1999 CBERA Report to Congress

TRADE AND EMPLOYMENT EFFECTS OF THE
CARIBBEAN BASIN ECONOMIC RECOVERY ACT

Fifteenth Annual Report to the Congress
Pursuant to Section 216 of the
Caribbean Basin Economic Recovery Act

Submitted by
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Table of Contents

Conclusions

Executive Summary

During 1998, $3.4 billion in U.S. imports from the 24 Caribbean Basin Economic Recovery Act (CBERA) beneficiaries entered the United States duty-free under provisions in the CBERA; however, a significant portion of these duty-free entries probably would have qualified for duty-free entry under other existing U.S. trade preference programs such as the Generalized System of Preferences. Approximately 48 percent ($1.6 billion) of these duty-free entries probably would not have qualified for duty-free entry under other available U.S. trade preference programs and represent the unique benefits of the CBERA to the CBERA beneficiaries. These unique benefits represented 9.5 percent of total U.S. imports from the CBERA beneficiaries, but accounted for only 0.2 percent of total U.S. imports from all nations.

The main finding of this report is: Preferential tariff treatment under the CBERA does not appear to have had an adverse impact on, or have constituted a significant threat to, U.S. employment generally. There are several smaller domestic industrial sectors (e.g., leather cut for shoes and cigars and cheroots) that have been subject to significant, long-term domestic employment declines and significant increases in CBERA duty-free imports. The extent to which declines in employment in these sectors may have been affected by the tariff preferences granted under the CBERA -- as opposed to other factors -- is not clear; however, during 1997 and 1998, trade and employment developments in these industries tended to moderate any adjustment problems.

Introduction

The Caribbean Basin Economic Recovery Act (CBERA), which was enacted on August 5, 1983 (Public Law 98-67, title II), contains the trade component of the Caribbean Basin Initiative (CBI) that was launched in 1983 to expand private sector opportunities and investment in nontraditional sectors of the Caribbean Basin beneficiaries as a way to help them diversify their economies and expand their exports. The CBERA authorized the President to proclaim duty-free treatment to eligible articles from designated beneficiary Caribbean Basin countries and dependent territories. The first proclamations and designations under the Act took effect on January 1, 1984. The Act was scheduled to remain in effect until September 30, 1995, but was expanded in 1990 by the Caribbean Basin Economic Recovery Expansion Act (Public Law 101-382, title II) with no statutory expiration date.

Section 216 of the CBERA requires the Secretary of Labor, in consultation with other appropriate federal agencies, to undertake a continuing review and analysis of the impact of the implementation of the CBERA on U.S. labor. The legislation also directs the Secretary to submit an annual report to the Congress presenting a summary of the results of the review and analysis. This report is the fifteenth in a series of annual reports to the Congress pursuant to Section 216 of the CBERA. Without additional legislation, this is the final annual CBERA report by the U.S. Department of Labor; the Federal Reports Elimination and Sunset Act of 1995 (Public Law 104-66 of December 21, 1995) specified that this report was to be phased out 4 years hence (i.e., December 21, 1999).

This report presents a summary of the analysis of the impact of duty-free treatment of certain U.S. imports from Caribbean Basin beneficiaries under the CBERA on U.S. trade and employment during calendar 1998. The 24 CBERA beneficiary countries and dependent territories covered by this report are: Antigua and Barbuda; Aruba; the Bahamas; Barbados; Belize; the British Virgin Islands; Costa Rica; Dominica; the Dominican Republic; El Salvador; Grenada; Guatemala; Guyana; Haiti; Honduras; Jamaica; Montserrat; the Netherlands Antilles; Nicaragua; Panama; St. Kitts-Nevis; St. Lucia; St. Vincent and the Grenadines; and Trinidad and Tobago. Anguilla, the Cayman Islands, Suriname, and the Turks and Caicos Islands are potentially eligible for CBERA benefits, but none have been designated and only Suriname has requested designation. During 1998, Honduras briefly lost its CBERA and Generalized System of Preferences (GSP) duty-free treatment for a limited number of fruits and vegetables from April 20 to June 30 because of its failure to control broadcast television piracy.

First, this report reviews trends in U.S. trade with the CBERA beneficiaries, and identifies the leading items in U.S. trade (imports and exports) with those nations. Next, U.S. imports from the CBERA beneficiaries are examined with regard to the various U.S. trade preference programs (e.g., the CBERA; Section 222 of the CBERA, which was added to the CBERA in 1990 and permits duty-free entry of items made wholly of U.S. materials; the Generalized System of Preferences (GSP), a U.S. program initiated in 1975 that provides for duty-free treatment of nearly 4,700 tariff items from over 140 designated beneficiary developing countries and territories; and the U.S. harmonized tariff schedule provisions for the duty-free entry of U.S. components and materials incorporated in offshore assembly of items imported into the United States--HTS 9802.00.60 and 9802.0080). The report then attempts to identify U.S. trade preferences which are uniquely available to the beneficiary countries under the CBERA. Finally, domestic employment trends are reviewed for those domestic industries that produce goods like or similar to those in industrial groups of U.S. imports from the CBERA beneficiaries which have experienced significant growth and established significant U.S. market share as the result of CBERA benefits. The report closes with some general conclusions on the impact of the CBERA on U.S. employment.

