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Caribbean Policy Development Centre



Bringing CBI into the 21st Century

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Introduction

The Caribbean Basin Initiative (CBI) comprises the Caribbean Basin Economic Recovery Act (CBERA) of 1983, the US-Caribbean Basin Trade Partnership Act (CBTPA) of 2000 and the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act of 2006. The HOPE II Act of 2008 expanded on the benefits offered to Haiti under CBERA. The CBI programmes are vital components of U.S. economic relations with the region and were conceptualised to support economic development and export diversification in the economies of the Caribbean Basin¹.

The CBTPA expires on September 30, 2010, offering the opportunity to revamp the program to increase its relevance to the economies of the Caribbean region into and beyond the 21st Century. Notwithstanding the CBIs original mandate which also sought to condition activity within the prevailing policies of the US, the framework was constructed at a time when the Caribbean economies were primarily goods-based. It is noteworthy that the CBI preferences have contributed to the region's export growth and the export of goods to the United States did increase at the outset of the programme, however it is no longer resulting in the anticipated increase in volume or diversification of exports from the Caribbean region.

Civil Society Organisations (CSOs) are committed to the economic security of vulnerable groups because this minimises social problems. Therefore the Caribbean Policy Development Centre (CPDC) engages with trade arrangements/agreements due to their potential to enhance or erode the economic security of vulnerable groups, who form the bulk of its members. CSOs must understand the workings of CBI and engage policy makers and technocrats to protect our livelihoods.

Whilst a trade arrangement such as CBI is primarily the purview of the governments and the private sector, CPDC sees the need to take advantage of this opportunity to enhance CBI and positively affect the livelihoods of our members who are largely in the informal sector, small

¹ Antigua and Barbuda, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Panama, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago, Bahamas, Aruba, Guyana, and Nicaragua.



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d work. There is precedent of CSOs making this kind of

Primary Recommendations

Recognising that the CBI is no longer relevant for export manufacturing in its present form, yet still applicable to the market environment, is a first step towards meaningful reform. This paper seeks to address the following areas and engage dialogue eventually leading to a 21st century (and beyond) CBI:

- i) Include trade in services through providing incentives to U.S. consumers and businesses;
- ii) Improve the capacity of nano and micro enterprises to use the CBI by incorporating technical assistance programs such as the regional harmonisation of policies and procedures as most CARICOM countries, including Haiti, move towards the CARICOM Single Market and Economy signifying greater ease of doing business in the region
- iii) Expand the rules of origin and treatment of SPS issues
- iv) Co-ordinate the upgrade of HOPE with a comprehensive review of CBI in a sustainable manner

In order to achieve these advances it would become necessary to develop further work and studies that focus on the following:

- 1) Legislative amendments to support the development of targeted service sectors such as:
 - i) Health Tourism: Allow U.S. consumers to use Medicare benefits to access e-consultations E-consultations, hospices and tertiary care available from the Caribbean;
 - ii) Sports Tourism: Create incentives to encourage US companies to invest in such areas as hosting regional sports and lifestyle events in the region
 - iii) Emerging Creative Industries: Create incentives to encourage joint ventures, copyright collaboration and promotion of services within the US market, and sharing of new technologies within the fashion design, music, film and audiovisual sectors
- 2) Directing Implementing agencies to engage in activities supportive of specific sectors and issues such as:

...nition agreements to facilitate access by professional service

- ii) Capacity Building programmes for e-commerce

Background

CBERA provides non-reciprocal duty free access to the US market for a number of products of member countries and was given permanent status in 1990. However the WTO waiver on this set of preferences will expire in 2014 and due note must be taken of this.

