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MEAN FOR CARIBBEAN BASIN COUNTRIES?**

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What does the Expansion of USA Trade Benefits Mean for Caribbean Basin Countries?

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Introduction

The issue of “parity” with the tariff benefits enjoyed by Mexico within the North American Free Trade Agreement (NAFTA) has concerned countries of the Caribbean Basin during the last six years. It acquired particular relevance at the end of 1998 due to the adverse effects on Central American economies caused by Hurricane Mitch. Following his visit to the region in 1999, President Clinton repeatedly affirmed his administration’s commitment to expand the trade benefits enjoyed by the region within the Caribbean Basin Initiative (CBI).

Ever since 1994 the countries of the region have been affected by Mexico’s increased competitiveness in the US market, resulting not only from the tariff reductions that country enjoys under the NAFTA but also from the devaluation of the peso during that same year.¹

The garment industry, whose exports to the USA represent approximately 50% of the region’s total exports to that country, has been the most affected.² Garments from the region are subject to an average 18% tariff, while Mexican products enter the US market free of tariffs.

This situation has not affected all Caribbean Basin countries equally. Those countries with higher wage costs, such as Costa Rica and the Dominican Republic have suffered the most. However, it is also a fact that in general garment exports’ rate of growth has been decreasing and this is a particularly

¹ See Gitli, E. And Arce, R. (2000), “Los desbalances de los países de la Cuenca del Caribe frente al TLCAN: La industria de la confección”, *Integración y Comercio*, No.10.

² Table 1^a illustrates the importance of garment products’ imports within total US imports from the main Caribbean Basin countries.

worrisome situation considering that this sector generates around 500,000 jobs in the region.³

Table 1
Selected Countries: Market Share of US Garment Imports

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Costa Rica	1.6	1.8	2.1	2.1	2.0	2.0	1.8	1.9	1.6	1.5
El Salvador	0.2	0.4	0.6	0.8	1.2	1.6	1.9	2.3	2.3	2.5
Honduras	0.5	0.8	1.3	1.7	1.9	2.5	3.2	3.7	3.8	4.1
Guatemala	0.8	1.4	1.6	1.8	1.8	1.9	2.1	2.1	2.3	2.3
Nicaragua	0.0	0.0	0.0	0.0	0.1	0.2	0.4	0.4	0.5	0.5
Dominican Republic	3.0	3.8	4.1	4.5	4.5	4.6	4.4	4.8	4.6	4.3
CVI	8.4	10.4	11.3	12.9	13.1	14.7	15.5	16.8	16.4	16.5
Mexico	2.8	3.5	3.9	4.3	5.2	7.4	9.6	11.4	13.1	14.3
Asia	50.3	49.4	45.7	43.5	40.1	34.8	32.4	30.3	28.3	27.0

Note: Asia includes China, Hong Kong, Taiwan and Korea.
Garment products are under Chapters 61 and 62 of the Harmonized System.

Source: US Department of Trade.

What Do Market Share and Contribution Mean?

In international trade and within this article's context, market share is defined as the percentage of US imports of a particular product from a specific country, compared to total US imports of such product. For example, in 1999 US garment imports from Costa Rica represented 1.5% of total US garment imports. Often, this indicator is more useful than the gross value of exports because it takes into account not only Costa Rica's exports' growth, but also compares it automatically with the growth in US imports.

In this article contribution measures the importance of a garment product's exports in relation to that country's total garment exports to the United States. For example, in 1998 Honduras' cotton shirts' exports to the US represented 21.4% of its total garment exports to the US, in other words, that product's contribution was 21.4%.

As Table 1 indicates, Costa Rica has been systematically losing market share since 1994, while the rest of the Central American countries have registered an increase. The market share of the Dominican Republic's exports also has tended to decrease. As a whole, the rate of growth of Caribbean Basin countries has slowed down since 1994 and by 1998 their market share decreased, retaining the same level during 1999. Moreover, US garment

³ See Gitli, E. (1997), *La industria de la maquila en Centroamérica*, ILO, San José. The estimated 500,000 new jobs apply to Central America and the Dominican Republic for all maquila activities.

imports have increased at a faster rate than total imports. The authors estimate that the US market for garment imports will grow by approximately 9% per year.