U.S. import (customs value of imports for consumption) and export (f.a.s. value of domestic exports) data used in this report are based upon compilations of official statistics from the U.S. Department of Commerce, Bureau of the Census; U.S. nonfarm employment data (annual averages of monthly establishment employment) are tabulated from establishment payroll employment survey data from the U.S. Department of Labor, Bureau of Labor Statistics. More detailed tabulations of U.S. trade with the CBERA beneficiary nations are available in more comprehensive annual reports (for this year as well as for prior years) which are prepared by the U.S. Department of Labor and are available from the Department's Bureau of International Labor Affairs, Office of International Economic Affairs, 200 Constitution Avenue, N.W., Room S-5325, Washington, DC 20210 (telephone: 202-219-7610), or the Bureau's web site (www.dol.gov/dol/ilab), or the National Technical Information Service (NTIS), 5285 Port Royal Road, Springfield, Virginia 22161 (telephone: 703-487-4690).

U.S. Trade with the CBERA Beneficiaries

U.S. imports from the 24 CBERA beneficiaries in 1998 accounted for 1.9 percent of total U.S. merchandise imports from all countries and amounted to $17.1 billion, a 3.3 percent increase over their level in 1997. U.S. exports to the CBERA beneficiaries in 1998 accounted for 3.4 percent of all U.S. merchandise exports to the world and amounted to $19.2 billion, a 7.8 percent increase over their level in 1997.

On a bilateral basis, U.S. trade with the CBERA beneficiaries has moved from a merchandise trade deficit of over $3.2 billion in 1983 to a surplus of $2.1 billion in 1998. Over this period, U.S. exports to the CBERA beneficiaries have increased each year (except in 1985), while U.S. imports from these countries decreased each year between 1983 and 1988 before beginning to increase each year thereafter. In nominal (current dollar) terms, U.S. exports to the CBERA beneficiaries in 1998 were 237 percent above their 1983 level, while U.S. imports from the CBERA beneficiaries in 1998 were 92 percent above their 1983 level.

Crude and refined petroleum, which accounted for over half of all U.S. imports from the CBERA beneficiaries in 1984, accounted for only 6 percent in 1998. During 1998, U.S. imports of crude and refined petroleum products from the CBERA beneficiaries decreased from their 1997 level of $1,369 million to $1,003 million in 1998, a 27 percent decrease. U.S. imports of non-petroleum products from the CBERA beneficiaries increased from their 1997 level of $15.2 billion to $16.1 billion in 1998, a 6 percent increase. U.S. imports of non-petroleum products from the CBERA beneficiaries have grown at an average annual rate of 12 percent over the 1989-98 period.

Leading industrial categories of U.S. imports from the CBERA beneficiaries in 1998 included: apparel ($8,158 million); agricultural products ($1,892 million); refined petroleum products ($808 million); electrical machinery ($750 million); food products ($659 million); chemicals ($615 million); fishery products ($564 million); instruments ($423 million); leather goods ($399 million); and nonelectrical machinery ($369 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 85 percent of all U.S. imports from the CBERA beneficiaries in 1998. During 1998, there was an extremely large increase in U.S. imports from the CBERA beneficiaries of nonelectrical machinery, which increased from $18 million in 1997 to $369 million in 1998 due to increased imports of printed circuit assemblies.

Leading industrial categories of U.S. exports to the CBERA beneficiaries in 1998 included: apparel ($3,635 million); nonelectrical machinery ($2,327 million); food products ($1,539 million); electrical machinery ($1,532 million); chemicals ($1,418 million); miscellaneous manufactures, not specifically provided for ($1,120 million); transportation equipment ($1,099 million); agricultural products ($981million); textiles ($872 million); and refined petroleum products ($761 million). These top-ten categories, based on the 2-digit Standard Industrial Classification system, accounted for 80 percent of all U.S. exports to the CBERA beneficiaries in 1998.

Many of the leading categories of U.S. exports to the Caribbean Basin region are also among the leading import categories, indicating a substantial two-way flow of trade. For a large part, this results from the extensive trade under provisions 9802.00.60 and 9802.00.80 in the harmonized tariff schedule (HTS)--formerly items 806.30 and 807.00 in the Tariff Schedules of the United States--that assess U.S. import duties only on the foreign value-added in offshore assembly or further processing of U.S.-made components which are then imported into the United States. In 1998, 34 percent of the total value of all U.S. imports subject to duty from the CBERA beneficiaries entered the United States duty-free under these provisions.