CBTPA operates on a renewable basis and expanded items eligible for duty-free treatment to include certain leather handbags, luggage, flat goods (such as wallets and portfolios), work gloves, and leather wearing apparel, mineral fuels, organic chemicals, edible fruit and nuts, electrical machinery, canned tuna, foot wear and cotton, wool and man-made fibre apparel. It has a provision that includes application of rates similar to those under the North America Free Trade Agreement (NAFTA), once they meet NAFTA rules of origin criteria. CBTPA apparel must be made completely of US inputs and assembled in the CBPTA country. Only eight countries are now eligible to benefit from the CBTPA.²

The HOPE Act revised its rules of origin for apparel exports from Haiti to allow for more flexibility in sourcing materials, which allows materials to be sourced from anywhere once the garments are both cut and sewn or assembled in Haiti.

With the formation of the Central American Free Trade Agreement inclusive of the Dominican Republic (CAFTA-DR) the CBI countries now represent mostly beneficiaries within the Caribbean territory³. Panama and the US have signed a free trade agreement in 2007, which the Panamanian Government has approved and awaits approval by the U.S. Congress.

CBI 2010 and beyond: Major issues for consideration

CBI beneficiary countries continue to make use of preferential access to the US market and approximately 38% of exports to the US are covered under this arrangement. Following the

² Barbados, Belize, Guyana, Haiti, Jamaica, Panama, St. Lucia, and Trinidad and Tobago.

³ 18 countries are covered by the Caribbean Basin Initiative: Jamaica, Barbados, Belize, Guyana, Haiti, Panama, St Lucia, Antigua and Barbuda, Aruba, the Bahamas, British Virgin Islands, Dominica, Grenada, Monseratt, the Netherlands Antilles, St Vincent and the Grenadines, St Kitts and Nevis, and Trinidad and Tobago. CBI nations are exempted from the 54-cent ethanol tariff. In all, eight countries are covered by the CBPTA: Jamaica, Barbados, Belize, Guyana, Haiti, Panama, St Lucia and Trinidad and Tobago

trade saw positive terms of trade with exports totalling
flows to the region have also increased in CBERA-related
sectors, standing at US\$3,805 million in 2006 and representing a 25% increase from 2005.

The increased trade has been concentrated on a limited number of products from a few countries. Major exports to the US from CARICOM countries have included minerals, fuels and oil; methanol and other chemicals; ethanol; apparel; fish products; beverages and spirits; electronics; and fruits and vegetables.

- Most of the export growth under CBI was the result of exports from Trinidad and Tobago of natural gas and petroleum-based products. (CPDC 2008).
- Jamaica and The Bahamas have also been able to capitalise on the CBERA with significant trade in energy-related products and polystyrene.
- Haiti has benefited from duty free access on apparel goods, with increases between 2006 and 2007 to US\$452 million in exports; however this sector faces strong competition from countries in Central America, Mexico and China.
- Although the smaller countries in the region do export goods covered under the programme it is usually in a few areas with most exports under US\$10 million in 2007. (CPDC 2008) Therefore, one of the primary concerns behind the need to restructure the CBI is to ensure that the smaller nations, such as Dominica, can better benefit from increased trade with the United States within this PTA.

The erosion of preferential margins following the Uruguay Round resulting in a shock to the banana and sugar industries; the effects of the economic recession; and the recent earthquake in Haiti coupled with the inevitable threats of future natural disasters further support the need to extend and re-evaluate the CBI program. The CBTPA and HOPE provisions should be made permanent to better encourage and promote investment in the region, and development of a long-term strategy to re-engage Haiti in the world's economy.

It would also require the notification of the WTO Council for Trade in Goods, and an extension past the 2014 expiration, in accordance with WTO regulations under which the US originally applied. The revamped CBI should also seek to address the non-tariff barriers that limit market access for goods; incorporate trade in services; and include considerations for support of regional integration, technical and development assistance. The recommendations contained within this paper have the goal of making the CBI programme more relevant to the Caribbean economic development needs and to the goals of U.S. policy in the region.