Regarding the “parity” projects, twelve initiatives have been presented since 1994, of which congressmen introduced eight and the administration the rest. Nevertheless, until 1998 not one proposal had been accepted, due to strong opposition by some US business and political sectors. In 1999 a “parity” bill was finally approved thanks to heavy lobbying by the Clinton Administration and some congressmen. It was included in the Senate version of the Trade and Development Act aimed at African countries. A few months before that, the House had approved a version of the Act that included trade preferences only for African countries. After intensive efforts to reconcile the two radically different versions of the bill, a consolidated project was approved during the second week of May 2000.

I. The Trade and Development Act

The central issue in the discussions regarding this bill was whether to allow the use of national raw materials (cloth, thread, etc.) by producers from the region and whether such components should be exempt from tariffs upon entering the US. Some congressmen were willing to accept this, whereas the Clinton Administration hesitated. Added to this was intensive pressure from US garment producers who felt that this type of bill would seriously affect internal US production and employment.

Thus, the question was whether to allow free of tariffs only those products that classified as maquila and entered the US market as shared production goods or whether to include also those produced with regional inputs. A decision to allow only US inputs to enter duty free would condemn the region to continue to be for ever the United States’ tailor.

In order to explain the contents of the final bill approved by the US Congress, we shall differentiate between two groups of products, which were subject to restrictions following the second CBI revision in 1990.

The first group of products encompasses particularly sensitive agricultural goods such as sugar⁴, which were subject to quotas and later to tariffs. The new bill does not change their status, thus in this case there is no parity with the NAFTA. Other products such as beef, frozen fruit juices, tobacco and jewelry cases also do not receive parity with the NAFTA.

The second group of products excluded from the CBI included textiles, all types of clothing, footwear (in the case of maquilas they were exempt from tariffs until 1990), tuna, petroleum and petroleum products, watches. It also included

⁴ Access to the sugar market for CBI countries is subject to quotas, but free of tariffs.

leather goods ("flat" leather goods such as wallets), which were subject to reduced tariffs beginning in 1990.

With the approval of the May 2000 bill, the above products, with the exception of textiles and clothing, will be subject to the same tariffs as Mexico, as long as they meet NAFTA rules of origin requirements.

Textile products and clothing are not subject to parity but rather to a special regime in which the following products will enter the US market free of quotas and tariffs⁵:

a) Garment products made from US threads and textiles, cut in the US (shared or maquila production). These same products that have undergone a number of additional processing and washing operations will also be exempt from tariffs and quotas.

b) Garments cut and assembled in a Caribbean Basin country from US produced textiles and threads, if assembled with US sewing thread. In this case no reference is made to whether products subject to further processing than assembly will be allowed. It would appear that they are not.

c) Some products knitted in a beneficiary country with thread made in the USA (with the exception of socks⁶ included in the 6115 tariff item classification of the Harmonized System), and garment products knitted, cut and completely assembled in one or more beneficiary countries, made from textiles produced in the region using US threads. These products remain subject to the initial annual quota of 250 million square meters of textiles, which will increase by 16% per year until the year 2004. At that time the quota's rate of growth will be established by law. No further processing is allowed, as this option is not clearly defined in the bill. Moreover, the bill does not specify how this quota will be distributed, leaving open two possible alternatives: a) to distribute it according to products' order of arrival, that is, the quota will close when the 250 million have been completed, regardless of the country of origin. B) To assign quotas by countries, depending on the volumes traditionally supplied by each country. Should they opt for adopting option (b), the Caribbean Basin countries will have to reach an agreement on the criteria and the distribution of the quotas.

d) T-shirts, other than undershirts, classified as cotton shirts (61091000 of the H.S.) and shirts made from other textile fibers (61099010) made in one or more beneficiary country from cloth made in one or more country of the region, using thread made in the USA. These products are subject to a ceiling of 4.2 million

⁵ In fact, in some cases, as those mentioned in sections c) and d), products are subject to quotas.

⁶ In this case the country most affected by restrictions on socks' imports would be Jamaica, whose market share has decreased from 36,6% in 1993 to 12,6% in 1998. Nevertheless, in 1990, exports of this product represented 20,5% of Jamaica's total garment exports, which indicates the importance of this product for that country's maquila industry. El Salvador, the Dominican Republic, Honduras and Costa Rica could also be affected by this restriction (see Table 2^a).