The Dominican Republic is the United States' largest CBERA beneficiary trading partner with U.S. imports of $4.4 billion and U.S. exports of $3.9 billion. Other significant partners include Costa Rica ($2.7 billion U.S. imports and $2.2 billion U.S. exports), Honduras ($2.5 billion U.S. imports and $2.3 billion U.S. exports), and Guatemala ($2.1 billion U.S. imports and $1.9 billion U.S. exports).

U.S. Imports under the CBERA and Other Special Tariff Rate Provisions and Trade Preference Programs

Products specifically excluded from CBERA duty-free treatment include most textile and apparel items; certain footwear, handbags, luggage, and other leather goods; canned tuna; petroleum and petroleum products; and certain watches and watch parts. However, beginning in 1992, the phasing-in of a duty reduction was initiated on handbags, luggage, flat goods, work gloves, and leather wearing apparel from the CBERA beneficiaries; duties on these items were reduced by a maximum of 20 percent over a five-year period. U.S. imports of CBERA-beneficiary non-petroleum products subject to duty and excluded from CBERA (primarily wearing apparel) have increased at an annual rate of 24 percent since 1983.

To be eligible for duty-free treatment under the CBERA, all products -- unless specifically excluded -- must meet one of the following rules of origin conditions: (1) be wholly grown, produced, or manufactured in a CBERA beneficiary; be grown, produced, or manufactured in Puerto Rico and advanced in value or improved in condition in a CBERA beneficiary; or have at least 35 percent of the direct processing costs and materials produced in a CBERA beneficiary or beneficiaries -- inputs from the United States, Puerto Rico, and the U.S. Virgin Islands are allowed to account for a portion of the 35 percent content rule (section 213 of the CBERA, as amended); or (2) be assembled in a CBERA beneficiary wholly from components and materials originating in the United States (Section 222 of the CBERA, as amended). [(1)] In addition, the articles must be exported directly to the customs territory of the United States; U.S. imports from the CBERA beneficiaries of sugar, syrups, and molasses, ethyl alcohol, and beef and veal products are subject to special rules.

All of the CBERA beneficiaries except the Bahamas, Nicaragua, the Netherlands Antilles, and Aruba are also eligible for the tariff preferences provided by the GSP. The CBERA differs from the GSP program in three significant ways: 1) the number of items eligible for the duty-free entry is greater under the CBERA; 2) the percentage of value-added that must be produced in the exporting country is lower under the CBERA; and 3) the CBERA has no dollar limits on the amount of an item that can enter duty-free from a beneficiary country, while there are limits (referred to as competitive need limits) under the GSP program.

In 1998, $3.9 billion (or 23 percent) of the $17.1 billion in total U.S. imports from the CBERA beneficiaries entered normal-trade-relations (NTR) duty-free.[(2)] Of the remaining $13.3 billion which was not NTR duty-free (henceforth, referred to as imports subject to duty), U.S. import duties were assessed on $5.1 billion, while $8.2 billion entered duty-free under one of the special U.S. tariff preference programs.

Of the $8.2 billion that entered duty-free under one of the special U.S. tariff preference programs in 1998, $3.2 billion entered duty-free under section 213 of the CBERA, $211 million ($69 million CBERA-beneficiary value-added and $142 million U.S.-content value) entered duty-free under section 222 of the CBERA, $195 million entered duty-free under the GSP, $4.5 billion U.S.-content value entered duty-free under the HTS 9802.00.60 and 9802.00.80 provisions, and $71 million entered duty-free under other special rate provisions (mostly temporary rate provisions).

The share of the value of U.S. imports from the CBERA beneficiaries that is eligible for duty-free treatment under Section 213 of the CBERA has increased since the program's inception, growing from 22 percent in 1984 to 26 percent in 1998. These changes are due, in part, to the changing importance over this period of crude and refined petroleum products, which are excluded from CBERA benefits, in overall U.S. imports from the CBERA beneficiaries.

For products that were already eligible for GSP duty-free treatment when the CBERA came into effect in 1984, the CBERA beneficiaries have increased slightly their utilization of available U.S. tariff preferences (i.e., the percentage of eligible products that actually entered duty-free under either GSP or CBERA has risen moderately). In 1983, 62 percent of the value of items eligible for both GSP and CBERA (had the latter been in effect) entered duty-free under GSP; in 1984, 68 percent of the value of items eligible for both GSP and CBERA entered duty-free (12 percent under CBERA and 56 percent under GSP); and by 1998, 90 percent of the value of these items entered duty-free (80 percent under CBERA, 5 percent under Section 222, and 5 percent under GSP). For products eligible for CBERA, but not GSP, utilization has increased substantially from 42 percent in 1984 to 92 percent in 1998.

Leading industrial categories of CBERA duty-free U.S. imports (some of which would have been eligible for GSP duty-free entry) in 1998 included: cigars and cheroots ($320 million); sugar and confectionery products ($294 million); medical and dental instruments ($228 million); leather cut for shoes ($206 million); jewelry and silverware ($187 million); prepared fruits and vegetables ($144 million); communication equipment ($135 million); industrial organic chemicals ($124 million); vegetables and melons ($121 million); and fresh fruit ($98 million). These top-ten categories, based on the 3-digit Standard Industrial Classification system, accounted for 59 percent of the total CBERA duty-free value of U.S. imports in 1998. The Dominican Republic accounted for $1.4 billion (43 percent) of total CBERA duty-free imports; CBERA duty-free imports were also significant from Costa Rica ($742 million), Guatemala ($268 million), Honduras ($234 million), Trinidad and Tobago ($186 million), and Jamaica ($102 million).

