribery, discretionary rulings, and delays in customs clearance as additional obstacles to investment.[146] Following a recent case in which illegally imported automobiles were discovered among items entering an FTZ, Dominican Republic

[135] USAID has initiated an "Industry Linkages Program" to encourage Dominican industries to upgrade their standards in order to compete in other markets. The program is focusing on FTZ companies first and attempting to develop more local suppliers. Interview with a USAID official, June 13, 1991.

[136] Interview with a U.S. Embassy official, June 13, 1991.

[137] For a discussion of the impact of the 1990 U.S. recession on Dominican manufacturing activity, see CEDEMPRESA, "Zona Franca," *Republica Dominicana*, p. 11.

[138] Ibid.

[139] Interview with a Dominican manufacturer, June 15, 1991.

[140] ITA, *1990 Caribbean Basin Investment Survey*, p. 23.

[141] Interview with U.S. officials, June 13, 1991.

[142] Dominican foreign investment regulations restrict profit repatriation to 25 percent of registered investment annually. ITA, *1990 Caribbean Basin Investment Survey*, appendix H, p. 83.

[143] Interview with a Dominican government agency, June 13, 1991.

[144] Interview with a Dominican export promotion association, June 14, 1991.

[145] See the discussion of the Lome Convention in footnote 57 above.

[146] Interview with a Dominican FTZ manufacturer, June 15, 1991.

customs authorities were reported as requiring inspections both at the port-of-entry and inside the FTZ.[147] The Dominican Government is considering legislation to streamline the customs clearance process.[148]

Physical infrastructure remains another problem. Fuel and electrical shortages, although less severe now than in 1990, cause periodic factory down-time and force most companies to maintain backup generators.[149] The FTZs were not immune from these problems.[150] While most officials contacted praised the telephone service in the Dominican Republic, several criticized the inadequate roads, the overburdened ports, and the bureaucracy that meets exporters.

According to some interviewees, U.S. investors are more interested in Mexico than the Dominican Republic as an investment location because of the likelihood that a United States-Mexico Free-Trade Agreement will be signed in the near future.[151] Some Dominican manufacturers noted that there was inadequate market research data available for U.S. investors and that there is a need to disseminate information on investment opportunities in the Dominican Republic to U.S. businesses.[152]

Several respondents stated that the Dominican investment climate has deteriorated as a result of adverse publicity surrounding the recent U.S. GSP review of workers' rights in the Dominican Republic. They also expressed the concern that this might have an adverse impact on the Dominican Republic's continued eligibility for the CBERA. There are an estimated 750,000 Haitians working in the Dominican Republic, most of whom are believed to have entered the country illegally. An investigation into the working conditions of Haitian sugar cane workers in the Dominican Republic as part of the 1989 and 1990 GSP reviews[153] found no grounds for implementing U.S. trade sanctions or removing of GSP benefits.[154] In October 1990, the Dominican Government issued a decree requiring that Haitian cane cutters in the Dominican Republic be provided written work contracts and that employers of Haitian workers file reports on these workers with the Government.[155] The issue of workers' rights in the Dominican Republic arose again during U.S. Congressional hearings in June 1991.[156] The 1990 CBERA imposes stricter standards for country eligibility and workers' rights than the 1984 CBERA by requiring beneficiaries adhere to the same standards established under the GSP.[157]

Several Dominican businessmen contacted complained about their unsuccessful experiences in attempting to secure section 936 funds. One FTZ manager stated that Fomento is unwilling to provide many loans to the Dominican Republic because that country represents a threat to the Puerto Rican manufacturing sector. One Dominican official cited the problem that section 936 loans can not be obtained based on the value of certain assets, including mortgages held in the Dominican Republic and assets denominated in Dominican pesos. This practice discriminates against smaller companies, the official said.[158] Suggestions from Dominican interviewees for improving access to section 936 funds including allowing section 936 lending programs to be established in other Caribbean countries and permitting local-currency denominated loans.

Officials interviewed expressed concern about the impact a United States-Mexico FTA might have on Dominican exports to the United States and the outlook for foreign investment in the Dominican Republic under such an FTA. However, several individuals cited certain factors that hold the possibility that the Dominican Republic can remain competitive with Mexico. Businessmen with experience operating both in the Caribbean and in Mexico stated that Caribbean products were often of better quality than comparable Mexican products.[159] One businessman stated that, in contrast to Mexico's proximity to western and southwestern U.S. markets, the Dominican Republic has the advantage of being closer to Miami and U.S. east coast markets.

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[147] Interview with a Dominican FTZ manufacturer, June 14, 1991.

[148] Interview with Dominican export promotion association, June 14.

[149] There were reportedly 15,000 privately owned generators in the Dominican Republic at the end of 1989. These generators had an estimated total capacity of 650 mW, versus an average 500 mW average estimated output generated by the state-owned electric utility. "Energy Crisis Hits Balaguer's Chances," *Caribbean Insight*, April 1990, p. 10.

[150] CEDEMPRESA, "Republica Dominicana," p. 11 and "Dominican Doubts," *South*, April 1990, p. 36.

[151] The likely impact of a United States-Mexico Free-Trade Agreement on the CBERA countries is discussed below.

[152] Interview with a Dominican FTZ manufacturer, June 14, 1991.

[153] For a discussion of the GSP review of worker rights in the Dominican Republic, see ch. 5 in USITC, *Operation of the Treaty Agreements Program*, 42d Report, 1990, USITC publication 2403, July 1991.

[154] "Dominican Republic Escapes U.S. Sanctions," *Financial Times*, Apr. 30, 1990, p. 8.

[155] "Contracts for Haitians," *Caribbean Insight*, November 1990, p. 2.

[156] "D.R. Told it Could Lose U.S. Foreign Aid," *Caribbean Business*, June 20, 1991, p. 35.

[157] See the discussion of provisions of the 1990 CBERA in ch. 1 of this report.

[158] Interview with a Dominican investment promotion representative, June 13, 1991.

[159] Interviews with Dominican FTZ manufacturers, June 14-15, 1991.

Economic and trade performance

Haiti's main exports are light manufactures, coffee, and other agricultural products. Total manufactured exports declined from $150 million in 1989 to $141 million in 1990. Because of the ongoing economic slowdown, imports declined from $314 million to $272 million during the same period, resulting in a 1990 trade deficit of $131 million.[160] The Haitian economy contracted by about 2 percent in 1990 as the country remained plagued by political instability, suspended or significantly reduced foreign aid, declining investor confidence, inflationary fiscal and monetary policies, and a hard currency shortage.

The unemployment rate as of June 1990 was estimated at 50-55 percent.[161] An estimated two-thirds of the population depends on subsistence farming for survival.[162] More than one-third of the land of Haiti is exhausted from overplanting and erosion. Arable land shrinks by as much as 3 percent annually.[163]

Investment activity

The Commission identified no new investments established in Haiti during 1990. The Haitian Investment Promotion Agency (Prominex) reported new contracts for five existing export operations in 1990—all textile and apparel manufacturers, totaling approximately $100,000, which are expected to create over 260 new jobs (table 4-8).[164] Textiles and apparel make up the majority of U.S. imports from Haiti.[165] U.S. imports of textiles and apparel from Haiti under HTS subheading 9802.00.80 (formerly TSUS 807.00)[166] declined by 5.6 percent from $157.1 million in 1989 to $148.2 million in 1990.[167]

Most government and business officials contacted were pessimistic about the prospects for economic recovery in 1991. Some stated that increased competition from textile and apparel exporters in the Far East will erode Haitian access to the U.S. market.[168]

[160] EIU, p. 7.
[161] Interview with Haitian export promotion organization, June 17, 1991.
[162] "Bare, Brown, and Barren," *The Economist*, June 1, 1991, p. 37.
[163] Ibid.
[164] Information obtained from unpublished Prominex data.
[165] EIU, *Country Report: Cuba, Dominican Republic, Haiti, Puerto Rico*, No. 2, 1991, app. 6.
[166] These items are recorded as trade in services.
[167] *Caribbean Update*, April 1991, p. 23. Haiti has had a GAL agreement with the United States for several years. For more information on HTS heading 9802.00.80 and the GAL program, see the section "HTS Subheadings 9802.00.60 and 9802.00.80" in ch. 1 of this report.
[168] Interview with Haitian business association representatives, June 13, 1991.

