MANCHESTER TRADE LIMITED, INC.

international business advisors

Testimony Statement to the U.S. International Trade Commission

The Caribbean Basin Economy Recovery Act: Impact on U.S. Industries and Consumers, and on Beneficiary Countries: 21st Report – Investigation No. 332 – 227

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Dear Commissioners,

It gives me such great pleasure to be here today; amongst friends and colleagues - in a familiar environment where a similar hearing took place three decades ago - at a different location of course – and set the stage for the first U.S. program based on regional preferences. Until the CBI, the U.S. was completely reliant on multilateral preferences other than GSP, which was still designed to apply to developing countries without geographic disparity. Within the next 60 days, we will celebrate the thirtieth anniversary of the original passage of CBI. The program was the first U.S. trade initiative whose benefits were limited to a specific region – the Caribbean in this case. It became a forbearer for all other U.S. regional or bilateral approaches. Most of these initiatives were reciprocal whereas the CBI was unilateral. However, starting with Israel, the US has entered into reciprocal FTAs with 20 countries. Today, bilateral and regional U.S. pacts now extend to North America (Canada and Mexico) and six countries in Central America (Costa Rico, El Salvador, Honduras, Nicaragua, Panama; and the Caribbean's Dominican Republic). In the Middle East and North Africa, we have Bahrain, Jordan, Morocco and Oman while South America is operationalized by Chile, Colombia and Peru. The U.S. also has FTAs in Asia – with Australia, Korea and Singapore.

Instructively, The CBI provided the schematics for unilateral Non-reciprocal programs such as the Haitian Hope Act, the Africa Growth and Opportunity Act (AGOA) and the now largely defunct Andean Pact, which has Ecuador as its remaining beneficiary. Significantly, though, 7 of the CBI's original beneficiaries graduated out of preferential status into full-fledged reciprocal agreements, and from a relatively slower pace than any other country, the U.S. is now accelerating its FTA pace with two mega pacts: One with the eleven countries in the Pacific Partnership (TPP) and another with 28 European countries including Croatia under the Trans-Atlantic Trade and Investment Partnership (T-TIP).

Nonetheless, although CARICOM countries unlike the Dominican Republic did not enter into an FTA with the US, we do not suggest that the CBI was not a success as this would be far from the truth. CBI was originally designed as the *Reagan Plan* to bring peace and stability to the region. In this regard, we can certainly argue that the CBI has played its part. Cuba has, for all intents and purposes, become an obscure threat, showing a real interest in being fully absorbed into the free market systems her neighbors currently benefit out of. Outside this extreme, democracy, orderly government succession, peace and stability are rife in the region albeit short periods of instability. In simple terms, like many of us hoped then and still hope, the CBI was always keen on going beyond just trade and investment regimes to, effectively, working with governments and businesses on the plethora of challenges and opportunities arising out of the new global dynamic.

Our good friends at the *Caribbean Central America Action* have, like us, over 30 years in this sector and I apologize that my colleague Dr. David Lewis is not here to revel in these few minutes of fame. However, if he were here, the two of us would regale you with tales of the tangible progress the CBI has made since 1983. Therefore, congratulations at this hearing are, indeed, in order.

However, today, on top of the compliments, we must chart the CBI's future:

Historically, the DR-CAFTA/Dominican Republic and the U.S. - Panamanian FTA superseded the CBI with a couple of smaller exceptions: The full and complete free trade agreements with the U.S. and covered areas of trade and services - providing two-way free trade. And yet, CBI, which governs trade with CARICOM remains largely based on trade in goods. Inadvertently, the Caribbean neither produces many manufactured products nor is it a major supplier of agricultural products subject to duties. Jamaica and Barbados tried apparel and other forms of assembling industries in the 1980's and early 90's, but these efforts have largely been abandoned. Trinidad & Tobago developed manufacturing based on energy resources but its trade with the US is largely based on raw materials.

