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

## Fourth Report
## 1988

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

**USITC PUBLICATION 2225**

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**Washington, DC 20436**

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

## Fourth Report
## 1988

*Investigation No. 332-227*

**USITC Publication 2225**
**September 1989**

Prepared in Conformity with
Section 215(a) of the
Caribbean Basin Economic Recovery Act

# 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 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 1988.

The CBERA, enacted on August 5, 1983 (Public Law 98-67, 97 Stat. 384), authorized the President to proclaim duty-free treatment to eligible articles from designated beneficiary Caribbean Basin countries. The President proclaimed duty-free treatment on certain eligible articles effective January 1, 1984, and such duty-free treatment is scheduled to remain in effect until September 30, 1995. Section 215 of the act requires the Commission to provide an assessment of the actual and probable future effects of the CBERA on the U.S. economy generally, on U.S. industries producing like or directly competitive products with those imported from beneficiary countries, and on U.S. consumers, and to submit its report to the President and the Congress by September 30 of each year. The provisions of the CBERA are listed and explained in the first CBERA report.

The following countries were designated beneficiary countries upon the implementation of the CBERA: Antigua and Barbuda, Barbados, Belize, Costa Rica, Dominica, the Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, Saint Christopher-Nevis (St. Kitts), Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, and the Virgin Islands (British). TheBahamas became a beneficiary nation in March 1985. Upon becoming independent of the Netherlands Antilles in April 1986, Aruba was designated as a beneficiary country, effective retroactively to January 1, 1986. In April 1988 Panama's beneficiary status was suspended and in November 1988 Guyana was designated as a beneficiary country.

The report contains three chapters and three appendices. Chapter 1 analyzes overall U.S. trade with the Caribbean Basin during 1988 and compares trade under special programs (CBERA, the Generalized System of Preferences (GSP), and TSUS items 806.30/807.00). Chapter 2 addresses the actual effects of the CBERA in 1988, the fifth year of the program's operation, covering CBERA's effects on the U.S. economy, U.S. industries, and U.S. consumers. Chapter 3 focuses on the probable future effects of the CBERA. It examines significant investment projects in the region and provides an indication of products 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 a table of the leading imports that benefited from CBERA provisions, by source, and appendix C explains the economic model used to derive the results contained in chapter 2.

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# EXECUTIVE SUMMARY

## U.S. Trade with the Caribbean Basin

- The year 1988 marked the fifth year of operation of the Caribbean Basin Economic Recovery Act (CBERA). With the addition of Guyana as a new program beneficiary in 1988, total imports from the CBERA beneficiary countries increased slightly in value compared with previous years. The declining value of petroleum and petroleum product imports continues to be the principal factor contributing to suppression of the value of total imports from the group.

U.S. imports from CBERA beneficiaries increased in value from $6.0 billion in 1987 to $6.1 billion in 1988, even though the value of petroleum and petroleum product imports fell by $318 million. Imports of coffee, another traditional U.S. import from the CBERA countries, also declined in 1988 by $215 million. These declines were offset principally by a $350 million increase in the value of textile and apparel imports from the CBERA countries and the addition of Guyana to the list of beneficiaries.

- For the second year in a row, in 1988 the United States enjoyed a trade surplus with the CBERA beneficiary countries.

The surplus in 1988 reflects a 29.9 percent decline in U.S. imports from the CBERA countries since 1984, from $8.6 billion to $6.1 billion, while U.S. exports to the group increased by 24.7 percent over the same period, from $6.0 billion to $7.4 billion. In contrast to the 0.4 percent growth in U.S. imports from the CBERA countries last year, U.S. exports to the group rose by 11.3 percent. The resulting U.S. trade surplus with the CBERA countries in 1988 was $1.4 billion, compared to $629 million in 1987.

- In 1988, a shift continued in the product composition of imports from CBERA countries, away from lower duty petroleum and petroleum products toward higher duty items, such as textiles and apparel.

This trend was reflected in a 23.2 percent increase in calculated duties collected while the dutiable value of these imports declined by 6.4 percent. While petroleum and petroleum products continued to account for a large share of total imports from the CBERA group, in 1988 they were displaced by textiles and apparel as the major import category. The growth in textiles and apparel imports is principally the result of increased imports entering the United States under TSUS items 807.00 and so-called 807-A (now subheading 9802.00.80 of the Harmonized Tariff Schedule). These imports from CBERA countries amounted to $1.3 billion in 1988, up by 22.1 percent from the 1987 level.

- For the third year in a row, imports that entered the United States duty-free under CBERA tariff provisions increased in value (net misreported MFN duty-free and ineligible imports).

After declining from $576 million in 1984 to $493 million in 1985, CBERA imports rose to $671 million in 1986 and $768 million in 1987. In 1988, duty-free CBERA imports increased by $22.5 million to $791 million. In 1988, beef and veal was again the leading category of items imported under CBERA provisions. Sugar regained second place among the leading imports followed by electrical switches, pineapples, and baseball equipment. The Dominican Republic and Costa Rica continued as the CBERA program's top beneficiaries. In 1988, their combined share of CBERA duty-free imports was 48.5 percent. Haiti, Guatemala, and Honduras followed as leading beneficiaries.

## Impact of the CBERA in 1988

- Although the total customs value of imports to the United States under CBERA duty-free provisions in 1988 was $791 million, the value that actually benefited from the duty-free treatment amounted to $297 million. Items that "actually benefit" were determined by selecting those imports that entered under CBERA provisions (net misreported MFN duty-free and ineligible imports) and excluding items that could have entered duty free under GSP provisions in the absence of CBERA.

The figure for those imports that actually benefited represents 38 percent of imports entering under CBERA duty-free treatment, 5.0 percent of the customs value of total imports from CBERA beneficiaries, and approximately 0.1 percent of total U.S. imports. With the CBERA-country share of U.S. imports at such low levels, impact on U.S. industries and consumers in 1988 was, as expected, minimal. Moreover, over the five years of the program's operation, the level of imports that actually benefited from CBERA provisions declined—from $506 million in 1984 to $297 million in 1988.

- In each of the past five years, eight products have consistently entered among the twelve leading items that actually benefited from CBERA tariff preferences.

These items were sugar, beef and veal, pineapples, orange juice, cigarette leaf, electrical capacitors, resistors, and rum. In addition, in each of the past four years, ethyl alcohol has been among the twelve leading items that actually benefited from CBERA.

- The estimated net-welfare cost to the United States of granting duty-free treatment to the 30 leading items that actually benefited from CBERA ranged from $4.7 million to $7.3 million in 1988.

Compared with the total value of 1988 imports from CBERA beneficiaries, the range of net-welfare cost represented about 0.08 to 0.12 percent. Among the 30 items observed, five import items with high net-welfare costs were sugar, orange juice, electrical capacitors, beef and veal, and resistors—together accounting for 58 to 86 percent of the total net-welfare cost estimation. The substantial share of net-welfare cost associated with these five items is mainly due to the high levels at which they are imported. In addition, ethyl alcohol was the only item among the 30 that showed a potential gain in the range of its net-welfare effects. The net-welfare effect for ethyl alcohol ranged from a loss of $1.1 million to a gain of $0.3 million.

- The level of domestic output from competing U.S. industries that was displaced in 1988 by the 30 leading CBERA imports was small. The maximum amount of domestic shipments displaced did not exceed 1 percent for any of the selected products.

In value terms, the eight CBERA imports with the largest displacement effects on output of competing U.S. industries were ethyl alcohol, orange juice, beef and veal, other fruit juices, electrical capacitors, resistors, certain tobacco products, and rum. The largest effect occurred for ethyl alcohol for which the displacement of domestic shipments ranged from $6.02 million to $9.43 million, or between 0.63 and 0.99 percent of the value of total domestic shipments.

## Probable Future Effects of CBERA

- Although some of the new investment taking place in the region during the past year has focused on products eligible for duty-free entry under the CBERA, the act has not fueled growth of the economies of CBERA beneficiaries or their exports to a degree likely to significantly affect U.S. industries or consumers in the near future.

Overall, levels of new investment in beneficiary countries in the region remain disappointingly low. Previous CBERA reports have enumerated problems that hamper the abilities of countries in the region to attract investment and impede entry into U.S. markets. Most of these problems continued unabated in 1988 and include: inadequate infrastructure, lack of affordable financing, lack of producer experience with U.S. distribution channels and marketing techniques, investors' perceptions regarding political and social instability, and small domestic markets.

- Nontraditional industries—such as winter vegetables, information processing, electronics, pharmaceuticals, food processing, and other assembly and manufacturing operations—are expanding in the Caribbean.

Growth in new projects producing nontraditional products and in exports of some of these products by CBERA countries is dramatic. Some of these projects benefit directly from the CBERA duty-free provisions. However, the contribution of investment in nontraditional products to overall export patterns of these countries remained minimal during the year under review. Exports of traditional products such as sugar, coffee, petroleum, and bananas continued to be the major foreign exchange earners.

- Much of the new investment attracted to the region involves the production of goods that are ineligible for duty-free treatment, such as apparel assembly operations, or services such as tourist operations or data processing.

Lower wage rates and proximity to the U.S. market may be significant factors encouraging some investment, regardless of the availability of tariff preferences. Also, apparel imports benefit from TSUS item 807.00 and the special access garment program, known as 807-A or Super 807, under which duties are paid on only the value added. Tourism and other investment not eligible for CBERA preferences also may be attracted through the promotional efforts associated with the Caribbean Basin Initiative (CBI).

- The Commission identified 541 new or expansion investment projects in CBERA beneficiaries in 1988. Investment values were reported for 455 of these projects, which totaled $753 million. Reported investment may substantially understate actual investment in the region, but does indicate current trends.

The greatest number of new investment projects were reported in the agriculture and manufacturing sectors. Investment in the electronics sector rebounded from a slow year in 1987. The largest dollar value of new investment activity was reported for tourism. In the service sector, data-entry processing showed high growth and is expected to generate 20,000 jobs in the 1990s.

- Investment in infrastructure is being addressed primarily through multilateral and bilateral development assistance. Although significant change will result only in the long-term, improving infrastructure will be an important factor in attracting increased private-sector investment in the future.

Increased U.S. economic assistance to the region is one of several elements of the CBI that complements CBERA provisions. In addition to development aid from the U.S. Agency for International Development, CBERA beneficiaries have received aid from the World Bank, the Inter-American Development Bank, and the Caribbean Development Bank. Much of current investment in infrastructure focuses on the construction of roads, expansion of electrical output, and the enhancement of rural agricultural credit facilities and support services, particularly with a view to promoting nontraditional crops.

- In 1988, only three private-sector projects with investments totaling $36.6 million received approval for section 936 financing, the first such approvals ever granted.

Although other projects have since been approved, this financing scheme, which relies on the profits of U.S. firms that claim tax preferences under Section 936 of the U.S. Internal Revenue Code, will likely remain a limited contribution to investment in the CBERA countries. Uncertainties about continuation of the section's tax preferences, regulatory obstacles, and commercial considerations continue to hamper the ability of banks to disburse these funds and of investors in the CBERA beneficiaries to qualify for these funds.

- A new version of "CBI II" legislation to amend CBERA was introduced in March 1989 in the 101st Congress, replacing an earlier bill considered during 1987 and 1988.

The bill, H.R. 1233, has been reported out of the Ways and Means Committee and is awaiting House action. Under current language of its provisions, the bill would liberalize CBERA preferences for certain previously excluded products and textiles and apparel by reducing applicable MFN rates of duty by 50 percent.

# Chapter 1

## U.S. Trade with the Caribbean Basin

This chapter updates chapter 1 of the third Caribbean Basin Economic Recovery Act (CBERA) report prepared by the U.S. International Trade Commission, by presenting trade developments in 1988, the fifth year of the CBERA program.[1] The discussion centers on the imports from beneficiary countries and the CBERA duty-free treatment that is applicable to this trade. The chapter also compares trade under the CBERA with trade that entered the United States under other duty-free provisions, such as the Generalized System of Preferences (GSP). Whereas the focus is on 1988, import trends are examined over a 4- or 5-year period. The data presented in this section are compiled from the statistics of the U.S. Department of Commerce and include certain adjustments to Census data.

Caribbean Basin[2] countries are categorized as either "designated" or "nondesignated" for beneficiary status under the CBERA. In this report, the designated country group (also referred to as "CBERA countries") varies according to the year under discussion. For the years 1984-87, the group of CBERA countries comprises the same 22 beneficiaries.[3] For 1988, the list of CBERA beneficiaries was expanded to include Guyana, which became eligible for duty-free treatment under the CBERA on November 24, 1988.[4] Although Panama's preferential tariff treatment under the CBERA was suspended effective April 9, 1988, Panama was retained on the list of designated countries for 1988.[5] For each year, the nondesignated group contains the remaining eligible countries.[6]

### Two-Way Trade

In 1988, total U.S. imports from the Caribbean Basin countries (both designated and nondesignated) amounted to $6.2 billion, essentially unchanged from the previous year, and comprised 1.4 percent of overall U.S. imports (table 1-1). The Caribbean Basin also remained

[1] CBERA is the major element of the Caribbean Basin Initiative (CBI). The CBI was launched in 1983 as a broad program to promote economic development through private sector initiative in Central America and the Caribbean islands. The goal of the CBI is to expand foreign and domestic investment in nontraditional sectors, diversify the economies of countries in the region, and expand their exports. In addition to the CBERA, other elements of the CBI program include: increased U.S. economic assistance to the region to aid private sector development; a deduction on U.S. taxes for companies that hold business conventions in CBI-eligible countries to increase tourism; a wide range of U.S. government, state government, and private sector promotion programs; and support from other trading partners and multinational development institutions such as the Inter-American Development Bank and the World Bank.

[2] As in the three previous CBERA reports, the Caribbean Basin is defined as including all 27 Caribbean and

[2]*—Continued*
Central American countries and territories specified as potential eligible beneficiaries in sec. 212(b) of the act as well as Aruba, which became independent of the Netherlands Antilles in April 1986. *Annual Report on the Impact of the Caribbean Basin Economic Recovery Act on U.S. Industries and Consumers, First Report,* 1984-85, USITC Publication 1897, September 1986, *Second CBERA Report,* 1986, USITC Publication 2024, September 1987, and *Third CBERA Report,* 1987, USITC Publication 2122, September 1988.

[3] For a list of these countries, see the Preface.

[4] See Presidential Proclamation 5909, Nov. 18, 1988. Although Guyana was not eligible for duty-free treatment under the CBERA until late in the year, in 1988 it was ranked the nineteenth largest beneficiary (out of 23) in terms of CBERA imports.

[5] Panama lost its beneficiary status because the President concluded that it had not cooperated fully with the United States in preventing the exportation of narcotic and psychotropic drugs. See Presidential Proclamation 5779, Mar. 23, 1988. Although Panama lost its eligibility for duty-free treatment under the CBERA early in the year, in 1988 it was ranked the thirteenth largest beneficiary (out of 23) in terms of CBERA imports.

[6] These countries include Anguilla, Cayman Islands, Nicaragua, Suriname, the Turks and Caicos Islands, and Guyana (1984-87).

**Table 1-1**
**U.S. trade with the Caribbean Basin countries, 1984-88**

| 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 | 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 |

[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.

the fourteenth largest source of U.S. imports, a source ranking after China and Singapore, but before Saudi Arabia, Venezuela, and Sweden. Combined U.S. exports to the Caribbean Basin countries in 1988 totaled $7.7 billion, or 2.5 percent of overall U.S. exports. In 1988, as in 1987, the Caribbean Basin was the tenth largest export market of the United States—a market ranking after the Netherlands, but larger, for example, than Belgium, Australia, or Italy. For the third year in a row, the United States registered a surplus in trade with the countries of the Caribbean Basin, making this region one of the few areas of the world where no U.S. trade deficit was recorded. The surplus reflects a 30.6-percent decline in U.S. imports from the Caribbean Basin since 1984, from $8.9 billion to $6.2 billion in 1988, while U.S. exports to the area increased by 21.7 percent over the same period, from $6.3 billion to $7.7 billion.

The designated CBERA beneficiaries constitute most of the Caribbean Basin in terms of trade with the United States; in 1988, they accounted for 98.2 percent of combined U.S. imports from the region and for 96.8 percent of the U.S. exports to the region. Between 1984 and 1988, U.S. imports from the CBERA countries declined by 29.9 percent, from $8.6 billion to $6.1 billion, whereas U.S. exports to the group increased by 24.7 percent, from $6.0 billion to $7.4 billion (table 1-2). In 1988, U.S. exports to the CBERA countries rose by 11.3 percent compared to only a 0.4-percent increase in U.S. imports. The U.S. trade surplus with the CBERA countries was $1.4 billion in 1988 compared to $629 million in 1987.

## U.S. Imports

### *Total imports from nondesignated countries*

U.S. imports from the nondesignated countries declined in 1985 and 1986, rose briefly in 1987 to $139 million, and then fell to $111 million in 1988 (see table 1-3). The decline through 1986 reflected, in part, tenuous U.S.-Nicaragua relations (as well as the poor state of the Nicaraguan economy); U.S. imports from Nicaragua fell to a negligible amount in 1986, and remained negligible through 1988.[7] In 1988, the decline in imports from nondesignated countries resulted principally from Guyana's change of status to a designated country. If Guyana had remained a nondesignated country, U.S. imports from this group would have increased by $23 million in 1988. U.S. imports from Suriname almost doubled to $88 million last year, while imports from the Cayman Islands fell to $18 million from a peak of $28 million in 1987. As a share of total U.S. imports from the Caribbean Basin, the nondesignated countries accounted for only 1.8 percent in 1988 compared with 2.8 percent in 1984.

### *Total imports from designated CBERA countries*

Overall, U.S. imports from CBERA beneficiaries declined by 29.9 percent between 1984 and 1988. This decline was principally the result of falling oil prices, which caused a dramatic decrease in the value of imports from oil-producing CBERA countries during 1984-86 (table 1-4).[8] Total imports from non-oil producing countries, on the other hand, increased by 13.9 percent between 1984 and 1988. In 1988, U.S. imports from this group of beneficiaries amounted to $4.7 billion, up from $4.4 billion in 1987.

In 1988, the Central American and the Central Caribbean country groups were responsible for roughly the same amount of U.S. imports—$2.2 billion—giving each group a 37-percent share of total from the CBERA group.

[7] In May 1985, the United States embargoed virtually all trade with Nicaragua.
[8] In 1984, 4-oil producing countries—Trinidad and Tobago, the Netherlands Antilles, the Bahamas, and Aruba—were responsible for 52 percent of all U.S. imports from the CBERA nations, but this figure fell to 28 percent in 1986 and 1987. The value of U.S. imports from the oil-refining countries fell a further $283 million in 1988 to result in a 23-percent share for this country grouping.

**Table 1-2**
**U.S. trade with the countries designated under the CBERA, 1984-88**

| *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 | 1,360.8 |

[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 1-3**

**U.S. imports for consumption, designated and nondesignated countries under the CBERA, 1984-88**

*(In thousands of dollars, customs-value basis)*

| *Country* | *1984* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|
| Designated: | | | | | |
| Antigua | 7,898 | 24,695 | 11,849 | 8,621 | 6,893 |
| Aruba | ([1]) | ([1]) | 1,797 | 2,452 | 647 |
| Bahamas | 1,154,282 | 626,084 | 440,985 | 377,881 | 268,328 |
| Barbados | 252,598 | 202,194 | 108,991 | 59,110 | 51,413 |
| Belize | 42,843 | 46,951 | 50,181 | 42,906 | 52,049 |
| British Virgin Islands | 1,335 | 11,902 | 5,904 | 11,162 | 684 |
| Costa Rica | 468,633 | 489,294 | 646,508 | 670,953 | 777,797 |
| Dominica | 86 | 14,161 | 15,185 | 10,307 | 8,530 |
| Dominican Republic | 994,427 | 965,847 | 1,058,927 | 1,144,211 | 1,425,371 |
| El Salvador | 381,391 | 395,658 | 371,761 | 272,881 | 282,584 |
| Grenada | 766 | 1,309 | 2,987 | 3,632 | 7,349 |
| Guatemala | 446,267 | 399,617 | 614,708 | 487,308 | 436,979 |
| Guyana[2] | ([3]) | ([3]) | ([3]) | ([3]) | 50,432 |
| Haiti | 377,413 | 386,697 | 368,369 | 393,660 | 382,466 |
| Honduras | 393,769 | 370,219 | 430,906 | 483,096 | 439,504 |
| Jamaica | 396,949 | 267,016 | 297,891 | 393,912 | 440,934 |
| Montserrat | 989 | 3,620 | 3,472 | 2,413 | 2,393 |
| Netherlands Antilles[4] | 2,024,367 | 793,162 | 453,333 | 478,836 | 408,100 |
| Panama[5] | 311,627 | 93,605 | 352,206 | 342,700 | 256,046 |
| St. Kitts and Nevis[6] | 23,135 | 16,258 | 22,278 | 23,793 | 20,822 |
| St. Lucia | 7,397 | 13,796 | 12,269 | 17,866 | 26,044 |
| St. Vincent and Grenadines | 2,958 | 9,643 | 7,836 | 8,493 | 13,950 |
| Trinidad and Tobago | 1,360,106 | 1,255,498 | 786,405 | 802,838 | 701,738 |
| Total | 8,649,235 | 6,687,226 | 6,064,745 | 6,039,030 | 6,061,054 |
| Nondesignated: | | | | | |
| Anguilla[6] | ([3]) | ([3]) | 89 | 168 | 497 |
| Cayman Islands | 6,212 | 10,950 | 14,611 | 27,670 | 18,195 |
| Guyana | 74,417 | 46,010 | 62,928 | 58,828 | ([2]) |
| Nicaragua | 58,064 | 41,003 | 1,071 | 1,231 | 1,121 |
| Suriname | 104,636 | 50,091 | 38,591 | 46,445 | 87,894 |
| Turks and Caicos Islands | 3,935 | 4,649 | 4,792 | 4,680 | 3,517 |
| Total | 247,264 | 162,703 | 122,081 | 139,022 | 111,224 |
| Grand total | 8,896,499 | 6,849,928 | 6,186,826 | 6,178,052 | 6,172,278 |

[1] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until, in the second half of 1986, separate data became available.
[2] Guyana was not designated as a CBERA beneficiary until Nov. 24, 1988.
[3] Not applicable.
[4] See footnote 1.
[5] Panama lost its designation as a beneficiary effective Apr. 9, 1988.
[6] Anguilla, which has not been designated as a beneficiary country, had been included with the data for St. Kitts and Nevis through 1985. For 1986-88, data for Anguilla have been excluded and are shown separately among the nondesignated countries.

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

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

Table 1-4

**U.S. imports for consumption from countries designated under the CBERA, by major groups, 1984-88**

*(In thousands of dollars, customs value)*

| *Area or Country* | *1984* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|
| Non-oil-producing countries: | | | | | |
| Central America: | | | | | |
| Belize | 42,843 | 46,951 | 50,181 | 42,906 | 52,049 |
| Costa Rica | 468,633 | 489,294 | 646,508 | 670,953 | 777,797 |
| El Salvador | 381,391 | 395,658 | 371,761 | 272,881 | 282,584 |
| Guatemala | 446,267 | 399,617 | 614,708 | 487,308 | 436,979 |
| Honduras | 393,769 | 370,219 | 430,906 | 483,096 | 439,504 |
| Panama[1] | 311,627 | 393,605 | 352,206 | 342,700 | 256,046 |
| Subtotal | 2,044,530 | 2,095,344 | 2,466,270 | 2,299,843 | 2,244,959 |
| Eastern Caribbean: | | | | | |
| Antigua | 7,898 | 24,695 | 11,849 | 8,621 | 6,893 |
| Barbados | 252,598 | 202,194 | 108,991 | 59,110 | 51,413 |
| British Virgin Islands | 1,335 | 11,902 | 5,904 | 11,162 | 684 |
| Dominica | 86 | 14,161 | 15,185 | 10,307 | 8,530 |
| Grenada | 766 | 1,309 | 2,987 | 3,632 | 7,349 |
| Guyana | ([2]) | ([2]) | ([2]) | ([2]) | 50,432 |
| Montserrat | 989 | 3,620 | 3,472 | 2,413 | 2,393 |
| St. Kitts and Nevis[3] | 23,135 | 16,258 | 22,278 | 23,793 | 20,822 |
| St. Lucia | 7,397 | 13,796 | 12,269 | 17,866 | 26,044 |
| St. Vincent and Grenadines | 2,958 | 9,643 | 7,836 | 8,493 | 13,950 |
| Subtotal | 297,161 | 297,578 | 190,771 | 145,397 | 188,510 |
| Central Caribbean: | | | | | |
| Dominican Republic | 994,427 | 965,847 | 1,058,927 | 1,144,211 | 1,425,371 |
| Haiti | 377,413 | 386,697 | 368,369 | 393,660 | 382,466 |
| Jamaica | 396,949 | 267,016 | 297,891 | 393,912 | 440,934 |
| Subtotal | 1,768,790 | 1,619,560 | 1,725,186 | 1,931,783 | 2,248,771 |
| Total non-oil producing countries | 4,110,481 | 4,012,482 | 43,382,228 | 4,377,024 | 4,682,240 |
| Oil-producing countries: | | | | | |
| Aruba | ([4]) | ([4]) | 1,797 | 2,452 | 647 |
| Bahamas | 1,154,282 | 626,084 | 440,985 | 377,881 | 268,328 |
| Netherlands Antilles[4] | 2,024,367 | 793,162 | 453,333 | 478,836 | 408,100 |
| Trinidad and Tobago | 1,360,106 | 1,255,498 | 786,405 | 802,838 | 701,738 |
| Total oil producing countries | 4,538,754 | 2,674,744 | 1,682,519 | 1,662,006 | 1,378,813 |
| Grand total | 8,649,235 | 6,687,226 | 6,064,745 | 6,039,030 | 6,061,054 |

[1] Panama was a designated beneficiary until Apr. 9, 1988.
[2] Not applicable. Guyana was not designated as a beneficiary until Nov. 24, 1988.
[3] Through 1985, data for St. Kitts and Nevis included Anguilla, a nondesignated country. For 1986-88, data for Anguilla have been excluded.
[4] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until, in the second half of 1986, separate data became available.
Note.—Because of rounding, figures may not add to totals shown.

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

After peaking at $2.5 billion in 1986, the value of U.S. imports from Central America dropped by 6.7 percent in 1987 followed by a further 2.4-percent decline in 1988. Although there was only a slight overall decline in U.S. imports from this country grouping in 1988, there were substantial declines in U.S. imports from Guatemala (10.3 percent), Honduras (9.0 percent), and Panama (25.3 percent). These declines were offset somewhat by an increase of 15.9 percent in imports from Costa Rica in 1988.