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Introduction of Services

The services sector accounts for 60% of GDP of the economies of CARICOM member states and is the fastest growing sector of these countries' economies. Tourism and travel account for 30% of GDP and 25% of employment in the Caribbean with some countries depending heavily on these industries (CARICOM, 2001). Additionally financial and professional services are a major contributor to revenue earnings in Caribbean States. Several studies have identified emerging opportunities in the areas of ICT and off-shore education, and non-traditional tourism, such as eco-tourism and health tourism. Trade in services is not a current component of the CBI.

However, the region's experience with the incorporation of services in the EU-CARIFORUM Economic Partnership Agreement (EPA) may be instrumental. Data today suggests that CARICOM has been successful in trading in services in the US market under double taxation agreements and bilateral investment treaties; inclusion of services in the CBI will allow for greater diversification and export opportunity for the services industries in Caribbean economies.

The tourism industry can be diversified in the Caribbean to build upon opportunities in Ecotourism, Sports Tourism, and Health Tourism. In this regard the new CBERA can provide avenues for better access to the US consumer markets in these areas. Possible avenues for access:

- Health tourism: Allow for Medicare to cover E-consultations, hospices and tertiary care available from the Caribbean;
- Sports and Fitness Tourism: Create incentives for businesses to host regional sports and lifestyle events in the region;

The emerging creative industries including fashion design, music, film and audiovisual services can be expanded by providing incentives for joint ventures, copyright collaboration and promotion of services within the US market, and sharing of new technologies. Issues of regulatory barriers, mutual recognition, standards and procedures should be addressed to ensure that there is access under modes 1, 3 and particularly 4.

There is a need to establish criteria that allows for easier entry into the United States of these professionals and other service providers so as to facilitate travel for business. Similar to travel international development work or diplomacy this could perhaps be addressed via a double taxation treaty.

include:

- Architecture and engineering: building more hurricane and earthquake resistant housing;
- Creative Industries including the audio visual sector; the US already has a predominance in this sector globally and in the region it is an emerging sector receiving attention
- Education: delivery of exchange programs and teaching via realtime web experience in areas of strength, such as cultural studies, music, entrepreneurial studies etc.
- Bilateral investment treaties (BITs) or Trade and Investment Framework Agreements (TIFA) could be expanded to encourage more investment into the region in major areas of growth like renewable energy resources, cultural industries and non-traditional tourism activities as mentioned above.
- Energy services are particularly well developed in some Caribbean countries and in particular Trinidad and Tobago

Trade in Goods

There are three main types of manufacturing activities in the Caribbean. These include textile manufacturing, food processing, electronic components and household appliances. (ECLAC 1999) In addition to current articles like beef, rum and tobacco, and assembly operations in apparel and some metals, the region has the potential for increased production of renewable energy resources, given the region's new focus in solar, wind and geo-thermal technologies. Given the strong competition faced from China, NAFTA and DR-CAFTA partners, production and trade in apparel has decreased in CARICOM countries and is no longer a competitive industry. USITC and USTR reports on CBERA (c.2009) clearly indicate this trend in this sector.

Further research will be needed to determine whether opportunities for assembly operations in the alternative energy sector may provide the potential to diversify the region's product base. Further consideration should also consider whether there can be easier access of indigenous products such as handicrafts, games and instruments so they could also be included.

The major challenges to the region in taking advantage of the existing market access for goods granted under the CBI have been the restrictive and complicated rules of origin, lack of adequate transportation network, storage facilities, , and heavy documentation requirements and challenges



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itary standards (SPS). Addressing these challenges will diversity products and countries participating in CBI.

CBI goods are deemed eligible once they are sourced, grown, produced or manufactured within the CBERA region, or be considered “new or different” articles made from substantially transformed non-CBERA inputs.

Under section 213 of the CBERA articles for preferential treatment are subject to rules of origin guidelines where the product or good is imported directly from a beneficiary country in the US; or the materials used to create the product originate from other beneficiary countries or the US. No more than 35% of its production material and labour may be from outside of the member countries. Since the formation of the CAFTA-DR Agreement many of the Central American countries are now not an option for sourcing of materials or labour for products created in the Caribbean.