Assembly of U.S.-made parts or materials by the CBERA beneficiaries (primarily into products ineligible for CBERA duty-free entry or into CBERA-eligible products that did not meet CBERA or GSP rules-of-origin requirements) continued to show strength in 1998. The value of U.S. imports of these assembled items from the CBERA beneficiaries, mostly entered under HTS item 9802.00.80, rose from $6.9 billion in 1997 to $7.4 billion in 1998 and accounted for 56 percent of all U.S. imports subject to duty from the CBERA beneficiaries. Some of these U.S. tariff provisions covering the assembly of articles made from U.S.-made parts and materials (i.e., HTS 9802.00.60 and 9802.008065) are available generally for U.S. imports from any country.

Assembled apparel items ($6,730 million with 63 percent U.S.-content value) accounted for 91 percent of the value of U.S. imports from CBERA beneficiaries under HTS items 9802.00.60 and 9802.00.80 in 1998. Six other industrial groups with appreciable amounts of these 9802 items from the CBERA beneficiaries in 1998 included: textile mill products ($238 million with 90 percent U.S.-content value), electrical machinery ($118 million with 55 percent U.S.-content value), scientific instruments ($118 million with 54 percent U.S.-content value), leather products ($115 million with 54 percent U.S.-content value), miscellaneous manufactures ($24 million with 83 percent U.S.-content value), and rubber and plastic products ($12 million and 65 percent U.S.-content value).

Section 222 (HTS 9802.005010 and HTS 9802.00.8040) of the CBERA allows duty-free entry of products assembled in a CBERA beneficiary wholly from components and materials originating in the United States. During 1998, $211 million entered under Section 222, of which $69 million was CBERA value-added. Section 222 imports were concentrated in scientific instruments ($83 million with $13 million of CBERA value-added), leather products ($78 million with $27 million of CBERA value-added), and electrical machinery ($29 million with $5 million CBERA value-added). The Dominican Republic accounted for 92 percent ($193 million with $63 million domestic value-added) of total Section 222 imports.

The CBERA beneficiaries are eligible for reduced U.S. duties on certain leather products (including handbags, luggage, work gloves, and leather wearing apparel, but not footwear). In 1998, the United States imported $90.3 million of these eligible leather products from the CBERA beneficiaries, of which $53.9 million was subject to lower duties, $25.1 million was duty-free U.S.-content under the regular HTS 9802 provisions, $0.3 million was duty-free under Section 222, and the balance ($11.0 million) was subject to full duty. The value of leather products imports from the CBERA beneficiaries that was eligible for reduced duties in 1998 was up $9.2 million (11 percent) from 1997.

In addition to receiving CBERA duty-free benefits, several CBERA beneficiaries have benefitted from the Special Access Program (SAP) which was established in 1986 and sets liberal quotas (guaranteed access levels, GALs) for textile and apparel items assembled in eligible CBERA beneficiaries from fabric formed and cut to pattern in the United States. In 1998, U.S. textile and apparel imports under the SAP program amounted to $1.9 billion, or about 29 percent of all U.S. imports of assembled apparel items from all the CBERA beneficiaries entered under the HTS 9802 provisions.

U.S. Trade Preferences Uniquely Provided by the CBERA

Nearly all products from the CBERA beneficiaries that qualify for duty-free entry under the GSP are also eligible for duty-free entry under the CBERA. The CBERA provided the beneficiary nations unique duty-free treatment of their exports to the United States in 1998 in the following cases: products eligible for CBERA duty-free entry, but not eligible for duty-free entry under GSP ($1,108 million, of which $506 million entered CBERA duty-free); products imported from Nicaragua, the Bahamas, Aruba, and the Netherlands Antilles that would have been eligible for GSP if those countries were GSP beneficiaries ($111 million, of which $90 million entered CBERA duty-free); products eligible for both CBERA and GSP duty-free entry which were imported from CBERA beneficiaries that had lost their GSP product eligibility due to exceeding that program's competitive-need limitations ($1,088 million, of which $954 million entered CBERA duty-free); and the CBERA-beneficiary value-added in Section 222 imports ($69 million).

The total unique CBERA duty-free benefits (i.e., duty-free benefits not available under other U.S. trade preference programs) were $1,619.0 million in 1998, $119 million (or 8 percent) more than in 1997. In 1998, the unique CBERA duty-free benefits represented 9.5 percent of total U.S. imports from the CBERA beneficiaries, but only 0.2 percent of total U.S. imports from all sources in 1998.