While the trend is toward decreasing U.S. imports from Central America, imports from the Central Caribbean have grown in each of the last 3 years. In 1988, the value of imports from this country group increased by 16.4 percent as imports from the Dominican Republic and Jamaica continued to grow rapidly. U.S. imports from the Dominican Republic were up by one-quarter in value whereas imports from Jamaica increased by 11.9 percent.

The Eastern Caribbean's share of U.S. imports from the CBERA countries rose from 2.4 percent in 1987 to 3.1 percent in 1988.[9] The value of U.S. imports from this region would have declined by 5.0 percent in 1988 were it not for the addition of Guyana to the country group. Last year, U.S. imports increased from only three countries in the group—Grenada, St. Lucia, and St. Vincent and Grenadines. The poor performance of this region in 1988 was the result of a continuing decline in imports from Barbados and a severe drop in U.S. imports from the British Virgin Islands from $11.2 million in 1987 to $0.7 million last year. In 1988, the United States did not import any light fuel oil or kerosene from the British Virgin Islands, two commodities that have previously been transshipped through the British Virgin Islands and which accounted for 93 percent of the value of U.S. imports from that country in 1987.

[9] Currently proposed legislation to extend CBERA (CBI II) contains a provision calling for "special effort" to improve the ability of the Eastern Caribbean countries and Belize to benefit from CBERA.

### *Product composition of total imports*

The 30 percent contraction of U.S. imports from CBERA beneficiaries in 1984-88 was accompanied by a major change in their composition. Caribbean exports have traditionally consisted of a few items, such as petroleum and petroleum products, sugar for consumption, coffee, bananas, bauxite, and cocoa. Although these traditional goods continue to weigh heavily in the CBERA countries' exports, efforts to diversify have diminished their relative importance. As a share of total imports from the CBERA countries, the combined value of the traditional imports noted above has steadily declined from 67.4 percent in 1984 to 36.9 percent in 1988.[10] As discussed below, this decline is in large part due to a drastic drop in the value of petroleum and petroleum products imports.

During 1984-86, the value of the region's crude and derived petroleum exports to the United States fell sharply and was the primary reason for the overall decline in imports from the CBERA countries during the period (fig. 1-1 and table 1-5). In 1984, petroleum and petroleum products accounted for 49 percent of total U.S. imports from the CBERA countries in terms of value, but in 1986 the share of such imports fell to 23 percent.[11] After stabilizing in 1987, the value of U.S. imports of petroleum and petroleum products from the CBERA declined by $318 million in 1988, eroding the commodity share to 17 percent.

[10] Figures for sugar, coffee, banana, bauxite, and cocoa imports from CBERA countries are presented in table 1-5, while figures for petroleum and petroleum products imports are presented in table 1-9.
[11] See table 1-9 for petroleum and petroleum products import figures.

**Figure 1**
**Principal U.S. imports from countries designated under the CBERA, 1984-88**

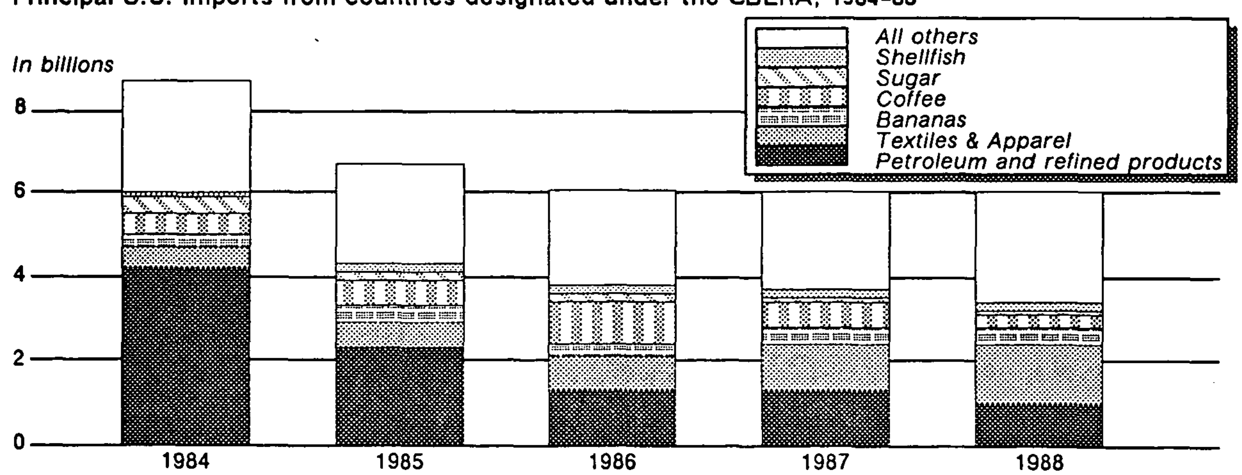

**Table 1-5**

**Leading U.S. imports for consumption from countries designated under the CBERA, 1984-88**

*(In thousands of dollars, customs value)*

| TSUS item | Description | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| 475.10 | Crude petroleum, 25 degs A.P.I or more | 1,631,003 | 1,224,247 | 699,187 | 653,366 | 472,510 |
| 146.40 | Bananas, fresh | 368,033 | 423,483 | 398,819 | 467,723 | 467,990 |
| 475.05 | Crude petroleum, under 25 degs A.P.I. | 1,948,851 | 812,497 | 470,060 | 519,860 | 430,839 |
| 160.10 | Coffee, crude, roasted or ground | 590,672 | 641,111 | 1,000,981 | 601,147 | 385,972 |
| 114.45 | Shellfish other than clams, crabs | 195,997 | 206,799 | 251,683 | 253,520 | 249,772 |
| 155.20 | Sugars, sirups, and molasses | 426,763 | 262,994 | 205,591 | 113,834 | 150,348 |
| 381.62 | Men's cotton suits and slacks | (1) | [1]18,946 | 87,623 | 128,407 | 147,217 |
| 475.25 | Motor fuel | 320,194 | 215,494 | 185,607 | 175,633 | 134,685 |
| 106.10 | Beef and veal, fresh, chilled | 90,053 | 105,926 | 128,488 | 124,979 | 133,748 |
| 685.90 | Electrical switches | 94,026 | 66,194 | 67,666 | 89,729 | 114,793 |
| 800.00 | U.S. goods returned | 114,816 | 106,330 | 95,844 | 85,217 | 108,960 |
| 376.24 | Lace or net body-support garments | 66,259 | 82,305 | 69,073 | 80,746 | 106,728 |
| 601.06 | Bauxite | 149,864 | 51,176 | 77,900 | 106,692 | 101,008 |
| 605.20 | Gold or silver bullion ore | 182,931 | 128,752 | 116,193 | 117,515 | 98,819 |
| 384.47 | Women's cotton shirts, not knit | (1) | [1]5,299 | 37,261 | 64,800 | 96,800 |
| 381.95 | Men's man made fiber disposable apparel | (1) | [1]16,670 | 64,774 | 79,469 | 94,253 |
| 156.10 | Cocoa beans | 80,569 | 65,239 | 65,858 | 68,734 | 70,108 |
| 384.91 | Women's other apparel, not knit | (1) | [1]16,412 | 58,285 | 56,210 | 67,563 |
| 412.22 | Analgesics, antipyretics | 54,837 | 78,105 | 138,069 | 98,346 | 66,707 |
| 381.56 | Men's cotton shirts, other | (1) | [1]10,687 | 39,511 | 52,853 | 66,360 |
| 381.41 | Men's cotton knit shirts, other | (1) | [1]2,967 | 17,517 | 47,248 | 63,968 |
| 791.27 | Leather, other than patent leather | 41,332 | 39,771 | 35,098 | 55,682 | 63,096 |
| 606.20 | Ferronickel | 36,444 | 40,292 | 21,433 | 32,390 | 59,938 |
| 480.65 | Nitrogenous fertilizers | 126,661 | 71,448 | 38,746 | 36,591 | 55,926 |
| 381.05 | Men's cotton jacket, not knit | (1) | [1]1,966 | 11,441 | 16,451 | 51,039 |
| 417.12 | Aluminum hydroxide and oxide | 127,921 | 66,171 | 26,055 | 17,464 | 49,556 |
| 384.29 | Women's cotton knit shirts, other | (1) | [1]1,067 | 5,806 | 31,440 | 44,780 |
| 384.46 | Women's cotton blouses, not knit | (1) | [1]10,064 | 47,459 | 48,395 | 43,458 |
| 427.97 | Methyl alcohol, not as fuel or for producing synthetic natural gas | 5,241 | 19,145 | 10,208 | 15,892 | 41,188 |
| 376.28 | Body-supporting garments | 29,052 | 37,716 | 31,735 | 33,157 | 39,518 |
| | Total of items shown | 6,681,519 | 4,829,272 | 4,503,971 | 4,273,491 | 4,077,647 |
| | Total all commodities | 8,649,235 | 6,687,226 | 6,064,745 | 6,039,030 | 6,061,054 |

[1] The TSUS numbers for apparel were revised in September 1985. Comparable data for 1984 are not available. Data for 1985 are for September-December only.
Note.—Because of rounding, figures may not add to totals given.

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

Figure 1-1 also shows some other important changes in the composition of U.S. imports from the CBERA beneficiaries, including the rapid decline in sugar imports until 1988. Caribbean exporters suffered along with other foreign sugar suppliers from U.S. quota cutbacks until 1988 when concerns over the impact of the drought on the domestic crop prompted the United States to increase its global sugar quota, with corresponding increases in the quotas for CBERA countries. The value of Caribbean coffee exports, which surged during 1984-86, dropped sharply in 1987 as prices declined. Although, in general, coffee prices rose in 1988, the value of coffee imports from CBERA countries declined a further $215 million, or 35.8 percent, from the 1987 level (table 1-5). In 1988, the combined value of coffee imports from Guatemala, Honduras, and Costa Rica declined by more than one-half. The value of U.S. banana imports from CBERA countries, which increased by 27.1 percent between 1984 and 1987, remained stable in 1988.

The most notable change in composition of trade came from massive imports into the U.S. customs territory of Caribbean textiles and apparel, consisting mostly of garments. These products represent a nontraditional export category for the CBERA countries. Textiles and apparel accounted for 5.9 percent of total U.S. imports from the CBERA countries in 1984, a figure that rose to 24.7 percent in 1988 (fig. 1-1).[12] Since 1984, the value of these imports has almost tripled; in 1988, textile and apparel imports from the CBERA countries grew by 30.4 percent, or $350 million, from the 1987 level.

[12] See also table 1-9 and the section on "Product Eligibility Under the CBERA" later in this chapter.

Table 1-5 shows U.S. imports during 1984-88 of the 30 leading items on a 5-digit TSUS basis that together in 1988 accounted for 67 percent of total imports from the CBERA beneficiaries. In addition to textiles and apparel and the traditional U.S. imports, major U.S. imports from CBERA countries in 1988 included shellfish, beef and veal, electrical articles, U.S. goods returned,[13] and gold and silver bullion.

## Dutiability and Special Duty-Free Programs

Table 1-6 breaks down U.S. imports from the CBERA beneficiaries, between 1984 and 1988, into their dutiable portion and the portion entering the U.S. customs territory free of duty either under the most-favored-nation (MFN) (col. 1) rates of the Tariff Schedules of the United States (TSUS) or under special rate provisions, such as the CBERA.[14] The table shows separately U.S. imports entering under the CBERA and under the GSP, which is the other major U.S. tariff preference program available to exporters in CBERA countries.[15] Table 1-6 also shows the duty-free U.S. content of imports that entered under TSUS items 806.30 and 807.00 and the duty-free value of imports that entered under other tariff provisions.[16]

### *Dutiable value of imports*

Over the last 4 years, the decline in the dutiable value of U.S. imports from the CBERA beneficiaries has roughly correlated with the decline in the value of crude oil and petroleum product imports from the group.[17] The dutiable value of imports from CBERA beneficiaries declined significantly between 1984 and 1986, rose somewhat in 1987, and then fell again in 1988. In 1984, the first year that CBERA became operational, the dutiable value of imports from the CBERA countries amounted to $4.6 billion, or 52.8 percent of the total. In 1988, the dutiable value amounted to $2.0 billion, or 32.6 percent of the total. The average rate of duty and adjusted calculated duties, however, have risen markedly since the advent of the CBERA (see tabulation at bottom of page).

Calculated duties more than doubled from $75 million in 1984 to $158 million in 1988, despite a halving of the dutiable value over the same period. In 1988 alone, calculated duties jumped by 23.2 percent, whereas the dutiable value of imports declined by 6.4 percent. The increase in calculated tariff revenues from CBERA country imports, especially in 1987 and 1988, appears to be due to a sharp shift in the import composition from low-duty petroleum products toward high-duty goods, primarily wearing apparel.

### *Duty-free value of imports*

Although the dutiable value of imports from the designated countries has declined, the total value of duty-free imports has remained relatively stable. Between 1984 and 1988, the value of duty-free imports ranged from $3.7 billion to $4.1 billion. In 1988, duty-free imports accounted for a 67.4-percent share of total imports from CBERA countries compared to a 47.2-percent share in 1984 (table 1-6).

[13] U.S. goods returned refer 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] All CBERA-designated countries are eligible for MFN tariff treatment.

[15] All designated CBERA beneficiaries are also GSP beneficiaries—Panama's GSP eligibility was suspended concurrently with its suspension from CBERA. A wide range of the CBERA exports are also eligible for duty-free treatment under the GSP. However, the GSP is more restrictive than the CBERA, since products entering the United States under the GSP are subject to the competitive-need limit and rules-of-origin provisions of that program. For a discussion of the GSP, see *Operation of the Trade Agreements Program, 40th Report, 1988*, USITC Publication 2208.

[16] For a discussion of TSUS items 806.30 and 807.00, see the section on "Product Eligibility Under the CBERA" later in this chapter. Other duty-free imports represent imports entering the United States free of duty under special rate provisions, such as a temporary duty-rate suspension.

[17] The reported dutiable value of imports from the CBERA countries has been reduced by the value of the U.S. content (which is not subject to duty) of imports entering under TSUS items 806.30 and 807.00 and increased by 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 given for the dutiable value of imports from the Caribbean Basin in the *Operation of the Trade Agreements Program, 40th Report, 1988*, USITC Publication 2208, reflect adjustments only for the duty-free content of imports entering under TSUS items 806.30 and 807.00.

| *Item* | *1984* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|
| Dutiable value[1] | 4,567,416 | 2,962,025 | 1,916,553 | 2,110,951 | 1,975,850 |
| Calculated duties[2] | 75,293 | 72,152 | 83,056 | 127,977 | 157,605 |
| Average duty[3] | 1.65 | 2.44 | 4.33 | 6.06 | 7.98 |

[1] Reported dutiable value and calculated duty were adjusted to account for the duty-free value of imports entering under TSUS items 806.30 and 807.00, 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 1984-85 are based on 1985 product eligibility, while 1986-88 figures are based on product eligibility corresponding to each year.
[2] Ibid.
[3] Average duty = (calculated duty/dutiable value) x 100.

**Table 1-6**
**U.S. Imports for consumption from countries designated under CBERA,[1] by reported duty treatment, 1984-88**

| *Item* | *1984* | *1985* | *1986* | *1987* | *1988* | *Absolute change, 1988 over 1984* | *Percentage change, 1988 over 1984* |
|---|---|---|---|---|---|---|---|
| | *Value (1,000 dollars, customs value)* | | | | | | |
| Total imports | 8,649,235 | 6,687,226 | 6,064,745 | 6,039,030 | 6,061,054 | (2,588,181) | (29.9) |
| Dutiable value[2] | 4,567,416 | 2,962,025 | 1,916,553 | 2,110,951 | 1,975,850 | (2,591,566) | (56.7) |
| Duty-free value[3] | 4,081,819 | 3,725,201 | 4,148,192 | 3,928,080 | 4,085,204 | 3,385 | 0.1 |
| MFN[4] | 2,170,537 | 2,070,491 | 2,340,473 | 2,056,248 | 1,927,912 | (242,625) | (11.2) |
| CBERA[5] | 575,994 | 493,024 | 670,711 | 768,467 | 790,941 | 214,947 | 37.3 |
| GSP[5] | 592,249 | 533,507 | 476,151 | 300,531 | 353,079 | (239,171) | (40.4) |
| 806.30 and 807.00 | 587,560 | 547,368 | 612,118 | 756,115 | 906,518 | 318,958 | 54.3 |
| 807-A | - | - | 562 | 58,422 | 161,708 | 161,708 | (7) |
| Standard 807.00 | 586,064 | 546,306 | 611,513 | 697,681 | 744,723 | 158,659 | 27.1 |
| Other duty free[6] | 155,478 | 80,811 | 48,738 | 46,719 | 106,754 | (48,724) | (31.3) |
| | *Percent of total* | | | | | | |
| Total imports | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | (7) | (7) |
| Dutiable value[2] | 52.8 | 44.3 | 31.6 | 35.0 | 32.6 | (7) | (7) |
| Duty-free value[3] | 47.2 | 55.7 | 68.4 | 65.0 | 67.4 | (7) | (7) |
| MFN[4] | 25.1 | 31.0 | 38.6 | 34.0 | 31.8 | (7) | (7) |
| CBERA[5] | 6.7 | 7.4 | 11.1 | 12.7 | 13.0 | (7) | (7) |
| GSP[5] | 6.8 | 8.0 | 7.9 | 5.0 | 5.8 | (7) | (7) |
| 806.30 and 807.00 | 6.8 | 8.2 | 10.1 | 12.5 | 15.0 | (7) | (7) |
| 807-A | (7) | (7) | (8) | 1.0 | 2.7 | (7) | (7) |
| Standard 807.00 | 6.8 | 8.2 | 10.1 | 11.6 | 12.3 | (7) | (7) |
| Other duty free[6] | 1.8 | 1.2 | 0.8 | 0.8 | 1.8 | (7) | (7) |

[1] Panama is included as a beneficiary country in figures for 1984 through 1988. Data for Guyana are included in 1988 only.
[2] Reported dutiable value has been reduced by the duty-free value of imports entering under TSUS items 806.30 and 807.00 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 represent the value of imports which have a col. 1 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.
[6] Other duty-free imports were calculated as a remainder and represent imports entering free of duty under special rate provisions. For example, the other duty-free figure for 1988 includes 61.7 million dollars' worth of analgesics U.S. imports from the Bahamas that entered the United States duty free under a special duty-rate suspension.
[7] Not applicable.
[8] Less than 0.05 percent.

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

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

*MFN duty-free imports.*—Imports that entered unconditionally free of duty under MFN rates have consistently comprised a significant share of the overall value of U.S. imports from the designated countries. In 1984, $2.2 billion, or 25.1 percent, of U.S. imports from the CBERA countries fell within this category.[21] The MFN duty-free content of imports from the CBERA countries jumped to 38.6 percent in 1986, reflecting a surge in MFN duty-free imports (principally coffee) coupled with a move away from dutiable goods (such as petroleum products). In 1988, MFN duty-free imports declined for the second year in a row, falling to $1.9 billion, or a 31.8-percent share of total imports, principally because of the shrinking value of coffee imports.

*TSUS items 806.30 and 807.00.*—The most notable growth in the value of duty-free imports from the Caribbean Basin, spurred by burgeoning imports of textiles and apparel, has occurred in imports that entered under TSUS items 806.30 and 807.00.[22] After falling to $547 million in 1985, the combined duty-free value of imports under TSUS items 806.30 and 807.00 rose to $612 million in 1986 and $756 million in 1987. In 1988, the duty-free value of these imports reached almost $907 million, or a 15.0-percent share of total imports from the CBERA countries. Virtually all of these imports entered the United States under TSUS item 807.00. Imports under both the standard TSUS item 807.00 and the special 807-A program have grown swiftly.[23] Between 1987 and 1988, the duty-free value of imports under the standard TSUS item 807.00 grew by 6.7 percent, amounting to $745 million last year, whereas 807-A imports increased in value by 176.8 percent, from $58 million to $162 million.

*GSP duty-free imports.*—The value of imports from CBERA countries that have entered the United States free of duty under GSP provisions has shown a marked decline over the last 4 years, from $592 million in 1984 to $353 million in 1988. However, the value of these imports rebounded by 17.5 percent in 1988 from a record low of $301 million in 1987. As a share of total imports from CBERA countries, duty-free GSP imports accounted for 6.8 percent in 1984, peaked at 8.0 percent in 1985, and then declined to 7.9 percent in 1986 and 5.0 percent in 1987. In 1988, GSP imports from the CBERA countries accounted for 5.8 percent of the total.

*CBERA duty-free imports.*—In contrast to GSP imports, the value of duty-free imports entering the United States under the CBERA has shown strong growth since 1984. Although duty-free CBERA imports declined from $576 million in 1984 to $493 million in 1985, the value of these imports rose each subsequent year to $671 million in 1986, $768 million in 1987, and $791 million in 1988. In each of the 5 years of CBERA operation, imports entering under the program's provisions have increased as a share of total imports from the CBERA countries. CBERA duty-free imports were responsible for 6.7 percent of overall U.S. imports from the designated countries in 1984, 7.4 percent in 1985, 11.1 percent in 1986, 12.7 percent in 1987, and 13.0 percent in 1988.

Although the value of GSP imports from CBERA countries has declined and CBERA imports have risen, the combined value of duty-free imports entering the United States under these programs has remained relatively stable, ranging between $1.0 billion and $1.2 billion.[24] In 1984, the first year of the CBERA, 13.5 percent of imports from the CBERA countries entering the United States benefited from these two duty-free preference

[21] The figure for MFN duty-free imports includes all items with a col. 1 duty rate of zero, regardless of how its entry to the United States was reported.

[22] Under TSUS item 807.00, exporters were exempt from paying duties on the U.S. content of articles assembled from U.S.-fabricated components (i.e., the portion that has been assembled with fabric produced and cut in the United States). TSUS item 806.30 provides similar treatment for certain metal products. Under the Harmonized Tariff Schedule, which was implemented on Jan. 1, 1989, subheading HTS 9802.00.80.50 replaced the standard TSUS item 807.00 and HTS 9802.60.00.00 replaced TSUS item 806.30.

[23] In 1986, President Reagan announced a "special access program," referred to as 807-A or Super 807 (now HTS 9802.00.80.10), that provides another incentive to beneficiaries for exporting garments. This program was designed to provide greater access to the U.S. market for the products CBERA countries ship under the standard TSUS item 807.00. CBERA countries have been invited to enter into bilateral agreements with the United States under which guaranteed access levels (GALs) will be permitted for their exports of qualifying textile and apparel products. These GALs are separate from quotas under the Multifiber Arrangement that are applicable to other textile and apparel products and may be increased upon request by a CBERA country. The program allows CBERA countries to increase their level of exports to the United States significantly faster than other countries that are not CBERA beneficiaries. To date, the CBERA countries that have entered into a bilateral textile agreement under the program are Costa Rica, the Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago.

[24] The figures for duty-free imports that entered under the GSP and CBERA programs have been adjusted for misreporting in the official trade statistics; therefore, they will not match either official Commerce data or figures reported in previous reports. Reported GSP and CBERA import values have been reduced by the value of MFN duty-free imports that were reported as entering under the programs. The reported import figures have been further reduced by the value of imports that were recorded as entering the United States under the GSP or CBERA programs, but which were ineligible for duty-free treatment under the programs. Figures for GSP and CBERA duty-free imports that were reported in the *Operation of the Trade Agreements Program, 40th Report, 1988*, USITC Publication 2208, were adjusted for misreported MFN duty-free items only.

programs.[25] As total imports declined, however, the combined share of duty-free imports under CBERA and GSP rose, reaching 18.9 percent in 1986. In 1987, the combined import share of the CBERA and GSP programs declined slightly to 17.7 percent before rebounding to 18.9 percent in 1988.

The decline in GSP imports from CBERA countries and simultaneous rise in CBERA imports reflect, in part, a shift between the two programs. Importers may choose between the two programs since virtually all of the goods eligible for duty-free treatment under GSP are also eligible under CBERA. Moreover, the CBERA program does not contain restrictive competitive-need and rules-of-origin provisions, as does the GSP. Since the CBERA's inception, its rate of utilization by CBERA beneficiaries has generally increased, whereas GSP utilization has declined. In 1988, the CBERA utilization rate was 51.7 percent, down slightly from 54.4 percent in 1987, but up from 33.5 percent in 1984 (table 1-7). The GSP utilization rate, on the other hand, was 32.1 percent in 1988, down from 61.3 percent in 1984. Utilization rates of the CBERA and GSP programs were calculated in this section by relating entries under each of the programs' provisions to the total value of imports that were nominally eligible for duty-free entry, i.e., the portion not excluded by statute (conditionally and unconditionally) and not MFN duty free.

[25] In 1983, the year before the CBERA program became operational, GSP duty-free imports accounted for 6.5 percent of imports from the CBERA countries.

## Product Composition of Imports Under the CBERA

Table 1-8 shows, on a 5-digit TSUS basis, the leading U.S. imports in 1988 that entered free of duty under the CBERA, the principal CBERA source of these imports, and the value of these imports in each of the last four years. For the second year in a row, beef and veal was the number one article on the list, followed by sugar, electrical switches, pineapples, baseball equipment, jewelry, and nonfuel methyl alcohol (methanol). Imports of each of the top seven products grew in value in 1988.

After receiving increases in their U.S. sugar quotas in 1988, sugar imports from the CBERA countries regained second place in the list of leading commodities.[26]

[26] For a discussion, see the section on "Leading CBERA Beneficiaries," later in this chapter.

**Table 1-7**
**U.S. imports for consumption from designated CBERA countries: Eligibility and utilization of the GSP and CBERA programs, 1984-88**

| Item | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| | | | (1,000 dollars) | | |
| Eligible duty-free under CBERA[1] | 1,718,623 | 1,559,863 | 1,497,637 | 1,413,826 | 1,529,136 |
| Duty-free entries under CBERA[2] | 575,994 | 493,024 | 670,711 | 768,467 | 790,941 |
| | | | (Percent) | | |
| CBERA utilization ratio[3] | 33.51 | 31.61 | 44.78 | 54.35 | 51.72 |
| | | | (1,000 dollars) | | |
| Eligible duty-free under GSP[4] | 965,532 | 927,980 | 943,123 | 899,398 | 1,099,200 |
| Duty-free entries under GSP[2] | 592,249 | 533,507 | 476,151 | 300,531 | 353,079 |
| | | | (Percent) | | |
| GSP utilization ratio[5] | 61.34 | 57.49 | 50.49 | 33.41 | 32.12 |

[1] Excludes all TSUS items that are already duty free under MFN, and those that at a 5-digit level are either conditionally or unconditionally exempt from the program.
[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 CBERA) x 100.
[4] Figures for 1984 and 1985 are based on 1985 product eligibility. Figures for 1986-88 are based on the product eligibility for each respective year.
[5] GSP utilization ratio = (Actual entries/eligible entries under the GSP) x 100.