The Haitian Government and the business community are concentrating their efforts on keeping current investments rather than on attracting new ones. Haiti's unstable political situation and the global economic slowdown caused net losses of both jobs and investment. The export manufacturing and assembly sector lost an estimated 9,000 jobs in 1990 as several companies ceased their Haitian operations. One major U.S. baseball manufacturer with a total employment of some 800 workers relocated its Haitian operations to Costa Rica.[169] However, two other baseball manufacturers have indicated their intentions to remain in Haiti because of the latitude the Haitian Government gives them to operate.[170] Some large foreign companies reportedly have cancelled orders for Haitian-produced clothing based on the concern that Haitian firms can not be relied on to complete them.[171] In the current environment, even domestic producers refrain from investing in the local Haitian economy, pending signs of political and economic stability.[172]

Investment climate

The majority of interview respondents spoke of the unsettling effects of the rapid succession of new Haitian Governments in the previous 5 years. One source, while acknowledging Haiti's history of political instability, said that the ongoing decline in investment activity is exacerbated by "Haiti's image of violence and instability."[173]

The new Haitian Government, elected in February 1991, focused on achieving political stability during its first 6 months in office. The Haitian Government has had little time to formulate and announce an economic program or to consider improvements in foreign trade and investment policies. Most individuals interviewed agreed, however, that political stability and sound economic policies are the keys to improving the investment climate, and that Port-au-Prince will have to reverse years of "government-induced sloth and corruption."[174] Haitian Government officials reported that the new administration is working with international organizations to obtain more short-term financial aid and assistance to improve the country's physical infrastructure.[175]

Most private sector officials contacted emphasized the need for the Haitian Government to increase the 40-percent profit repatriation allowance to 100

[169] *Caribbean Update*, January 1991, p. 10.
[170] Ibid.
[171] Howard W. French, "The Unsettling Exodus of Foreign Investment," *Washington Post*, Feb. 10, 1991, p. 10F.
[172] Interviews with Haitian business and government officials, June 17, 1991.
[173] Howard W. French, "The Unsettling Exodus of Foreign Investment," *Washington Post*, Feb. 10, 1991, p. 10F.
[174] Ibid.
[175] Interview with a Haitian government official, June 18, 1991.

Table 4-8
Textile and apparel contracts awarded in Haiti, 1990

	Investment	Employment Created
	(U.S. dollars)	(persons)
	$30,000	30
	1,345	12
	57,500	150
	25,000	40
	$8,000	30
Total	$121,845	262

Source: Prominex.

percent.[176] They also stated that the severe deterioration in Haiti's economic infrastructure (roads, bridges, electricity, communications, and ports) and in living standards (public access to potable water, food, and medical care) may deter potential investors.

Among the problems cited affecting exporters, several individuals mentioned the difficulties with on-site customs clearance. They alleged that payoffs must be made to customs officials and that the Haitian Government bureaucracy lacks knowledge about the needs of the business sector.[177] While the majority of business people spoke favorably of the current President and his administration's efforts to reduce corruption, they pointed to inexperience in high levels of the administration that could hinder the President's ability to maneuver Haiti out of its economic crisis.

Several respondents stated that a recent government proposal to raise the minimum wage to 25 gourdes (approximately $5.00) per day would erode Haiti's competitiveness in the Caribbean Basin. Respondents estimated that the proposed minimum wage would cost 3,000 jobs because employers would lay off workers rather than pay the higher wage.[178]

Interviewees suggested that Haitian exports would benefit from an expansion of the CBERA to include textiles. They indicated that with current levels of excess capacity and unemployment, the Haitian textiles industry could easily double its output to meet the resulting increase in demand. Representatives of both government and business noted Haiti's previous success in expanding textile exports to the United States, and pointed to the hard-working, dependable Haitian labor force as another asset to encourage future investments.

[176] Although incentive laws permit unrestricted profit repatriation, this is contingent upon the availability of foreign exchange. See ITA, *1990 Caribbean Basin Investment Survey*, appendix H, p. 83.

[177] Interviews with business and government officials, June 17, 1991.

[178] Interview with Haitian export promotion organization officials, June 17, 1991.

The Bahamas

Economic and trade performance

Petroleum, pharmaceuticals, chemicals, and seafood are leading exports of The Bahamas. Exports to the United States rose from $773 million in 1989 to $800 million in 1990. Imports increased from $460 million to $507 million during the same period. However, manufactured exports are not a large component the economy of the Bahamas. They account for only 3 percent of GDP. Financial services, on the other hand, account for about 7 percent of GDP. Tourism accounts for from 50 to 60 percent of GDP.[179] The Bahamian economy registered only marginal expansion in 1990 in response to a decline in the tourism sector. Tourist arrivals were down by nearly 1 percent in 1990 as compared to the 1989, and down by over 20 percent in the first 2 months on 1991 in comparison with the same period in 1990.[180]

With an economy based primarily on tourism and offshore banking, the Bahamian Government already has enacted one of the most liberal investment regimes in the Caribbean. Banking secrecy laws, liberal legal provisions for the registration of financial institutions, and no taxes on income, profits, capital gains, and inheritance all favor foreign investment.[181] A decline in 1990 tourism earnings, however, has prompted the Government to give new attention to encouraging investment in other sectors of the economy.

Investment activity

While foreign investment is central in tourism and banking, foreign investment in the manufacturing sector is peripheral in the Bahamian economy. The Bahamas offers investors in agricultural and

[179] U.S. Embassy, Nassau, *Foreign Economic Trends and Their Implications for the United States: Commonwealth of the Bahamas*, May 1991.

[180] *Caribbean Update*, July 1991, p. 23.

[181] Bahamas Ministry of Tourism, "Taxation," *The Bahamas: Frontier Formalities—Employment, Residence, and Investment*, pamphlet (Nassau, The Bahamas: Bahamas Ministry of Tourism, June 1988).

manufacturing operations liberal incentives, including tax concessions, duty-free import allowances, and FTZs both in Freeport[182] and in Nassau. Some officials contacted indicated that investors have been slow to use many of the trade-related investment incentives the Bahamian Government provides. Others stated that the Government has not actively promoted these programs. One Bahamian Government official explained the low interest in promotion of trade and investment was a result of the Bahamas' history as a transshipping rather than a manufacturing nation.[183] The Bahamas' only trade promotion agency is the Bahamas Agricultural and Industrial Cooperation (BAIC). The BAIC is a self-financed government agency that provides general trade and investment information. The BAIC earns funds through leasing government-owned land to enterprises in the Bahamas.

The Commission identified 13 firms operating in the Bahamas using the CBERA to export to the United States (table 4-9). Two firms, Brookwood Farm, Ltd. and Union Stock Yard, realized their first exports under the CBERA during 1990. Some Bahamian Government officials indicated that they were aware of several firms exporting to the United States using neither CBERA nor GSP, but these officials were unable to furnish further information. BAIC representatives stated that one citrus-growing firm recently moved to the Bahamas specifically to use the CBERA, but it did not export under the CBERA during 1990.

Investment climate

In an effort to make the Bahamas more competitive in offshore financial services, Nassau enacted the International Business Companies Act in January 1990 to simplify and cut the costs of incorporating offshore companies. However, the Bahamian Government maintains foreign exchange control regulations for unregistered nonresident companies and for nonresident individuals investing in the Bahamas. A newly implemented Investment Promotion Program—particularly aimed at Hong Kong investors—offers permanent residence status to investors who, among other requirements, establish businesses that create permanent jobs in the Bahamas.[184] The Industries Encouragement Act, the Hotels Encouragement Act, the Tariff Act, and the Tariff and Beer Manufacturing Act were legislated to stimulate investment through various allowances of duty-free imports of materials and equipment.[185] Despite urging from the private sector, the Government has made no headway towards privatizing state-run monopolies on broadcasting, domestic airline service, electricity, and telecommunications.[186]

The Bahamian Government is particularly interested in developing fish and lobster exports. Bahamian officials stated that interests from Taiwan recently have invested in the mariculture industry. The Government also plans to assess the possibility of marketing exotic vegetables in the Far East.

Most business people interviewed criticized the Bahamian Government for not taking a larger role in the development of industries or export promotion.[187] Several individuals interviewed cited a general lack of awareness in the Bahamian business sector about the trade benefits available to them under CBERA and other programs such as the U.S. GSP and the Lome Convention.[188]

Individuals contacted explained this lack of knowledge by the low Bahamian interest in the export production, possibly because of labor costs higher in the Bahamas than in other Caribbean countries. With a minimum wage of $2.20-$3.00 per hour (table 4-2),[189] officials interviewed stated that The Bahamas needs more trade incentives in high value-added, or "upscale," production to cover labor costs, rather than the low value-added assembly products the CBERA encourages.[190] Officials interviewed also mentioned the high costs associated with shipping to the United States and the limited direct air or sea connections with other Caribbean countries. These factors may have prevented the Bahamas from taking advantage of CBERA allowances for processing in more than one eligible country. One businessman stated that Bahamian manufacturers are discouraged by the bureaucratic procedures required to export.[191]

Some individuals suggested that the U.S. Department of Commerce or the U.S. Embassy provide an educational video tape (printed information was deemed to be only of limited value) on the CBERA that could be shown on local television and to local business associations.[192] Representatives of the Bahamas Government suggested that the CBERA expand to offer technical assistance to exporters. Cited models were the promotional programs sponsored by the Governments of Norway and Sweden.[193]

[182] The legislation creating the Freeport FTZ is due to expire in 1992. Preliminary discussions on its renewal are underway.

[183] Interview with a Bahamian Ministry of Agriculture, Trade, and Industry official, June 20, 1991.

[184] "Bahamas Eases Foreign Investor Residency Rules," and "Consumer Credit Boom Puts Pressure on the Reserves," *Caribbean Insight*, December 1990 and U.S. Embassy, Nassau, The Bahamas, *Foreign Economic Trends and Their Implications for the United States: Commonwealth of the Bahamas*, May 1991.

[185] Ministry of Tourism, "Frontier," pamphlet.