T-shirts made with original cloth, with a 16% annual increase rate up to the year 2004. At that time the growth rate will be established by law.

e) Any garment product classified under sub-title 621210 (brassieres), if it is cut and sewn, or assembled in the USA or one of the beneficiary countries. In this case, such products will receive preferential treatment only if the previous year the aggregate cost of the material produced in the USA represented at least 75% of the total cost of the material used for such article of clothing, for each entity or producer. That is, producers must at all times include into their garment articles a minimum of 75% of US textiles. If the US Customs Office determines that a producers does not meet this condition during one year, such producer will not enjoy the benefits established by the bill until the products exported to the US during one whole year do not include at least 85% of US textiles.

f) Those products assembled from fibers, threads or textiles not available in sufficient quantities in the region (NAFTA countries). In such case, any beneficiary country that wishes to use this option may request it formally and the US President may grant the products made from those textiles or threads duty and quota free access.

g) Products made by hand or folklore goods that have been classified as such by the USA and each beneficiary country.

h) Cloth luggage that has been assembled in a beneficiary country from textiles produced or cut in the USA, with US thread, or assembled in a beneficiary country from US textiles cut in a country of the region, when such textiles have been produced with US thread.

The legislation establishes a number of special rules. These are: An article that would be otherwise eligible for preferential treatment will not enjoy this status if it contains foreign embellishments, if these represent more than 25% of the cost of the assembled product. Buttons, zippers, elastic bands (only if less than one inch thick and used in the production of brassieres), are examples of embellishments.

In the case of the above products, the sewing thread will not be considered as an "embellishments".

Products may also contain interlinings of foreign origin, if they do not exceed 25% of the total value of components.

An article that under any other case would not be eligible for the preferential treatment because it contains fibers or threads not made in the USA or some other country of the region, will be eligible for such treatment if the total weight of those fibers and threads is less than 7% of the product's total weight. In spite

of this, a garment product containing elastomeric thread will enjoy the preferential treatment only if such thread is made in the USA.

Special rules of origin: Under the above mentioned sections a) and b), an article will not cease to be eligible for the preferential treatment if it contains nylon fibers⁷ (other than elastomeric thread) made in any country member of the NAFTA.

The legislation also includes a number of sanctions for illegal transshipment.⁸ When an exporter illegally transships textile or garment products the President will deny such exporter or his successors the tariff benefits envisioned in this law for a period of two years. The US President will request the government or governments through which territory such transshipment is taking place to move to prevent it. If the President determines that such country or countries are not taking preventive action, he will move to decrease the volume of textile and garment articles the US imports from such country or countries by an amount equivalent to the volume of smuggled goods times 3, according to US obligations under WTO rules.

These tariff preferences will enter into effect on October 1 of the current year and will be effective until September 30 of the year 2008 or the date the FTAA or any other trade agreement between these countries enters into effect. Moreover, the pre-requisites for designation as beneficiary include: the implementation of customs procedures and requirements similar to those established in Chapter 5 of the NAFTA. The initiative includes the issues of intellectual property, investment and labor. It specifies that when considering designation, the US President will take into account a country's progress in these areas. This means that such issues are not granted greater importance than usual. For example, meeting minimum labor standards is a requirement for the Generalized System of Preferences (GSP), while in the CBI the President will take into account "the degree" to which such labor norms are met.

II. Possible Effects of the Expansion of Tariff Preferences

In order to estimate the significance of the preference regarding the 259 million square meters of garment goods, within the total volume of such goods made with non US textiles exported by Caribbean Basin countries, we should point out that in 1999 the region exported to the USA a total of 3,571 million square meters of equivalent textiles, of which 80% entered the US market as shared production goods. Once we exclude this component we have that approximately 700 to 750 million square meters are produced with non-US fabric, be it regional or of Asian origin. The authors estimate that up to 150

⁷ Under the Harmonized System these products are classified as 5402.10.30, 5402.10.60, 5402.31.30, 5402.31.60, 5402.32.30, 5402.32.60, 5402.41.10, 5402.41.90, 5402.51.00 or 5402.61.00.