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

Table 1-8

**Leading U.S. imports for consumption entered under CBERA provisions and ranked by descending customs value of duty-free imports, 1985-88**

| | | 1985 | | 1986 | | 1987 | | 1988 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| TSUS item No | Description | Duty free under CBERA | Percent of CBERA duty free to total from CBERA | Duty free under CBERA | Percent of CBERA duty free to total from CBERA | Duty free under CBERA | Percent of CBERA duty free to total from CBERA | Duty free under CBERA | Percent of CBERA duty free to total from CBERA | Leading source[1] |
| | | 1,000 dollars | | 1,000 dollars | | 1,000 dollars | | 1,000 dollars | | |
| 106.10 | Beef and veal, fresh, chilled | 99,328 | 93.8 | 121,184 | 94.3 | 114,324 | 91.5 | 123,449 | 92.3 | Costa Rica |
| 155.20 | Sugars, sirups, and molasses from beets or cane, crystalline | 97,841 | 37.2 | 124,851 | 60.7 | 83,105 | 73.0 | 104,820 | 69.7 | Dominican Republic |
| 685.90 | Electrical switches | 23,114 | 34.9 | 27,099 | 40.0 | 37.002 | 41.2 | 44,302 | 38.6 | Dominican Republic |
| 148.96 | Pineapples, fresh, in packages | 9,948 | 94.3 | 13,446 | 77.8 | 15,634 | 68.4 | 29,350 | 98.5 | Costa Rica |
| 734.56 | Baseball equipment and parts | 3,908 | 10.2 | 17,114 | 45.4 | 21,312 | 56.6 | 26,293 | 69.2 | Haiti |
| 740.15 | Jewelry, etc. and parts | 5,839 | 78.4 | 11,137 | 92.6 | 21,701 | 98.6 | 23,910 | 87.4 | Dominican Republic |
| 427.97 | Methyl alcohol not as fuel or for producing synthetic natural gas | 4,905 | 25.6 | 3,454 | 33.8 | 6,983 | 43.9 | 23,492 | 57.0 | Trinidad and Tobago |
| 170.70 | Cigars valued at 23 cents or more | 19,115 | 57.0 | 18,820 | 58.0 | 23,049 | 65.9 | 22,121 | 62.5 | Dominican Republic |
| 686.10 | Resistors, fixed | 6,480 | 35.6 | 7,415 | 45.4 | 14,390 | 77.9 | 18,987 | 91.8 | Costa Rica |
| 685.80 | Electrical capacitors | 10,819 | 39.0 | 10,244 | 37.3 | 14,217 | 41.1 | 14,526 | 44.8 | El Salvador |
| 791.27 | Leather, other than patent leather | 740 | 1.9 | 3,849 | 11.0 | 8,690 | 15.6 | 12,313 | 19.5 | Dominican Republic |
| 709.27 | Medical instruments, other | 0 | 0 | 0 | 0 | 384 | 19.3 | 11,547 | 50.6 | Dominican Republic |
| 427.88 | Ethyl alcohol for nonbeverage use | 13,147 | 67.4 | 25,092 | 90.7 | 27,468 | 95.5 | 10,641 | 62.2 | Jamaica |
| 734.86 | Lawn-tennis rackets, not strung | 11 | 0.3 | 2,035 | 38.5 | 4,719 | 94.8 | 10,125 | 96.4 | St. Vincent Grenadines |
| 155.40 | Sugars, sirups, molasses beets/ cane not for consumption or extraction | 0 | 0 | 1,194 | 5.2 | 7,155 | 34.0 | 9,697 | 52.0 | Dominican Republic |
| 682.60 | Generators, other | 2,555 | 18.6 | 4,757 | 37.6 | 7,201 | 51.6 | 9,395 | 63.9 | Haiti |
| 110.35 | Fresh fish, whole | 3,909 | 43.4 | 7,729 | 48.2 | 7,913 | 40.5 | 8,585 | 35.3 | Costa Rica |
| 148.30 | Melons fresh, except cantaloupes | 2,471 | 73.6 | 5,984 | 77.6 | 11,055 | 85.2 | 8,406 | 80.2 | Panama |
| 165.29 | Fruit juices, not mixed, orange | 9,161 | 95.4 | 7,498 | 89.3 | 9,482 | 96.8 | 8,269 | 99.5 | Belize |
| 152.72 | Banana and plaintain, paste | 2,698 | 58.8 | 5,622 | 90.8 | 6,499 | 89.0 | 6,708 | 82.7 | Panama |
| | Total, above items | 315,989 | 44.1 | 418,524 | 59.7 | 442,283 | 64.0 | 526,936 | 64.1 | |
| | All items entering under CBERA | 493,024 | 35.2 | 670,711 | 44.5 | 768,467 | 56.2 | 790,941 | 52.4 | |

[1] Indicates leading source based on total U.S. imports for consumption from CBERA countries.

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

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

Between 1987 and 1988, CBERA imports of electrical switches grew by 19.7 percent; baseball equipment by 23.4 percent; and jewelry by 10.2 percent. Most notable were the increases in duty-free CBERA imports of pineapples and methyl alcohol, which jumped in value by 87.8 percent and 236.4 percent, respectively. Also, the value of CBERA imports of medical instruments (ranking twelfth on the list) exploded from $0.4 million in 1987 to $11.5 million last year, reportedly as a result of foreign investment in the Dominican Republic in recent years. Analgesics products, on the other hand, composed the second largest import group in 1987, but dropped from the list of leading items in 1988.[27] Many of the leading duty-free goods shown in table 1-8 entered the United States in part under duty-free provisions other than CBERA. Those products that entered almost exclusively under the CBERA were beef and veal, pineapples, resistors, unstrung lawn-tennis rackets, and fruit juices.

## Product Eligibility Under the CBERA

Table 1-9 shows U.S. imports of certain categories of articles that are not eligible for duty-free treatment under the CBERA. In 1988, textiles and apparel for the first time displaced petroleum and petroleum products as the largest category of goods that are excluded by statute from CBERA eligibility. As pointed out in the three previous reports, petroleum is subject to relatively low rates of duty. Therefore, the absence of duty-free privileges for this category has not severely restricted the benefits conferred by the CBERA.

More limiting is the exclusion of wearing apparel, which carry high duties. Yet as pointed out earlier, textile and apparel imports from beneficiary countries have expanded rapidly, reflecting their competitive edge based on geographic proximity, lower production costs relative to some Asian producers, and utilization of TSUS item 807.00. In 1988, the total value of U.S. imports entering under TSUS item 807.00 grew by 22.1 percent to $1.3 billion. Under the 807-A or Super 807 special access program, the 1988 total customs value of special access textile and apparel imports from beneficiaries amounted to $219 million, up from $79 million in 1987.[28]

Although certain excluded product categories—especially apparel and petroleum—weigh heavily in the commodity composition of U.S. imports from the Caribbean Basin, the trade-weighted product coverage of CBERA eligibility remains extensive. The imports of goods that were not excluded (conditionally or unconditionally) from CBERA benefits by statute amounted to $3.5 billion in 1988, or 57.0 percent of all U.S. imports from designated countries.[29] This leaves $2.6 billion, or 43.0 percent, of 1988 imports excluded from the CBERA. However, as pointed out in previous CBERA reports, the broad CBERA product coverage is somewhat deceptive if viewed as an indication of new preferential access to the U.S. market. Of the nonexcluded goods imported in 1988, $1.9 billion worth were already unconditionally free of duty under MFN tariff rates (table 1-6) and thus gained no new advantages from the CBERA. The remaining $1.5 billion in imports represented CBERA-eligible products that would have been dutiable without the CBERA (table 1-7).[30]

Moreover, the CBERA has not contributed to preferential access for the many Caribbean exports that are already eligible for duty-free entry under the GSP. Although the CBERA does permit duty-free entry for those products that lost GSP eligibility because their competitive-need limits were exceeded, the only item of significance in this category has been sugar imports from the Dominican Republic, which were redesignated as eligible for GSP treatment effective July 1, 1988.[31]

## Leading CBERA Beneficiaries

Table 1-10 ranks the CBERA-eligible countries by the 1988 value of their shipments to the United States that entered under CBERA provisions. The table also shows the shifts in these countries' relative standings as CBERA beneficiaries over time. Appendix table B-1 lists the leading items imported under CBERA from each of the beneficiary countries in 1988 with commodity shares along with the corresponding import figures for 1987.

In 1988, the Dominican Republic and Costa Rica remained the leading countries to take advantage of CBERA. Between 1985 and 1987, their relative weight steadily declined from a 49.4 percent combined share of all U.S. imports entering under the CBERA program to a 40.1 percent share in 1987. In 1988, however, the combined share of CBERA duty-free imports from the Dominican Republic and Costa Rica rebounded to 48.5 percent.

[27] Only $4.1 million worth of analgesics were imported under the CBERA in 1988 compared to $92.1 million in 1987. In 1988, analgesics imports from the Bahamas worth $61.7 million did not enter the United States under the CBERA. For a discussion, see the section on "Leading CBERA Beneficiaries," later in this chapter.

[28] In 1988, the Dominican Republic accounted for $96 million worth of these imports, whereas Jamaica accounted for imports worth $94 million.

[29] The comparable figure in 1987 was also $3.5 billion. Items are coded for CBERA eligibility at the 5-digit level in the TSUS. At this level of aggregation, some imports are conditionally excluded because they contain items that at the 7-digit level are excluded.

[30] This figure plus the $1.9 billion cited above do not add to the $3.5 billion total given because of rounding.

[31] Changes to the GSP program for 1988 were announced by the Office of the United States Trade Representative on April 1, 1988.

**Table 1-9**

**U.S. imports for consumption from CBERA countries of goods not eligible for duty-free treatment under CBERA, 1984-88**

*(In thousands of dollars, customs value)*

| Product category[1] | 1984 | 1985 | 1986 | 1987 | 1988 | Percentage change, 1988 over 1984 |
|---|---|---|---|---|---|---|
| Petroleum and petroleum products | 4,215,100 | 2,369,889 | 1,375,742 | 1,376,797 | 1,058,621 | (74.9) |
| Textiles and apparel | 511,656 | 658,349 | 818,038 | 1,148,941 | 1,498,644 | 192.9 |
| Certain handbags, luggage, and flatgoods | 16,721 | 12,206 | 13,059 | 20,100 | 20,255 | 21.1 |
| Footwear | 10,005 | 8,739 | 10,618 | 13,013 | 15,657 | 56.5 |
| Work gloves | 4,332 | 6,231 | 7,346 | 7,640 | 7,429 | 71.5 |
| Certain leather apparel | 2,257 | 1,458 | 1,832 | 2,348 | 3,386 | 50.0 |
| Tuna | 4 | 0 | 0 | 117 | 14 | 250.0 |
| Total | 4,760,075 | 3,056,872 | 2,226,635 | 2,568,956 | 2,604,006 | (45.2) |

[1] Petroleum and petroleum products are TSUS items 475.05, 475.10, and 475.25-475.65. Textile and apparel products constitute most of schedule 3 plus TSUS items 702.06, 702.08-702.14, 702.20, 702.54-702.80, 702.85-702.95, 703.05-703.16, 703.65, 703.72-703.75, 703.95-704.15, 704.20-704.32, 704.34-704.50, 704.55-704.70, 704.75-704.80, 704.85-704.90, 704.95, 705.3530, 705.3560, 705.40-705.78, 705.83, 705.8505-705.8515, 705.8610-705.8630, 705.90, 727.82, 727.86, 735.20, 737.17, 737.21, 737.51, 748.45-748.50, 748.55, 772.30-772.35, 791.45-791.48, 791.70, 791.74, 791.80. Handbags, luggage, and flatgoods are TSUS items 706.05-706.16, 706.21-706.34, 706.36-706.39, 706.41, 706.43, 706.55, 706.62. Footwear is TSUS items 700.05-700.27, 700.29-700.53, 700.56-700.83, 700.95. Work gloves for 1984-86 are TSUS items 705.3510, 705.3550, 705.8560, 705.8600, and for 1987-88 TSUS items 705.3510, 705.3550, 705.8550, 705.8640. Certain leather apparel is TSUS item 791.76 and tuna is TSUS items 112.30, 112.34, 112.90.

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

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

**Table 1-10**

**U.S. imports for consumption under CBERA provisions, by country, 1985-88**

*(In thousands of dollars)*

| *Rank* | *Country* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|
| 1 | Dominican Republic | 171,566 | 189,708 | 178,938 | 242,549 |
| 2 | Costa Rica | 72,184 | 112,710 | 129,577 | 141,076 |
| 3 | Haiti | 46,460 | 60,463 | 77,906 | 83,309 |
| 4 | Guatemala | 42,440 | 54,143 | 57,621 | 77,256 |
| 5 | Honduras | 44,620 | 53,765 | 53,150 | 56,181 |
| 6 | Jamaica | 40,365 | 51,017 | 58,293 | 42,022 |
| 7 | Trinidad and Tobago | 15,791 | 26,485 | 26,044 | 41,938 |
| 8 | El Salvador | 19,217 | 12,712 | 22,135 | 22,177 |
| 9 | Barbados | 11,372 | 10,223 | 20,223 | 19,125 |
| 10 | Belize | 8,412 | 19,200 | 11,579 | 18,845 |
| 11 | Bahamas | 3,089 | 53,087 | 95,488 | 10,692 |
| 12 | St. Vincent and Grenadines | 200 | 2,089 | 4,583 | 9,990 |
| 13 | Panama[1] | 6,619 | 13,775 | 18,539 | 9,717 |
| 14 | St. Kitts and Nevis[2] | 5,503 | 6,192 | 9,592 | 9,417 |
| 15 | St. Lucia | 1,556 | 2,183 | 2,568 | 3,007 |
| 16 | Netherlands Antilles[3] | 2,828 | 1,874 | 1,199 | 2,603 |
| 17 | Dominica | 320 | 494 | 626 | 358 |
| 18 | Antigua | 349 | 533 | 333 | 255 |
| 19 | Guyana[4] | ([5]) | ([5]) | ([5]) | 131 |
| 20 | Montserrat | 98 | 3 | 0 | 118 |
| 21 | Grenada | 13 | 39 | 31 | 118 |
| 22 | British Virgin Islands | 21 | 18 | 28 | 56 |
| 23 | Aruba[3] | ([5]) | 0 | 14 | 0 |
| | Total | 493,024 | 670,711 | 768,467 | 790,941 |

[1] Panama lost its beneficiary status effective Apr. 9, 1988.
[2] In 1985, data for St. Kitts and Nevis included Anguilla, a nondesignated beneficiary country. For 1986 through 1988, data for Anguilla have been excluded.
[3] Aruba's designation as a CBERA beneficiary became effective on Jan. 1, 1986. For statistical purposes, Aruba had been treated as part of the Netherlands Antilles until separate data became available in July-December 1986.
[4] Guyana was not designated as a beneficiary until Nov. 24, 1988.
[5] Not applicable.
Note.—Because of rounding, figures may not add to the totals given.

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

In 1988, the value of CBERA imports from the Dominican Republic grew by $63.6 million, or 35.5 percent, over the previous year's level. The Dominican Republic was the leading source of many products entering the United States under the CBERA (table 1-8), such as sugar for consumption, electrical switches, jewelry, cigars, leather products, medical instruments, and sugars not for consumption. The top three CBERA imports from the Dominican Republic in 1988 were sugar, beef, and jewelry; the value of sugar and beef imports grew rapidly in 1988, by 42.8 percent and 52.8 percent, respectively (table B-1).[32] Although sugar imports from the Dominican Republic were restricted by severe cutbacks in its U.S. sugar quota between 1984 and 1987, the U.S. sugar quota for the Dominican Republic was increased by 10.3 percent in 1988.[33] Also, the Dominican Republic exported $10.4 million worth of medical instruments to the United States under the CBERA in 1988, the first year for such U.S. imports from that country, making it the leading CBERA source of these imports.

Costa Rica remained the leading source of beef and veal imported under the CBERA in 1988 although the value of such imports continued to decline. Beef imports from Costa Rica entering the United States under the CBERA fell in value from $61 million in 1987 to $54 million in 1988 (table B-1). Sugar imports from Costa Rica also continued to decline in 1988, despite an increase in its U.S. sugar quota. On the positive side, the value of fresh pineapples imported from Costa Rica under CBERA provisions more than doubled in 1988. Costa Rica is the leading source among the CBERA beneficiaries of U.S. imports of fresh pineapples, resistors, and fresh fish. In 1988, Costa Rica's top three exports to the United States that entered under the CBERA provisions were beef, pineapples, and resistors. Overall, CBERA imports from Costa Rica increased by 8.9 percent between 1987 and 1988.

In 1988, Haiti became the third largest beneficiary in terms of trade under the CBERA,

[32] As a note, the Dominican Republic is the largest Caribbean exporter of textiles and apparel to the United States, accounting for roughly one-third of these imports from the CBERA beneficiaries. Imports of textiles and apparel are not included in the data presented in table 1-10.
[33] The U.S. sugar quota for the Dominican Republic was increased from 160,160 short tons in 1987 to 176,710 short tons in 1988. However, in 1984, the first year of the CBERA, the quota was 533,000 short tons.

replacing the Bahamas which dropped to the eleventh position. CBERA imports from Haiti grew by 6.9 percent in 1988 and Haiti was the leading CBERA source of U.S. imports of baseball equipment and generators. In 1988, the top three CBERA imports from Haiti were electrical apparatus, baseballs, and softballs. Guatemala moved up from sixth to fourth position in 1988; its imports increased by 34.1 percent, principally due to a doubling of its sugar exports to the United States under the CBERA program. The value of CBERA imports from Honduras (fifth position) increased by 5.7 percent in 1988, reflecting growth in U.S. imports of softballs and pineapples from that country. For the first time since 1985, CBERA imports from Jamaica (sixth) declined last year, principally due to a drop by more than one-half in the value of its ethyl alcohol (ethanol) exports to the United States. Two Jamaican ethanol plants closed in 1988 because of the implementation of stricter value-added requirements under CBERA.[34] CBERA imports from Trinidad and Tobago increased by 61.0 percent in 1988, moving it from eighth to seventh position. This increase reflected a more than tripling of methanol exports from Trinidad and Tobago to the United States under the CBERA.

The value of CBERA imports from the Bahamas fell dramatically in 1988 because of a severe drop in its analgesics exports to the United States under CBERA. Last year, only $3.5 billion worth of analgesics imports from the Bahamas entered the United States under CBERA, out of a total of $65.2 million. However, virtually all the analgesics imports from the Bahamas entered the United States duty-free in 1988, probably due to a special duty-rate suspension for a product in this commodity grouping.[35] CBERA imports from Panama fell by almost one-half last year, resulting from suspension of its beneficiary status. However, imports from Panama during the portion of 1988 that its beneficiary status was in effect were such that it remained the leading CBERA source for U.S. imports of fresh melons and plantain paste and pulp.

The dominance of the Dominican Republic and Costa Rica, as CBERA beneficiaries, is in part due to the large size of their economies relative to those of the other beneficiaries. It is interesting to note that even though the CBERA imports from the Dominican Republic accounted for 30.7 percent of the total CBERA imports in 1988, they accounted for only 17.0 percent of all U.S. imports from the Dominican Republic (tables 1-4 and 1-10). Costa Rica's CBERA duty-free imports accounted for 18.1 percent of the total U.S. imports from that country. CBERA duty-free imports play a more important role in imports from certain beneficiary countries with smaller economies. For instance, CBERA duty-free imports comprise 45.2 percent of all U.S. imports from St. Kitts and Nevis, 37.2 percent of U.S. imports from Barbados, and 36.2 percent of U.S. imports from Belize. In contrast, however, CBERA duty-free imports from some of the small Eastern Caribbean countries—Antigua, Dominica, Grenada, and Montserrat—represent less than 5 percent their total U.S. imports.

[34] See the section on "Summary of Investment Activities and Trends" in ch. 3 of this report.

[35] See the Omnibus Trade and Competitiveness Act of 1988, Public Law 100-418, Title I, sec. 1755. The column 1 duty rate suspension applied to naproxen, a product in the analgesics group. The suspension became effective Sep. 30, 1988, and will be in effect until Dec. 31, 1990.

# Chapter 2

## Impact of the CBERA in 1988

Since 1984, the first year of the CBERA's implementation, the economic effects of the CBERA on U.S. industries, consumers, and the overall U.S. economy have been minimal.[1] In each year between 1984 and 1987, the value of U.S. imports from CBERA countries that obtained duty-free status under the act was equal to less than 0.02 percent of U.S. Gross National Product (GNP). Only a few U.S. industries, principally producers of tropical agricultural products, experienced possible displacement of output exceeding 1 percent of their domestic shipments.[2] Since the total level of imports from CBERA-beneficiary countries remained small relative to total U.S. imports, the economic impact of CBERA imports on the U.S. economy was, again, minimal in 1988.

This chapter presents estimates of the net-welfare effects[3] of the CBERA on the U.S. economy. As in last year's report, it is divided into three sections. The first section describes the imported products that benefited most from the CBERA in 1988. The second section discusses the analytical approach that was used to measure the net-welfare effects of CBERA in 1988. The third section concludes this chapter with a presentation of quantitative estimates.

### Products Most Affected by CBERA

Since the CBERA's initiation, the imports from designated beneficiaries that have actually benefited from the duty elimination have accounted for only a small portion of the total imports from these countries. These are defined in this chapter as those imports that are not excluded by the CBERA,[4] or that would not otherwise have entered the United States free of duty.[5]

Over the five years of the program's operation, the level of imports that have benefited from CBERA has declined. Excluding sugar imports from the Dominican Republic, imports that benefited from CBERA decreased by 20 percent between 1984 and 1988.[6] The large increase between 1985 and 1986 followed by the large decrease between 1987 and 1988 can be attributed mainly to changes in the value of analgesics imported from the Bahamas.[7] Thirteen percent of 1988 imports from CBERA beneficiary countries entered free of duty under the CBERA. This is in comparison with the 5 percent that actually benefited, or would not have received duty-free treatment without CBERA preferences (see table 2-1).

### *Description of items benefiting from CBERA*

Since 1984, there has been little change in the product mix of CBERA imports. Leading U.S. imports under CBERA in 1988 on a c.i.f. basis are shown in table 2-2.[8]

Similar to previous years, a number of leading items imported under CBERA duty-free provisions such as baseball equipment, electrical switches, cigars, jewelry, and methyl alcohol could also have entered the United States under GSP duty-free treatment. As discussed above, these products did not exceed competitive-need limits under GSP and would, therefore, continue to enter under GSP duty-free treatment if CBERA duty-free eligibility were eliminated. Therefore, these GSP-eligible products were not considered in this report's analysis of the effects of the CBERA.[9] As noted earlier, the two exceptions were sugar from the Dominican Republic, which did not obtain GSP eligibility until July 1988, and analgesics from the Bahamas, which lost its GSP status in July 1986.

In addition, a number of products that appeared on the list of leading items entering under CBERA during this period, as reported by CENSUS, were free of duty under MFN or

[1] See *Third CBERA Report*, p. 2-1.
[2] Ibid.
[3] The net-welfare effect of CBERA duty elimination is the loss in tariff revenues to the U.S. Treasury and profits to U.S. competing industries minus the gain to U.S. consumers that results from the lower-priced CBERA imports.
[4] For a list of items excluded by the CBERA, see the section "Product Eligibility Under the CBERA" in ch. 1 of this report.
[5] See *Second CBERA Report*, p. 16 for further discussion. The imports that would not have otherwise entered free of duty are those that are not MFN duty free and that are not eligible for GSP duty-free treatment, including imports from GSP beneficiaries that had exceeded the GSP competitive-need limits or that had never been eligible for GSP treatment. In 1988, sugar from the Dominican Republic and analgesics from the Bahamas were two such items. Sugar imports from the Dominican Republic were ineligible for GSP duty-free treatment in the first half of 1988 and did not gain GSP duty-free treatment until July 1, 1988. Since July 1, 1986, analgesics imports from the Bahamas have not been eligible for GSP duty-free treatment. However, in

[5]—*Continued*
the latter part of 1988, virtually all analgesics from the Bahamas entered duty-free, probably due to a special duty-rate suspension of a product in this commodity grouping. See the section "Leading CBERA Beneficiaries" in ch. 1 of this report for further discussion.
[6] Because sugar from the Dominican Republic is limited by export quotas, the level of sugar imports is not affected by CBERA duty-free treatment. Therefore, sugar can be excluded from the trend profile in table 2-1 of the imports that actually benefited from the CBERA.
[7] See footnote 5 above.
[8] Because the figures in table 2-2 are presented on a c.i.f. basis, the relative ranking of the leading CBERA imports and their import values will not agree with those given in table 1-8, which are presented on a customs value basis.
[9] The figures for duty-free imports that entered under the CBERA programs have been adjusted for misreporting in the official trade statistics. For further explanation see the subsection "CBERA duty-free imports" in ch. 1 of this report.

**Table 2-1**

**Customs value of products that benefited from CBERA duty elimination, 1984-88**

| Item | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|
| All items benefiting from CBERA (except Dominican Republic sugar): | | | | | |
| Value (million dollars) | 336 | 317 | 361 | 350 | 270 |
| Percent of total | (3.9) | (4.7) | (5.9) | (5.8) | (4.5) |
| Dominican Republic sugar benefiting from CBERA[1]: | | | | | |
| Value (million dollars) | 170 | 88 | 77 | 49 | 27 |
| Percent of total | (2.0) | (1.3) | (1.3) | (0.8) | (0.4) |
| Items benefiting from CBERA:[2] | | | | | |
| Value (million dollars) | 506 | 405 | 438 | 399 | 297 |
| Percent of total | (5.9) | (6.1) | (7.2) | (6.6) | (4.9) |
| Items entered under CBERA[3]: | | | | | |
| Value (million dollars) | 576 | 493 | 671 | 768 | 791 |
| Percent of total | (6.7) | (7.4) | (11.1) | (12.7) | (13.1) |
| Total CBERA country imports: | | | | | |
| Value (million dollars) | 8,649 | 6,687 | 6,065 | 6,039 | 6,061 |

[1] Dominican Republic sugar initially gained GSP eligibility on July 1, 1988. Therefore, the 1988 customs value reported above is for imports from Jan. 1, 1988 through June 30, 1988.
[2] The items in the category "Items benefiting from CBERA" are the same items presented in table 2-3. However, the figures in table 2-3 for the 30 leading items are presented in terms of c.i.f. value and are not comparable to the figures in this table, which are presented in terms of customs value. In terms of c.i.f., the imports presented in table 2-3 accounted for 94 percent of the total value of imports that actually benefited from CBERA in 1988.
[3] The reported customs values of "Items entered under CBERA" have been adjusted by the value of those imports for which col. 1 duty rate was free and by the value of those imports that were ineligible for duty-free treatment under CBERA, but were reported as entering under the program.