[186] Bahamas Chamber of Commerce, "Ex Officio Chamber Chief Calls for More Privatisation, Member Participation," *Chamber Report*, June 1991.

[187] Interview with a Bahamian business association representative, June 20, 1991.

[188] Ibid. See the discussion of the Lome Convention in footnote 57 above.

[189] ITA, *1990 Caribbean Basin Investment Survey*, appendix I, p. 85.

[190] Interview with a Bahamian ministry official, June 20, 1991.

[191] Interview with an exporter in the Bahamas, June 20, 1991.

[192] Interviews with Bahamian government officials and business representatives, June 20, 1991.

[193] Interview with Bahamian government official, June 20, 1991.

Table 4-9
Exporters in the Bahamas using the CBERA, 1990

Company name	*Location*	*Product*
Bahamas Mariculture Research	Freeport	Seafood
Bahamas Star, Ltd.	Abaco	(not available)
Brookwood Farm, Ltd.	Freeport	Papayas
Caribe Bahamas, Ltd.	New Providence	Suntan oils
Fragrance of the Bahamas	Freeport	Cosmetics
Island Construction	Freeport	Limestone
Kendal Farms	Freeport	Papayas
Marcona Ocean Industries	Ocean Cay	Seafood
Morton Bahamas, Ltd.	Inagua	Bulk salt
Rock Sound Groves	Eleuthera	Avocados, papayas
Sunshine Farms	Freeport	Papayas
Syntex Pharmaceuticals Int'l, Ltd.	Freeport (FTZ)	Pharmaceuticals
Union Stock Yard	Eleuthera	Papayas

Source: BAIC and USITC.

Bahamian officials interviewed were critical of the need for CBERA countries to sign a TIEA before becoming eligible to receive section 936 loans.[194] Several individuals stated that the Bahamas has not signed a TIEA for fear of harming the financial sector, which has grown largely because of the country's banking secrecy laws.[195] One business association representative stated that the Bahamas already meets many of the requirements established under a TIEA. This individual stated that the Bahamas cooperates with the United States on anti-drug law enforcement and that Bahamian banks must report all cash deposits over $5,000 to the Bahamian Government.[196] Another individual stated that the lack of a TIEA is hurting the Bahamian hotel industry, which expanded in recent years with the hope that the U.S. convention tax deduction[197] would be applicable to the Bahamas.[198]

[194] See the discussion of section 936 loan requirements and TIEAs in ch. 1 of this report.

[195] Bahamian banking secrecy laws are widely promoted to investors. See Bahamas Chamber of Commerce, *1991 Directory*, p. 54.

[196] Interview with a business association representative, June 20, 1991.

[197] See the discussion of TIEAs in ch. 1 of this report.

[198] Interview with a business association representative, June 20, 1991.

APPENDIX A
FEDERAL REGISTER NOTICE AND LIST OF SUBMISSIONS

FOR FURTHER INFORMATION CONTACT: William T. Kane, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436; telephone: (202)-252-1116. Copies of the ID, consent order, and all other nonconfidential documents filed in connection with this investigation are available for inspection during official business hours (8:45 a.m. to 5:15 p.m.) in the Office of the Secretary, U.S. International Trade Commission, 500 E. Street, SW., Washington, DC 20436; telephone: (202)-252-1000. Hearing-impaired individuals are advised that information on this matter can be obtained by contracting the Commission's TDD terminal at (202)-252-1810.

SUPPLEMENTARY INFORMATION: On January 2, 1991, Greater Texas Finishing Corporation and Golden Trade S.R.L. filed a complaint alleging a violation of section 337 in the importation, sale for importation, or sale after importation of acid-washed denim products by reasons of infringement of claims 6 and 14 of U.S. Letters Patent 4,740,213 (the '213 patent). The Commission voted to institute an investigation of the complaint on January 28, 1991, and published notice of institution of the investigation in the Federal Register. 56 FR 4851 (Feb. 6, 1991).

On April 19, 1991, complainants and respondent Bon Jour moved jointly pursuant to interim rule 210.51 to terminate the investigation as to Bon Jour on the basis of a consent order and consent order agreement (Motion Docket No. 324-10). The Commission investigative attorney filed a response in support of the joint motion. On May 3, 1991, the presiding administrative law judge issued an ID granting the motion (ALJ Order No. 8). Notice of the ID was published in the Federal Register on May 22, 1991. 56 FR 23596. No petitions for review or agency or public comments were received.

This action is taken pursuant to section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), and Commission interim rules 210.53 and 211.21 (19 CFR 210.53 and 211.21, as amended).

Issued: June 10, 1991.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 91-14600 Filed 6-18-91; 8:45 am]

BILLING CODE 7020-02-M

[Investigation No. 332-227]

Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers

AGENCY: International Trade Commission.

ACTION: Notice of deadline to submit comments in connection with 1990 annual report.

EFFECTIVE DATE: June 6, 1991.

FOR FURTHER INFORMATION CONTACT: James E. Stamps (202-252-1227), Trade Reports Division, Office of Economics, U.S. International Trade Commission, Washington, DC 20436.

BACKGROUND: Section 215(a) of the Caribbean Basin Economic Recovery Act (CBERA) (19 U.S.C. 2704(a)) requires that the Commission submit annual reports to the Congress and the President on the impact of the act. The Commission instituted the present investigation under section 332(b) of the Tariff Act of 1930 (19 U.S.C. 1332(b)) on March 21, 1986, for the purpose of gathering and presenting such information through the termination of duty-free treatment under the CBERA. Notice of institution of the investigation and the schedule for such reports was published in the Federal Register of May 14, 1986 (51 FR 17678). The sixth report, covering calendar year 1990, is to be submitted by September 11, 1991.

In the original notice of investigation, it was announced that, as provided in section 215(b) of the CBERA, the Commission in such reports is required to assess the actual effect of the act on the United States economy generally as well as on appropriate domestic industries and to assess the probable future effect which the act will have on the United States economy generally and on such domestic industries.

WRITTEN SUBMISSIONS: The Commission does not plan to hold a public hearing in connection with the sixth annual report. However, interested persons are invited to submit written statements concerning the matters to be addressed in the report. Commercial or financial information that a party desires the Commission to treat as confidential must be submitted on separate sheets of paper, each clearly marked "Confidential Business Information" at the top. All submissions requesting confidential treatment must conform with the requirements of § 201.6 of the Commission's *Rules of Priactice and Procedure* (19 CFR 201.6). All written submissions, except for confidential business information, will be made available for inspection by interested persons in the Office of the Secretary to the Commission. To be assured of consideration by the Commission, written statments relating to the Commission's report should be submitted at the earliest practical date and should be received no later than July 26, 1991. All submissions should be addressed to the Secretary to the Commission, U.S. International Trade Commission, 500 E St., SW., Washington, DC 20436.

Hearing-impaired persons are advised that information on this matter can be obtained by contacting the Commission's TDD terminal on (202) 252-1809.

Issued: June 10, 1991.

By order of the Commission.

Kenneth R. Mason,

Secretary.

[FR Doc. 91-14599 Filed 6-18-91; 8:45 am]

BILLING CODE 7020-02-M

[Investigations Nos. 731-TA-474 and 475 (Final)]

Chrome-Plated Lug Nuts From the People's Republic of China and Taiwan

AGENCY: Untied States International Trade Commission.

ACTION: Revised schedule for the subject investigations.

EFFECTIVE DATE: June 13, 1991.

FOR FURTHER INFORMATION CONTACT: Bruce Cates (202-252-1187), Office of Investigations, U.S. International Trade Commission, 500 E Street SW., Washington, DC 20436. Hearing-impaired persons can obtain informaiton on this matter by contacting the Commission's TDD terminal on 202-252-1810. Persons with mobility impairments who will need special assistance in gaining access to the Commission should contact the Office of the Secretary at 202-252-1000.

SUPPLEMENTARY INFORMATION: On April 18, 1991, the Commission instituted the subject investigations and established a schedule for their conduct (56 FR 21390, May 8, 1991). Subsequently, the Department of Commerce extended the date for its final determinations in the investigations from June 24, 1991 to July 25, 1991, for Taiwan and to September 3, 1991, for China. The Commission, therefore, is revising its schedule in the investigations to conform with Commerce's new schedules.

The Commission's new schedule for the investigaitons is as follows: requests to appear at the hearing must be filed with the Secretary to the Commission not later than July 25, 1991; the prehearing conference will be held at

SUBMISSIONS FOR THE RECORD
INVESTIGATION NO. 332-277

Mitchell J. Cooper
on behalf of the Rubber and Plastic Footwear Manufacturers Association

Frances Seghers
Executive Director, Motion Picture Association of America, Inc.

APPENDIX B
STATISTICAL TABLES

Table B-1
U.S. trade with the Caribbean Basin countries, 1984-90

	U.S. exports[1]	*Share of the U.S. exports to the the world*	*U.S. imports*[2]	*Share of U.S. imports from the world*	*U.S. trade balance*
	Million dollars	*Percent*	*Million dollars*	*Percent*	*Million dollars*
1984	6,300.2	2.9	8,896.5	2.8	-2,596.3
1985	5,996.4	2.8	6,849.9	2.0	-853.6
1986	6,292.2	2.9	6,186.8	1.7	105.4
1987	6,940.6	2.8	6,178.1	1.5	762.6
1988	7,666.3	2.5	6,172.3	1.4	1,494.0
1989	9,184.4	2.6	7,020.6	1.5	2,163.8
1990	9,698.2	2.6	7,601.3	1.5	2,097.0

[1] Domestic exports, f.a.s. basis.
[2] Imports for consumption customs value.