An amendment of the current rules of origin framework would ensure that products for export to the US can still qualify and remain competitively priced. This could be achieved by allowing for cumulation with CAFTA-DR countries, at a minimum, and possibly other Latin American countries whereby materials and labour can be sourced in this region to meet the CBI eligibility requirements. This will not be done without challenges, particularly since the rules of origin stipulations under CAFTA-DR are based on finished products wholly made in the member region of the FTA instead of percentage approach seen in the CBI.

An alternative approach would be to revise the percentage amount requirements for CARICOM countries. These changes will facilitate the ability of the region’s private sector to better take advantage of emerging opportunities in the sectors identified above.

With respect to the other challenges, we propose that CBI legislation direct the appropriate agencies to provide support in the following areas:

- Facilitate coordination of technical assistance and technological sharing between customs services at ports and airports in the US and the Caribbean to increase efficiency, ensure compliance and reduce delays in shipping and travel for business. (US Customs & Border Protection)
- Provide technical assistance to improve the ability of CBI exporters to meet U.S. SPS requirements. (US Dept of Agriculture)
- Encourage joint ventures between US and regional construction firms for the development of transportation systems in the region (USAID, US Dept of Transportation)

that allows for development cooperation or assistance (outside of USAID programming). Nevertheless, technical and technological assistance and collaboration in areas such as entrepreneurship and innovation; small and medium-size enterprise (SME) development; trade facilitation; support for regional integration, particularly for the harmonisation of policies and procedures; as well as greater partnerships for information gathering and sharing will go a long way toward ensuring improved success of the CBI. Continued assistance to the region in improving the general environment for doing business will help to attract U.S. investors. The Ease of Doing Business 2010 Report highlights the need to improve protection for investors and enforcement of contracts in many Caribbean countries.

The Report further highlights that Caribbean SMEs have difficulty in accessing credit, low levels of productivity and quality, limited research and development resources, poor infrastructure, little information sharing and feedback, need for new technologies and additional challenges in driving the entrepreneurial culture of the region.

We further add the inclusion of nano and micro enterprises to the discussion on SMEs. Supporting entrepreneurship and innovation allows for a better diversification in manufactured and service products through training and sharing of best practices. It is expected that with respect to the nano – enterprises, these can be grouped together to make their attention more impactful. Some areas for possible development cooperation and assistance include:

- Demonstrate support for regional harmonisation of policies and procedures as most CARICOM countries, including Haiti, move towards the CARICOM Single Market and Economy signifying greater ease of doing business in the region
- Technical assistance in establishing efficient statistics information systems
- Encourage linkages between incubators of the region and the US for training and formation of business networks for entrepreneurs and innovators in the region. The US Department of Commerce could possibly extend its current programme in the Caribbean Basin to include these opportunities.
- Work with regional governments and institutions to identify and provide clear criteria for movement of persons under trade in services such as those in cultural industries and management consultants (US Dept of State, US Dept of Labour)
- Technical assistance in the provision of ICT support to the agriculture sector

Haiti – Future of HOPE

devastated the social and economic landscape of Haiti and its infrastructure and supporting systems that allow for business and trade to rebuild. It is crucial that U.S. support for this effort be directed towards the growth of enterprise across sectors including the agriculture, telecommunications, fisheries, and eventually tourism, sectors. The US will need to work with CARICOM member States in particular to identify ways in which the country can qualify for CSME status and also seek to trade within the Caribbean.

This can be done by possibly contributing to the Caribbean Development Fund (CDF) or Caribbean Development Bank (CDB) that helps provide technical assistance to shape legislation and procedures that are aligned with the CSME movement.

It will be advisable for the next 10-20 years that the HOPE Act be expanded to allow full duty free access to the US market with technical and financial assistance included to ensure that the transportation and ICT frameworks are in place to facilitate trade. This should go hand in hand with capacity building on SPS measures to facilitate greater access by Haitian agricultural products to the U.S. market.

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