Source: Calculated from official statistics of the U.S. Department of Commerce and from information contained in the *Tariff Schedules of the United States Annotated.*

**Table 2-2**

**C.i.f. value of leading U.S. imports for consumption entered under CBERA provisions, 1988**

*(In thousand dollars)*

| TSUSA item No. | Description | Duty free under CBERA |
|---|---|---|
| 106.10 | Beef and veal, fresh, chilled | 132,475 |
| 155.20 | Sugars, sirups, and molasses[1] | 113,013 |
| 685.90 | Electrical switches[2] | 44,846 |
| 148.96 | Pineapples, fresh, in packages | 35,505 |
| 734.56 | Baseball equipment and parts[2] | 26,709 |
| 427.97 | Methyl alcohol[2] | 24,611 |
| 740.15 | Jewelry etc. and parts[2] | 24,016 |
| 170.70 | Cigars each valued 23 cents or more[2] | 22,563 |
| 686.10 | Resistors, fixed | 19,374 |
| 146.40 | Bananas, fresh[3] | 17,385 |
| 114.45 | Shellfish[3] | 15,767 |
| 685.80 | Electrical capacitors | 14,677 |
| 155.40 | Beet or cane molasses[2] | 13,151 |
| 791.27 | Leather, other than patent leather[2] | 12,643 |
| 148.30 | Melons, fresh, except cantaloupes[2] | 12,442 |
| 709.27 | Medical instruments, other[2] | 11,841 |
| 427.88 | Ethyl alcohol for nonbeverage use | 10,926 |
| 734.86 | Lawn-tennis rackets, not strung[2] | 10,277 |
| 110.35 | Fresh fish, whole[2] | 10,071 |
| 148.12 | Cantaloupes, fresh[2] | 9,890 |
| 682.60 | Generators, other[2] | 9,637 |
| 136.00 | Dasheens, fresh, chilled, or frozen[2] | 8,632 |
| 165.29 | Fruit juices, not mixed, orange | 8,572 |
| 138.05 | Broccoli, cauliflower, and okra[2] | 7,905 |
| 152.72 | Banana and plantain, paste[2] | 7,781 |
| 137.04 | Peas, n.s.p.f., fresh, chilled, or frozen[2] | 6,349 |
| 137.88 | Yams, fresh or chilled[2] | 6,173 |
| 682.05 | Transformers[2] | 6,117 |
| 156.10 | Cocoa beans[3] | 5,858 |
| 709.09 | Bougies, catheters, drains and sondes[2] | 5,575 |

[1] Eligible for duty-free entry under GSP, except sugar imports from the Dominican Republic between Jan. 1 and June 30, 1988.
[2] Eligible for duty-free entry under GSP.
[3] Col. 1 duty rate is free.

Source: U.S. Department of Commerce.

column 1 rates. In 1988, these items included, among others, bananas, shellfish, and cocoa beans. The appearance of these goods on the list of leading items should be observed as a bookkeeping error and therefore be disregarded in any analysis of the effects of the CBERA.[10]

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. These products are as follows:[11]

| Product | Product |
|---|---|
| Beef and veal | Chemical mixtures derived from hydrocarbons |
| Tropical vegetables | Synthetic hormones |
| Fresh pineapples | Wire rods |
| Sugar | Office machine parts |
| Concentrated orange juice | Electrical capacitors |
| Rum | Resistors |
| Cigarette leaf and filler tobacco | Monolithic integrated circuits |
| Nitrogenous compounds | Miscellaneous electrical parts |
| Ethanol | Baseball equipment |

Those products that benefited the most from duty-free treatment from 1984 to 1987 continued to benefit the most in 1988. In each of the past five years, eight products have consistently entered among the twelve leading items that actually benefited from CBERA duty-free treatment. These items are sugar, beef and veal, pineapples, orange juice, cigarette leaf, electrical capacitors, resistors, and rum. In addition, in each of the past four years, ethyl alcohol has been among the twelve leading items that actually benefited from CBERA. Table 2-3 presents the leading 30 eligible items, on a 5-digit TSUS basis, imported under CBERA provisions that were not GSP eligible, or MFN free of duty.

## *Products that benefited the most from CBERA in 1988*

What follow are recent industry highlights of the five leading eligible items that benefited from CBERA in 1988 and that were not MFN duty-free, or, with the exception of sugar from sources other than the Dominican Republic, that were not GSP-eligible goods.

*Beef and veal.*—Between 1987 and 1988, CBERA imports of beef and veal increased by 8.0 percent, from $122.7 million to $132.5 million (table 2-3). Even though imports of beef and veal that entered free of duty under the CBERA showed a relatively small increase, this product category has continually topped the list of imports benefiting from CBERA duty-free treatment. Costa Rica, the Dominican Republic, and Honduras remained the major CBERA sources of beef and veal in 1988.

*Pineapples.*—Between 1987 and 1988, CBERA imports of pineapples increased dramatically by 75.7 percent, from $20.2 million to $35.5 million. A study conducted by the U.S. Department of Agriculture indicated that fresh pineapple was one of nine products that showed strong gains after the initiation of the CBERA in 1984. In 1988, out of the total customs value of pineapple imports from CBERA countries, 98.5 percent entered duty free under the CBERA. The principal CBERA source of this product in 1988 was Costa Rica.

*Sugars, sirups, and molasses.*—Between 1987 and 1988, imports of sugar that actually benefited from CBERA declined by 44.3 percent, from nearly $48.6 million to about $27.1 million. However, the figure for 1988 represents imports from the Dominican Republic only for the first half of the year, since it gained GSP eligibility for sugar in July 1988. U.S. imports of sugar are subject to restrictive absolute quotas to protect the domestic price-support program for sugar. Lower sugar quotas were expected in early 1988, but, by yearend, quotas were raised from nearly 300,000 short tons, to 1,054,675 short tons. According to former U.S. Secretary of Agriculture Lyng, the sugar import quota had to be raised due to changes in production, consumption, and the effects of the drought on sugar beet yields.

*Resistors.*—Between 1987 and 1988, CBERA imports of resistors increased by 31.4 percent, from $14.7 million to $19.4 million, on a c.i.f. basis. The major CBERA source of resistors in 1988 was Costa Rica. New electronic and electromechanical industries were established in Costa Rica last year to take advantage of the government's new drawback scheme for this sector.[12]

*Electrical capacitors.*—Between 1987 and 1988, CBERA imports of electrical capacitors increased by 2.0 percent, from $14.4 million to $14.7 million (table 2-3). The principle CBERA source of electrical capacitors in 1988 was El Salvador, a country which received considerable new foreign investment in the electronics sector in 1988.[13]

[10] For further discussion of how import statistics are collected, including statistical reporting discrepancies under the CBERA, see U.S. Department of Labor, *Trade and Employment Effects of the Caribbean Basin Economic Recovery Act*, Economic Discussion Paper 21, September 1987, p. 108.

[11] See *First CBERA Report*, pp. 2-2 and 2-3, and *Second CBERA Report*, p. 14 for further discussion.

[12] Further mention of Costa Rica's electronics drawback scheme is presented in the section on "Summary of Investment Trends and Activities" in ch. 3 of this report.

[13] See the section on "Summary of Investment Trends and Activities" in ch. 3 of this report.

**Table 2-3**

**C.i.f. value of leading imports that benefited from CBERA duty-free treatment in 1987 and 1988**

| TSUSA item No. | Description | CBERA-beneficiary imports 1987 | 1988 |
|---|---|---|---|
| | | ———1,000 Dollars——— | |
| 106.10 | Beef and veal, fresh chilled | 122,672 | 132,475 |
| 148.96 | Pineapples, fresh, in packages | 20,203 | 35,505 |
| 155.20 | Sugars, sirups, and molasses[1] | 48,573 | 27,060 |
| 686.10 | Resistors, fixed | 14,743 | 19,374 |
| 685.80 | Electrical capacitors | 14,384 | 14,677 |
| 427.88 | Ethyl alcohol for nonbeverage use | 29,180 | 10,926 |
| 165.29 | Fruit juices, not mixed, orange | 10,007 | 8,572 |
| 170.35 | Cigarette leaf, not mixed | 7,955 | 5,490 |
| 170.32 | Filler tobacco leaf, not stemmed | 2,524 | 4,831 |
| 165.36 | Fruit juices, not mixed, other | 4,339 | 3,561 |
| 412.22 | Analgesics[2] | 91,030 | 3,476 |
| 192.18 | Fresh cut roses | 3,045 | 3,411 |
| 169.14 | Rum, in containers over l gallon | 4,061 | 2,862 |
| 170.68 | Cigars each valued between 15 and 23 cents | 2,295 | 2,841 |
| 607.17 | Wire rods of iron or steel | 5,489 | 2,763 |
| 408.18 | Trifluralin | 757 | 2,482 |
| 606.79 | Deformed concrete reinforcing | 3,106 | 2,373 |
| 145.58 | Nuts, edible, nspf, shelled | 1,496 | 2,240 |
| 148.06 | Mangoes, fresh | 1,151 | 2,191 |
| 147.31 | Oranges, except mandarins and kumquats | 1,210 | 2,121 |
| 146.60 | Strawberries, fresh or in brine | 1,027 | 1,896 |
| 731.65 | Artificial baits and flies | 2,780 | 1,831 |
| 685.08 | Television apparatus | 1,140 | 1,697 |
| 606.83 | Steel bars, nspf | 2,440 | 1,680 |
| 169.13 | Rum, in containers not over l gallon | 1,056 | 1,545 |
| 687.87 | Photocells and parts | 1,255 | 1,384 |
| 184.52 | Soy bean cake | 0 | 1,348 |
| 170.60 | Scrap tobacco | 1,803 | 1,284 |
| 137.60 | Tomatoes, fresh or chilled | 1,254 | 978 |
| 165.46 | Pineapple juice | 2,135 | 961 |

[1] Sugar that benefited from CBERA duty-free treatment is sourced from the Dominican Republic, which gained GSP eligibility for sugar in July 1988. Figure given for 1988 represents imports from Jan. 1, 1988 through June 30, 1988. Since sugar is also subject to quota, the value stated is customs value.
[2] Analgesics that benefited from CBERA duty-free treatment are from the Bahamas, which lost its GSP eligibility for analgesics in July 1986. However, all analgesics imported from the Bahamas in the last quarter of 1988 entered the United States free of duty.

Source: U.S. Department of Commerce.

## Measuring the Net-Welfare Cost of CBERA in 1988

### *Analytical approach*

What follows is a brief description of the approach that was used to analyze the net-welfare effects of CBERA duty-free treatment in 1988 on the U.S. economy, consumers, and industries that compete with CBERA imports. The net-welfare costs of the CBERA duty elimination are the costs (i.e., the forgone benefits) to U.S. producers and the U.S. Treasury minus the gain to U.S. consumers.[14]

The effects of CBERA were analyzed by estimating the change in net welfare had the tariffs been in place for beneficiary countries in 1988. In the presence of the duties, tariff revenues to the U.S. Treasury and profits for U.S. competing industries would have been larger, yet consumers would have paid higher prices for CBERA designated imports. The model estimates the effects of eliminating the CBERA duty-free status on the U.S. Treasury, U.S. producers, and U.S. consumers. The sum of these three effects provides a measure of the net-welfare costs of CBERA in 1988.

In this analysis, imports from CBERA beneficiary countries, imports from non-CBERA countries, and competing domestic output are considered imperfect substitutes for each other.[15] Therefore, each of the three products is characterized by a separate market where differing equilibrium prices can exist for each.

[14] 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.

[15] 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.

### *Measurement of net-welfare effects of CBERA*

The increased cost to consumers of eliminating duty-free treatment under CBERA would be reflected in the higher price U.S. consumers would pay for CBERA imports and is measured by the loss in consumer surplus.[16] Similarly, the increased benefits to the domestic competing industry and its factors of production would 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.[17] However, for this analysis, the domestic supply curve was assumed to be horizontal. Hence, there is no corresponding increase in net-welfare benefits to producers. (Nor is there any welfare loss to consumers in the market for domestic output.) Instead, this analysis measures the dollar amount of domestic output displaced by CBERA imports.

In addition, a benefit would be realized in the absence of CBERA duty-free treatment through the increase in tariff revenue to the U.S. Treasury.[18] Increased tariff revenues would be received from both CBERA and non-CBERA imports. The increase in non-CBERA import tariff revenue would result from an increase in the demand for non-CBERA imports, i.e., with an increase in the price of CBERA imports, the sales of competing non-CBERA imports would also increase.[19]

### *Quantitative results*

In 1988, the value of U.S. imports from CBERA beneficiary countries was $6.1 billion, representing only 1.4 percent of total U.S. imports. The imports that actually benefited from the CBERA, i.e., those that were not specifically excluded under the act or that could not have entered free of duty under GSP or MFN, amounted to $297 million. This figure represents 5.0 percent of total imports from CBERA beneficiary countries or approximately 0.1 percent of total U.S. imports. Therefore, the effects of the CBERA on the U.S. economy were minimal.

This section presents dollar estimates of the net-welfare costs of duty-free treatment for the leading 30 products that actually benefited from the CBERA in 1988. In addition, estimates of the tariff revenue forgone, the consumer surplusgenerated, and the domestic shipments displaced in 1988 are also presented.

*Description of items analyzed.*—The effects of the CBERA were calculated for the 30 items listed in table 2-3 above. These items accounted for 94 percent of the c.i.f. value of imports that actually benefited from CBERA duty-free treatment in 1988. In comparison to U.S. producers' domestic shipments, the value of these imports was, for the most part, relatively small (see table 2-4). For instance, in 1988, the value of U.S. imports of beef and veal from CBERA countries, the largest import category in value benefiting from CBERA, was less than 1 percent of the value of domestic shipments. Only the value of CBERA imports of pineapples and mangoes were larger relative to the value of U.S. producers' domestic shipments.

The economic effects of duty-free treatment for these leading 30 items are summarized in tables 2-5 and 2-6. Table 2-5 presents dollar estimates of the consumer surplus that was generated and tariff revenue from CBERA and non-CBERA imports that was foregone. Table 2-6 presents dollar estimates of U.S. shipments that were displaced by CBERA imports.[20]

*Effects on the U.S. economy in 1988: Net-welfare costs and the displacement of domestic output.*—In 1988, the estimated net-welfare cost to U.S. residents of granting CBERA duty-free treatment to the items listed in table 2-5 ranged from $4.7 million to $7.3 million. When compared with the total value of CBERA-country imports in 1988, net-welfare cost amounted to approximately 0.08 to 0.12 percent.[21] As noted above, this range reflects the welfare cost for 94 percent of the total value of the items that actually benefited from CBERA duty-free treatment. Except for ethyl alcohol, the loss in tariff revenues was not offset by the corresponding increase in consumer surplus for the items analyzed. In 1988, the item with the largest net-welfare cost resulting from CBERA duty-free treatment was sugar, for which the cost ranged from $1.8 million to $2.7 million. In addition, the only item that showed a potential net-welfare gain was ethyl alcohol. The net-welfare effect for ethyl alcohol ranged from a loss of $1.1 million to a gain of $0.3 million.

Five items with high net-welfare costs, in value terms, were sugar,[22] orange juice, electrical capacitors, beef and veal, and resistors. These five items accounted for 58 to 86 percent of the

[16] See Donald N. McCloskey, *The Applied Theory of Price*, Macmillan Publishing Co., New York, 1985, for further discussion on consumer surplus.
[17] See McCloskey, *The Applied Theory of Price*, for further discussion on producer surplus.
[18] See Rousslang and Suomela, *Consumer and Net Welfare Costs*, for further discussion.
[19] See the Technical Notes in app. C for a more complete discussion of the methodology.

[20] See Technical Notes in app. C for a more complete discussion of the data that were used in the estimation of the effects shown in tables 2-5 and 2-6.
[21] 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.
[22] 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 welfare effect of a tariff elimination on sugar is composed solely of a redistribution of part of the revenue of the U.S. Treasury to the quota rents of

Table 2-4
**Value of c.i.f. imports that benefit from CBERA and U.S. producers' domestic shipments that compete with CBERA duty-free imports, 1988**

| TSUSA 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 |
|---|---|---|---|---|
| | | 1,000 dollars | 1,000 dollars | Percent |
| 106.10 | Beef and veal, fresh, chilled | 132,475 | 30,000,000 | .44 |
| 148.96 | Pineapples, fresh, in packages | 35,505 | 43,000 | 82.57 |
| 155.20 | Sugar, sirups , and molasses | 27,060 | 2,900,000 | .93 |
| 686.10 | Resistors, fixed | 19,374 | 392,000 | 4.94 |
| 685.80 | Electrical capacitors | 14,677 | 900,765 | 1.63 |
| 427.88 | Ethyl alcohol for nonbeverage use | 10,926 | 952,000 | 1.15 |
| 165.29 | Fruit juices, not mixed, orange | 8,572 | 890,763 | .96 |
| 170.35 | Cigarette leaf, not mixed | 5,490 | [1]927,000 | [2]1.25 |
| 170.32 | Filler tobacco leaf, not stemmed | 4,831 | ([1]) | ([2]) |
| 165.36 | Fruit juices, not mixed, other | 3,561 | 128,505 | 2.77 |
| 412.22 | Analgesics | 3,476 | 134,586 | 2.58 |
| 192.18 | Fresh cut roses | 3,411 | 180,453 | 1.89 |
| 169.14 | Rum, in containers over 1 gallon | 2,862 | [3]132,173 | 3.33 |
| 170.68 | Cigars each valued between 15 and 23 cents | 2,841 | 104,000 | 2.73 |
| 607.17 | Wire rods of iron or steel | 2,763 | 1,248,334 | .22 |
| 408.18 | Trifluralin | 2,482 | ([5]) | ([5]) |
| 606.79 | Deformed concrete reinforcing | 2,373 | 1,592,240 | .15 |
| 145.58 | Nuts, edible, n.s.p.f., shelled | 2,240 | 14,300 | 15.66 |
| 148.06 | Mangoes, fresh | 2,191 | 5,000 | 43.82 |
| 147.31 | Oranges, except mandarins and kumquats | 2,121 | 458,121 | .46 |
| 146.60 | Strawberries, fresh or in brine | 1,896 | 356,000 | .53 |
| 731.65 | Artificial baits and flies | 1,831 | 72,000 | 2.54 |
| 685.08 | Television apparatus | 1,697 | 1,100,000 | .15 |
| 606.83 | Steel bars, n.s.p.f | 1,680 | 2,061,734 | .08 |
| 169.13 | Rum, in containers not over 1 gallon | 1,545 | ([3]) | ([4]) |
| 687.87 | Photocells and parts | 1,384 | 150,000 | .92 |
| 184.52 | Soy bean cake | 1,348 | 4,186,380 | .03 |
| 170.60 | Scrap tobacco | 1,284 | ([1]) | ([2]) |
| 137.60 | Tomatoes, fresh or chilled | 978 | 490,000 | .20 |
| 165.46 | Pineapple juice | 961 | 66,160 | 1.45 |

[1] The value of U.S. producers' domestic shipments for cigarette leaf includes U.S. producers' domestic shipments for filler tobacco leaf and scrap tobacco.
[2] The ratio of CBERA duty-free imports to competing U.S. shipments for cigarette leaf includes CBERA duty-free imports of filler tobacco leaf and scrap tobacco.
[3] The value of U.S. producers' domestic shipments for rum, in containers over 1 gallon, includes U.S. producers' domestic shipments for rum, in containers not over 1 gallon.
[4] The ratio of CBERA duty-free imports to competing U.S. shipments for rum, in containers over 1 gallon, includes CBERA duty-free imports of rum, in containers not over 1 gallon.
[5] 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.

net-welfare cost of the 30 leading imports that were presented in table 2-5. In terms of c.i.f. value, these five imports accounted for 68 percent of the total imports that benefited from CBERA in 1988.[23] The substantial share of net-welfare cost associated with these five items is mainly due to the high levels at which they are imported. In this analysis, the higher the value of imports and the less elastic the import-supply curve, the higher was the net-welfare loss associated with removing the tariff.

[22]—*Continued*
Dominican Republic sugar exporters. There is no change in U.S. consumer surplus nor is there any displacement of U.S. producers' domestic shipments with the elimination of the tariff on sugar. The lower and upper range for sugar in table 2-5 correspond to the lower and upper range of tariff rates that apply to this import.
[23] While four of the five imports faced relatively moderate tariffs, only orange juice, faced a particularly high tariff rate. In addition, only sugar and orange juice had elastic import-demand curves while the import-demand curves for the other three fell in the inelastic range.

In 1988, the level of domestic shipments from competing domestic industries that were displaced by the 30 leading imports benefiting from CBERA was small. The maximum amount of domestic shipments displaced did not exceed 1 percent for any of the selected products. This was observed even for the industries in which imports accounted for a large share of the domestic market, such as pineapples and mangoes. The largest effect, in value terms, occurred for ethyl alcohol, where the displacement of domestic shipments ranged from \$6.02 million to \$9.43 million or between 0.63 and 0.99 percent of the value of total domestic shipments. The eight products with the largest displacement effects, in value terms, were ethyl alcohol, orange juice, beef and veal, other fruit juices, electrical capacitors, resistors, certain tobacco products,[24] and rum.

[24] Imports of cigarette leaf, filler tobacco leaf, and scrap tobacco were aggregated into one category.

Table 2-5

**The estimated range[1] of U.S. net-welfare effects of CBERA duty-free treatment, by leading imports, 1988**

*(In thousands of dollars)*

| TSUSA 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 |
|---|---|---|---|---|---|---|---|---|---|
| 106.10 | Beef and veal, fresh, chilled | 2,108 | 2,368 | 2,564 | 2,567 | 2 | 2 | -457 | -200 |
| 148.96 | Pineapples, fresh, in packages | 752 | 951 | 1,136 | 1,135 | ([3]) | ([3]) | -384 | -185 |
| 155.20 | Sugar, sirups, and molasses[2] | 0 | 0 | 1,843 | 2,691 | 0 | 0 | -1,843 | -2,691 |
| 686.10 | Resistors, fixed | 649 | 859 | 1,062 | 1,057 | 29 | 39 | -442 | -237 |
| 685.80 | Electrical capacitors | 877 | 1,122 | 1,310 | 1,307 | 49 | 63 | -483 | -248 |
| 427.88 | Ethyl alcohol for non-beverage use | 1,733 | 2,579 | 2,784 | 2,265 | 0 | 0 | -1,051 | 314 |
| 165.29 | Fruit juices, not mixed, orange | 718 | 1,079 | 1,446 | 1,309 | 281 | 438 | -1,009 | -669 |
| 170.35 | Cigarette leaf, not mixed[4] | 1,308 | 1,547 | 1,653 | 1,664 | 42 | 50 | -387 | -167 |
| 170.32 | Filler tobacco leaf, not stemmed | ([4]) | ([4]) | ([4]) | ([4]) | ([4]) | ([4]) | ([4]) | ([4]) |
| 165.36 | Fruit juices, not mixed, other | 637 | 843 | 889 | 867 | 36 | 47 | -228 | -72 |
| 412.22 | Analgesics | 60 | 107 | 232 | 213 | 11 | 21 | -183 | -128 |
| 192.18 | Fresh cut roses | 107 | 148 | 193 | 191 | 5 | 8 | -92 | -51 |
| 169.14 | Rum, in containers over 1 gallon[5] | 283 | 369 | 436 | 433 | 2 | 2 | -154 | -67 |
| 170.68 | Cigars each valued between 15 and 23 cents | 133 | 171 | 205 | 204 | ([3]) | ([3]) | -72 | -33 |
| 607.17 | Wire rods of iron or steel | 18 | 29 | 49 | 48 | ([3]) | 1 | -31 | -20 |
| 408.18 | Trifluralin | ([6]) | ([6]) | ([6]) | ([6]) | ([6]) | ([6]) | ([6]) | ([6]) |
| 606.79 | Deformed concrete reinforcing | 50 | 73 | 102 | 101 | 1 | 1 | -53 | -29 |
| 145.58 | Nuts, edible, n.s.p.f., shelled | 15 | 19 | 23 | 23 | ([3]) | ([3]) | -8 | -4 |
| 148.06 | Mangoes, fresh, | 47 | 75 | 120 | 116 | 11 | 17 | -83 | -59 |
| 147.31 | Oranges, except mandarins and kumquats | 77 | 87 | 93 | 93 | ([3]) | ([3]) | -16 | -7 |
| 146.60 | Strawberries, fresh or in brine | 17 | 19 | 21 | 21 | ([3]) | ([3]) | -4 | -2 |
| 731.65 | Artificial baits and flies | 32 | 58 | 129 | 117 | 8 | 14 | -104 | -74 |
| 685.08 | Television apparatus | 10 | 19 | 56 | 53 | 3 | 5 | -49 | -39 |
| 606.83 | Steel bars, n.s.p.f., | 32 | 48 | 69 | 68 | 1 | 1 | -37 | -21 |
| 169.13 | Rum, in containers not over 1 gallon[5] | ([5]) | ([5]) | ([5]) | ([5]) | ([5]) | ([5]) | ([5]) | ([5]) |
| 687.87 | Photocells and parts | 41 | 49 | 55 | 55 | ([3]) | ([3]) | -14 | -7 |
| 184.52 | Soy bean cake | 29 | 38 | 45 | 45 | ([3]) | ([3]) | -16 | -8 |
| 170.60 | Scrap tobacco | ([4]) | ([4]) | ([4]) | ([4]) | ([4]) | ([4]) | ([4]) | ([4]) |
| 137.60 | Tomatoes, fresh or chilled | 47 | 54 | 58 | 59 | 1 | 1 | -12 | -6 |
| 165.46 | Pineapple juice | 27 | 41 | 60 | 59 | 2 | 4 | -35 | -21 |
| | Total | 9,809 | 12,751 | 16,632 | 16,762 | 485 | 714 | -7,307 | -4,727 |

[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] Since sugar from the Dominican Republic is subject to export quotas, the net-welfare effect of a tariff elimination is composed solely of a transfer of 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.
[3] Less than $500.
[4] Imports of cigarette leaf, filler tobacco leaf, and scrap tobacco were aggregated into one category to estimate net-welfare effects.
[5] Imports of rum, in containers of over 1 gallon and in containers not over 1 gallon, were aggregated into one category to estimate net-welfare effects.
[6] Not available.