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

Table B-2
U.S. trade with the countries designated under the CBERA, 1984-90

Year	*U.S. exports*[1]	*Share of U.S. exports to the world*	*U.S. imports*[2]	*Share of U.S. imports from the world*	*U.S. trade balance*
	Million dollars	*Percent*	*Million dollars*	*Percent*	*Million dollars*
1984	5,952.9	2.8	8,649.2	2.7	-2,696.4
1985	5,743.0	2.8	6,687.2	1.9	-944.2
1986	6,064.6	2.8	6,064.7	1.6	-0.1
1987	6,668.3	2.7	6,039.0	1.5	629.3
1988	7,421.8	2.4	6,061.1	1.4	1,360.7
1989	8,105.0	2.3	6,637.4	1.4	1,467.6
1990	9,307.1	2.5	7,525.2	1.5	1,781.9

[1] Domestics exports, f.a.s. basis.
[2] Imports for consumption, customs value.

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

Table B–3
U.S. imports for consumption from CBERA countries of goods not eligible for duty-free entry under CBERA, 1986–89

(In thousands of dollars, customs value)

Product category[1]	*1986*	*1987*	*1988*	*1989*	*1990*	*Percentage change, 1990 over 1986*
Petroleum and petroleum products	1,375,565	1,376,662	1,058,524	1,044,432	1,340,317	(2.6)
Textiles and apparel	827,108	1,148,432	1,488,812	1,753,055	2,006,348	142.6
Certain handbags, luggage, and flat goods	13,428	20,215	20,410	16,669	18,264	36.8
Footwear	26,529	30,365	39,255	45,215	35,806	35.0
Work gloves	6,177	3,996	3,906	5,452	4,360	(29.4)
Certain leather apparel	1,832	2,348	3,386	11,279	15,194	729.4
Tuna	0	117	14	2	111	([2])
Total	2,250,640	2,582,135	2,614,307	2,876,103	3,420,500	52.0

[1] Petroleum and petroleum products are HTS items 2710, 2712, 2713, 2714 and 2715 Textiles and apparel are defined as HTS items 3926.20.50.50, 4015.90.00.50, 5004.00.00, 5005.00.00.90, 5006.00.90, 5006.00.90.00, 5007.10.60, 5007.90.60, 5101.21.10, 5101.21.60, 5101.21.60–5101.29.10, 5101.29.60, 5101.30.60, 5102.10.90, 5105.10.00–5105.30.00, 5106.10.00–5108.20.60, 5109.10.40–5109.10.60, 5111.11.10–5113.00.00, 5204.11.00–5208.29.80, 5208.31.40–5208.31.80, 5208.32.30–5208.39.80, 5208.41.40–5208.41.80, 5208.42.30–5208.49.80, 5208.51.40–5208.51.80, 5208.52.30–5209.29.00, 5209.31.60–5209.39.00, 5209.41.60–5209.49.00, 5209.51.60–5212.25.60, 5306.10.00–5307.20.00, 5308.20.00, 5308.90.00, 5309.21.20–5309.29.40, 5310.90.00, 5311.00.20, 5311.00.30–5311.00.40, 5401.10.00–5403.49.00, 5404.10.20–5601.22.00, 5601.29.00.20–5606.00.00, 5607.41.30, 5607.49.15–5607.50.40, 5607.90.20, 5608.11.00–5609.00.40, 5701.10.16–5701.10.20, 5701.90.10.20–5701.90.10.30, 5701.90.20.20–5701.90.20.30, 5702.10.90.10–5702.10.90.30, 5702.31.10–5702.32.20, 5702.39.20.10, 5702.41.10–5702.49.10, 5702.49.20, 5702.51.20–5702.59.20, 5702.91.30–5702.99.20, 5703.10.00–5705.00.10, 5705.00.20.10–5705.00.20.30, 5801.10.00–5801.90.10, 5801.90.20.90, 5802.11.00–5802.19.00, 5802.20.00.20–5802.20.00.90, 5802.30.00.20–5802.30.00.90, 5803.10.00–5803.90.30, 5803.90.40.90, 5804.10.00.20–5804.10.00.90, 5804.21.00, 5804.29.00.20–5804.29.00.90, 5804.30.00.20–5804.30.00.90, 5805.00.25–5805.00.30, 5805.00.40.10, 5806.10.10–5806.10.20, 5806.10.30.20–5806.10.30.90, 5806.20.00, 5806.31.00–5806.39.20, 5806.39.30.20–5806.39.30.80, 5806.40.00, 5807.10.10.10–5807.10.10.20, 5807.10.20, 5807.90.10.10–5807.90.10.20, 5807.90.20, 5807.90.20.10–5807.90.20.90, 5808.10.20.10, 5808.10.30.10, 5808.90.00.10, 5809.00.00, 5810.10.00, 5810.91.00–5810.92.00, 5810.99.00.10, 5811.00.10–5811.00.40, 5901.10.10–5903.10.10, 5903.10.18–5903.20.10, 5903.20.18–5903.20.25, 5903.20.30.10, 5903.90.10, 5903.90.18–5903.90.25, 5903.90.30.10, 5905.00.90, 5906.91.10, 5906.99.10–5911.20.10, 5911.20.30, 5911.31.00–5911.90.00, 6001.10.20–6001.92.00, 6001.99.00.90, 6002.10.40–6002.93.00, 6002.99.00.90, 6101.10.00–6101.30.20, 6101.90.00.10–6101.90.00.30, 6101.90.00.50–6101.90.00.60, 6102.10.00–6102.30.20, 6102.90.00.05–6102.90.00.15, 6102.90.00.25–6102.90.00.30, 6103.11.00–6103.19.20, 6103.19.40.10–6103.19.40.50, 6103.19.40.70–6103.19.40.80, 6103.21.00–6103.29.10, 6103.29.20.30, 6103.29.20.36, 6103.29.20.42, 6103.29.20.54, 6103.29.20.58–6103.29.20.62, 6103.29.20.66–6103.29.20.74, 6103.29.20.82, 6103.31.00–6103.39.10, 6103.39.20.10–6103.39.20.30, 6103.39.20.50–6103.39.20.60, 6103.41.10–6103.49.20, 6103.49.30.10–6103.49.30.14, 6103.49.30.18–6103.49.30.38, 6103.49.30.40–6103.49.30.60, 6104.11.00–6104.19.15, 6104.19.20.10–6104.19.20.60, 6104.19.20.80–6104.19.20.90, 6104.21.00–6104.29.10, 6104.29.20.10–6104.29.20.14, 6104.29.20.18–6104.29.20.26, 6104.29.20.30–6104.29.20.38, 6104.29.20.42–6104.29.20.50, 6104.29.20.53–6104.29.20.60, 6104.29.20.64–6104.29.20.78, 6104.29.20.82–6104.29.20.90, 6104.31.00–6104.39.10, 6104.39.20.10–6104.39.20.30, 6104.39.20.50–6104.39.20.90, 6104.41.00–6104.44.20, 6104.49.00.10–6104.49.00.30, 6104.49.00.50–6104.49.00.60, 6104.51.00–6104.59.10, 6104.59.20.10–6104.59.20.30, 6104.59.20.50–6104.59.20.90, 6104.61.00–6104.69.20, 6104.69.30.10–6104.69.30.14, 6104.69.30.18–6104.69.30.26, 6104.69.30.30–6104.69.30.32, 6105.10.00–6105.90.10, 6105.90.30.10–6105.90.30.30, 6105.90.30.50–6105.90.30.60, 6106.10.00–6106.90.10, 6106.90.20.10–6106.90.20.30, 6106.90.20.50, 6106.90.30, 6107.11.00–6107.12.00, 6107.19.00.20, 6107.21.00–6107.29.20, 6107.29.40.20, 6107.91.00–6107.99.20, 6107.99.40.20, 6108.11.00, 6108.19.00.10, 6108.19.00.30, 6108.21.00–6108.22.00, 6108.29.00.20, 6108.31.00–6108.39.10, 6108.39.20.20, 6108.91.00–6108.99.20, 6108.99.40.20, 6109.10.00–6109.90.15, 6109.90.20.15, 6109.90.20.30, 6110.10.10–6110.30.30, 6110.90.00.10–6110.90.00.14, 6110.90.00.18–6110.90.00.30, 6110.90.00.36–6110.90.00.54, 6110.90.00.60–6110.90.00.78, 6110.90.00.84–6110.90.00.90, 6111.10.00–6111.90.50, 6111.90.60.20, 6112.11.00–6112.19.10, 6112.19.20.20–6112.19.20.30, 6112.19.20.50–6112.19.20.60, 6112.19.20.80–6112.19.20.90, 6112.20.10–6114.30.30, 6114.90.00.10, 6114.90.00.20, 6114.90.00.30, 6114.90.00.40–6114.90.00.55, 6114.90.00.65–6114.90.00.70, 6115.11.00–6115.12.00, 6115.19.00.10–6115.19.00.20, 6115.19.00.40, 6115.20.00.10,