Paradoxically, Caricom countries have much greater potential for trade in the services than Central America, with the possible exception of Panama; yet CBI does not cover services where the FTAs would have been able to do this. Thus, in remedial fashion, this testimony would like to make the following points:

1. The CBI goods-based economies of the 1980s-1990s no longer exist and have been overtaken by the "success" of the CBI service production. Services now are 75% of the CARICOM economy, with some countries in the Eastern Caribbean reaching as high as 90%. Even the manufacturing-industry dominant Trinidad & Tobago is at least 40% services driven.

2. Trade in services is not part of the CBI's economic preferences or incentives. In fact, services are a divisive factor as shown by political friction caused by U.S. discriminatory offshore betting practices and American concerns about the role of offshore banking.

3. The services sector accounts for more than 60% of the GDP of CARICOM economies and is the fastest growing sector in these countries. Tourism and travel account for 30% of GDP and 25% of employment in the Caribbean with some countries depending heavily on these industries. Additionally financial and professional services are a major contributor to revenue earnings in CARICOM. Several studies have identified emerging opportunities in the areas of ICT and offshore education, and non-traditional tourism, such as eco-tourism and health tourism.

4. There's a decline of regional exports of goods in CARICOM-US trade, despite an overall positive terms of trade with exports hovering between US$1.7 – 2bn over the past 5 years. However, such CARICOM exports to the US are dwarfed by US exports to the region. The Jamaica case is a good example with 2012 imports from the U.S. being worth $ 2bn and exports being only $ 506 million.

5. Although overall figures have progressively, grown over the years, major exports to the US from CARICOM countries are minerals, fuels and oil; methanol and other chemicals; ethanol; apparel; fish products; beverages and spirits; electronics; and fruits and vegetables.

6. But most export growth under CBI is from exports from Trinidad and Tobago - Natural gas and petroleum-based products. Even Haiti, which has benefited close to US$ 400 million from duty-free access on apparel goods now finds that it must compete with China's mass market and a slew of Asia's 'neo-tigers:' Bangladesh, Cambodia; Vietnam. When juxtaposed with the incredible benefits provided to Africa under AGOA, it ultimately comes down to economies of scale, and the limited export capacities in the Caribbean impose severe structural restrictions for smaller economies in the goods sectors.

7. U.S. investment inflows to the region have also increased in during the CBI period and in the past five (5) years have averaged US$4bn. In the case of Jamaica it has been an approximate total of US$15bn/GDP – with services taking up to 65% and industry following with 30% of total investment.

8. CARICOM economies have developed competitive services sectors which trade and invest actively with the US and attract robust US services investments into the region.

At this juncture, the challenge for the region in its trade preference relationship with the US is how to improve CBI provisions for non-goods trade (e.g. services opportunities, including downstream energy services), and how to use this to expand/deepen the US-CARICOM CBI trade and investment regime and relation.

The CARICOM's experience with the incorporation of services in the EU-CARIFORUM Economic Partnership Agreement (EPA) may herald the future: In fact, even though services are not incorporated into the CBI, recent data suggests that CARICOM has been successful in the U.S. market services trade and there are aspects for deeper cooperation exist in other areas.

1. A particularly promising element of any new approach could be the possibility of joint ventures given proximity to the U.S. This would be in opposed to the unpopular practice of 100 percent off shoring. Similarly CARICOM already having access to the EU market under the EPA could serve as service hub for interchange between the EU and the US.

2. Moreover, the 2013 announcement of a US-EU Transatlantic Trade and Investment Partnership (T-TIP) negotiation could very well offer an opportunity for CARICOM to leverage its EPA trade relations with the EU into a modernized and expanded CBI trade program with the US that would include Financial, Education, Entertainment, etc. One could consider allowing CBI inputs whether in the former or goods or services to be counted towards value-added requirements to meet origin requirements,

3. Existing US-CARICOM bilateral investment treaties (BITs) or Trade and Investment Framework Agreements (TIFA) could be expanded to encourage more investment into the region in major areas of growth like renewable energy resources, cultural industries and non-traditional tourism activities as mentioned above.