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

**Table 2-6**

**The estimated range[1] of the effects of CBERA duty-free treatment on the U.S. domestic shipments by the CBERA imports, by the TSUS items, 1988**

| TSUS 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* |
| 106.10 | Beef and veal, fresh, chilled, | 840 | (2) | 943 | (2) |
| 148.96 | Pineapples, fresh, in packages | 302 | .70 | 382 | .89 |
| 155.20 | Sugars, sirups, and molasses | 0 | .00 | 0 | .00 |
| 686.10 | Resistors, fixed | 327 | .08 | 433 | .11 |
| 685.80 | Electrical capacitors | 440 | .05 | 564 | .06 |
| 427.88 | Ethyl alcohol for nonbeverage use | 6,023 | .63 | 9,427 | .99 |
| 165.29 | Fruit juices, not mixed, orange | 887 | .10 | 1,382 | .16 |
| 170.35 | Cigarette leaf, not mixed[3] | 513 | .06 | 605 | .07 |
| 170.32 | Filler tobacco leaf, not stemmed | (3) | (3) | (3) | (3) |
| 165.36 | Fruit juices, not mixed, other | 749 | .58 | 997 | .78 |
| 412.22 | Analgesics | 104 | .08 | 192 | .14 |
| 192.18 | Fresh cut roses | 103 | .06 | 143 | .08 |
| 169.14 | Rum, in containers over 1 gallon[4] | 326 | .25 | 425 | .32 |
| 170.68 | Cigars each valued between 15 and 23 cents | 152 | .15 | 197 | .19 |
| 607.17 | Wire rods of iron or steel | 36 | (2) | 59 | (2) |
| 408.18 | Trifluralin | (5) | (5) | (5) | (5) |
| 606.79 | Deformed concrete reinforcing | 101 | .01 | 148 | .01 |
| 145.58 | Nuts, edible, nspf, shelled | 6 | .04 | 8 | .05 |
| 148.06 | Mangoes, fresh | 19 | .39 | 31 | .62 |
| 147.31 | Oranges, except mandarins and kumquats | 31 | .01 | 34 | .01 |
| 146.60 | Strawberries, fresh or in brine | 7 | (2) | 8 | (2) |
| 731.65 | Artificial baits and flies | 129 | .18 | 240 | .33 |
| 685.08 | Television apparatus | 29 | (2) | 57 | .01 |
| 606.83 | Steel bars, nspf | 66 | (2) | 98 | (2) |
| 169.13 | Rum, in containers not over 1 gallon | (4) | (4) | (4) | (4) |
| 687.87 | Photocells and parts | 21 | .01 | 24 | .02 |
| 184.52 | Soy bean cake | 34 | (2) | 43 | (2) |
| 170.60 | Scrap tobacco | (3) | (3) | (3) | (3) |
| 137.60 | Tomatoes, fresh or chilled | 18 | (2) | 21 | (2) |
| 165.46 | Pineapple juice | 32 | .05 | 49 | .07 |
| | Total | 11,292 | | 16,508 | |

[1] Ranges correspond to the lower range and upper ranges of the CBERA import supply elasticities, 2 and 5, that were used to make these calculations.
[2] Less than 0.005 percent.
[3] Imports of cigarette leaf, filler tobacco leaf, and scrap tobacco were aggregated into one category to estimate the value of U.S. domestic shipments that were displaced by CBERA imports.
[4] Imports of rum in containers of over 1 gallon and in containers not over 1 gallon were aggregated into one category to estimate the value U.S. domestic shipments that were displaced by CBERA imports.
[5] Not available.

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

# Chapter 3

# Probable Future Effects of the CBERA

As noted in previous reports, most of the initial effects of the one-time elimination of duties on imports from the Caribbean Basin region granted by the CBERA took place during the first 2 years of the act.[1] Any future effects on U.S. industries and consumers can be expected to occur through export-oriented investment as investors attempt to take advantage of the lowered tariff levels and increasingly seek business opportunities in the region. This chapter presents an overview of the investments that occurred in 1988 and the degree to which such investments can be expected to affect U.S. imports in the near term. The general investment environment of the region is described, including the effects of political, economic, or social factors within beneficiary countries that enhance or diminish the likelihood of investment-induced exports to the United States under the CBERA. This chapter also examines Puerto Rico's program to promote complementary investment projects with CBERA beneficiary countries. Finally, the status of legislation to extend and expand the CBERA is presented.

## Methodology

This chapter is based on information obtained from a variety of sources including field visits to three CBERA-beneficiary countries. These countries—Belize, Guatemala, and Jamaica—were selected for fieldwork to provide a representative sample of countries at differing stages of economic and infrastructure development and engaged in a variety of investment promotional activities. Meetings were held with host government officials, individuals in private sector organizations involved in investment and export promotion, other representatives of the local business community, and American Embassy staff. A field trip was also made to Puerto Rico to meet with government officials, bankers, and businessmen involved in programs that affect investment in the region. Additional data and information on investment were obtained through reports from U.S. embassies in the region and from U.S. Government agencies including the U.S. Department of State, the U.S. Department of Commerce, the U.S. Agency for International Development (AID), and the Overseas Private Investment Corporation (OPIC).[2]

[1] See ch. 2 of the *First CBERA Report*.
[2] During the course of this investigation, no comprehensive and reliable source of investment data for the region was available. See also, "Data Problems and the USITC CBERA Report" in app. B of the *Second CBERA Report*, p. B-2.

## Overview of Investment and Export Potential

There is general agreement among business and government officials that the CBERA is beneficial to the region, although there is some disagreement on how well the program is working.[3] One U.S. Ambassador based in the region for a number of years has said the CBI initially received criticism because many early expectations as to what the initiative would do for the region were based on the original, more liberal language of the bill rather than the final compromise provisions. Now that the limitations of the program have been accepted, the Ambassador believed more opportunities are being explored to take advantage of CBERA's benefits. Moreover, the Caribbean Basin has become a preferred offshore location for U.S. producers seeking lower-cost production and for other manufacturers seeking preferential access to the U.S. market. Many of the persons encountered during the field visits agreed that the high visibility that the region has achieved among investors as a result of the CBI's promotional activities is one of the act's most important aspects.[4] Conversion of this awareness into operational projects, however, has been difficult because a number of factors—also enumerated in previous reports—continue to hamper the ability of most of the beneficiaries to take full advantage of CBERA provisions.

Nontraditional industries—such as winter vegetables, information processing, apparel, electronics, pharmaceuticals, food processing, and other assembly and manufacturing operations—are expanding in the Caribbean, and many are encouraged by and benefit from the CBERA.[5]

[3] Country experiences vary greatly under CBERA. Generally, differences stem from the status of each country's economy before the act came into existence. As one official has noted, the better a country's infrastructure before the CBERA, the better its experience has been under it. *International Trade Reporter*, May 17, 1989, p. 622. In May 1989, a representative of the Embassy of Barbados to the United States, speaking before a group of U.S. State legislators, described the CBI as "somewhat of a failure" because it has not generated the type of regional economic growth envisioned. He conceded, however, that Barbados is heavily dependent upon sugar exports to the United States and that not all beneficiaries in the program have fared as poorly. *Ibid*. Costa Rica, for example, credits CBERA as a major influence on virtually all investments in the country, due directly either to specific provisions or to the generally favorable atmosphere toward investment in the region which CBERA created.
[4] The U.S. embassy in Belize reports that the CBI has increased investor interest in Belize at least fourfold. Major U.S. investments in the country include tourism, textiles, petroleum distribution, ranching, citrus, winter vegetables, cacao, and aquaculture.
[5] In Guatemala, for example, farmers who once produced only traditional crops are now growing a wide variety of produce (such as snow peas, endive, squash, broccoli, okra, and melons) for duty-free export to the United States. During the field visits, several persons said that one indirect benefit of this transition to nontraditional crops is that the national diet has improved as more and more of the new vegetables enter the local market.

During field visits, a number of persons commented that without CBERA's duty-free preferences some newly important nontraditional industries, such as citrus in Belize and ornamental flowers in Jamaica, would not thrive.[6] Although perhaps not yet major revenue earners, the nontraditional sectors are gaining importance in Caribbean economies as declining markets and/or prices for traditional products (such as sugar, bauxite, oil, bananas, and coffee) continue to worsen trade balances. New jobs and earnings from nontraditional activities are not yet enough to offset this slump, but aided by CBERA and other CBI-related incentives, the growth in nontraditional enterprises has been extraordinary.

To further encourage diversification away from traditional products and into the newly emerging sectors, many beneficiary country governments are actively seeking foreign investments in nontraditional sectors. The Dominican Republic, for example, has succeeded in attracting dozens of U.S., Korean, and Taiwan apparel and electronics firms to its industrial free trade zones.[7] Some officials in the region note, however, that this is a path to be pursued cautiously because many of the nontraditional industries require an entirely new set of support services, facilities, and amenities, whereas traditional industries have the expertise and efficiency to produce, and the necessary infrastructure is already in place.[8] Increases in nontraditional sectors are led by light manufacturing, which includes electronics, footwear, pharmaceuticals, health care products, and food processing.

Overall, although some of the new investment taking place in the region during the past year has focused on products eligible for duty-free entry under the CBERA, the act has not fueled growth of the economies of CBERA beneficiaries or of their exports in a way that is likely to affect U.S. industries or consumers significantly in the immediate future.[9] First, despite significant achievements by several beneficiary countries with aggressive investment promotion agencies, the overall level of investment in the region has remained relatively low. Countries in the region continue to have difficulties attracting CBERA-eligible projects. In some cases, major investments that have been attracted have stalled or are producing below capacity.

Second, the scope of products produced in the region that are eligible for duty-free entry under the CBERA and not otherwise eligible under GSP is limited.[10] Much of the investment attracted to the region involves the production of goods such as apparel assembly operations, that are ineligible for duty-free treatment under either program. Tourism projects, such as hotels, also receive a considerable amount of the new investment.[11] Moreover, some of the region's best-selling exports are not eligible for duty-free treatment. As noted in previous chapters, excluded products include textiles and apparel, certain flat goods, footwear, petroleum and petroleum products, canned tuna, certain leather apparel, and work gloves.[12] Finally, most imports of CBERA-eligible products to the United States represent only a small fraction of total U.S. imports and consumption of such products. However, in connection with this investigation,

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[6] Local producers noted that, in the highly competitive produce market, the duty-free access gives them a much needed competitive edge. For example, CBERA preferences have been very important to the rapid growth of the Belize citrus industry. Many citrus and food processing investors in the country categorically state that they would not be operating at current levels in the absence of CBERA preferences. The Citrus Company of Belize processes 80 percent of Belize's total citrus production to make concentrate. The company is 100 percent self-sufficient and even makes its own bottles and packing materials. In Belize, a fruit jam and pepper sauce exporter whose business is often cited as an example of successful export promotion and diversification has said she could not compete without the price advantage offered by CBERA duty-free entry to U.S. markets.

[7] The establishment of industrial free trade zones in the region is one method of encouraging foreign investment in newly emerging sectors. These zones generally offer a package of customized services and facilities and are located primarily in the Dominican Republic, Jamaica, and Costa Rica. A major attraction of the zones is savings in terms of labor and overhead costs and the provision of infrastructure and services that may be lacking elsewhere in the country.

The Dominican Republic has been particularly successful with using the zones to encourage foreign investment. It currently has 13 zones that house 222 companies, compared to only 71 companies in 1980; employment in the zones increased from 16,440 to 82,840 during the same period. Kal Wagenheim, "Trade with U.S. exceeds $13 billion per year," *Caribbean Basin Opportunities '88*, Special section to the *Wall Street Journal*. Not all of the zones are doing well, however. In Guatemala, the Zolic zone is beset with numerous problems ranging from poor location to poorly constructed factories and has difficulty attracting companies.

[8] For example, one official said that, since sugar is the major generator of foreign exchange and employment in many Caribbean countries, whatever else is done in terms of agricultural diversification should complement sugar production and not attempt to replace it.

[9] However, to the extent that existing businesses expand and new ventures open to take advantage of CBERA in the future, it is possible that much of the needed capital equipment and production inputs will be imported from the United States.

[10] For a list of these products, see table 2-3 in ch. 2.

[11] Tourism is important to the Caribbean because it brings in considerable foreign exchange earnings and also stimulates the local economy to provide a number of goods and services such as fresh fruit and vegetables, furniture, guide services, etc.

[12] CBERA beneficiaries are closely following proposed CBI-II legislation for changes that may enhance or change their current preferential market access in such industries as garments, sugar, and ethanol.

the Commission received four submissions from concerned industries.[13]

Previous CBERA reports have listed several problems that have hampered the efforts of CBERA beneficiaries to attract investment and that have made entry of their products into U.S. markets difficult. To date, most such problems have been ineffectively addressed. Since these problems are frequently structural in nature and are common in developing countries around the world, it is unlikely they will be successfully redressed in the near future. First, although the industrial infrastructure in the region is gradually improving with the assistance of foreign aid, inadequate inland transportation, port facilities, and energy supplies make operations uncertain and costly for foreign companies interested in investing in many CBERA countries. Inadequate infrastructure is evident everywhere in the region, but it is a particular problem in Belize and in the smaller countries of the Eastern Caribbean where infrastructure has been historically neglected. In Belize, for example, the poor road system is reportedly one of the major constraints to development.[14] In Guatemala, public spending for most projects, including needed improvements to communications systems, ports, and roads, has been severely curtailed to comply with the country's adjustment program under International Monetary Fund auspices. Jamaica, one of the most developed countries in the region, is still recovering from the physical devastation wrought by Hurricane Gilbert in 1988.[15]

[13] The Floral Trade Council, concerned about the import sensitivity of the cut flower market, stated that incentives for any country, including CBERA beneficiaries, to increase its access to U.S. markets are no longer necessary. A representative of Virgin Islands Rum Industries, Ltd. expressed concern about a recent campaign by Barbados (supported, in part, by a grant from the EC) to sell large quantities of low-priced bulk rum to the United States. The CENEX cooperative, with extensive activities in the petroleum industry and as a producer of ethanol, recommended controls on fuel ethanol imports from CBERA beneficiaries and maintenance of full tariffs on petroleum imports from these countries. American Cordage and Netting Manufacturers (ACNM) stated that U.S. producers of cordage and fish netting are "being severely adversely economically impacted by operation of CBERA provisions in a manner clearly not intended by Congress when CBERA was enacted." ACNM urges that a safeguard system be made part of the CBERA to ensure that imports encouraged by it are fairly traded.

[14] Some optimistic citrus growers in Belzie are planting fruit trees with the hope that the roads will be developed in the next few years when the fruit is ready for harvest. The southern highway linking the deepest port and the fertile banana producing area is unpaved. Some important bridges are too small to handle large trucks and many of the existing paved roads are in such disrepair that they damage the trucks and automobiles that use them.

[15] Hurricane Gilbert hit Jamaica on September 12, 1988. The total physical damage was estimated at over $934 million. Many people were injured or killed, homes were severely damaged, telephone and electrical lines were destroyed, farms were flooded, water and sewage systems were disrupted, and many businesses were destroyed. Economically, the agricultural sector was the most severely damaged, with much of the sugar, coffee, and banana crops completely destroyed.

Moreover, international transportation, particularly shipping, is limited and expensive. In Jamaica, for example, anti-drug smuggling security for export cargoes is a necessity and has greatly increased the cost of shipping. The Jamaican Exporters' Association has argued that "the contamination of legitimate exports by narcotics is one of the gravest problems facing exporters."[16] U.S. legislation directed against narcotics smuggling via common carriers has led to the levying of substantial fines by U.S. Customs against shipping lines when contraband is found aboard their liners. As a result, some shipping companies that have been fined have withdrawn or reduced their services to Jamaica.[17]

Second, as reported last year, a lack of affordable local financing is another problem that continues to inhibit the growth of new ventures in the region. Banking systems throughout the Caribbean are conservative and appear reluctant to make loans for nontraditional projects. In a number of instances during the field visits, business and government officials said a major economic constraint in the region is that local investors do not have the financial capability to "play a hunch." The lack of local long-term credit means that joint ventures are essential for injecting capital into many projects.

Third, a lack of experience with the U.S. market by CBERA producers continues to make development of distribution networks and formation of joint ventures difficult. A number of beneficiary countries, assisted by AID funding, have established trade promotion centers and funded local private organizations to facilitate entry into U.S. markets and to encourage local investment in response to this problem.[18] The

[16] Canute James, "Jamaica's non-traditional exports jumping," *Caribbean Business*, July 7, 1988.

[17] For example, Sea-Land Service Inc. suspended service from Jamaica in 1988 after U.S. Customs officials found 10,000 pounds of marijuana in one of its containers. Sea-Land was fined $84 million. *Washington Report on Latin America and the Caribbean*, July 11, 1989. Also in 1988, Evergreen Shipping Lines removed Jamaica as its hub for transshipment to the Caribbean because of narcotics being smuggled aboard its vessels. The line continues to call at Kingston weekly to deliver Jamaica-bound cargo, but refuses to accept cargo for U.S. ports. Evergreen was fined $60 million by U.S. Customs in 1986 (later reduced to $29 million) for marijuana found in 3 containers that entered the United States. *Caribbean Update*, August 1988, p. 13.

Jamaica has intensified efforts to stamp out drug smuggling through increased security measures such as recently ordering tamper-proof containers with fiber-optic seals that clearly show evidence of tampering. Many businesses are also attempting to protect their cargoes from tampering. As a result of Jamaica's increased anti-drug efforts, Sea-Land is considering resuming service to Jamaica.

[18] For example, Jamaica Promotions Ltd. (JAMPRO) is an umbrella agency responsible for the nation's investment and trade promotion program. The Belize Export and Investment Promotion Unit (BEIPU) provides investment promotion services, sponsors Belizean participation in trade missions and assists the government in enhancing export development.

situation has also been alleviated in some cases by the formation of exporter cooperatives and collectives. In Jamaica, for example, a small group of ornamental flower growers formed a cooperative that has facilitated sales and shipments, and has remedied some payment collection problems.[19] In Guatemala, it is very difficult for a small farmer to export without the assistance of a cooperative. In addition to cooperatives for traditional crops (such as cardamom, sugar, and coffee), Guatemalan exporters have formed associations for vegetable growers.[20] AID helps support the work of Guatemala's exporter guilds and in some cases provides technical assistance for the production of perishables and encourages production in export products.[21]

Other constraints that affect the ability of beneficiary countries to fully exploit the CBERA include political and social instability perceived by investors[22], local controls on exports and imports, exchange controls that limit the availablity of hard currency required for imported inputs, small domestic markets, and inefficient local bureaucracies. Some countries in the region are, however, making progress in liberalizing foreign exchange controls and import licensing systems. Moreover, many Caribbean countries are faced with shortages of managerial and skilled labor and inadequate supplies of unskilled labor to fill some factory and agricultural jobs.

All of the difficulties cited above indicate that although investment is occurring in the region, large increases in exports to the United States, as stated in previous CBERA reports, cannot be expected to occur within the next few years.

## Summary of Investment Activities and Trends

The 1987 CBERA report relied on data supplied by the U.S. Department of Commerce survey on investment projects in the Caribbean region. This year, that source was unavailable.[23] The Commission obtained data on 1988 investments from various sources in order to report on 1988 investment activities and future trends.[24] The investment figures in the following sections are not all inclusive, since a number of investment projects in the region may be unreported, but are indicative of current trends in the region.

### *Investment Projects by Product Category*

The Commission identified 541 new or expansion projects for 1988;[25] of these projects, 455 reported investment figures totaling $753 million. The breakdown of these projects is as follows: 149 agricultural projects, 22 aquaculture projects,[26] 90 apparel assembly operations,[27] 34 electronics projects, 94 other manufacturing concerns, 8 projects producing medical supplies,

[19] The CBI contributed greatly to formation of the cooperative; growers were first brought together at CBI seminars and workshops to exchange ideas. The cooperative was formed with the help of USDA.

[20] The Quatro Pinos Agriculture Cooperative was established in 1979 to sell vegetables mainly in local markets; exports began in 1983. There are approximately 1600 small farmers who belong to the cooperative; each owns and cultivates his own land. The cooperative processes, packages, and grades produce for sale. No longer selling in the local market, the cooperative exports about 65 percent of its produce to the United States and the rest is exported to Europe. CBERA tariff preferences contributed to the decision to begin exports. During 1983, the first year of export operations, 500,000 pounds of produce were exported; in 1988, the cooperative sold 800 million pounds of produce to the United States.

[21] For example, AID has a project to help promote agricultural diversification in Belize by assisting in the development of nontraditional export crops in the two sugar-producing districts. Fruits and vegetables are major areas of new investment. Papayas and mangoes were considered excellent prospects for development; however, Belize has recently been combatting medfly infestations that threaten the viability of its fresh fruit exports. The United States will not permit Belizean imports of fresh fruit (transshipment of fruit through the United States and Puerto Rico is also strictly prohibited) until the infestation has been cleared.

[22] For example, in Guatemala there is some concern over ongoing guerilla fighting activities. Reportedly, Amocoa, an aluminum company, withdrew because of concern over the situation, and OPIC has requested an assessment from the U.S. embassy there regarding the situation. Haiti's continuing political unrest continues to erode investor confidence there and is expected to hasten the exodus of twin plant assembly operations from Port-au-Prince to other locations. *Caribbean Business*, July 21, 1988, p. S4.

[23] During the period of research for this CBERA report, work compiling the data for the next Commerce Department investment survey had not yet commenced. The most recent published report based on this data is the *"Caribbean Basin Investment Survey"*, U.S. Department of Commerce (November, 1988).

[24] Since no comprehensive and reliable source of investment data was available during the course of research on this report, the Commission drew from a wide variety of sources. These included: The Economic Development Administration of Puerto Rico (Fomento), OPIC, Eastern Caribbean Investment Promotion Service (ECIPS), JAMPRO (Jamaica's investment and promotion agency), Costa Rica's Coalition for Development Initiatives (CINDE), the Latin American Agribusiness Development Corporation (LAAD), the Inter-American Development Bank (IDB), the World Bank, AID, and several countries' investment and promotion services and/or industrial development corporations. U.S. embassies from several countries also provided information in response to an information request from the U.S. ITC. Published sources such as the *Caribbean Update* and the *CBI Business Bulletin* were also used for general project information. Data from the different sources were frequently neither comprehensive nor comparable. Thus, the Commission does not maintain that the figures based on this information are all-inclusive.

[25] Some sources reported either aggregate figures for industry sectors or company listings in which the sector or product type could not be determined.

[26] Aquaculture includes fish processing and shrimp and shellfish farming.

[27] Because textile and apparel products do not receive duty free treatment under CBERA provisions, a number of country sources contacted did not provide information on such projects. Therefore, because this figure is likely to understate the actual number of new or expanded textile and apparel projects in CBERA countries, no separate discussion of investment in the apparel manufacturing area is presented.

11 mining projects, 83 projects in services other than tourism,[28] 31 tourism projects, and 19 operations involving wood products (See table 3-1). Due to the nature of the data, in most instances the Commission was unable to distinguish those projects that produce CBERA-eligible goods from those that produce CBERA-ineligible products. However, an important aspect of the CBERA is that it has also encouraged the development of industries not eligible under the Act's trade preferences.

For example, the guaranteed access program for imports of apparel from the region under TSUS item 807-A is directly related to the U.S. policy objectives sought under CBERA and has contributed greatly to the expansion of apparel assembly operations in the region. Many sources stated that projects involving items that are inelgible under the CBERA have benefited from the promotional aspects of the CBERA.

Previous CBERA reports listed seven product areas in which investment was concentrated: apparel manufacturing, agriculture, fish processing and aquaculture, wood products and wood furniture, ethanol, electrical and electronic components assembly, and cut flowers and ornamental plants. With the exception of ethanol,[29] these sectors continued to be important in 1988. Significant 1988 investment was also made in medical supplies and services.

Agriculture was one of the most active areas of investment in the region for 1988 with 149 projects reported and only 2 projects not reporting dollar amounts of investment. Nontraditional exports, such as fruits and winter vegetables, expanded during the year.[30] New agricultural projects included the following types of produce: strawberries, star fruit, melons, asparagus, peppers, tomatoes, and cucumbers. Fresh pineapple and citrus are among the agricultural products that are eligible for duty-free treatment under CBERA, but not under GSP. For 1988, one citrus project was reported in Jamaica, and three in Belize. Also, one new pineapple project was reported in Antigua and two were reported in the Dominican Republic.

Other significant areas of investment include fish processing and aquaculture and wood products. These products benefit from duty-free entry under the CBERA and the GSP. The aquacultural sector showed growth after a slow year in 1987 with only three reported projects. Twenty-two fish processing and aquacultural projects were reported in 1988 with reported investment of $24 million for 20 of those projects. Costa Rica accounted for 10 reported projects with $4.4 millon of investment. Honduras had 4 reported enterprises worth $6.0 million.

Wood products and furniture projects reported in 1988 include mahogany doors, parquet floors, corestock veneer, and wood boats and sculptures. Over $10.6 million was reported spent in this sector on 14 projects. Costa Rica accounted for 12 of the reported projects, with investment worth $9.5 million. Four new projects were reported in Honduras.

[28] Services, such as data processing, construction, communications, finance, and computer training, are ineligible for any tariff preferences under the act. Thus, the data may also understate the actual increase in services investment.

[29] Jamaica's Petrojam has embarked on a substantial investment plan to produce feedstock for ethanol production in Belize, in the hope that proposed CBI-II legislation would liberalize some of the restrictions. The project is going forward, but not yet producing the wet alcohol.

[30] For a more detailed discussion of nontraditional exports, see "Investment in Nontraditional Products," below.

**Table 3-1**
**Reported investment projects in CBERA beneficiaries, by sectors, 1988**

| *Sector* | *Total number of projects reported* | *Number of projects reporting investment amounts* | *Total investment reported* |
|---|---|---|---|
| | | | *$1,000 dollars* |
| Agriculture | 149 | 147 | $139,542 |
| Aquaculture | 22 | 20 | 24,035 |
| Apparel | 90 | 45 | 57,732 |
| Manufacturing: | | | |
| Electronics | 34 | 18 | 56,661 |
| Medical supplies | 8 | 7 | 4,740 |
| Wood products | 19 | 14 | 10,615 |
| Other[1] | 94 | 87 | 71,756 |
| Total | 155 | 126 | 143,772 |
| Mining and Energy | 11 | 9 | 149,225 |
| Service and Tourism: | | | |
| Services | 83 | 74 | 76,991 |
| Tourism | 31 | 31 | 161,307 |
| Total | 114 | 105 | 238,299 |
| Grand total | 541 | 455 | 752,605 |

[1] Some information sources indicated only broad sector rather than product type. Therefore, some electronic, medical, or wood products may be included.