Table B-3—*Continued*
U.S. imports for consumption from CBERA countries of goods not eligible for duty-free entry under CBERA, 1986–89

[1]—*Continued*
6115.20.00.30, 6115.91.00–6115.99.18, 6115.99.20.20, 6116.10.15.20–6116.10.15.40, 6116.10.25.20–6116.10.35.30, 6116.10.45.10–6116.10.45.30, 6116.10.50, 6116.10.60.10–6116.10.60.30, 6116.91.00, 6116.92.20–6116.92.30, 6116.93.15–6116.93.20, 6116.99.60, 6116.99.90.10–6116.99.90.30, 6116.99.90.50–6116.99.90.60, 6116.10.18.65–6116.10.18.95, 6116.10.45.20–6116.10.70.30, 6116.10.90.10–6116.10.90.30, 6116.91.00, 6116.92.60.10.–6116.92.90, 6116.93.60–6116.93.90, 6116.99.50, 6116.99.80.10–6116.99.80.30, 6116.99.80.50–6116.99.80.60, 6117.10.10–6117.10.20, 6117.10.60, 6117.20.00.10–6117.20.00.30, 6117.20.00.50–6117.20.00.60, 6117.80.00.10–6117.80.00.35, 6117.80.00.50–6117.80.00.60, 6117.90.00.10–6117.90.00.14, 6117.90.00.18–6117.90.00.26, 6117.90.00.30–6117.90.00.36, 6117.90.00.40–6117.90.00.46, 6117.90.00.50–6117.90.00.56, 6117.90.00.60, 6201.11.00–6201.13.40, 6201.19.00.10–6201.19.00.30, 6201.19.00.50–6201.19.00.60, 6201.91.10–6201.93.35, 6201.99.00.10–6201.99.00.30, 6201.99.00.50–6201.99.00.60, 6202.11.00–6202.13.40, 6202.19.00.10–6202.19.00.30, 6202.19.00.50–6202.19.00.60, 6202.91.10–6202.93.50, 6202.99.00.10–6202.99.00.30, 6202.99.00.50–6202.99.00.60, 6203.11.10–6203.19.30, 6203.19.40.10–6203.19.40.50, 6203.19.40.70–6203.19.40.80, 6203.21.00–6203.29.20, 6203.29.30.20, 6203.29.30.28, 6203.29.30.40, 6203.29.30.60, 6203.29.30.80, 6203.31.00–6203.39.20, 6203.39.40.10–6203.39.40.30, 6203.39.40.50–6203.39.40.60, 6203.41.10–6203.49.20, 6203.49.30.15–6203.49.30.30, 6203.49.30.40–6203.49.30.45, 6203.49.30.60, 6204.11.00–6204.19.20, 6204.19.30.10–6204.19.30.60, 6204.19.30.80–6204.19.30.90, 6204.21.00–6204.29.20, 6204.29.40.10–6204.29.40.14, 6204.29.40.18–6204.29.40.26, 6204.29.40.30–6204.29.40.38, 6204.29.40.42–6204.29.40.50, 6204.29.40.54–6204.29.40.62, 6204.29.40.66–6204.29.40.68, 6204.31.10–6204.39.30, 6204.39.40.10–6204.39.40.30, 6204.39.40.50–6204.39.40.60, 6204.41.10, 6204.41.20, 6204.42.20–6204.42.30, 6204.43.20–6204.43.40, 6204.44.30–6204.44.40, 6204.49.00.10–6204.49.00.30, 6204.49.00.50–6204.49.00.60, 6204.51.00, 6204.52.20, 6204.53.20–6204.53.30, 6204.59.20–6204.59.30, 6204.59.40.10–6204.59.40.30, 6204.59.40.50–6204.59.40.60, 6204.61.00–6204.62.20, 6204.62.40–6204.63.15, 6204.63.25–6204.69.25, 6204.69.30.10–6204.69.30.30, 6204.69.30.50, 6204.69.30.70, 6204.69.90, 6205.10.20, 6205.20.20, 6205.30.15–6205.30.20, 6205.90.20.10–6205.90.20.30, 6205.90.20.50, 6205.90.40, 6206.10.00.10–6206.10.00.30, 6206.10.00.50, 6206.20.20–6206.20.30, 6206.30.20–6206.30.30, 6206.40.20–6206.40.30, 6206.90.00, 6207.11.00, 6207.19.00.10, 6207.19.00.30, 6207.21.00–6207.22.00, 6207.29.00.10, 6207.29.00.30, 6207.91.10–6207.99.40, 6207.99.60.20, 6207.99.60.40, 6208.11.00–6208.19.20, 6208.19.40.20, 6208.21.00–6208.22.00, 6208.29.00.10, 6208.29.00.30, 6208.91.10–6208.99.20, 6208.99.60.20, 6208.99.60.40, 6208.99.80–6209.90.30, 6209.90.40.20, 6210.10.20, 6210.10.40.15–6210.10.40.25, 6210.20.10, 6210.20.20.20, 6210.30.10, 6210.30.20.20, 6210.40.10, 6210.40.20.20–6210.40.20.50, 6210.50.10, 6210.50.20.20–6210.50.20.50, 6211.11.10, 6211.11.20.10–6211.11.20.20, 6211.11.20.40, 6211.12.10, 6211.12.30.03–6211.12.30.05, 6211.12.30.25, 6211.20.10.10–6211.20.10.20, 6211.20.10.30–6211.20.10.40, 6211.20.15–6211.33.00, 6211.39.00.20–6211.39.00.80, 6211.41.00–6211.43.00, 6211.49.00.20–6211.49.00.90, 6212.10.10.10–6212.10.10.20, 6212.10.10.40, 6212.10.20.10–6212.10.20.20, 6212.10.20.40, 6212.20.00–6212.90.00, 6213.10.20–6213.90.20, 6214.10.20–6214.90.00, 6215.10.00.25, 6215.10.00.90, 6215.20.00, 6215.90.00, 6216.00.15.20–6216.00.15.40, 6216.00.20.20–6216.00.20.40, 6216.00.23, 6216.00.25.10–6216.00.25.30, 6216.00.27.10–6216.00.27.30, 6216.00.29, 6216.00.30.10–6216.00.30.30, 6216.00.31.10–6216.00.31.30, 6216.00.38, 6216.00.47–6216.00.60, 6216.00.12.20–6216.0012.40, 6216.00.18.20–6216.00.28.30, 6216.00.32.10–6216.00.32.30, 6216.00.39, 6216.00.52, 6216.00.80, 6216.00.90, 6217.10.00.10–6217.10.00.30, 6217.10.00.50, 6217.90.00.03–6217.90.00.10, 6217.90.00.20–6217.90.00.35, 6217.90.00.45–6217.90.00.60, 6217.90.00.70–6217.90.00.85, 6217.90.00.95, 6301.10.00–6301.40.00, 6301.90.00.10, 6301.90.00.30, 6302.10.00–6302.22.20, 6302.29.00.20, 6302.31.10–6302.32.20, 6302.39.00.10, 6302.39.00.30, 6302.40.10–6302.93.20, 6302.99.20, 6303.11.00–6304.19.20, 6304.19.30.40–6304.19.30.60, 6304.91.00.20–6304.91.00.50, 6304.91.00.70, 6304.92.00–6304.93.00, 6304.99.15–6304.99.35, 6304.99.60.10–6304.99.60.20, 6304.99.60.40, 6305.20.00–6307.10.10, 6367.10.20.05–6307.10.20.28, 6307.20.00–6307.90.75, 6308.00.00, 6309.00.00, 6310.10.10–6310.90.10, 6501.00.90, 6502.00.90.30, 6503.00.90, 6504.00.30, 6504.00.60, 6504.00.90.15, 6504.00.90.60, 6505.90.15–6505.90.80, 6505.90.90.60, 6506.10.60, 6506.91.00.60, 6506.99.00, 6507.00.00, 9404.90.10, 9404.90.20, 9404.90.80, 9404.90.90.10–9404.90.90.20, 9404.90.90.35–9404.90.90.60, Handbags, luggage and flatgoods are HTS items 4202.11.00–4202.22.15, 4202.22.40–4202.22.60, 4202.22.80, 4202.29.00, 4202.31.60, 4202.32.40, 4202.32.95, 4202.91.00–4202.92.45, 4202.92.60–4202.99.00, 4602.10.21, 4602.10.22, 4602.10.25, and 4602.10.29. Footwear are HTS items 6401.10.00–6402.20.00, 6402.30.30–6405.20.90.90, 6405.90.90–6406.10.50, 6406.10.75–6406.10.80, and 6406.99.15. Work gloves are HTS items 4203.29.08, 4203.29.18, 6116.10.15, 6116.10.25, 6116.10.35.40, 6216.00.15, 6216.00.20, and 6216.00.25.40. Certain leather apparel is HTS item 4203.10.40. Tuna is comprised of HTS items 1604.14.10, 1604.14.20, 1604.14.30, 1604.14.40, and 1604.14.50.

2 Not applicable.

Note.—Figures for 1986–88 under the HTS classification system are estimated.