The top-ten tariff schedule categories of items receiving duty-free treatment unique to the CBERA in 1998 included: instruments and appliances ($246 million), cigars ($229 million), footwear uppers ($177 million), raw cane sugar ($125 million), jewelry ($124 million), fresh pineapples ($69 million), hot-rolled bars and rods of iron ($59 million), methanol ($58 million), frozen orange juice ($40 million), and undenatured ethyl alcohol ($34 million). The top four items (instruments and appliances, cigars, footwear uppers, and raw sugar) and methanol were items that normally would have been eligible for duty-free entry under the GSP program, except that at least one CBERA-beneficiary country had lost its GSP eligibility for the item by exceeding that program's competitive need limitation. The five remaining top-ten items (jewelry, fresh pineapples, hot-rolled bars and rods of iron, frozen orange juice, and undenatured ethyl alcohol) were items eligible for duty-free entry under the CBERA but not under the GSP program.

Of the $1.6 billion of U.S. imports receiving duty-free treatment unique to the CBERA in 1998, $950 million was from the Dominican Republic; the other major beneficiaries included Costa Rica ($200 million), Trinidad and Tobago ($131 million), Guatemala ($110 million), Nicaragua ($73 million), Honduras ($44 million), the Bahamas ($35 million), and Jamaica ($24 million). The duty-free entries unique to the CBERA represented 12.2 percent of total U.S. imports subject to duty from the CBERA beneficiaries in 1998, and accounted for 77 percent of U.S. imports subject to duty from the Bahamas, followed by Barbados (40 percent), Trinidad and Tobago (28 percent), St. Lucia (26 percent), Nicaragua (24 percent) and the Dominican Republic (23 percent).

U.S. Employment and Trade with the Caribbean Basin Beneficiaries

Any adverse U.S. employment effects due to the CBERA would result from increased U.S. imports due to tariff preferences granted under the CBERA. Since there are several U.S. trade preference programs with different requirements (and particularly the uncertainty surrounding the GSP program) available to the CBERA beneficiaries, it is often not clear how to isolate the effects of the CBERA. The analysis in this report used two measures of duty-free entries under the CBERA to the assess the impact of the CBERA on U.S. employment: 1) the total amount that entered CBERA duty-free (including Section 222 imports), and 2) the amount that entered CBERA duty-free uniquely to the CBERA (i.e., that which would probably not have entered duty-free under other existing U.S. trade preference programs). Using these two criteria, attention is focused on 3-digit Standard Industrial Classification (SIC) categories of U.S. imports that entered duty-free under the CBERA which showed significant growth and represented a significant share of total U.S. imports in 1998.

Three 3-digit SIC-based import groups were identified, each with an increase of at least $5 million in CBERA duty-free entries or Section 222 duty-free imports, where the value of CBERA duty-free imports accounted for at least 3 percent of the value of U.S. imports of that item from all sources in 1998; they were field crops except cash grains, prepared fruits and vegetables, and electric distribution equipment. Five 3-digit SIC based import groups were found in which duty-free U.S. imports unique to the CBERA increased by over $1 million in 1998 and accounted for at least one percent of total U.S. imports of that SIC group. They were field crops except cash grains, prepared fruits and vegetables, sugar and confectionery products, cigarettes, and medical and dental instruments.

U.S. import trends in these product groups and employment trends in each of the U.S. industries producing products like those in these import groups will be considered shortly. Significant increases in U.S. imports of these products from the CBERA beneficiaries may, in part, reflect the availability of duty-free treatment under the CBERA. Since reliable U.S. employment data are not available for the field crops except cash grains industry, no employment analysis was performed for this industry. U.S. field crops imports covered a number of diverse items, and special provisions in the CBERA provide for expedited escape-clause import relief if import surges of perishable products from CBERA beneficiaries pose a threat to U.S. producers of like or similar products. In 1998, no petitions were filed for such relief. The major items receiving CBERA duty-free treatment in the field crops industry were dasheens, threshed burley tobacco, yams, and cassava; all of these items were also eligible for duty-free treatment under the GSP, except burley tobacco and Costa Rican cassava.

To place the analysis of domestic employment trends in the selected industries in perspective, the overall U.S. employment situation in 1998 is discussed first.

The U.S. Employment Situation in 1998

During 1998, the overall employment situation in the United States remained strong. The U.S. economy added 3.1 million jobs during 1998; employment has increased by 17.6 million since 1991. Total nonfarm employment in 1998 (125.8 million) was 16.4 million (or 15.0 percent) above the previous cyclical high recorded in 1990. The job gains during 1998 occurred in both the service-producing and goods-producing sectors. Within the goods-producing sector, there were job gains in construction and manufacturing, but a small decrease in mining. Employment in the goods-producing sector in 1998 (25.3 million) was 442,000 above its level in 1990. The manufacturing sector gained 97,000 jobs in 1998 (although the sector still has 304,000 jobs fewer than in 1990). The U.S. manufacturing sector, with employment of 18.8 million in 1998, has lost 2.3 million jobs since its peak in employment in 1979, although real manufacturing GDP has increased substantially since then. Most economists agree that many of these employment losses reflect, in part, the growth in productivity and changes in technology over this period, but there is disagreement about the relative importance of increased imports or trade deficits as a cause of these losses.