⁸ By illegal transshipment we mean those situations in which preferential treatment has been requested on the basis of false information regarding country of origin, manufacturing, processing or assembly of the product or some of its components.

million square meters of garment products were made in the region from regional fabric, therefore it is their estimate that thanks to the 250 million quota established by the above mentioned legislation the countries of the Caribbean Basin will be able to increase their production of garment products using regional fabrics. This will result in a greater vertical integration of the industry and a larger aggregate value. Moreover, the 16% annual increase in the quota guarantees an important dynamism for the countries of the region in these regional products. The government of El Salvador expects to cover close to 30% of that quota, that is, between 65 to 70 million square meters of fabric.

As for cotton t-shirts, whose quota has been set at 4,2 millions dozens during the first year, it should be pointed out that an important number of countries of the region are already supplying the US market. In the case of Jamaica, the percentage of these product's exports within total garment exports increased (from 24,7% to 42,2%), but lost market share in the period 1993-1998 (from 14.5% to 7.7%) (See Table 2).

Table 2
Cotton T-shirts' Market Share and Contribution (510910)
1993-1998

País	1993		1998	
	Participación	Contribución	Participación	Contribución
Jamaica	14.5	24.7	7.7	43.2
Honduras	5.4	7.0	17.2	21.4
El Salvador	4.0	10.6	8.9	17.9
Dominican Republic	8.2	4.0	6.6	6.8
Nicaragua	0.0	0.0	0.4	4.0
Guatemala	1.9	2.2	1.8	3.7
Costa Rica	1.2	1.2	0.3	0.9

Source: US Department of Commerce (DAGIC). Participation is the ratio between t-shirts imports from a specific country and total imports of that product by the USA. Contribution is the ratio between t-shirts imports from a specific country compared with total US imports from such country.

Honduras and El Salvador have increased their market share, therefore it is estimated that the quota will further stimulate both countries' exports of this product. Nicaragua could be in a similar situation. Between 1993 and 1998 its t-shirts exports to the USA increased steadily, representing, in 1998, 4% of total garment exports to that market. On the other hand, Costa Rica's market share for this product has been decreasing, as has its importance within total garment exports.

Table 3 illustrates the evolution of US imports of t-shirts made from other textile fabrics, from the main exporting countries of the Caribbean Basin. As the table indicates, in the period 1993-1998⁹, the market share of Honduras, El Salvador, the Dominican Republic, Guatemala and Costa Rica increased. At the same time, these exports' share in total garment exports from those countries increased as well, indicating that this is a product with good possibilities of growth and that the above countries will struggle to take advantage of the US quota. Nevertheless, Honduras, El Salvador and the Dominican Republic are the countries that registered a greater economic dynamism, and thus they could be the ones to benefit the most from the quota.

Table 3
Market Share and Contribution of T-shirts Made from Other
Textile Fabrics (61099010)
1993-1998

Country	1993		1998	
	Market/Share	Contribution	Market/Share	Contribution
Honduras	3.0	0.4	24.2	4.7
El Salvador	3.1	0.9	9.7	3.1
Dominican Republic	3.2	0.2	9.8	1.6
Costa Rica	0.7	0.1	0.7	0.3
Guatemala	0.3	0.0	0.5	0.1
Jamaica	0.2	0.0	0.1	0.1

Source: US Department of Commerce (ADAGIC).

Table 4 illustrates the flow of brassieres' exports. Barbados' exports of this product represent 75,1% of its total garment exports. Even though brassieres' exports' contribution has increased, their market share decreased in the period 1993-1998. Santa Lucia and Guyana present a similar situation. Their exports of this product represent approximately one fourth of their total garment exports. It would, therefore, be of vital importance for these countries to be able to benefit from duty free access to the US market. On the other hand, even though Honduras succeeded in increasing its market share this product's contribution decreased, revealing a possible diversification of garment exports. El Salvador increased not only its market share but also this product's contribution. This demonstrates the growing importance of brassieres' exports within that country's total garment exports. Both the Dominican Republic's and Costa Rica's market share and contribution decreased, reflecting the waning importance of this product's exports. Honduras and El Salvador could benefit

⁹ Costa Rica's market share was, in reality, stable; that is, its exports grew as US imports of this product increased.

the most from duty free and quota free access to the US market, due to their significant growth during the period 1993-1998.