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

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

Table B-4
Leading U.S. imports for consumption entering duty free under CBERA, in 1990, by source
(In thousands of dollars)

Country	HTS No.	Description	1990 Duty-Free CBERA Imports	Share of 1990 CBERA Imports
Antigua	8804.00.00	Parachutes(including dirigible parachutes)	384	56.9
	0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh	99	14.6
	8534.00.00	Printed circuits, without elements	79	11.8
	2208.40.00	Rum and tafia	57	8.4
	7013.99.90	Glassware used for toilet, office, indoor decor	24	3.5
		Total of items shown	643	95.2
Aruba	8515.90.20	Parts of electric welding machines and apparatus	4	100.0
		Total of items shown	4	100.0
Bahamas	2937.22.00	Halogenated derivatives of adrenalcortical hormon	3,188	37.2
	0807.20.00	Papayas (papaws), fresh	1,193	13.9
	2937.99.50	Hormones and their derivatives, nesi	736	8.6
	0509.00.00	Natural sponges of animal origin	697	8.1
	2933.29.20	Aromatic or modified aromatic drugs of hetrocylic	675	7.9
		Total of items shown	6,489	75.6
Barbados	8533.21.00	Electrical fixed resistors	6,420	42.2
	8534.00.00	Printed circuits, without elements	3,811	25.1
	2208.40.00	Rum and tafia	1,829	2.0
	3808.10.50	Insecticides, nesi, for retail sale	703	4.6
	8532.10.00	Fixed electrical capacitors	532	3.5
		Total of items shown	13,295	87.5
Belize	2009.11.00	Frozen orange juice, concentrated	11,833	63.7
	2009.20.40	Grapefruit juice, unfermented, nesoi, frozen	3,561	19.2
	1701.11.00	Raw cane sugar	2,447	13.2
	0807.20.00	Papayas (papaws), fresh	368	12.0
	2103.90.60	Mixed condiments and mixed seasonings, and sauces	182	1.0
		Total of items shown	18,391	99.1
British Virgin Islands	2208.40.00	Rum and tafia	131	83.6
	8534.00.00	Printed circuits, without elements	16	9.9
	7610.10.00	Aluminum doors, windows and their frames	7	4.2
	7117.90.50	Imitation jewelry, nesi, valued over 20 cents	3	2.0
		Total of items shown	157	100.0
Costa Rica	0804.30.40	Pineapples, in crates or other packages	28,940	13.3
	0202.30.60	Frozen boneless beef, except processed	25,520	11.7
	0201.30.60	Fresh or chilled boneless beef, except processed	17,477	8.0
	0302.69.40	Fish, nesi, excl. fillets, livers and roes, fresh	12,414	5.7
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	10,188	4.7
		Total of items shown	94,540	43.3
Dominica	3401.11.50	Soap & oth organic surfact prod, toilet use,bars	450	33.9
	1302.19.40	Ginseng; substances having anesthetic	434	32.7
	2009.20.40	Grapefruit juice, nesi	292	22.0
	3401.19.00	Soap; organic surface-active products used a soap	67	5.0
	3401.20.00	Soap; not in the form of bars, cakes, molded	36	2.7
		Total of items shown	1,279	96.3

Table B-4—*Continued*
Leading U.S. imports for consumption entering duty free under CBERA, in 1990, by source
(In thousands of dollars)

Country	*HTS No.*	*Description*	*1990 Duty-Free CBERA Imports*	*Share of 1990 CBERA Imports*
Dominican Republic	9018.90.80	Instr & appliances for medical,surgical,etc,nesoi	53,435	17.2
	1701.11.00	Raw cane sugar	48,385	8.3
	7113.19.50	Articles of jewelry and parts thereof	25,919	8.3
	2402.10.80	Cigars, cheroots and cigarillos over 23 cents	23,754	7.6
	6406.10.65	Prt ft wear frm oth stiffener sof leather	22,879	7.4
		Total of items shown	151,837	48.8
El Salvador	8532.24.00	Fixed capacitors,ceramic,di electric	8,450	29.9
	1701.11.00	Raw cane sugar	7,551	26.7
	0807.10.70	Melons, nesi, fresh	1,752	6.2
	0710.80.95	Vegetables nesi, uncooked or cooked by steaming	1,324	4.7
	0202.30.60	Frozen boneless beef, except processed	1,177	4.2
		Total of items shown	20,253	71.5
Grenada	8413.91.90	Parts of pumps for liquids,nesoi	1,703	60.6
	3926.90.90	Other articles of plastic,nesoi	569	20.3
	3304.10.00	Lip make-up preparations	227	8.1
	8504.90.00	Parts of electrical transformers, static convert	197	7.0
	8214.20.30	Instruments for manicure or pedicure purposes	39	1.4
		Total of items shown	2,733	97.3
Guatemala	1701.11.00	Raw cane sugar	34,991	22.7
	0202.30.60	Frozen boneless beef, except processed	22,453	14.6
	0201.30.60	Fresh or chilled boneless beef, except processed	10,266	6.7
	2401.20.80	Tobacco, partly or wholly stemmed (stripped)	8,262	5.4
	0701.80.70	Vegetables nesi, uncooked or cooked by steaming	7,484	4.9
		Total of items shown	83,457	54.1
Guyana	2935.00.45	Other drugs of sulfonamides	280	53.7
	3307.10.20	Pre-shave, shaving or after-shave preparations	55	10.5
	0302.69.40	Fish, nesi, excluding fillets, livers and roes	34	6.6
	0106.00.10	Live birds, other than poultry	28	5.5
	0305.59.20	Dried shark fins, whether or not salted nt smoked	21	4.1
		Total of items shown	419	80.4
Haiti	9506.69.20	Baseballs and softballs	19,671	30.8
	8536.90.00	Electrical apparatus nesi, for switching	16,063	25.2
	8504.31.40	Electrical transformers other than liquid dielec	3,472	5.4
	8504.50.00	Inductors, nesi	3,178	5.0
	0804.50.40	Guavas, mangoes, and mangosteens, fresh	3,039	4.8
		Total of items shown	45,424	71.2
Honduras	0202.30.60	Frozen boneless beef, except processed	15,417	22.8
	0807.10.20	Cantaloupes, fresh, entered between 9/16-7/31	6,845	10.1
	0201.30.60	Fresh or chilled boneless beef, except processed	6,128	9.0
	2402.10.80	Cigars, cheroots and cigarillos contining tobacco	5,854	8.6
	9506.69.20	Baseballs and softballs	4,430	6.5
		Total of items shown	38,727	57.0
Jamaica	2207.10.60	Undenatured ethyl alcohol	14,534	24.0
	2208.40.00	Rum and tafia	9,804	16.2
	1701.11.00	Raw cane sugar	8,160	13.5
	2402.10.80	Cigars, cheroots and cigarillos over 23 cents	5,553	9.2
	2208.90.45	Cordials, liqueurs, kirschwasser and ratafia	4,110	6.8
		Total of items shown	42,162	69.5

Table B-4—*Continued*
Leading U.S. imports for consumption entering duty free under CBERA, in 1990, by source
(In thousands of dollars)

Country	HTS No.	Description	1990 Duty-Free CBERA Imports	Share of 1990 CBERA Imports
Neth Antilles	3507.90.00	Enzymes; prepared enzymes nesi, excluding rennet	1,900	42.0
	8544.60.20	Insulated uelectric conductors nesi	1,097	24.3
	7326.20.00	Articles of iron or steel wire, nesi	671	14.9
	8504.31.40	Electrical transformers other than liquid dielec	279	6.2
	8524.21.30	Pre-recorded magnetic tapes, of certain width	194	4.3
		Total of items shown	4,141	91.7
Nicaragua	2402.10.60	Cigars, cheroots and cigarillos > 15 cents < 23	50	28.5
	9401.90.50	Parts of seats, nesi	38	21.6
	7902.00.00	Zinc waste and scrap	36	20.7
	2402.10.80	Cigars, cheroots and cigarillos over 23 cents	28	16.0
	0302.69.40	Fish, nesi, excluding fillets, livers and roes	23	13.4
		Total of items shown	174	100.0
Panama	2401.20.80	Tobacco, partly or wholly stemmed (stripped)	3,218	26.0
	8544.60.20	Fish, nesi, excluding fillets, livers and roes	2,959	23.9
	7326.20.00	Banana pulp, otherwise prepared or preserved	1,335	10.8
	8504.31.40	Melons nesi, fresh	1,249	10.1
	8524.21.30	Trays dishes, dishes, plates, cups and the like	906	7.3
		Total of items shown	9,666	78.1
St. Kitts-Nevis	8504.90.00	Parts of electrical transformers, static converts	2,140	21.12
	8503.00.40	Parts of motors of under 18.65 w	1,887	18.6
	8504.31.40	Electrical transformers other than liquid dielec	1,062	10.5
	8504.31.20	Unrated elctricl transfomers oth thn liqid dielec	1,029	10.2
	8533.40.00	Electrical variable resistors, nesi,	900	8.9
		Total of items shown	7,019	69.2
St. Lucia	8533.21.00	Electrical fixed resistors, othr than compositon	1,551	43.7
	8532.29.00	Fixed electrical capacitors, nesi	974	27.4
	7117.90.50	Imitation jewelry, nesi, valued over 20 cents doz	349	9.8
	6307.90.40	Cords and tassels made up of textile materials	222	6.2
	8518.50.00	Electric sound amplifier sets	131	3.7
		Total of items shown	3,225	90.8
St. Vincent and Grena-dines	9506.51.20	Lawn-tennis rackets, strung	788	51.9
	9506.51.40	Lawn-tennis rackets, unstrung	535	35.3
	1109.00.10	Wheat gluten, whether or not dried	105	6.9
	0709.60.00	Fruits of the genus capsicum (peppers)	48	3.2
	0709.90.05	Jicamas, pumpkins and breadfruit, fresh or chiled	19	1.3
		Total of items shown	1,495	98.5
Trinidad and Tobago	7213.31.30	Bars & rods, hot-rolled, of iron or n/alloy steel	10,211	26.7
	1701.11.00	Raw cane sugar	8,141	16.5
	7214.40.00	Bars & rods of iron or n/alloy steel	6,320	16.0
	2905.11.20	Methanol (methyl alcohol), other than imported	6,134	12.9
	7214.20.00	Concrete reinforcing bars and rods of iron	4,934	8.4
		Total of items shown	30,806	80.5