U.S. Import and Domestic Employment Trends in Selected Industrial Sectors Receiving Significant Benefits Provided under the CBERA in 1998

Prepared fruits and vegetables (SIC 203) : U.S. imports from the CBERA beneficiaries of prepared fruits and vegetables totaled $163.3 million in 1998, $16.2 million above their level in 1997. CBERA duty-free imports of these items totaled $143.5 million in 1998 and accounted for 4.7 percent of total U.S. imports of prepared fruits and vegetables. Almost 64 percent of the CBERA duty-free imports of prepared fruits and vegetables were items that were not eligible for GSP duty-free treatment. U.S. imports from CBERA beneficiaries of these products eligible for CBERA but not for GSP duty-free treatment totaled $92.3 million in 1998, $91.8 million of which entered duty-free under CBERA and accounted for 3.0 percent of total U.S. imports of prepared fruits and vegetables. Major items included frozen orange juice, pineapples, vegetable mixtures, fruit pastes, broccoli, and cauliflower. Other CBERA duty-free prepared fruits and vegetables imports eligible for duty-free entry under the GSP included banana pulp, fruit nuts, mixed condiments, and soups.

U.S. employment in the prepared fruits and vegetables industry has decreased at an annual average rate of 0.45 percent over the period 1979-98 and 0.9 percent over the 1990-98 period; during 1998 this industry lost 2,600 jobs (1.1 percent). U.S. imports from the CBERA beneficiaries and CBERA duty-free imports both increased during 1998, although they remained a relatively small percentage of total U.S. imports of these items (5.3 percent and 4.7 percent, respectively). Given these factors, it is possible that some of the reduced employment in this industry was due to increased imports from the CBERA beneficiaries due to the duty-free provisions of the CBERA program. However, given that employment declines in this sector have been quite modest, and that imports from CBERA beneficiaries account for a small percentage of total U.S. imports of prepared fruits and vegetables, the duty-free provisions of the CBERA do not appear to have presented a significant adjustment problem for this industry.

Sugar and confectionery products (SIC 206): U.S. imports from the CBERA-beneficiaries of sugar and confectionery products decreased by 27 percent during 1998, after increasing by 83 percent during 1996 and decreasing by 1 percent in 1997. U.S. imports of these items amounted to $361.1 million during 1998 and accounted for 12.0 percent of total U.S. sugar and confectionery product imports. Over 95 percent of these imports from the CBERA beneficiaries entered duty-free under either the CBERA or GSP programs.

CBERA duty-free imports of these items were $293.5 million in 1998, while GSP duty-free imports totaled $49.6 million. U.S. duty-free imports from CBERA beneficiaries of sugar and confectionery products that were eligible for CBERA but not for GSP duty-free treatment totaled $154.9 million (5.2 percent of all U.S. sugar and confectionery product imports). Since U.S. cane sugar imports are subject to U.S. quota levels which are set to equate projected U.S. consumption needs with projected U.S. production, the duty-free provisions of the CBERA program do not permit the CBERA beneficiaries to increase their sugar exports into the United States at the expense of reduced U.S. production. A small portion of the CBERA duty-free imports of sugar and confectionery products are not covered by U.S. quotas, and it is possible that duty-free treatment of these items may have increased CBERA-beneficiary exports of those items.

U.S. employment in the sugar and confectionery products industry has decreased at an annual rate of 0.8 percent over the 1979-98 period and decreased at an annual 0.2 percent rate over the 1990-98 period; in 1998, employment was stable. Since U.S. sugar quotas control the level of U.S. sugar imports and only a small amount of sugar products that enter duty-free under the CBERA are not subject to quotas, the duty-free provisions of the CBERA do not appear to have presented any substantial employment adjustment problems for this industry.

Cigarettes(SIC 211) U.S. imports from the CBERA beneficiaries of cigarettes totaled $5.4 million in 1998, approximately the same level as in 1997. CBERA duty-free imports of these items totaled $5.4 million in 1998 and accounted for 9.1 percent of total U.S. imports of cigarettes. U.S. cigarette imports from the CBERA beneficiaries that were eligible for CBERA but not for GSP duty-free treatment totaled $5.4 million in 1998 (9.1 percent of total U.S. imports of cigarettes), and all entered duty-free under the CBERA.

U.S. employment in the cigarettes industry declined by 1,300 during 1998 to 26,700. Employment in this industry fell by an average annual rate of 2.4 percent between 1979 and 1990 and declined at a 3.4 average annual rate since 1990. Although the amount of cigarettes imports from the CBERA beneficiaries that benefitted from the CBERA duty-free provisions increased slightly during 1998, the overall amount of cigarette imports from the CBERA nations remained stable during 1998. Thus, it is unlikely that CBERA imports of these items, generally, or the duty-free provisions of the CBERA, have presented any adjustment problem for this industry.