Investment in ethanol facilities continued to decline in 1988 with only one reported new project. The continued slump is attributed to the provisions in the 1986 Tax Reform Act, which restricts the CBERA eligibility of ethanol imports. For 1988, CBERA producers of ethanol had to acquire 60 percent of their feedstock locally or from other CBERA beneficiaries in order for the ethanol to be eligible for duty-free treatment. The decline in this industry has caused a 40 million gallon per year state-owned ethanol plant in Jamaica to remain idle since January 1988. Furthermore, another Jamaican plant, owned by Tropicana (a U.S. firm), reportedly may have to close in 1989, when the domestic content requirements become higher [75 percent]. Officials claim that, if feedstock requirements are not eased, planned investments in the Bahamas, Dominican Republic, Costa Rica, and El Salvador will be hampered.[31]

In 1988, investment in electrical and electronic components assembly operations rebounded from a down year in 1987. Thirty-four new projects were reported in 1988 with 18 of those projects reporting investment amounts totaling $56.7 million. In comparison, only five new investments were registered in 1987, and 13 in 1986.[32] Prior to 1988, the industry was seen to be in decline because of reduced U.S. demand. The Department of Commerce survey noted a total investment of only $51 million for the time period 1984 to 1987,[33] compared to investment totaled $56.7 million in 1988. The boost in investment in this industry appears to have been prompted by new projects in Costa Rica. The recent establishment of the electronic and electromechanic drawback[34] industries accounted for 8 of the 34 reported projects, with an investment of $42.7 million, over 75 percent of the total amount reported.

Investment in cut flowers and ornamental plants rebounded from a slow year in 1987. Only five projects were reported in 1987.[35] For 1988, 28 projects were identified reporting investments valued at $7.9 million. Seventeen of these projects, based in Costa Rica, were worth $5.2 million. Approximately $1 million was invested in the Dominican Republic on five flower and plant projects. Two projects worth $900,000 were identified in Jamaica.

The trend toward increased investment in the production of medical supplies that was noted in 1986 continued in 1987 and 1988. Five such projects were registered in 1987.[36] For 1988, there were 8 ventures reported in this area, with a total investment of $4.7 million reported for 7 of these projects. Costa Rica recorded 3 projects worth $2.2 million while the Dominican Republic recorded 2 projects worth $1.5 million. One project was also reported in the Bahamas.

Tourism—a service sector that does not benefit directly from CBERA tariff preferences—is undergoing rapid growth. Thirty-one projects totaling investment of $161 million were reported in this sector. Actual investment was probably much higher due to unreported new investment and/or expansions. In Aruba alone, at least 6 resorts were under construction in 1988. A Japanese group of investors began construction of a $52 million resort in Aruba that will be managed by the Hyatt Corportation. In St. Lucia, 300 new hotel rooms were available by the 1988 winter season. A 362-room, $100 million resort is being built by Premier Resorts in Trinidad, slated to open in 1990. Two other resorts are also under construction in Trinidad: Grafton Beach for $100 million and Palm Tree for $80 million. Ground was broken for a $150 million hotel project in June 1988 in Barbados near Pemberton Resorts. The Islas Baleares in the Dominican Republic has added 500 rooms. Also in the Dominican Republic, the Metro Beach Resort opened in the fall of 1988 while the Sandals Resort will open in 1990. Crystal Palace Resort and Casino commenced with a $130 million resort in the Bahamas. During fieldwork interviews in Belize, it was reported that numerous hotels were being expanded and at least two new ones were under construction.

Services other than tourism, that also do not benefit from CBERA tariff preferences, also continued to expand, accounting for 83 reported projects in 1988. Seventy-four of these projects accounted for about $77 million in investment. Projects in this sector included financial companies, construction, computer training schools, telecommunications, and data entry. One services industry that is experiencing phenomenal growth is information processing. The industry began nearly 3 decades ago in Barbados but was relatively modest in size and fragmented in operations. Since 1984, activity in this area has grown in countries such as the Dominican Republic, Grenada, Jamaica and St. Lucia. In Barbados, annual foreign exchange earnings for data processing is $10 million. Over 2,000 jobs have been created in Jamaica since 1982. A recent AID study maintains that "the data entry industry in the Caribbean will employ 20,000 in the 1990s, compared with a current 3,500."[37] This industry has been able to grow as a result of an $8 million "Digiport," located in

[31] *Caribbean Update*, August, 1988, p. 3.
[32] As reported in the *Third CBERA Report*, p. 3-4.
[33] Ibid.
[34] Drawback means the refunding by a government, in full or in part, of customs duties paid on imported merchandise that is then manufactured into a more finished article for re-export.
[35] As reported in the *Third CBERA Report*, p. 3-4.

[36] Ibid.
[37] *Caribbean Update*, April 1989, p. 4.

11 mining projects, 83 projects in services other than tourism,[28] 31 tourism projects, and 19 operations involving wood products (See table 3-1). Due to the nature of the data, in most instances the Commission was unable to distinguish those projects that produce CBERA-eligible goods from those that produce CBERA-ineligible products. However, an important aspect of the CBERA is that it has also encouraged the development of industries not eligible under the Act's trade preferences.

For example, the guaranteed access program for imports of apparel from the region under TSUS item 807-A is directly related to the U.S. policy objectives sought under CBERA and has contributed greatly to the expansion of apparel assembly operations in the region. Many sources stated that projects involving items that are inelgible under the CBERA have benefited from the promotional aspects of the CBERA.

Previous CBERA reports listed seven product areas in which investment was concentrated: apparel manufacturing, agriculture, fish processing and aquaculture, wood products and wood furniture, ethanol, electrical and electronic components assembly, and cut flowers and ornamental plants. With the exception of ethanol,[29] these sectors continued to be important in 1988. Significant 1988 investment was also made in medical supplies and services.

[28] Services, such as data processing, construction, communications, finance, and computer training, are ineligible for any tariff preferences under the act. Thus, the data may also understate the actual increase in services investment.
[29] Jamaica's Petrojam has embarked on a substantial investment plan to produce feedstock for ethanol production in Belize, in the hope that proposed CBI-II legislation would liberalize some of the restrictions. The project is going forward, but not yet producing the wet alcohol.

Agriculture was one of the most active areas of investment in the region for 1988 with 149 projects reported and only 2 projects not reporting dollar amounts of investment. Nontraditional exports, such as fruits and winter vegetables, expanded during the year.[30] New agricultural projects included the following types of produce: strawberries, star fruit, melons, asparagus, peppers, tomatoes, and cucumbers. Fresh pineapple and citrus are among the agricultural products that are eligible for duty-free treatment under CBERA, but not under GSP. For 1988, one citrus project was reported in Jamaica, and three in Belize. Also, one new pineapple project was reported in Antigua and two were reported in the Dominican Republic.

Other significant areas of investment include fish processing and aquaculture and wood products. These products benefit from duty-free entry under the CBERA and the GSP. The aquacultural sector showed growth after a slow year in 1987 with only three reported projects. Twenty-two fish processing and aquacultural projects were reported in 1988 with reported investment of $24 million for 20 of those projects. Costa Rica accounted for 10 reported projects with $4.4 millon of investment. Honduras had 4 reported enterprises worth $6.0 million.

Wood products and furniture projects reported in 1988 include mahogany doors, parquet floors, corestock veneer, and wood boats and sculptures. Over $10.6 million was reported spent in this sector on 14 projects. Costa Rica accounted for 12 of the reported projects, with investment worth $9.5 million. Four new projects were reported in Honduras.

[30] For a more detailed discussion of nontraditional exports, see "Investment in Nontraditional Products," below.

**Table 3-1**
**Reported investment projects in CBERA beneficiaries, by sectors, 1988**

| *Sector* | *Total number of projects reported* | *Number of projects reporting investment amounts* | *Total investment reported* |
|---|---|---|---|
| | | | *$1,000 dollars* |
| Agriculture | 149 | 147 | $139,542 |
| Aquaculture | 22 | 20 | 24,035 |
| Apparel | 90 | 45 | 57,732 |
| Manufacturing: | | | |
| Electronics | 34 | 18 | 56,661 |
| Medical supplies | 8 | 7 | 4,740 |
| Wood products | 19 | 14 | 10,615 |
| Other[1] | 94 | 87 | 71,756 |
| Total | 155 | 126 | 143,772 |
| Mining and Energy | 11 | 9 | 149,225 |
| Service and Tourism: | | | |
| Services | 83 | 74 | 76,991 |
| Tourism | 31 | 31 | 161,307 |
| Total | 114 | 105 | 238,299 |
| Grand total | 541 | 455 | 752,605 |

[1] Some information sources indicated only broad sector rather than product type. Therefore, some electronic, medical, or wood products may be included.

Investment in ethanol facilities continued to decline in 1988 with only one reported new project. The continued slump is attributed to the provisions in the 1986 Tax Reform Act, which restricts the CBERA eligibility of ethanol imports. For 1988, CBERA producers of ethanol had to acquire 60 percent of their feedstock locally or from other CBERA beneficiaries in order for the ethanol to be eligible for duty-free treatment. The decline in this industry has caused a 40 million gallon per year state-owned ethanol plant in Jamaica to remain idle since January 1988. Furthermore, another Jamaican plant, owned by Tropicana (a U.S. firm), reportedly may have to close in 1989, when the domestic content requirements become higher [75 percent]. Officials claim that, if feedstock requirements are not eased, planned investments in the Bahamas, Dominican Republic, Costa Rica, and El Salvador will be hampered.[31]

In 1988, investment in electrical and electronic components assembly operations rebounded from a down year in 1987. Thirty-four new projects were reported in 1988 with 18 of those projects reporting investment amounts totaling $56.7 million. In comparison, only five new investments were registered in 1987, and 13 in 1986.[32] Prior to 1988, the industry was seen to be in decline because of reduced U.S. demand. The Department of Commerce survey noted a total investment of only $51 million for the time period 1984 to 1987,[33] compared to investment totaled $56.7 million in 1988. The boost in investment in this industry appears to have been prompted by new projects in Costa Rica. The recent establishment of the electronic and electromechanic drawback[34] industries accounted for 8 of the 34 reported projects, with an investment of $42.7 million, over 75 percent of the total amount reported.

Investment in cut flowers and ornamental plants rebounded from a slow year in 1987. Only five projects were reported in 1987.[35] For 1988, 28 projects were identified reporting investments valued at $7.9 million. Seventeen of these projects, based in Costa Rica, were worth $5.2 million. Approximately $1 million was invested in the Dominican Republic on five flower and plant projects. Two projects worth $900,000 were identified in Jamaica.

The trend toward increased investment in the production of medical supplies that was noted in 1986 continued in 1987 and 1988. Five such projects were registered in 1987.[36] For 1988, there were 8 ventures reported in this area, with a total investment of $4.7 million reported for 7 of these projects. Costa Rica recorded 3 projects worth $2.2 million while the Dominican Republic recorded 2 projects worth $1.5 million. One project was also reported in the Bahamas.

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[31] *Caribbean Update*, August, 1988, p. 3.
[32] As reported in the *Third CBERA Report*, p. 3-4.
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[34] Drawback means the refunding by a government, in full or in part, of customs duties paid on imported merchandise that is then manufactured into a more finished article for re-export.
[35] As reported in the *Third CBERA Report*, p. 3-4.
[36] Ibid.
[37] *Caribbean Update*, April 1989, p. 4.

Jamaica, which is jointly owned by AT&T, Cable & Wireless, and Telecommunications of Jamaica. It is expected that as more teleports become operational, new investment opportunities will emerge in the Caribbean for processing airline and credit card coupons, typing address labels, and typesetting manuscripts, novels, and telephone directories.[38]

### *Investment in nontraditional products*

As noted above, one objective of the CBERA is to promote diversification of the beneficiaries' economies, away from declining traditional exports of primary commodities and into newly emerging industries. Examples of some 1988 investments in such industries include an aloe vera production and processing plant in Dominica, a tomato ketchup production facility in St. Lucia, and an electronic security components manufacturer in the Dominican Republic. Also, in 1988, a Costa Rican firm is producing disposable diapers, a Jamaican company is supplying the electronic parts for toys while a Trinidadian business is making ceramic tiles. In the Dominican Republic and Costa Rica, free trade zones have successfully attracted industries producing nontraditional products such as pharmaceuticals goods, fur coats, and electrical gadgets for export.[39] Diversification toward nontraditional exports has also occurred in the agrarian sector. For example, in Guatemala rural farmers are now growing snow peas, broccoli, cauliflower, okra, honeydew melons, and cantaloupe for export when previously they only produced crops for their own consumption.[40]

Diversification into nontraditional industries has been slow, but a recent study conducted by AID states that "nontraditional exports are booming."[41] According to the report, non-traditional exports to the United States grew at an annual rate of 17.5 percent from 1984 to 1988, a rise from $1.3 billion to $2.9 billion.

There is concern, however, that some manufactured nontraditional exports have low domestic content. With the advent of the free trade zones, the domestic content is often significantly less than that for the traditional exports. However, the AID report states that value added by these nontraditional exports grew from 34 percent of all export value added in 1983 to 52 percent in 1988. The report notes that, "If the past trends in growth of nontraditional exports continue for the 12-year life of the [Caribbean Basin] Initiative, this growth will have substantially altered the productive structure, improved employment and income, and enhanced the growth prospects of the CBI countries."[42]

Nevertheless, a General Accounting Office (GAO) report emphasizes the loss of foreign exchange earnings from traditional exports. The GAO concluded that it does "not believe that nontraditional exports can generate the needed foreign exchange within the foreseeable future to compensate for the decline in traditional exports' earnings and provide the solution to these countries' economic growth and debt-servicing problems."[43]

### *Investment projects by country*

*Central American beneficiary countries.*—The Central American country with the most new investment in 1988 was Costa Rica. As noted previously, the electronics sector has especially benefited from investment in the new electromechanic drawback industries. Variable resistors are now the third leading Costa Rican export entering the United States duty-free under CBERA (See appendix B). Other investment in Costa Rica is occurring in such nontraditional products as strawberries, melons, cut flowers, and ornamental plants. Guatemala is expanding its export base to include nontraditional products of asparagus, melons, ginger, and endive. Citrus provided Belize with increased foreign exchange earnings by way of new investment in citrus projects in 1988. Concentrated orange juice and citrus fruit juice are Belize's first and third leading exports benefiting from CBERA provision (see appendix B).

The leading CBERA export from Honduras is beef. Two beef and pork projects in Honduras were insured by OPIC and began production in 1988. Melons and strawberries also benefited from investment in 1988. Investment in El Salvador has been hampered by the guerilla warfare and political instability. However, U.S. firms have invested in El Salvador in recent years,

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[38] Ibid.
[39] Kal Wagenheim, "Caribbean Basin Opportunities '88", *Wall Street Journal*, November, 1988.
[40] A side benefit of diversification into export-oriented crops is that the farmers can now afford to send their children to school instead of into the fields. *Caribbean Business*, November 24, 1988, p. M3.
[41] James W. Fox, *Is the Caribbean Basin Initiative Working?*, AID, Bureau of Latin America and the Caribbean, staff paper no. 2, forthcoming. Only the following countries that have an active AID economic assistance program are analyzed: Belize, Costa Rica, El Salvador, Honduras, Guatemala, the Dominican Republic, Haiti, Jamaica, and the seven countries of the Eastern Caribbean islands (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent). Countries excluded from the study were Aruba, Bahamas, Netherlands Antilles, Trinidad and Tobago, Barbados, British Virgin Islands, Panama, and Guyana.
[42] Ibid
[43] The study presented the results of case studies for Haiti, the Dominican Republic, Dominica, St. Vincent and the Grenadines, Grenada, and Belize. *Foreign Assistance: U.S. Use of Conditions to Achieve Economic Reforms* (GAO\NSIAD-86-157, Aug. 1986).

mainly in the petroleum product, paper, and electronic sectors. Panama, another Central American country experiencing political upheaval, lost its CBERA beneficiary status in April 1988.

*Eastern Caribbean Islands.*—In addition to individual country efforts, investment in the smaller, less developed Eastern Caribbean islands is being promoted by Eastern Caribbean Investment Promotion Service (ECIPS), an organization founded in 1987 through the joint efforts of the Organization of Eastern Caribbean States (OECS) and AID. ECIPS is responsible for assisting the island nations of Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts, St. Lucia, St. Vincent, and the British Virgin Islands. Both St. Kitts and St. Lucia are gaining investment in the electronics industry. St. Kitts' leading CBERA export to the United States in 1988 was electric motor parts. Fixed and variable resistors and fixed capacitors are all exported from St. Lucia. ECIPS has been active in promoting electronics projects for both of these countries. Antigua is another Eastern Caribbean Island that is attracting investment in the electronics industry. Coils and inductors were Antigua's second leading CBERA export to the United States last year. Barbados, though an Eastern Caribbean island, is not a member of ECIPS. A major 1988 investment is a liquefied gas plant that is under construction.

*Central Caribbean.*—Jamaica and the Dominican Republic dominate the Central Caribbean in attracting new investment. Over 150 new projects were reported in 1988 in Jamaica. Even though Hurricane Gilbert destroyed many agricultural products and damaged factories, the economy grew 3 percent in 1988. This growth was reportedly primarily due to the revenue earned from tourism; the resorts quickly made repairs and attracted tourists for the 1988 winter season.

Jewelry made in the Dominican Republic was that country's third leading CBERA export to the United States. In 1988, OPIC insured one project for hand-made gold chains, and Puerto Rico's economic development administration, Fomento, promoted another jewelry project. The apparel and electronics industries remained strong sectors in the Dominican Republic during the year. In Haiti, the poorest country in the Caribbean, aid from the United States stopped after that country's November 1987 elections were cancelled. Investment has been weak due to the political and economic instability.

*Oil-producing countries.*—The oil-producing countries in the region (Aruba, Bahamas, Netherlands Antilles, and Trinidad and Tobago) are still experiencing difficulties due to low oil prices. However, Aruba's tourism sector is booming. As many as six resorts were under construction in 1988. Resort building is also prevalent in the Bahamas. Trinidad is diversifying its economy by constructing a natural fertilizer plant.

## *Investment in infrastructure*

Inadequate infrastructure, an obstacle to investment in CBERA countries noted earlier in this chapter, is being addressed primarily through multilateral and bilateral development assistance. Investment in infrastructure will be key to the viability of existing private sector investment and to the attraction of greater investment in the future.

This section highlights the development aid from the World Bank, IDB, AID, and the Caribbean Development Bank (CDB) to CBERA beneficiary countries in 1988. Development loans to the CBERA countries by IDB exceeded $362 million[44] and those from World Bank totaled $256.4 million.[45] Expenditures from AID reached $756 million in 1988[46] whereas the CDB had a capital lending program of $65.9 million. Total infrastructure investment and nontraditional export promotion aid from the above institutions amounted to over $1.4 billion for all beneficiary countries in 1988.

Infrastructure projects in the CBERA countries have included both road building and expansion of electric capacity. Examples of IDB road building projects are $45.8 million for the building and improvement of highways and roads in Honduras and $22.6 million to the Central American Bank for Economic Integration for the rehabilitation of highways and roads in Central America. Belize obtained $13.4 million from the World Bank for agricultural development and road building projects. Guatemala received $29 million from the same institution for basic urban infrastructure development. In 1988, AID expended $139,000 in Belize for road building and plans to spend another $3.4 million in 1989

[44] Loans authorized by the IDB will be used to stimulate investments in Latin American projects that foster economic and social development. The countries that received 1988 loans, small projects assistance, and/or technical cooperation grants from IDB were: the Bahamas, Barbados, Costa Rica, Dominican Republic, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, and Trinidad and Tobago. Total funds committed to these countries exceeded $362 million.

[45] This amount does not include health care aid or hurricane assistance for Jamaica and the Dominican Republic.

[46] AID assistance is aimed toward advancing policy reform to support economic recovery and growth development of such areas as agriculture, rural development, and nutrition (ARDN), especially for the diversification to nontraditional exports; improvement of education and human resources (EHR); and promotion of selected activities, including private sector development and privatization of public sectors. The AID assistance amounts are for those funds expended in 1988 for economic support (ESF), ARDN, EHR, and selected development activities. Other aid goes toward health improvement projects, child support activities, AIDS education, and population growth guidance.

for rural access roads and bridges. In Honduras, AID provided assistance for building and improving rural trails and access roads. In 1988, the amount expended was $7.9 million whereas 1989 planned assistance is $8.7 million. Rural road maintenance was funded in the Dominican Republic by AID. The 1988 funding amounted to $1.9 million and 1989 funding is expected to reach $4.0 million. CDB expended $3.24 million for road construction in St. Vincent in 1988.

Electrical generation has been a bottleneck to increased investment in many of the CBERA countries. In 1988, several electricity expansion projects were funded with development aid. For example, the Bahamas received $109 million from the World Bank for electricity expansion on the islands while Jamaica collected $26.3 million for education and electricity improvement. Another electricity project which was funded by the World Bank for $105 million, is taking place in the Dominican Republic. Guatemala received $1.4 million from AID for a rural electrification project.

Assistance is also being provided for the improvement of credit facilities and to support training, marketing, and promotional activities. Much of the support in these areas has been directed to the agricultural sector, particularly to promote growth of nontraditional exports. Trinidad and Tobago received $26.95 million from IDB for a farm and fishing credit program. The funds will be used to finance plantings and agricultural infrastructure, aquaculture facilities, and fishing vessels and gear. An IDB loan of $6 million to the Bahamas will be used by private sector enterprises for irrigation and land preparation projects, for the purchase and improvement of fishing vessels, and for the update of tourism facilities. Other IDB projects that were financed include a $500,000 loan to 125 small ornamental flower growers in Barbados to increase their production of ginger lilies for export. Honduras's small businesses will receive training, education, and communications for agricultural production, with $500,000 in funding from IDB. Another $500,000 was provided for 250 rural and urban producers in Jamaica for agricultural, dairy, agroindustrial, and beekeeping activities.

Several other activities to enhance agricultural infrastructure and services have been supported by AID. For example, in El Salvador, $258,000 was expended for reform of agrarian credit in 1988 while $3.1 million is to be expended in 1989 for similar agrarian credit reform. Agricultural sector training took place in the Dominican Republic with AID assistance of $1.4 million. Over $2.3 million was spent in Jamaica by AID for agricultural marketing support. AID also finances export and promotion services in Belize, Costa Rica, El Salvador, Honduras, Guatemala, the Dominican Republic, Haiti, Jamaica, and the seven countries of the Eastern Caribbean islands (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent).

Product diversification undertakings funded by the AID include a $1.9 million project in Belize for the development of nontraditional export crops; crop diversification projects in Jamaica receiving $4.0 million; export agribusiness development and promotion receiving $6.5 million channelled through the Regional Office for Central America; and the HIAMP program that promotes exports of nontraditional fruits and vegetables from Eastern Caribbean countries.

### *Investment by Asian NIEs in CBERA countries*

As of January 1, 1989, the four Asian newly industrializing economies (NIEs)—South Korea, Singapore, Taiwan, and Hong Kong—were graduated from the U.S.-GSP program.[47] Some Asian manufacturers now have an incentive to relocate to the Caribbean Basin region to ensure continued preferential access to the U.S. market. By moving to the Caribbean region, some manufacturing operations would be able to take advantage of the duty-free preferences granted to CBERA countries. Greater private sector involvement, by any source, is sought as a means of bolstering the economies and political stability of the region. Indeed, one of the goals of the CBI is to encourage not only U.S. but also other foreign investment in the region. Such investment may also help strengthen the economies of the region through the transfer of technology. Yet, some U.S. businessmen fear that increased Asian exports to the United States via the Caribbean investments will displace domestically manufactured products.

Estimates of up to $10 billion of new investments by Asian companies for the next few years in the Caribbean region have been advanced by some trade experts, as a result of the loss of GSP status.[48] An exact amount is difficult to estimate, since several new businesses are joint ventures between the Asians (including Japan) and the United States. One example of an Asian NIE investment is the Hong Kong company East Ocean, an apparel manufacturer with 8000 employees located in Jamaica's Kingston Free Zone. Also, Taiwan entrepreneurs have reportedly purchased two industrial free zones in Costa Rica, at Puntarenas and Limon. At present, 15 Korean firms have factories in the Dominican Republic's 9 free-zone industrial parks. Conair, a manufacturer of personal care products such as hair dryers and curling irons,

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[47] See *Operation of the Trade Agreements Program*, 39th Report, 1987, USITC Publication 2095 (July 1988), p. 4-41.

[48] *Caribbean Update*, December, 1988, p. 1.

recently relocated to Costa Rica from Taiwan.[49] A prominent Hong Kong businessman has several investments in the Dominican Republic including the 310-room El Embajador Hotel and a 190-unit apartment and commercial complex in Santo Domingo. The businessman also plans development of a tourism complex, which will be situated near the Las Americas International Airport.[50]

Examples of planned investment include efforts by a Hong Kong electronic company, ABC Computers, which is looking at business opportunities in Jamaica and a manufacturer of stuffed toys, Laxo Company, that is considering establishing a base in Jamaica.[51] Another firm, which markets personal computers in the northern United States, is interested in Jamaica due to its competitive labor costs and its trade agreements with the United States and the EC. An executive of this company stated that the company "could use Jamaica as a springboard to penetrate the southern U.S., Latin America, and Europe."[52]

Investors from Hong Kong reportedly plan to build a commercial complex near Belize City, Belize. The new township will include residential properties, factories, a shopping mall, and recreational facilities. Six factories will produce knitwear, candles, furniture, and electronic components. Phase one of the project will cost about $20 million. Funding from Taiwan sources will be used to construct additional factory space in St. Vincent. Additionally, the new St. Vincent apparel venture, named Cariwear, is jointly owned by a Taiwan firm and a Hong Kong company. Fieldwork interviews also revealed an increasing number of Korean investments in Guatemala.

## Section 936 of the Internal Revenue Code

When the CBERA was originally under consideration, there was concern that Puerto Rico might be adversely affected by the program because of similarities in its climate, culture, and industry to those of CBERA beneficiary countries. However, rather than oppose the CBERA, Puerto Rico has implemented policies intended to encourage development in CBERA countries. Puerto Rico's support for the CBERA derives in part from a provision in the U.S. tax laws concerning taxation of business operations on the island. Under section 936 of the U.S. Internal Revenue Code, and its precursor provisions, tax preferences are granted to U.S. firms operating in Puerto Rico.[53] Section 936 was intended to encourage re-investment of profits to further economic development of U.S. possessions. These tax preferences have attracted much industry to the island and have been credited with supporting more than one-third of the total employment in Puerto Rico.[54]

Because section 936 companies can effectively retain their earnings in Puerto Rico tax free, large deposits of 936 funds have accumulated in financial institutions on the island.[55] As of December 31, 1988, the total pool of 936 profits not repatriated to the U.S. mainland was estimated to total $14.5 billion. Most of these funds ($9.47 billion) were deposited in Puerto Rico's private financial institutions, broken down as follows: $5.97 billion in commercial banks, $2.8 billion in investment banks, and $658 million in savings banks.[56] The remainder was invested directly by section 936 companies.