Note.—Because of rounding figures may not add to the totals shown.
Source: Compiled from official statistics of the U.S. Department of Commerce. Top 5 commodities sorted by imports for consumption, customs value in 1990.

Table B-5
Section 936 loans disbursed, 1987-90

(In thousands of dollars)

Year	Company	Country	Investment	Industry
1990:				
	Barbados Telephone Co.	Barbados	$13,000	Telecommunications
	Metaldom	Dominican Republic	27,500	Telecommunications
	Seaboard Overseas, Ltd.	Dominican Republic	18,000	Electric power
	Rosehall Montego Bay	Jamaica	4,000	Hotel privatization
	Rosehall Montego Bay	Jamaica	6,000	Hotel privatization
	Telecom Jamaica	Jamaica	22,000	Telecommunications
	Caribbean Methanol Co.	Trinidad and Tobago	79,000	Methanol
	Phoenix Park	Trinidad and Tobago	66,500	Petroleum refining
	Sapphire Beach	U.S. Virgin Islands	9,135	Hotel expansion
	Total		$245,135	
1989:				
	Air Jamaica	Jamaica	51,000	Transportation
	Transcaribbean Cable	(Jamaica)[1]	17,000	Telecommunications
	Total		$68,000	
1988:				
	ABC Container[2]	Dominica	2,100	Paper/packaging
	UDC Transhore	Jamaica	8,700	Pre-fab housing
	Total		$10,800	
1987:				
	Cable & Wireless	Barbados	15,000	Telecommunications
	Spanish Fort Free Zone	Jamaica	19,500	Infrastructure
	Total		34,500	
Total			$358,435	

[1] Part of an AT&T project to construct a digital fiber-optic cable system connecting the United States, Puerto Rico, the Dominican Republic, Jamaica, and Colombia. Only $17 million for the Jamaican portion of the total $180 million project will be financed with section 936 funds. Jamaican officials prefer that this project not be listed as a 936 loan to Jamaica.

[2] Section 936 funds financed a twin plant operation.

Source: Fomento.

Table B-6
Section 936-financed projects pending
Section 936 projects approved and pending disbursement as of Jan. 1, 1991
(In thousands of dollars)

Year	Company	Country	Investment	Industry
	Caribbean Flavor	Barbados	$75	Manufacturing
	CODETEL	Dominican Republic	70,000	Telecommunications
	NSS Caribe	Dominican Republic	4,500	Security devices plant
	Abbott Labs[1]	Dominican Republic	4,500	Pharmaceuticals
	Alcan Aluminum	Jamaica	75,000	Aluminum plant
	Pemberton Resorts[2]	U.S. Virgin Islands	27,000	Hotel
	Tutu Park	U.S. Virgin Islands	23,000	Shopping center
	Total		$204,075	

[1] Section 936 funds to finance a twin plant operation.
[2] One FOMENTO source reports disbursements on this loan began in December 1990.

Source: Fomento and *Caribbean Business*, Feb. 14, 1991. p. 8.

Section 936 Projects pending local regulatory approval

Dominicana	Dominican Republic	1,600	Food processing
Itabo Free Trade Zone	Dominican Republic	800	Infrastructure
Jamaica Broilers	Jamaica	3,100	Food processing
Mobil Oil	Trinidad and Tobago	25,300	Chemical
Texaco	Trinidad and Tobago	20,000	(Undisclosed)
Total		$50,800	

Source: *Caribbean Business*, Feb. 14, 1991, p. 8.

Table B-7
Leading section 936 loan recipients
Information as of January 1, 1990

Jamaica	$178 million
Trinidad and Tobago	$135 million
Dominican Republic	$127 million
U.S. Virgin Islands	$43 million
Barbados	$14 million
Dominica	$2 million

Source: Fomento.

Table B-8
Twin Plants with Investments of more than $1 million
(As of July 1990)

Company	*Country*	*Investment $1,000*	*Industry*
Hanes Knitting (2 plants)	Dominican Republic	8,000	Apparel/textiles
Westinghouse (4 plants)	Dominican Republic	8,000	Electronics
Abbott Labs	Dominican Republic	4,500	Pharmaceuticals
General Electric	Dominican Republic	3,900	Electronics
Baxter	Costa Rica	3,184	Chemicals
T.I.I. Industries	Dominican Republic	3,000	Electronics
Baxter	Dominican Republic	2,900	Chemicals
Sun Ray Setting	Dominican Republic	2,400	Diamond jewelry
ABC Container	Dominica	2,100	Paper products
CBI Uniforms	Costa Rica	2,000	Apparel/textiles
Searle Pharmaceutical	Costa Rica	2,000	Pharmaceuticals
Thermoking Cor.	Dominican Republic	2,000	Electronics
Outdoor Footwear (expansion)	Dominican Republic	2,000	Leather goods
Baxter (Fenwal)	Dominican Republic	1,900	Chemicals
American Home Products	Dominican Republic	1,600	Chemicals
Abbott Labs	Grenada	1,100	Chemicals
Bacardi Corp.	Dominican Republic	1,000	Printing
Latex Corp.	Dominican Republic	1,000	Rubber/plastic
Lifestyle	Dominican Republic	1,000	Leather goods
Maidenform (expansion)	Dominican Republic	1,000	Apparel/textiles
Merk Sharp & Dohme	Costa Rica	1,000	Chemicals
Schering Plough	Grenada	1,000	Chemicals
Eli Lilly	Dominican Republic	1,000	Chemicals
South Pacific Textiles	Jamaica	1,000	Apparel/textiles

Sources: Fomento and *1991 Caribbean Business-to-Business Guide*, p. 443.

APPENDIX C
TECHNICAL NOTES TO CHAPTER 3

TECHNICAL NOTES

The CBERA has been in effect since 1984, therefore the current level of imports from CBERA beneficiary countries contains the effects of the duty-free treatment. The welfare effects of CBERA in 1990 are analyzed by examining the net-welfare costs that would result from the elimination of the duty-free treatment.[1] The model used in this report is similar to the model described in the third CBERA report.[2]

The Model

The removal of CBERA duty-free treatment is analyzed in a partial equilibrium framework. Imports from CBERA beneficiary countries, imports from non-CBERA countries, and competing domestic output are assumed to be imperfect substitutes for each other.[3] Therefore, each of the three products is characterized by a separate market where differing equilibrium prices can exist. The three markets are depicted in figure C-1. In each of the three diagrams, C-1a, C-1b, and C-1c, the vertical axis measures price, and the horizontal axis measures the physical quantity of the product.

It is assumed that the CBERA import supply curve to the U.S. market is upward sloping. This is shown by the curve S_c. (Henceforth, the subscripts c, n, and u refer to CBERA imports, non-CBERA imports, and U.S. output, respectively.) As noted by Rousslang and Lindsey (1984), the economic literature on trade policy analysis customarily assumes that import supply curves are perfectly elastic, or horizontal, meaning that the importing country's share of consumption by itself is not large enough to affect the world price of the imported good.[4] However, in the case of CBERA imports, this assumption is inappropriate because the CBERA countries export a substantial portion of their production to the United States. Therefore, they have few opportunities to divert sales from other markets to the U.S. market in response to an increase in U.S. demand.

On the other hand, it is assumed that the supply elasticity for the competing domestic industry is perfectly elastic. This is shown by curve S_u in figure C-1c. In general, because the revenue effects of the CBERA will be small, assuming a horizontal supply curve for this analysis provides the maximum, or upper-bound, estimates of U.S. production that might be displaced.[5]

In addition, it is assumed that the non-CBERA import supply curve is perfectly elastic. This is shown by the curve S_n in figure C-1b. This assumption is made since non-CBERA countries export a smaller proportion of their total production to the United States than do CBERA countries. Therefore, the import supply curve for non-CBERA countries would be more responsive to changes in U.S. demand than the import supply curve for CBERA countries.

It is assumed that the CBERA and non-CBERA import demand curves, D_c and D_n, and the demand curve for the domestic competing output, D_u, are all downward sloping.