Electric distribution equipment (SIC 361): U.S. imports of CBERA electric distribution equipment increased by $10.6 million (17.8 percent) to $70.2 million in 1998; $62.3 million of which entered CBERA duty free and almost all were items eligible for GSP. The CBERA duty-free imports were composed mostly of automatic circuit breakers and transformer parts. The CBERA beneficiaries accounted for 4.3 percent of total U.S. imports electric distribution equipment.

U.S. employment in the electric distribution equipment industry increased by 200 (0.2 percent) to 82,200 in 1998. While this industry has suffered a significant employment decline of almost 31 percent between 1979 and 1992, employment has been relatively stable since 1992. Given the small percentage (3.8 percent) of CBERA-free imports in total U.S. imports of electric distribution equipment and the relatively stable employment in this industry since 1992, it does not appear that the CBERA program has resulted in any adjustment problem for this industry.

Medical and dental instruments (SIC 384): U.S. imports of medical and dental instruments from the CBERA beneficiaries increased by 8.2 percent to $399.4 million in 1998. While U.S. imports of these items from the CBERA beneficiaries increased by 511 percent between 1992 and 1996, they moderated to a 4.8 percent increase in 1997. During 1998, almost 78 percent ($310.8 million) of these imports entered duty-free under the CBERA and accounted for 4.0 percent of total U.S. imports of medical instruments. Of this, $82.4 million entered under Section 222 and $228.4 million entered duty-free under the regular CBERA provision ($214.5 million of which were items not eligible for GSP duty-free treatment). Of the $82.4 million entered under Section 222, CBERA-beneficiary value-added amounted to only $32.8 million. The CBERA duty-free items that were not eligible for GSP consisted primarily of medical instruments (HTS 9018.90.80) from the Dominican Republic that had lost GSP duty-free treatment by exceeding the competitive need limits.

U.S. employment in the medical and dental instruments industry increased by 3,000 during 1998; employment in this industry is now 33,000 above its 1990 level. Comparable employment data for earlier years are not available because this industry classification was created in 1988 as a result of a revision in the SIC. Although CBERA duty-free imports have increased significantly over the last several years, a sizable percentage of the increased CBERA duty-free imports are U.S. components entered under Section 222 or the regular 9802 program. Since the increase in CBERA duty-free imports has been moderate since 1996, and since U.S. employment in this industry has been increasing moderately, but consistently, it does not appear that the benefits provided by the CBERA program have produced a significant adjustment problem for this industry.

Update on industries with significant CBERA duty-free imports from previous reports: Previous reports have consistently found significant increases in CBERA duty-free imports accompanied by significant long-term (secular) domestic employment declines in the cigars and cheroots industry and the leather cut for shoes industry. CBERA duty-free imports of both items decreased during 1998.

Although CBERA duty-free imports of cigars and cheroots were the largest of any 3-digit SIC industry in 1998, U.S. imports of cigars and cheroots decreased by 5.8 percent from $352.5 million in 1997 to $332.1 million in 1998. U.S. domestic employment in the cigars and cheroots industry increased by 100 to 3,200 in 1998; while employment in 1998 was 60 percent below its level in 1979, it was 19 percent above its level in 1990. Therefore, the duty-free provisions of the CBERA do not appear to have created any additional adjustment problem for the cigar and cheroots industry over the last several years.

U.S. imports from the CBERA beneficiaries of leather cut for shoes decreased by 1.3 percent (from $240.2 million in 1997 to $237.1

million) in 1998. U.S. employment in the leather cut for shoes industry, however, continued its secular decline by falling by 300 to 1,700 in 1998; employment in this industry has declined by 85 percent since 1979, and declined by 72 percent since1990. Given that CBERA duty-free imports of leather cut for shoes increased significantly during the 1990s and now account for a significant percentage of apparent U.S. consumption of these products, and given the long-run secular employment decline in this industry, the duty-free provisions of the CBERA program may have contributed to these employment declines. However, imports of leather cut for shoes from the CBERA beneficiaries appear to have stabilized over the last several years and thereby moderated any adjustment problems facing this industry that may have resulted from the duty-free provisions of the CBERA.

Conclusions

Although a definitive evaluation of the domestic employment impact of the CBERA cannot be made since the effects of duty-free provisions of the CBERA on U.S. imports cannot be completely isolated from the effects of other trade preference programs (such as the GSP and HTS items 9802.00.60 and 9802.00.80), it is unlikely that the CBERA has had a significant effect on overall U.S. employment. In addition, U.S. trade flows with the CBERA beneficiaries have been small, representing 1.9 percent of total U.S. imports.