While drafting the Tax Reform Act of 1986, budgetary pressures prompted Congress to consider repeal of section 936. To stave off repeal of the provision, the Government of the Commonwealth of Puerto Rico supported an amended section 936, which would provide projects in qualified CBERA countries with access to the low-cost 936 funds.[57] Qualified CBERA

[49] Arthur Taylor, Director of Imports for Conair, USA, was asked if Taiwan's loss of GSP status had played a role in Conair's decision to move to Costa Rica. Mr. Taylor stated, "The loss of GSP status played a major role in our decision [to move], as well as the devaluation of the U.S. dollar in Taiwan." *CBI Business Bulletin*, vol. VI, No. 5, June 1989.

[50] *Caribbean Business*, June 30, 1988, p. 4.

[51] Larry Luxner, "Hong Kong firms express interest in Jamaica," *Caribbean Business*, Nov. 24, 1988, p. M4.

[52] Ibid.

[53] Under section 936, qualified domestic corporations may take a credit equal to the portion of their U.S. tax attributable to taxable income earned by subsidiaries in U.S. possessions, such as in Puerto Rico. In order to be eligible for the tax preferences offered under section 936, at least 75 percent of this income must be derived from the active conduct of business; up to 25 percent may be passive income derived from investments in "eligible" activities. The portion of income earned by a section 936 firm that is generated from eligible investments is known as "qualified possession source investment income" or QPSII. Provisions of Puerto Rico's Tax Incentives Act of 1987 form a local counterpart to the federal tax credit granted to U.S. corporations under section 936. Firms qualifying for treatment under section 936 may receive exemptions, of up to 90 percent, on Puerto Rican income taxes for a period of 10 to 25 years. Earnings repatriated by a section 936 firm to its mainland parent, however, are subject to a Puerto Rico "toll gate tax." Starting at a rate of 10 percent, the toll gate tax declines the longer the funds are retained in Puerto Rico, dropping to 5 percent with a 5-year investment and to zero with a 10-year investment.

[54] Robert R. Nathan Associates, Inc., *Section 936 and Economic Development in Puerto Rico*, Aug. 1987.

[55] The combination of manufacturing and investment income earned by 936 firms constitutes what is commonly referred to as "936 funds" (see footnote 1).

[56] The island's financial institutions must invest 15 percent of their 936 deposits in the Government Development Bank for Puerto Rico, 1 to 2 percent in the Economic Development Bank of Puerto Rico, and 7 percent in selected eligible activities. Alexander F. Diaz, "Regulation 3582 gives 936 firms incentives to invest profits locally for longer terms," *Caribbean Business*, Mar. 30, 1989, p. S22.

[57] Prior to the enactment of the Tax Reform Act of 1986, investment income earned by a section 936 firm could only qualify as QPSII, and thus be eligible as part of a Federal income tax credit, if it was generated from an investment in Puerto Rico. Under the 1986 Act, section 936 was amended to allow income from investments in qualified CBERA beneficiaries to also be considered as QPSII.

countries are those that have signed and ratified Tax Information Exchange Agreements (TIEAs) with the United States. Puerto Rico's laws were subsequently modified to allow the disbursement of 936 funds for CBERA projects.

### *Section 936 financing*

Section 936 funds are lent at concessionary rates by commercial financial institutions and the Government Development Bank for Puerto Rico (GDB), usually at around 80 percent of the London Interbank Offered Rate (LIBOR).[58] Both complementary and stand-alone projects in CBERA countries are eligible for section 936 financing. Commercial financial institutions may provide financing for either type of project, but the GDB is restricted by its by-laws to financing only complementary projects. Although eligible CBERA projects do not have to directly benefit Puerto Rico, access to 936 funds is limited to those projects that will not adversely affect the economy of Puerto Rico (i.e., no loss of jobs in Puerto Rico).[59]

Since the Tax Reform Act of 1986 became effective on January 1, 1987, only six private-sector projects in CBERA countries, totaling $124.1 million, have received approval from the U.S. Treasury for 936 financing.[60] Three of the projects, for a total investment of $36.6 million, were approved in 1988:

| Company | Country | Investment (Million dollars) |
|---|---|---|
| Cable & Wireless .. | Barbados | 15.0 |
| ABC Container .... | Dominica | 2.1 |
| Spanish Fort Free-Zone ...... | Jamaica | 19.5 |
| | | 36.6 |

The Cable & Wireless project in Barbados is a stand-alone project to expand the telephone system in that country. Funds have not yet been disbursed for this project. The ABC Container Company's corrugated box factory in Dominica is the first private sector project financed by 936 funds to become operational. The plant officially opened on March 30, 1989. Out of materials manufactured in Puerto Rico, boxes are cut, assembled, and printed in Dominica, and then sold to the Dominica Banana Growers' Association to pack with bananas for export. This complementary operation is expected to produce 4-to-6 million boxes per year, creating about 50 new jobs in Dominica. Although the Spanish Fort Free-Zone project received governmental approval to use 936 funds, it has not moved forward due to financing difficulties.

Two other projects under consideration in 1988 have since been granted approval for 936 financing: a $51.5 million 936 loan to Jamaica's state airline, Air Jamaica, for the purchase of two used Airbus A300-B4s for delivery in June 1990; and AT&T's Transcaribbean Cable System—a network of fiber optic cable that will connect the United States, Puerto Rico, the Dominican Republic, Jamaica, and Colombia—for $17 million. Although total investment for AT&T's stand-alone project is $183 million, only $17 million for the Jamaican section will be financed with section 936 funds since it is the only project participant with a TIEA. The Economic Development Administration of Puerto Rico (Fomento) is in the process of evaluating 4 more projects in TIEA signatories for a total of $125 million in section 936 financing.[61]

### *Financing obstacles*

Given the vast size of the section 936 funds pool, the number and value of projects in CBERA countries that have been financed with these funds are well below expectations. A lack of interest in negotiating TIEAs along with the absence of published regulations have often been cited as major reasons for the low utilization of section 936 investment funds in the Caribbean. As of yearend 1988, only four Caribbean countries had TIEAs with the United States: Barbados, Jamaica, Grenada, and Dominica.[62] Trinidad & Tobago,[63] Costa Rica, St. Lucia, and the Dominican Republic have signed TIEAs, but to date have not enacted ratifying legislation.[64]

[58] The banks are able to offer below-market rates on 936 loans because the interest rates that they pay on section 936 deposits are lower than those offered in the United States as well as on their other deposits. Even though they receive lower interest payments on deposits, it is more profitable for section 936 firms to retain their profits in banks in Puerto Rico than to repatriate, because of the combined Federal and local tax preferences.

[59] All 936 loans must be approved by the Administrator of the Economic Development Administration of Puerto Rico (Fomento) and the Commissioner for Financial Institutions. Fomento performs economic analysis to determine if the project will have a negative impact on employment in Puerto Rico and what the effect will be on interest rates as a result of the outflow of 936 funds. The Commissioner reviews the transaction to ensure that it complies with the CBERA regulations and other banking legal requirements.

[60] In 1987, $1.2 million in section 936 funds were loaned on a government-to-government basis to Jamaica for the purchase of prefabricated homes built in Puerto Rico. In 1988, the second phase of this project entailed a loan for $7.5 million.

[61] Also, a project to build tenantry roads in Barbados ($19 million) was approved in August 1989.

[62] On May 9, 1988, the TIEA with Dominica entered into force. The other TIEAs were ratified in earlier years.

[63] Trinidad and Tobago signed a TIEA on Jan. 11, 1989. Due to its relatively more advanced economy, Trinidad and Tobago is expected to generate a large share of future 936 projects. A $300 million project in Trinidad & Tobago is already under consideration for 936 financing by Fomento.

[64] St. Lucia signed a TIEA on Jan. 1, 1987. Costa Rica signed a TIEA on Mar. 15, 1989; a TIEA was signed by Costa Rica in 1986, but was never ratified. The Dominican Republic signed a TIEA on Aug. 7, 1989.

Many CBERA countries are reluctant to negotiate TIEAs with the U.S. Department of Treasury because of fears that the agreement would force them to change their tax system or reveal sensitive income data. In some instances the negotiation of a TIEA has become an issue of national sovereignty. The United States contends that the reluctance is due to misconceptions on the part of the CBERA beneficiaries. The U.S. Treasury maintains that TIEAs are negotiated agreements that are narrowly focused and which take into account each country's individual set of circumstances. Although there was some discussion in 1987 and 1988 of "decoupling" TIEAs with 936 financing, the TIEA requirement for receiving 936 investment funds now appears likely to remain in effect.[65]

For much of the last two years, implementing regulations for 936 financing did not exist. In June 1988, the Commissioner of Financial Institutions, the GDB, and Fomento, drafted the final version of the "Qualified CBI Loans Regulation." The U.S. Treasury's guidelines are not expected to be finalized until the end of 1989. Until the Treasury guidelines are issued, project proposals will continue to be reviewed on a case-by-case basis. As cited in last year's report, the absence of implementing regulations has contributed to a lack of enthusiasm in some countries toward enacting TIEAs. Fieldwork suggests, however, that this fact has not presented a major stumbling block for projects seeking 936 financing.

A number of more fundamental obstacles to section 936 financing of CBERA projects were uncovered in staff interviews in Puerto Rico. They include a lack of proposals for economically viable projects in CBERA countries, the high risk associated with investments in CBERA countries, the mismatch of short-term 936 deposits with the long-term financing needs of CBERA projects, and the uncertainty surrounding the continuation of tax preferences under section 936.

Although the Government of the Commonwealth of Puerto Rico is authorized by federal law to regulate the 936 funds market on the island, a widely-held misperception is that the Puerto Rican government owns and therefore can control disbursement of the 936 funds. Rather, the 936 funds are the sole property of the section 936 firms. Moreover, since the section 936 firms deposit the bulk of their profits with commercial financial institutions, it is the private banks that are primarily responsible for project lending decisions.[66] As far as the banks are concerned, section 936 loans are strictly commercial—not development—loans and so certain viability and creditworthiness criteria must be satisfied.[67] Many participants in the 936 financing process argue that a major problem to date has been a lack of economically viable projects. In many CBERA countries, inadequate infrastructure and overall low levels of development act to undermine project viability.

Further, the banks, which are accountable to shareholders, are reluctant to accept the foreign exchange and political risk of loans to the developing countries of the CBERA group. Therefore, to obtain 936 loans for projects in CBERA countries, commercial and investment banks generally require some form of credit enhancement[68]—a significant hurdle for small- and medium-sized investors of the Caribbean.[69]

Another problem noted by some of the 936 financing participants is the short-term nature of 936 deposits. As of yearend 1988, approximately 80 percent of the 936 funds in Puerto Rico were deposited in financial vehicles that matured in less than three years.[70] Other estimates place 60-70 percent of the 936 funds in 90-day instruments. Many firms require a certain level of liquidity as a matter of corporate policy. Banks then are being asked to provide loans for periods of 5 to 10 years with deposits that are guaranteed for only a short time. Given the fungibility of deposits, this imbalance will pose a serious problem only if there are mass withdrawals. However, the uncertainty surrounding the continuation of section 936 poses that possibility.

Since repeal of section 936 was sought in 1985–86, section 936 firms are sensitive to the

[65] It is possible, however, for companies with operations in Puerto Rico to take advantage of section 936 financing for projects in CBERA countries that do not have a TIEA. By obtaining a section 936 loan for its Puerto Rican operation, a firm may free its internal capital for the CBERA investment. To date $14.1 million in 936 funds have been lent to seven Puerto Rican companies with complementary plants in CBERA countries. In five instances the complementary plant was within a country that has not signed a TIEA with the United States. In 1988, three of the Puerto Rican firms received section 936 loans totaling $8.4 million.

[66] By law, CBERA projects may not receive financing directly from section 936 firms, but must involve a financial intermediary.

[67] Also, some of the banks holding 936 deposits reportedly have reached their corporate-wide loan exposure limits for many of the CBERA countries. In these instances, loan guarantees are essential, regardless of the economic viability of the individual project.

[68] Credit enhancement assures the lender that the loan will be repaid. Forms of credit enhancement include: (1) letter of credit from a major international commercial bank; (2) a corporate guarantee from an international credit-worthy company; (3) a guarantee from a multilateral organization; (4) a guarantee from a credit-worthy insurance company; or (5) a guarantee from other private and government owned credit-worthy organizations.

[69] The GDB may provide loans or guarantees for projects in CBERA countries. However, it is an international financial institution and so must operate within the same guidelines and regulations as similar financial institutions. Also, the by-laws of the GDB limit its exposure for loans and loan guarantees for projects in CBERA countries to $25 million.

[70] Alexander F. Diaz, "Regulation 3582 gives 936 firms incentives to invest profits locally for longer terms," *Caribbean Business*, Mar. 30, 1989, p. S22.

possibility of another repeal drive and are hesitant to commit resources for the long term. Even if section 936 is not repealed, the U.S. Treasury may implement regulations that will effectively curb the amount of 936 profits claimed by operations in Puerto Rico, thus limiting the pool of 936 funds for project financing.[71]

Uncertainty over continuation of section 936 has been further heightened by proposed legislation that would have Puerto Rico hold a referendum in 1991 to decide its political status.[72] Although the legislation is not in its final form at this time, it is likely that section 936 would be terminated should the referendum result in a vote for either statehood or independence. The status of section 936 under the "enhanced" commonwealth option is unclear at this time.

Despite these problems, efforts are being made to provide 936 financing to more CBERA projects. One such effort is a loan facility that has been under development by First Boston Corporation.[73] Some 30 to 40 section 936 firms have tentatively agreed to provide $60 million in investment funds for project origination over a three year period.[74] As qualified projects (in terms of governmental and credit-worthiness guidelines) are identified, the 936 firms will provide financing by purchasing prorata shares of notes. OPIC and the GDB are expected to each provide approximately $15 million in crucial loan guarantees. The loan facility received final approval from the Office of the Commissioner of Financial Institutions on October 13, 1988, although details are not expected to be finalized until the fall of 1989.

### *Twin-plant program*

Section 936 has also indirectly contributed, by the existence of 936 firms, to an increase in investment in CBERA countries resulting from Puerto Rico's promotion of "twin-plants," or projects complementary with operations in Puerto Rico. Fomento encourages firms with operations on the island to seek opportunities for splitting production between Puerto Rico and a Caribbean site in a twin-plant arrangement. In most instances, the labor-intensive portion of the operation is moved off shore since Puerto Rico's labor scale is considerably higher than in most of the CBERA countries. Section 936 firms are able to retain their 936 status due to the continuation of their Puerto Rican operations, whereas setting up twin-plants enables them to reap the benefit of lower overall costs.

Further, although close to 20 twin-plant operations were in existence prior to the enactment of the CBERA, the Act contains aditional incentives to encourage U.S. firms to establish complementary projects between Puerto Rico and CBERA countries. Under the CBERA, the value of materials and processing operations added in Puerto Rico may contribute any percentage of the 35-percent value-added requirement for duty-free entry into the U.S. market. CBERA differs from GSP in that the value-added requirement can be filled in more than one location, including Puerto Rico.

Since 1985, Fomento has promoted 60 complementary projects corresponding to a total investment of approximately $165.3 million.[75] Fomento estimates that around 10,300 jobs will have been created in CBERA countries as a result of these investments. Thirty-three of these projects have been undertaken by 936 firms. A total of twenty projects, amounting to $27.7 million in investment funds, were scheduled for startup in 1988. As of May 1, 1989, 17 more projects valued at $265.9 million were scheduled to begin operation in 1989. Unlike section 936 financing, "twin-plants" are encouraged in all CBERA countries. The Dominican Republic, which does not have a TIEA, is the largest recipient with 29 projects overall, 9 in 1988. Other recipients include Barbados, Costa Rica, Grenada, Guatemala, Haiti, Jamaica, Panama, St. Kitts, and Trinidad and Tobago.

## CBI II Legislation

Legislation to extend and expand the CBERA was introduced by House Ways and Means Trade Subcommittee Chairman Sam Gibbons and cosponsors in August 1987 (HR 3101). This and subsequent legislation to amend the CBERA has become known as "CBI II." Following hearings held in December 1987 and in September and August of 1988, no further action was taken on the HR 3101 in the 100th Congress. During the 101st Congress, Chairman Gibbons introduced similar legislation incorporating compromises that evolved from extensive consultations with

[71] In October 1988, the U.S. Treasury issued a "White Paper" which contained its interpretation of transfer pricing issues covered in the Tax Reform Act of 1986. Included in the "White Paper" was Treasury's advocacy of a transfer pricing policy that would effectively eliminate one of the two options currently used by the 936 firms to calculate their profits. In general, many 936 firms believe that this policy would emasculate the tax advantages of section 936. Treasury has been accepting comments on the "White Paper" and is not expected to produce implementing regulations this year.

[72] The series of bills (S.710, S.711, S.712) were introduced the week of Apr. 3, 1989.

[73] The loan facility will be managed independent of First Boston, once it is established.

[74] The loan facility is broken down into three separate facilities based on project criteria; they are (1) OPIC guaranteed projects, (2) projects with other guarantees, and (3) projects without any guarantees. The 936 firms may choose among the three facilities for its investment commitments.

[75] As of May, 1989. It includes projects financed by 936 funds. These projects are included in the investment figures given in the section "Summary of Investment Activities and Trends" of this chapter.

subcommittee members, the Administration,[76] CBERA beneficiaries, the U.S. private sector, and labor unions. Introduced in March 1989, the new bill (HR 1233) removed or modified some of the most controversial provisions contained in the 1987 bill.[77] The Trade Subcommittee held markup sessions on HR 1233 in April and May 1989, after which the Subcommittee favorably reported the bill to the Full Ways and Means Committee. In June, the Full Committee favorably reported HR 1233 to the House.[78]

The thrust to amend the existing CBERA grew largely out of the recommendations of the Ways and Means Subcommittee on Oversight following its factfinding investigation in 1987 on the impact and effectiveness of the CBERA.[79] As proposed in 1987, CBI II legislation sought to remedy the shortcomings in the original CBERA legislation identified by the oversight committee. Proponents wanted to address their concern that CBERA did not liberalize trade sufficiently, because it excluded important beneficiary country exports from duty-free treatment. Further concern was expressed that some of the intended effects of the program were circumvented by later measures.[80] As a result of ongoing efforts to amend the legislation, a number of the current provisions of CBI II legislation (HR 1233) are substantially different from those reported in the Commission's fourth annual report on CBERA (HR 3101). This section will describe provisions of CBI II legislation as reported on June 20, 1989 to the House.[81]

[76] Formal comments by the Bush administration on the proposed legislation are contained in "Administration Statement by Ambassador Carla A. Hills on HR 1233, The Caribbean Basin Economic Recovery Expansion Act of 1989," submitted to the House Ways and Means Subcommittee on Trade on April 11, 1989.

[77] Identical legislation was introduced in the Senate by Senator Bob Graham of Florida in August 1987 (S1594) in the 100th Congress and as S504 in the 101st Congress in 1989. However, no hearings have been held or scheduled by the Senate.

[78] In July, House Ways and Means Chairman Rostenkowski attached the CBI II legislation to the Budget Reconciliation bill. It was expected to go to conference with the Senate version of the budget bill in August 1989. *Inside U.S. Trade*, vol. VII, no. 29, July 21, 1989, p. 21. Some of the remaining liberalizing measures of the legislation are still subject to controversy, particularly regarding textile preferences.

[79] U.S. Congress, House, Subcommittee on Oversight, Committee on Ways and Means, *Report on the Committee Delegation Mission to the Caribbean Basin and Recommendations to Improve the Effectiveness of the Caribbean Basin Initiative*, 100th Cong., 1st sess., May 6, 1987.

[80] E.g., restrictions on citrus and ethanol, decreased sugar quotas, and an antidumping order issued covering certain cut flowers from Costa Rica.

[81] For further background on debate regarding reform of CBERA, and for details of the provisions of HR 3101, see ch. 3 of the *Third CBERA Report*, p. 3-7.

### *Repeal of termination*

Duty-free treatment under the CBERA is currently due to expire September 30, 1995. HR 1233 would repeal the statutory termination date on duty-free treatment.[82] A new provision would eliminate the need to pass renewal legislation to maintain the program. Nevertheless, Congress would be able to legislate changes or termination of the program at any time.

### *Expansion of eligible products*

As introduced, HR 1233 would provide for duty-free tariff-rate quotas on certain products previously exempted from duty-free treatment. As now amended, the bill would provide for a 50 percent reduction in existing rates of duty for imports from CBERA beneficiaries of footwear (except leather footwear), handbags, luggage, flat goods, work gloves, and leather wearing apparel with no quota or limitation. These products are currently excluded from preferential duty treatment under CBERA. Other excluded product categories, such as leather footwear, canned tuna, petroleum and petroleum products, and watches and watch parts containing any materials from non-MFN sources, will remain subject to full duties.

### *Treatment of articles assembled from U.S. components*

Like the earlier bill, HR 1233 contains a provision that allows articles produced exclusively from U.S.-made parts, components, or products to enter the United States free of duty. Since the value of the U.S.-fabricated components already enters duty free, the effect would therefore be to eliminate duties now paid on the value-added portion of the article. Unlike the earlier proposal, however, this provision expressly excludes textiles and apparel, which are now addressed in other provisions.

### *Textiles and apparel*

HR 1233 would grant duty-free treatment to imports of textile products subject to a statutory Guaranteed Access Limit (GAL) program[83] and would grant 50-percent duty reductions on

[82] CBI II provisions contained in the 1987 bill (HR 3101) only extended duty free treatment of CBERA-eligible imports for an additional 12 years, to September 30, 2007.

[83] GALs are established under the Special Access Program announced by the Reagan Administration in 1986, known as "807-A," or "Super 807." This program, not now formally part of CBERA, would become a statutory program under CBI II legislation. Further details on the program and trade data showing that super 807 has spurred significantly increased imports from CBERA beneficiary countries are contained in ch. 1 of this report.

imports of textile and apparel articles from the Caribbean subject to certain import quotas.[84] These provisions are seen by proponents of CBI II legislation as essential to a recognition of the "central role" that this industry plays in the economic development of the region.[85]

Under the current administration of GALs, import duties do not apply to the value of U.S.-cut fabric that is assembled into apparel or other textile products in CBERA beneficiary countries. Under the current draft of CBI II provisions, duties would no longer be levied on the value-added component of these textile and apparel products imported from CBERA countries. Further, the bill would expand the term "qualifying fabric" under GALs to include eight types of foreign manufactured fabric that still must be cut but no longer need to be formed in the United States.

Textile and apparel products subject to quotas (SL or DCLs) may currently consist of foreign-made fabric but are subject to regular MFN duties. Under the currently proposed legislation, such imports would be granted a 50-percent duty reduction based on the trade-weighted average of the MFN tariff.

### *Injury determination*

The amended provisions of HR 1233 still essentially reflect the proposal contained in the 1987 CBI II legislation regarding determination of injury. CBERA beneficiary countries would be exempted from worldwide cumulation in the application of injury tests in antidumping and countervailing duty cases. A separate cumulation of imports from CBERA beneficiaries as a group would be established in making injury determinations where a CBERA beneficiary is the subject of a petition.[86]

### *Eastern Caribbean region*

One provision of HR 1233 now expresses the sense of Congress that special efforts should be made to improve the ability of members of the Organization of Eastern Caribbean States and Belize to benefit from CBERA. This provision recognizes the "special assistance" required by these smaller, lesser developed CBERA beneficiary countries to enhance their investment climates. However, this provision replaces provisions included in 1987 in HR 3101 that granted specific additional preferences to Eastern Caribbean countries, such as lowered rules of origin requirements.[87]

### *Restoration of sugar quotas*

After much controversy over earlier provisions regarding CBERA country sugar quotas, a compromise resulted. The amended HR 1233 calls for the establishment of a guaranteed minimum access level for sugar imports from those CBERA beneficiaries that are allocated quotas. The bill stipulates that the aggregate amount of any future quotas may not be set at levels less than the 1989 aggregate level, regardless of the total global import quota.[88] Further, the provision requires the Secretary of Agriculture to allocate, on a pro rata basis to CBERA beneficiaries, any amount of base quota allocation remaining unused by any other country. To address administration concerns regarding the GATT consistency of this provision, the bill authorizes the President to enter into agreements to grant any appropriate compensation if actions under the provision are found to be inconsistent with U.S. international obligations.[89]

### *Ethanol*

Provisions regarding ethanol imports from CBERA beneficiaries have been debated throughout the course of both CBI II bills.[90] Current provisions of HR 1233 represent a recent amendment arrived at through compromise among the competing interests concerned.

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[84] Bilateral textile agreements are in force with six CBERA countries. Quotas under these agreements take the form of Specific Limits (SLs) and Designated Consultation Levels (DCLs). The agreements with Costa Rica and Dominican Republic contain SLs but not DCLs. The agreements with El Salvador, Haiti, and Trinidad and Tobago contain DCLs but not SLs. The agreement with Jamaica contains both. GALs are in effect with five CBERA countries: Costa Rica, Dominican Republic, Haiti, Jamaica, and Trinidad and Tobago.

[85] *Report together with Additional Views* submitted by the Committee on Ways and Means to the House of Representatives regarding the Caribbean Basin Economic Recovery Expansion Act of 1989, Report 101-136, July 12, 1989, p. 20.

[86] Since CBERA countries account for only a small percentage of U.S. imports for most products, the likelihood of a ruling against a CBERA nation would be greatly reduced.

[87] For details of the earlier provision, see *Third CBERA Report*, p. 3-8.

[88] The 1989 aggregate quota level for CBERA beneficiaries' allocated quotas was 371,449 metric tons.

[89] Under the 1987 CBI II provision (HR 3101), U.S. sugar import quotas for CBERA beneficiary countries would have been restored to the levels existing as far back as 1983-84. The effect would have been to raise the quotas to roughly three times their current levels. Strong opposition by domestic sugar producers has made it perhaps the most controversial provision contained in the legislation. Both the Reagan and Bush administrations, although generally supportive of CBI II, opposed the sugar provisions noting that increasing quotas for Caribbean countries while at the same time reducing them for other nations would violate the General Agreement on Tariffs and Trade.

[90] The 1986 Tax Reform Act required that Caribbean ethanol producers use at least 30 percent local feedstock in 1987 to qualify for duty-free status, with the minimum rising to 60 percent in 1988 and to 75 percent thereafter. According to industry sources, this measure was passed in response to concern by U.S. producers of ethanol who argued that the use by Caribbean facilities of surplus European Community wine, rather than of local sugarcane, was an abuse of the CBERA program. Three producers were "grandfathered," under the 1986 Tax Reform Act, so that investments undertaken under the prior rules could be recouped. However, after 1989, the 75 percent minimum mandated by the 1986 Act will have again been in effect.