Table 4
Market Share and Contribution of Brassieres (621210)
1993-1998

	1993		1998	
	Market/Share	Contribution	Market/Share	Contribution
Barbados	0.4	37.6	0.3	75.1
St. Lucia	0.4	8.9	0.3	28.6
Guyana	0.1	8.9	0.3	22.7
Panama	0.6	8.3	0.1	9.6
Dominican Republic	19.3	8.2	15.6	6.8
Costa Rica	12.8	11.5	5.4	6.7
Honduras	5.9	6.8	11.7	6.2
Haiti	1.7	10.3	1.1	5.1
El Salvador	0.5	1.0	3.1	2.7
Jamaica	2.9	4.4	0.4	0.9
Nicaragua	0.0	0	0.1	0.4
Guatemala	0.0	0.0	0.1	0.1

Source: US Department of Commerce (MAGIC).

The business sector in El Salvador estimates that in the next few years 50 thousand new jobs will be created and the value of garment exports will increase by \$1,000 million. The government of Costa Rica and members of the Textiles Quotas Council estimate that during the next two years that country's exports will grow by around \$100 million and that between 5,000 and 6,000 new jobs will be created in the sector.

In the authors' opinion, these are reasonable estimates. Moreover, during the next three years close to 120,000 jobs could be created throughout the Caribbean Basin and garment exports could increase by \$4,4 thousand million. Yet it should be pointed out that all estimates include the growth that would have occurred regardless of the expansion of benefits, plus the additional growth created by such expansion.

It should also be pointed out that due to the tariff preferences granted to African countries in the same bill, it is expected that US imports of garment products from those countries will grow from \$250 million (current amount) to approximately \$4,2 billion in the year 2008. This could curtail the growth of exports from Caribbean Basin countries, but the authors prefer to think that such growth will occur to the expense of "other countries" that are not included in Table 1.

The Mexican business sector has voiced its preoccupation for the possible effect of increased competition. Moreover, they are worried that some enterprises that had considered settling in Mexico may now decide to move to Caribbean or Central American countries.

III. Pending Issues

It should be pointed out that the much-discussed “parity” is far from being what the businessmen from the Caribbean Basin expected, for several reasons. In the first place, no reference is made of agricultural products such as, for example, those that are subject to special agreements with Mexico (sugar, for example), which are important for the region. In the second place, garments made under the classification “complete package”, which include fabrics from outside the region (for example, from Asia or Italy), are excluded from the tariff reduction (Mexico has an assigned amount). In the third place, very few things happen automatically (regardless of what economists think) and the quality of products, particularly from Asia, is improving dramatically and this will increase competition in the garment sector. Finally, the progressive elimination of the quotas by the year 2005 and China’s possible adhesion to the World Trade Organization indicate that things will not be easy.

One important element that should be pointed out is that the Caribbean Basin countries should receive this news as the first good signal the USA sends out to them regarding their possibilities to negotiate the Free Trade Area of the Americas. In the specific case of countries from the region, the legislation establishes that the US president shall take the necessary steps to establish a calendar of meetings between the ministers of trade of the Caribbean Basin countries and the USTR with a view to reaching an agreement between the USA and the countries of the CBI that is beneficial to both parties and contains provisions similar to those of the NAFTA. In this way, the door is open for these countries to begin negotiations with the US government to reach an agreement that makes parity with the NAFTA a reality.¹⁰

¹⁰ We thank René León for calling our attention to this last issue.

Anexos

Table 1
Selected Countries: Garment Products Imports
in Relation to Total US Imports, 1993-1998

	1993	1998
Haiti	62.2	83.8
El Salvador	52.0	82.2
Honduras	55.9	75.9
Jamaica	56.5	59.0
Guatemala	46.4	55.5
Dominican Republic	52.7	53.3
Nicaragua	9.0	51.7
St. Lucia	79.5	44.0
Costa Rica	42.5	30.6
Barbados	20.6	11.1
Guyana	6.3	8.4
Panama	17.1	4.1

Source: US Department of Commerce (MAGIC).

Table 2
Cotton Socks (6115), Market Share and Contribution, 1993-1998

País	1993		1998	
	Market/Share	Contribution	Market/Share	Contribution
Jamaica	36.6	21.9	12.6	20.5
El Salvador	0.1	0.1	12.8	7.5
Costa Rica	0.7	0.3	2.4	2.0
Dominican Republic	0.2	0.0	5.9	1.7
Honduras	0.0	0.0	0.5	0.2

Source: US Department of Commerce (MAGIC).