4. Likewise, the 2013 immigration reform efforts in the US Congress can also serve as an opportunity to tackle the traditionally impenetrable issue of movement of professional services in international trade, a long-term challenge for US-Caribbean relations.. In our estimation, the recent replacement of the US-CARICOM TIC (Trade and Investment Council) with a new TIFA (Trade and Investment Framework Agreement) can serve as a foundation upon which to construct these new services preferences. Already the US-Uruguay TIC/TIFA of 2006 serves as precedent where both governments have developed discrete preferences arrangements in services, e-commerce and ICT, and investment, and has resulted in a doubling of US-Uruguay trade and investment flows over the past six (6) years.

Thus:

1. An expanded/improved CBI covering services would require, as other world-class services agreements do, provisions on market access, mutual recognition and cooperation in the provision of services, and a focus on incentives to services as well as a focus on the removal of barriers to providing services in respect of market access, and national treatment - the extent to which foreign services suppliers are treated like domestic services suppliers. There are also provisions on cooperation and mutual recognition of qualifications in respect of professional services.

2. We'd also need to discuss four (4) modes of supply of services in international trade agreements. We'd also need to adequately assess the needs and interests of CARICOM markets in these for inclusion in an expanded/improved CBI with the US:

a. *Mode 1: Cross-Border Trade/Supply* - Services flow from one state to another

b. *Mode 2: Consumption Abroad* - The consumer moves into another state for services so that the service is supplied to consumers outside their countries of residence.

c. *Mode 3: Commercial Presence* - A service supplier from the one state establishes a territorial presence or an investment in another state, including through ownership or lease of premises there, in order to provide a service in that market

d. *Mode 4: Presence of Natural Persons or Temporary Entry* - Persons from one state enter the territory of another in order to provide a service. This enables the temporary entry and stay of independent/self-employed professionals and/or employees of CARICOM firms into the USA. Under Mode 4 CARICOM professionals can go into the USA on short-term contracts to supply services directly to customers (e.g., singers, musicians, nurses, lawyers, consultants, architects) or to manage companies located in the USA.

- *The U.S. may allow CARICOM firms or individuals to operate through any or all four modes of supply.*
- *Mode 4 regulates the temporary entry of service providers under stipulated conditionality*

At this juncture, I humbly request that the Commissioners allow me to conclude on an ambitious note that goes beyond services: In forming a new TIFA just two weeks ago, Vice President Biden agreed with Caricom to address future challenges and promote investments + trade, encompassing services. The U.S. has such an agreement with many countries and their success is determined by the amount of resources both sides devote to it.

To this, Manchester Trade recommends the following:

1. An Early warning system: Immediate high-level attention must be paid to specific concerns before they blossom out of control. Important illustrations include unilateral U.S. action on offshore betting and a proposed retaliation or the ebb and flow of U.S. concerns over tax implications of offshore financial centers.

2. Careful monitoring and evaluation of the impact of economic partnership agreements (EPAs) on U.S. exports to the region since the Caribbean has scarcely begun to implement duty-free treatment for EU imports in the region. Its important to note that liberalization requirements are back loaded meaning that they will not bestow a significant competitive advantage on EU imports over those from the U.S. until the next decade. Appropriate remedial steps may have to be taken.

3. China has not bestowed as much attention to Caribbean as it has lavished on the larger countries in the hemisphere. Nonetheless, although China has mostly worked on Caribbean public infrastructure. This may change soon. In this case, the US must be ready with serious countermeasures to the expected onslaught from the Pacific.

4. Exploration of how to deepen relations in services.

Conclusion

The CBI brought the Caribbean countries into a unique strategic alliance. The original CBI defined Central America and Caricom as beneficiaries – parceling the five larger and more developed countries – Colombia, Mexico, the United States and Venezuela and Canada into a common approach with their smaller Caribbean neighbors. In fact, in the CBI days, Venezuela and Mexico developed oil facilities for the region and Canada introduce CARIBCAN—a form of CBI and Colombia actually considered preferential access.

Now that the threat, which caused this unity, have largely dissipated for the grouping make sense. Thus, we give a resounding endorsement and loud 'yes' to keeping CBI and its resulting relationships alive. We have no doubt that Venezuela and Cuba can join at a time dictated by their political evolution Whether developing new trade relations, fighting piracy and drugs, common services and others, we suggest that this potential be kept alive.

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