At present, provisions of HR 1233 establish several criteria for duty-free entry of ethanol into the United States. For ethanol that is only dehydrated within a CBERA beneficiary or a U.S. insular possession, duty-free treatment will apply only if certain specified levels of local feedstock are met.[91] However, ethyl alcohol produced by a process of full fermentation would continue to be eligible for duty-free treatment without domestic feedstock requirements and in unlimited quantities.

## *Promotion of tourism and duty-free allowances*

A provision newly added to CBI II in the 1989 legislation calls for increased promotion of tourism in the Caribbean Basin. The provision directs U.S. Government agencies such as AID and the U.S. Travel and Tourism Administration (USTTA) to place a high priority on projects that promote the tourism industry. In addition, it directs the Commerce Department to conduct a study on tourism development strategies, focusing in particular on linkages between the tourism industry and local industries (such as agribusiness).[92]

[91] No feedstock requirement would be imposed on imports up to a level of 60 million gallons or 7 percent of the domestic ethanol market, whichever is greater. A local feedstock requirement of 30 percent by volume would apply to the next 35 million gallons of imports above the aforementioned level. A requirement of 50 percent local feedstock, by volume, would apply to any further import levels.

[92] The Commission noted in its fourth CBERA report that beneficiary countries urged change in a U.S. law that bars the Department of Commerce from providing assistance to the Caribbean tourism industry.

The 1989 bill also retains a 1987 provision that raises the duty-free allowance for U.S. citizens returning from a beneficiary country. The allowance would be increased from $400 to $600.[93] This increase is intended to provide added incentive for tourists to make purchases in the region.[94]

## *Reporting requirement*

Under the CBI bill of 1987, CBERA was amended to require each beneficiary country to submit a report to the U.S. President every 3 years describing how it has promoted and used CBERA benefits, and any changes made in its policies for encouraging investment and promoting exports.[95] The 1989 bill dropped this provision in view of concern voiced not only by beneficiary countries but also by the Reagan administration. HR 1233 does, however, request the President to submit a report to Congress on the operation of CBERA beginning in 1992 and every three years thereafter.

[93] For persons returning from U.S. insular possessions the allowance would be increased from $800 to $1,200 in order to preserve the traditional 2:1 ratio in their favor. In the 1987 bill this allowance had been increased only to $1,000.

[94] *Report together with Additional Views* submitted by the Committee on Ways and Means to the House of Representatives regarding the Caribbean Basin Economic Recovery Expansion Act of 1989, Report 101-136, July 12, 1989, p. 27.

[95] It was also proposed that failure to comply with this reporting requirement could result in the suspension of duty-free treatment for a country's exports.

# APPENDIX A
# FEDERAL REGISTER NOTICE
# AND
# LIST OF SUBMISSIONS

subject to standard lease terms and conditions.

2. Determining which areas will be open for leasing and development subject to minor constraints such as seasonal restrictions, (wildlife, recreation, ect. * * *).

3. Determining which areas will be open for leasing and development subject to major constraints such as no-surface occupancy (NSO) stipulations on areas larger than 40 acres in size or more than ¼ mile in width.

4. Determining which areas will be closed to leasing. The development of the coal resource may be one of the issues addressed in the RMP. The BLM hopes to acquire sufficient information from this call, as well as from its own data sources, to identify, and categorize areas of coal development potential within the planning area. Industry and other interested parties are asked to provide any information that will be useful in meeting the requirements of the Federal Coal Management Program defined in 43 CFR 3420, including application of the coal planning screens and future activity planning such as tract delineation, ranking and selection.

Information resulting from this call may be utilized in the application of the unsuitability criteria as well as formulation of other resource use screens.

The type of information needed includes, but is not limited to the following:

1. Location:

a. Tracts desired by mining companies should include a narrative description with areas delineated on a map with a scale of not less than ½ inch to the mile.

b. Descriptions of both public and private industry coal users in the general region.

2. Quantity needs (tonnage, dates) for both public and private industry coal users and coal developers.

3. Quality needs (by type and grade) for end users of the coal.

4. Coal reserve drilling data which may pertain to the planning area.

5. Information relating to surface and mineral ownership:

a. Surface owner consents previously granted, whether consent is transferrable, surface owner leases with coal companies.

b. Non-Federal, or fee coal ownership adjacent to Federal tracts currently leased or mined.

6. Other resource values occurring within the planning area which may conflict with coal development:

a. Identify the resource value, location by narrative description and map (½ inch to the mile) delineation.

b. State the reasons the particular resource would conflict with coal development.

Any individual, business entity, or public body may participate in this process by providing coal or other resource information under this call.

The proposed planning criteria include:

1. All proposed actions must comply with laws, executive orders, and regulations.

2. For each proposed action, the resource outputs must be reasonable and achievable with available technology.

3. All proposed actions must recommend resource allocations which are in accordance with the principles of multiple-use and sustained yield.

4. All proposed actions must evaluate and consider long term benefits to the public in relation to short term benefits.

5. All proposed actions must provide for the orderly development of leasable minerals while containing environmental impacts to a minimum.

These planning issues and criteria are presented for public comment and are subject to change based upon such public comment. Comments should be received by July 26, 1989. The planning team will seek public involvement throughout the planning process. Public scoping meetings to gather comments on the preliminary issues and criteria are scheduled for:

July 18, 1989, 3–5 p.m., Diplomat Room, Embassy Suites Hotel, 10601 Metcalf Road, Overland Park, Kansas

July 19, 1989, 3–5 p.m., Ramada Inn, 1949 North 9th Street, Salina, Kansas

July 20, 1989, 3–5 p.m., Seville Inn, 1400 West U.S. Highway 54, Pratt, Kansas

Complete records of all phases of the planning process will be available for public review at the Oklahoma Resource Area Office, 200 NW 5th Street, Room 548, Oklahoma City, Oklahoma 73102. Draft and final RMP/EIS documents will be available upon request.

Dated: June 8, 1989.

**Larry L. Woodard,**

*State Director.*

[FR Doc. 89-14078 Filed 6-13-89; 8:45 am]

**BILLING CODE 4310-FB-M**

## INTERNATIONAL TRADE COMMISSION

**[Investigation No. 332-227]**

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

**AGENCY:** United States International Trade Commission.

**ACTION:** Notice of deadline to submit comments in connection with 1988 annual report.

**DATE:** Comments by June 30, 1989.

**FOR FURTHER INFORMATION CONTACT:** Lee Tuthill (202-252-1268), 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 of 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 1995. 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 fourth report, covering calendar year 1988, is to be submitted by September 29, 1989.

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 fourth 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 Practice 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 statements relating to the Commission's report should be submitted at the earliest practical date and should be received no later than June 30, 1989. All submissions should be addressed to the Secretary of the Commission at the Commission's office in Washington, DC.

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

By order of the Commission.

Issued: June 9, 1989.

Kenneth R. Mason,

*Secretary.*

[FR Doc. 89-14146 Filed 6-13-89; 8:45 am]

BILLING CODE 7020-02-M

[Inv. No. 337-TA-289]

## Certain Concealed Cabinet Hinges and Mounting Plates; Commission Decision Not To Review an Initial Determination Finding Seven Respondents in Default

**AGENCY:** U.S. International Trade Commission.

**ACTION:** Notice.

**SUMMARY:** Notice is hereby given that the U.S. International Trade Commission has determined not to review an initial determination (ID) (Order No. 32) issued by the presiding administrative law judge (ALJ) finding seven respondents in default in the above-captioned investigation.

**ADDRESSES:** Copies of the ID and all other nonconfidential documents filed in connection with this investigation are available for public 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.

**FOR FURTHER INFORMATION CONTACT:** Calvin Cobb, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E Street, SW., Washington, DC 20436, telephone 202-252-1103.

Hearing impaired individuals are advised that information about this matter can be obtained by contacting the Commission's TDD terminal, 202-252-1810.

**SUPPLEMENTARY INFORMATION:** On April 4, 1989, pursuant to a motion by complainant Julius Blum Inc., the presiding administrative law judge (ALJ) issued an order (Order No. 22) directing seven respondents—Euro-Tech of New Jersey, A&M Supply Inc. of Florida, L&L Saw & Supply Co. of North Carolina, Trend Distributors of Florida, Metropolitan Millwork Supply Co. of Michigan, Woojin Industrial Co. of Korea, and Sunkyung Ltd. of Korea—to show cause by April 18, 1989, why they should not be found in default. The order to show cause was based on failure by each respondent to respond to the complaint and the notice of investigation, failure by Euro-Tech and Trend to file responses to complainant's discovery requests, and failure by A&M, L&L, Metropolitan, Woojin, and Sunkyung to file notices of appearance. None of the seven respondents attempted to show cause why it should not be held in default. Accordingly, on April 28, 1989, the ALJ issued an ID (Order No. 32) finding each of the seven respondents in default for failure to respond to Order No. 22, and ordering that each has waived its right (i) to appear in the investigation, (ii) to contest the allegations at issue in the investigation, and (iii) to be served with documents by the parties.

This section is taken under the authority of section 337 of the Tariff Act of 1930 (19 U.S.C. 1337), and § 210.53 of the Commission's Interim Rules of Practice and Procedure (53 FR 33070, Aug. 29, 1988).

By order of the Commission.

Issued: June 5, 1989.

Kenneth R. Mason,

*Secretary.*

[FR Doc. 89-14147 Filed 6-13-89; 8:45 am]

BILLING CODE 7020-02-M

## Certain Cryogenic Ultramicrotome Apparatus and Components Thereof; Determination Not To Review Initial Determination Terminating Investigation

**AGENCY:** U.S. International Trade Commission.

**ACTION:** Nonreview of initial determination terminating the above-captioned investigation.

**SUMMARY:** Notice is hereby given that the U.S. International Trade Commission has determined not to review an initial determination (ID) terminating the investigation.

**FOR FURTHER INFORMATION CONTACT:** Paul R. Bardos, Esq., Office of the General Counsel, U.S. International Trade Commission, 500 E. St., SW., Washington, DC 20436, Room 707M, telephone 202-252-1102. Hearing-impaired individuals are advised that information about this matter can be obtained by contacting the Commission's TDD terminal at 202-252-1810.

**SUPPLEMENTARY INFORMATION:** The authority for the Commission's disposition of this matter is contained in section 337 of the Tariff Act of 1930 (19 U.S.C. 1337) and in Part 210 of the Commission's Rules of Practice and Procedure (19 CFR Part 210 (interim)).

On May 12, 1989, the presiding administrative law judge issued an initial determination (ID) (Order No. 16) granting complainant's motion to terminate the investigation under Commission rule 210.51 (19 CFR 210.51 (interim)). No petitions for review or Government agency comments have been received.

Notice of this investigation was published in the Federal Register on September 17, 1986 (51 FR 32972, September 17, 1986).

Copies of all non-confidential 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.

By Order of the Commission.

Issued: June 8, 1989.

Kenneth R. Mason,

*Secretary.*

[FR Doc. 89-14148 Filed 6-13-89; 8:45 am]

BILLING CODE 7020-02-M

[Investigation No. 22-50]

## Ice Cream; Notice of Investigation

**AGENCY:** United States International Trade Commission.

**ACTION:** Institution of an investigation under section 22(d) of the Agricultural Adjustment Act (7 U.S.C. 624(d)) and scheduling of a hearing to be held in connection with the investigation.

**SUMMARY:** On May 18, 1989, the Commission received a letter from the President stating that the President had been advised by the Secretary of Agriculture, and that he agreed with the Secretary, "that there is reason to believe that the country allocations of the quota on ice cream and mixtures classifiable as ice cream, wherever classified in the Harmonized Tariff Schedule of the United States, which were established under section 22 by Presidential Proclamation No. 4026, may need to be modified due to changes in the circumstances on which the country allocations were based."

As directed by the President, the Commission has instituted an investigation under section 22(d) of the Agricultural Adjustment Act (7 U.S.C. 624(d)) to determine whether the present country allocations of the quota on ice cream, provided for in subheading 2105.00.00 of the Harmonized Tariff

## SUBMISSIONS FOR THE RECORD
### Investigation No. 332-227

Robert G. Kalik
*McDermott, Will & Emery on behalf of Virgin Islands Rum Industries, Ltd.*

David F. Machtel, Jr.
*Executive Director, Floral Trade Council*

Robert E. Plett
*Manager, CENEX*

Ann Ottoson King
*Leighton and Regnery on behalf of the American Cordage and Netting Manufacturers*

# APPENDIX B
# LEADING U.S. IMPORTS FOR CONSUMPTION ENTERING DUTY FREE UNDER CBERA, IN 1988, WITH CORRESPONDING COMMODITY SHARES AND 1987 CBERA IMPORT VALUES, BY SOURCE

**Table B-1**

**Leading U.S. imports for consumption entering duty free under CBERA, in 1988, with corresponding commodity shares and 1987 CBERA import values, by source**

*(In thousands of dollars)*

| *Country* | *TSUSA* | *Description* | *1987 Duty-Free CBERA Imports* | *1988 Duty-Free CBERA Imports* | *Share of 1988 CBERA Imports* |
|---|---|---|---|---|---|
| Dominican Republic | 155.2045 | Cane, beet sugar etc., n.s.p.f | 46,051 | 65,777 | 27.1 |
| | 106.1060 | Beef without bone fresh chilled or frozen | 23,158 | 35,388 | 14.6 |
| | 740.1500 | Jewelry etc. precious stones | 21,646 | 23,866 | 9.8 |
| | | Subtotal | 90,855 | 125,031 | 51.5 |
| Costa Rica | 106.1060 | Beef without bone fresh chilled or frozen | 61,316 | 54,219 | 38.4 |
| | 148.9600 | Pineapples excluding crated or bulk | 10,090 | 21,019 | 14.9 |
| | 686.1035 | Variable resistors, excluding wirewound | 5,616 | 8,834 | 6.3 |
| | | Subtotal | 77,022 | 84,072 | 59.6 |
| Haiti | 685.9080 | Electric apparatus and parts for making and breaking circuits | 15,507 | 19,968 | 23.9 |
| | 734.5610 | Baseballs | 14,795 | 15,132 | 18.2 |
| | 734.5615 | Softballs | 5,333 | 6,427 | 7.7 |
| | | Subtotal | 35,635 | 41,527 | 49.8 |
| Guatemala | 155.2045 | Cane, beet sugar, etc., n.s.p.f | 8,098 | 16,218 | 21.0 |
| | 106.1060 | Beef without bone fresh chilled or frozen | 12,569 | 13,259 | 17.2 |
| | 155.4000 | Molasses inedible and sugar | 2,573 | 5,043 | 6.5 |
| | | Subtotal | 23,240 | 34,520 | 44.7 |
| Honduras | 106.1060 | Beef without bone fresh chilled or frozen | 15,172 | 16,955 | 30.2 |
| | 148.9600 | Pineapples excluding crated or bulk | 3,683 | 6,537 | 11.6 |
| | 170.7000 | Cigars valued 23 cents or over | 5,212 | 5,453 | 9.7 |
| | | Subtotal | 24,067 | 28,945 | 51.5 |
| Trinidad and Tobago | 427.9700 | Methyl alcohol | 6,983 | 23,492 | 56.0 |
| | 606.7900 | Deformed concrete reinforcing bars non alloy | 2,996 | 2,246 | 5.4 |
| | 709.5400 | Plastic teeth and dentures | 591 | 1,859 | 4.4 |
| | | Subtotal | 10,570 | 27,597 | 65.8 |
| Jamaica | 427.8800 | Ethyl alcohol | 21,421 | 10,001 | 23.8 |
| | 155.2045 | Cane, beet, sugar, etc., n.s.p.f | 4,020 | 4,707 | 11.2 |
| | 170.7000 | Cigars valued 23 cents or over | 7,483 | 4,561 | 10.9 |
| | | Subtotal | 2,924 | 19,269 | 45.8 |
| El Salvador | 685.8016 | Fixed capacitors ceramic multilayer radial | 12,792 | 12,255 | 55.3 |
| | 106.1060 | Beef without bone fresh chilled or frozen | 2,043 | 2,336 | 10.5 |
| | 148.3000 | Melons entered during the period from Dec 1 to May 31 | 2,217 | 991 | 4.5 |
| | | Subtotal | 17,052 | 15,582 | 70.3 |
| Belize | 165.2900 | Orange juice concentrated | 7,981 | 8,269 | 43.9 |
| | 155.2045 | Cane, beet sugar, etc., n.s.p.f | 0 | 6,344 | 33.6 |
| | 165.3680 | Citrus fruit juice n.s.p.f., concentrated | 2,365 | 2,411 | 12.8 |
| | | Subtotal | 10,346 | 17,024 | 90.3 |
| Barbados | 685.9058 | Printed circuit boards plastic impregnated glass, n.s.p.f | 27 | 4,923 | 25.7 |
| | 686.1070 | Fixed resistors, n.s.p.f., surface mounting, cylindrical, other | 685 | 3,947 | 20.6 |
| | 155.2045 | Cane, beet sugar, etc., n.s.p.f | 1,451 | 2,294 | 12.0 |
| | | Subtotal | 2,163 | 11,164 | 58.4 |

See notes at end of table.

**Table B-1**—*Continued*

**Leading U.S. imports for consumption entering duty free under CBERA, in 1988, with corresponding commodity shares and 1987 CBERA import values, by source**

*(In thousands of dollars)*

| Country | TSUSA | Description | 1987 Duty-Free CBERA Imports | 1988 Duty-Free CBERA Imports | Share of 1988 CBERA Imports |
|---|---|---|---|---|---|
| Panama | 148.3000 | Melons entered during the period from Dec 1 to May 31 | 4,904 | 3,394 | 34.9 |
| | 152.7200 | Banana, plantain paste, pulp | 2,818 | 2,290 | 23.6 |
| | 110.3570 | Fish n.s.p.f., fresh or chilled | 1,761 | 1,005 | 10.3 |
| | | Subtotal | 9,483 | 6,689 | 68.8 |
| Bahamas | 412.2250 | Analgesics etc., n.s.p.f | 90,641 | 3,473 | 32.5 |
| | 437.5680 | Synthetic adrenocortical hormones n.s.p.f | 2,195 | 3,055 | 28.6 |
| | 437.5720 | Anabolic agents and androgens | 370 | 794 | 7.4 |
| | | Subtotal | 93,206 | 7,322 | 68.5 |
| St. Vincent and Grenadines | 734.8600 | Lawn-tennis rackets unstrung | 4,562 | 9,901 | 99.1 |
| | 125.3470 | Bulbs, roots, etc., n.s.p.f | 0 | 39 | .4 |
| | 184.8500 | Animal feeds n.s.p.f | 0 | 27 | .3 |
| | | Subtotal | 4,562 | 9,967 | 99.8 |
| St. Kitts and Nevis | 682.5500 | Parts of electric motors under 1/40 hp | 1,779 | 2,315 | 24.6 |
| | 682.0710 | Unrated transformers | 1,230 | 1,959 | 20.8 |
| | 685.0860 | TV apparatus n.s.p.f., and parts n.s.p.f. | 1,072 | 1,563 | 16.6 |
| | | Subtotal | 4,081 | 5,837 | 62.0 |
| St. Lucia | 686.1070 | Fixed resistors, n.s.p.f., surface mounting, cylindrical, other | 707 | 1,162 | 38.6 |
| | 685.8035 | Fixed capacitors, n.s.p.f | 640 | 1,134 | 37.7 |
| | 686.1035 | Variable resistors, excluding wirewound | 480 | 1,402 | 13.4 |
| | | Subtotal | 1,827 | 2,698 | 89.7 |
| Netherlands, Antilles | 437.4950 | Enzymes | 768 | 745 | 28.6 |
| | 688.0465 | Insulated conductor, power cable less than 601v | 47 | 537 | 20.6 |
| | 657.2525 | Iron or steel articles chief weight of wire | 176 | 526 | 20.2 |
| | | Subtotal | 991 | 1,808 | 69.4 |
| Dominica | 466.1500 | Toilet soap over 20 cents per pound | 331 | 276 | 77.2 |
| | 461.4005 | Bath preparations excluding salts no alcohol | 73 | 25 | 6.9 |
| | 148.3000 | Melons entered during the period from Dec 1 to May 31 | 0 | 12 | 3.3 |
| | | Subtotal | 404 | 313 | 87.4 |
| Antigua | 110.3570 | Fish n.s.p.f., fresh or chilled | 39 | 110 | 43.1 |
| | 682.6057 | Coils and inductors | 99 | 64 | 24.9 |
| | 148.1900 | Ogen and galia melons if entered from Dec 1 to May 31 | 54 | 55 | 21.4 |
| | | Subtotal | 192 | 229 | 89.4 |
| Grenada | 709.2700 | Medical etc. instruments and parts n.s.p.f | 0 | 92 | 77.5 |
| | 110.3570 | Fish n.s.p.f, fresh or chilled | 27 | 24 | 20.4 |
| | 207.0965 | Prefabricated buildings and assemblies | 0 | 3 | 2.1 |
| | | Subtotal | 27 | 118 | 100.0 |
| Montserrat | 685.9080 | Electric apparatus and parts for making and breaking circuits | 0 | 101 | 85.0 |
| | 682.0540 | Transformers, rated at 40 VA or more | 0 | 18 | 15.0 |
| | | Subtotal | 0 | 118 | 100.0 |

See notes at end of table.

**Table B-1**—*Continued*

**Leading U.S. imports for consumption entering duty free under CBERA, in 1988, with corresponding commodity shares and 1987 CBERA import values, by source**

*(In thousands of dollars)*

| Country | TSUSA | Description | 1987 Duty-Free CBERA Imports | 1988 Duty-Free CBERA Imports | Share of 1988 CBERA Imports |
|---|---|---|---|---|---|
| British Virgin Islands ... | 169.1300 | Rum in 1 gal containers ................ | 28 | 54 | 97.4 |
| | 685.0479 | Other parts and subassemblies of television receivers ................ | 0 | 1 | 2.6 |
| | | Subtotal ........................... | 28 | 56 | 100.0 |
| Guyana .............. | 408.1900 | Herbicides, other ..................... | ([1]) | 131 | 100.0 |
| | | Subtotal ........................... | | 131 | 100.0 |

[1] Not applicable. Guyana was not designated as a CBERA beneficiary until Nov. 24, 1988.

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

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

# APPENDIX C
# TECHNICAL NOTES TO CHAPTER 2

# 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 1988 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 used 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), it is customary to assume that import supply curves are perfectly elastic, or horizontal.[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. This assumption has been made so as to estimate the maximum possible effect of the CBERA on domestic production.[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 elastic than the import supply curve for CBERA countries.

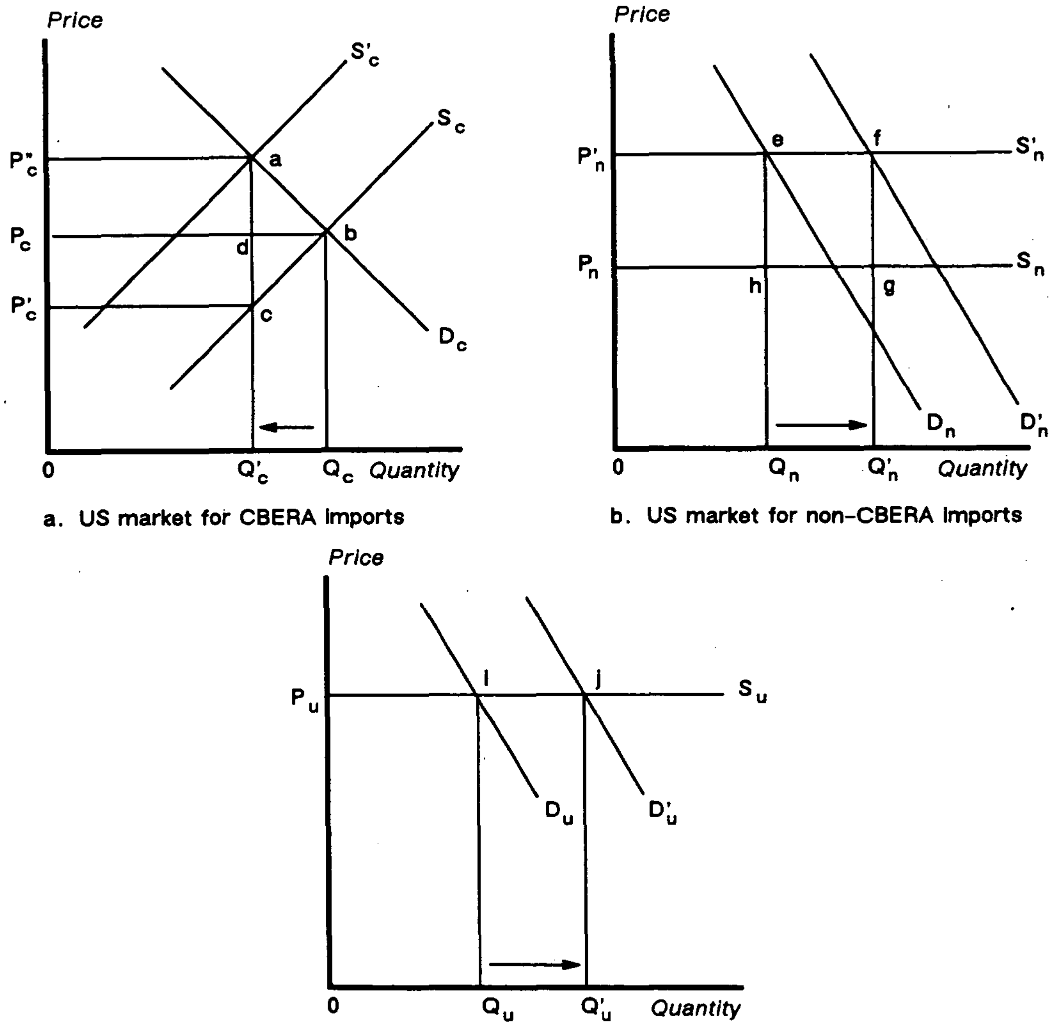
It is assumed that the CBERA and non-CBERA import demand curves, $D_c$ and $D_n$, and the demand curve for the domestic competing output, $D_u$, are all downward sloping.

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 $P'_n = P_n(1 + t)$.

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 $P''_c = P'_c(1 + t)$.

[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, 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 effects 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. US market for CBERA imports

b. US market for non-CBERA imports

c. US market for the competing domestic industry

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.

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 $P''_c abP_c$.

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 or consumer 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 treatment 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 $P_c dcP'_c$ and efgh in figures C–1a and C–1b, respectively, minus the triangle abd 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 2 and the average ad valorem tariff rates discussed above were calculated from 1988 U.S. import data for CBERA and non-CBERA imports aggregated at the five-digit TSUSA (Tariff Schedules of the United States Annotated) 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.

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