Neither the dollar amount nor the rate of increase in U.S. imports from the CBERA beneficiaries has been extraordinary or threatening. U.S. imports from CBERA beneficiaries of items eligible (or possibly eligible) for duty-free treatment under the CBERA, but not under GSP, accounted for only 6.5 percent of U.S. imports from the CBERA beneficiaries in 1998 and imports of these items have grown at approximately the same moderate rate as total imports from the CBERA beneficiaries since 1984. The amounts entered duty-free have been modest, and the CBERA program appears to have had only a small effect in altering the production or export structure of the CBERA beneficiaries.

The amount of U.S. imports from the CBERA beneficiaries that has received duty-free treatment has increased by more than 569 percent since 1983--the year prior to the implementation of the CBERA program--due partly to increased utilization of CBERA benefits, although more than one-half of this increase was due to increased use of the 9802 provisions. During 1983, only 6.7 percent of U.S. imports from the CBERA beneficiaries entered duty free under the GSP program, while 20.8 percent entered duty free under either the GSP or CBERA programs during 1998. However, only 9.5 percent of imports from the CBERA beneficiaries enter duty-free due to unique provisions provided by the CBERA program. Almost one half of the duty-free imports provided uniquely by the CBERA are imports from the Dominican Republic.

The fact that the CBERA program has effectively eliminated the competitive need limitations of the GSP program has been much more important in increasing duty-free imports from the CBERA beneficiaries than the expanded list of items made eligible for duty-free treatment under the CBERA (relative to the GSP). During 1998, almost two-thirds of imports receiving duty-free treatment unique to the CBERA program were items normally eligible for GSP duty-free treatment but ineligible under that program due to exceeding the competitive need limitations.

During 1998, several categories of manufactured products showed significant increases in duty-free imports due to benefits provided uniquely by the CBERA program which were not available under the GSP, and accounted for a significant share of total U.S. imports. These products included prepared fruits and vegetables, sugar and confectionery products, cigarettes, and electric distribution equipment. In addition, there was a significant increase CBERA duty-free imports of electric distribution equipment, although these imports were also eligible for GSP duty-free treatment.

For most of the U.S. industries that produce items similar to those receiving substantial benefits under the CBERA, it is difficult to identify any adverse U.S. employment effects directly resulting from the CBERA benefits since either the U.S. market share of CBERA-beneficiary products is so small or U.S. employment growth in the industry has been relatively healthy. In 1998, there were domestic employment increases in the medical and dental instruments and the electric distribution equipment industries, while imports from the CBERA beneficiaries fell or were stable in the sugar products and cigarette industries. Only in the case of prepared fruits and vegetables did imports from the CBERA beneficiaries increase significantly while U.S. domestic employment fell significantly during 1998; however, the magnitudes of these changes were relatively small, and therefore, it appears that CBERA duty-free imports did not create a significant adjustment problem for this industry. In two additional industries, leather cut for shoes and cigars and cheroots, CBERA duty-free imports have grown significantly over the last several years and domestic employment has fallen significantly over the last decade. However, during 1998, CBERA duty-free imports in these two products fell slightly, and employment in the cigars and cheroots industry has stabilized, while employment in the leather cut for shoes industry has continued to fall. Although it is possible that the CBERA has played a role in the long-run secular employment declines in these two industries, CBERA duty-free imports stabilized during 1998.

Generally, the current level and composition of U.S. imports from the CBERA beneficiaries do not appear to pose a threat to U.S. employment. Most CBERA beneficiaries are small and have few resources. Traditionally, these beneficiaries have relied on exports of natural resources and agricultural products. While the world demand and prices have declined for many of their primary product exports, the development of assembly operations has created new job opportunities in the CBERA beneficiaries and helped foster skills needed for further economic development and industrialization. With the current lack of an industrial infrastructure, the potential exists for more extensive industrial investment, much of which would use U.S.-produced capital goods. As the Caribbean Basin region develops, it is anticipated that it will attract increasing levels of U.S. exports which will generate additional job opportunities in the United States. On the other hand, the duty-free benefits of the CBERA offer an incentive for diversification of production and development of exports to the U.S. market. Thus, the CBERA could create a more significant impact on U.S. employment in some industrial sectors in the future.

While the CBERA may offer the beneficiaries an incentive to diversify their export structure and more readily gain access to the U.S. market, the margin of these benefits has been declining in recent years. For example, the United States has successfully negotiated and implemented several comprehensive free trade agreements (with Israel in 1986; Canada in 1989; and Canada and Mexico in 1994). In 1992, the United States granted unilateral trade preferences for a ten-year period to the Andean nations (Bolivia, Colombia, Ecuador, and Peru) on many of the same items covered by the CBERA. Also, as the result of the conclusion and implementation of the Uruguay Round of multilateral trade negotiations, U.S. trade barriers in general are being reduced for all (normal trade relations) trading partners.

ENDNOTES

1. The value of the entire product enters duty-free under Section 222 of the CBERA while only the value of the U.S. components incorporated into a product are given duty-free treatment under the normal 9802 provisions.

2. Almost all nations, except several communist nations, are eligible for NTR rates of duty; for some products the duty rate is free and imports of these products enter NTR duty-free (this was formerly known as most-favored-nation (MFN) duty-free).

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