In addition, it is assumed that an existing ad valorem tariff, t, is in place for non-CBERA imports. This is shown in figure C-1b by the supply curve, S'_n, where the relation between the nontariff and tariff equilibrium prices, P_n and P'_n, is $P'_n = P_n(1 + t)$.

[1] A similar approach is taken by Mendez and Murray in analyzing the effects on less developed countries (LDCs) under special tariff provisions of the United States. Jose Mendez and Tracy Murray, "LDC Benefits under Special Tariff of the United States: A comparison," USITC, Office of Economics, Unpublished mimeograph, July 11, 1988.

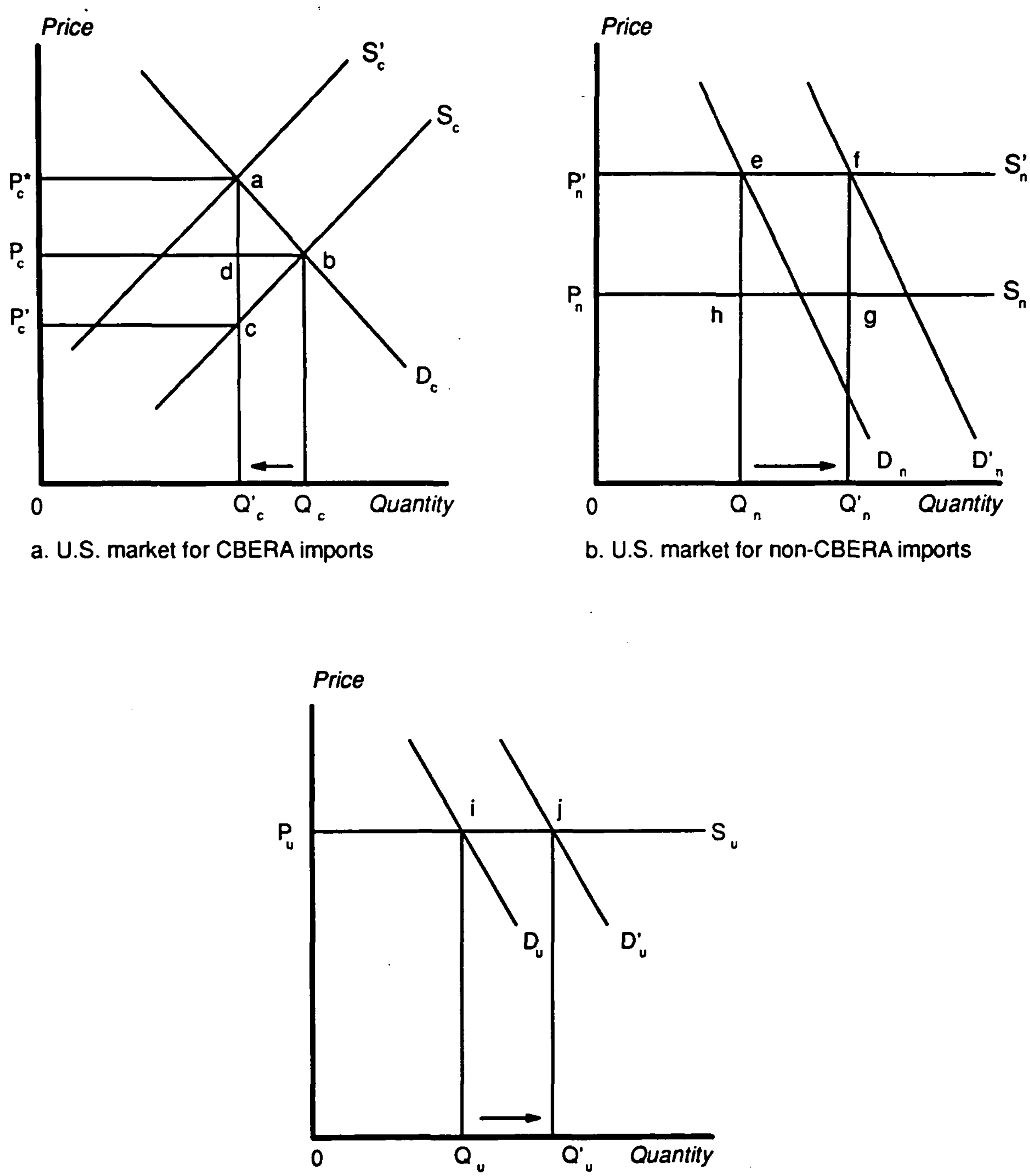
[2] See USITC, *Third CBERA Report, 1987*, pages B-1-B-7, for a more indepth discussion of the methodology used in this report.

[3] Imperfect substitutability between imports and competing domestic output is a standard assumption from one of the two basic models that have traditionally been used to analyze the effects of tariff reductions. See R. E. Baldwin, "Trade and Employment Effects in the United States of Multilateral Tariff Reductions," *American Economic Review*, Papers and Proceedings, 66:142-148, 1976, for further discussion.

[4] Donald Rousslang and John Lindsey, "The Benefits of Caribbean Basin Countries From the U.S. CBI Tariff Elimination," *Journal of Policy Modeling*, 6(4): 513-530 (1984).

[5] A similar assumption is made by Richard Boltuck, Jose Mendez, Tracy Murray, and Donald Rousslang, "The Trade Effects of Repealing the U.S. OAP," USITC, Office of Economics, unpublished mimeograph, 1988.

Figure C-1
Partial equilibrium analysis of the effect of removing CBERA duty-free privileges on U.S. imports from CBERA beneficiaries. U.S. imports from competing non-CBERA countries, and competing domestic industries



a. U.S. market for CBERA imports

b. U.S. market for non-CBERA imports

c. U.S. market for the competing domestic industry

Elimination of duty-free treatment for CBERA imports causes the import supply curve, S_c, in figure C-1a to shift up by the amount of the ad valorem tax, t. Therefore, the equilibrium price in the U.S. market for CBERA imports increases from P_c to P''_c while the quantity demanded decreases from Q_c to Q'_c. The price that CBERA exporters receive, P'_c, is related to the price that U.S. consumers pay by $P''_c = P'_c(1 + t)$. The increase in the tariff for CBERA imports causes the tariff revenue collected from CBERA imports to increase. This is measured by the area of the rectangle $P''_c acP'_c$ in figure C-1a. In the U.S. market for CBERA imports, there is also a simultaneous decrease in consumer surplus. This is measured by the trapezoid $P''_c abP_c$.

With an increase in the price of CBERA imports, the demand curves for both non-CBERA imports and domestic output, D_n and D_u, shift out to D'_n and D'_u, respectively. Since the supply curves in both these markets (figs. C-1b and C-1c) are perfectly elastic, the equilibrium prices do not change. The equilibrium quantity supplied in each market increases from Q_n and Q_u to Q'_n and Q'_u, respectively. In addition, since the level of U.S. imports from non-CBERA countries increases in figure C-1b, the tariff revenue collected from these imports also increases. This amount is measured by the rectangle efgh in figure C-1b. There are no corresponding changes in tariff revenues, consumer surplus, or producer surplus in the market for competing domestic output. However, it is possible to measure the amount by which U.S. output displaces CBERA imports. This is measured by the rectangle $Q_u ijQ'_u$ in figure C-1c.

The net-welfare cost of eliminating the duty-free entry granted CBERA imports is the balance of the increase in tariff revenue and the decrease in consumer surplus. This balance is the sum of the rectangles $P_c dcP'_c$ (the increase in tariff revenue from CBERA imports) and efgh (the increase in tariff revenue from non-CBERA imports) in figures C-1a and C-1b, respectively, minus the triangle abd (the loss in consumer surplus) in figure C-1a.

Description of Data

Import data were taken from official statistics of the U.S. Department of Commerce. The dollar estimates of consumer surplus and tariff revenues that were presented in the text of chapter 3 and the average ad valorem tariff rates discussed above were calculated from 1990 U.S. import data for CBERA and non-CBERA imports aggregated at the eight-digit Harmonized Tariff Schedule (HTS) level.

The calculations for the price elasticity of CBERA import demand, the cross elasticity of demand between non-CBERA and CBERA imports, and the cross elasticity of demand between U.S. domestic output and CBERA imports used in this analysis, were made from the import data described above, domestic-shipment data estimated by the staff of the USITC, and aggregate import-demand elasticities that were reported in the literature.[6]

Finally, as noted by Rousslang and Lindsey, it is extremely difficult to obtain reliable estimates of import-supply elasticities. For the CBERA import-supply elasticity, this report used the range suggested by Rousslang and Lindsey, 2 to 5.[7] Therefore, calculations of net-welfare effects and the displacement of U.S. domestic output by CBERA imports are presented in ranges corresponding to the two supply elasticities.

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[6] The aggregate import demand elasticities were taken from Robert E. Baldwin, *U.S. Tariff Policy: Formation and Effects*, U.S. Department of Labor, Discussion Paper, June 1976. The derivation of the cross-price elasticities of demand used in this analysis are discussed in further detail in USITC, *Third CBERA Report, 1987*.

[7] Rousslang and Lindsey, *U.S. CBI Tariff Eliminations*, p. 522.