

Caribbean Region: Review of Economic Growth and Development

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Good morning Chairman Pearson and members of the Commission. My name is Katrin Kuhlmann, and I am the President of the Trade, Aid and Security Coalition (TASC) Executive Director of the Business Coalition for Capacity Building (BCCB). TASC is a nonprofit, nonpartisan initiative of the GlobalWorks Foundation that aims to expand global economic opportunity and security through the development of balanced trade and economic policies. The BCCB is a coalition of companies that partner with governments, international organizations, and NGOs to build capacity and promote sustainable economic development throughout the world. Thank you for inviting me here today.

Both TASC and the BCCB are strong proponents of using U.S. trade and economic policies to stimulate development and growth in poor regions of the world. Since the Generalized System of Preferences (GSP) program was created over forty years ago, trade preferences have become one of our most powerful tools to promote growth, poverty alleviation and economic and legal reforms in developing countries. The trade benefits granted to the Caribbean region have indeed increased and diversified exports, stimulated investment and created jobs.

While the original preferences extended to the Caribbean had a positive effect, real gains to the region became apparent with the enhanced preferences offered under the Caribbean Basin Trade Partnership Act (CBTPA) in 2000. Non-petroleum exports to the United States have more than tripled since preferences were first extended in 1983. Light manufactures, principally electronics and apparel, and also medical instruments and chemicals, account for an increasing share of U.S. imports from the Caribbean and constitute the fastest growing sectors for new investment. With the enhancement of preferences for Haiti through the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act, several thousand apparel jobs have already been created in Haiti, the poorest country in the hemisphere.

These trade preferences are not only essential to economic development and poverty reduction, they are also a vital component of U.S. political and economic relations with our neighbors in Central America and the Caribbean. Stability in the region has long been a goal of U.S. policy, and these small, vulnerable nations are worthy recipients of enhanced trade preferences. The Caribbean's proximity has also made it an important destination for U.S. goods. Together, the Caribbean

Basin Initiative (CBI) beneficiary countries rank eighth among U.S. market destinations, ahead of economies such as the Netherlands, Taiwan, France, and Singapore.

As CBTPA faces expiration in September 2008, it is time to look closely at how trade benefits have helped spur economic growth, why their renewal is critical, and, in some cases, how they could be enhanced to produce better results.

A. CBTPA

The CBTPA succeeded in increasing exports due to the inclusion of key products that had previously been considered too sensitive under the original CBI program. Its duty-free treatment of items like apparel and footwear, in particular, has helped the Caribbean countries in the face of increasing competition, particularly from large developing Asian countries that dominate these industries and which have well-developed infrastructure and vertically-integrated supply chains. For example, since CBTPA was passed, small countries such as Belize and Barbados have been able to increase exports to the United States in industries like apparel and fisheries.

While the CBTPA has produced some notable successes, there are ways in which the program's benefits could be strengthened:

1) Renew and Give Certainty to CBTPA:

First, in order to have the greatest impact on economic development, security, and poverty reduction, trade preference programs need to be reliable, simple, transparent, and inclusive of developing countries' needs. The expiration dates that often come with these programs, such as the pending expiration of CBTPA, create uncertainty for investors and limit growth. The United States should act swiftly to renew CBTPA, either making it permanent like the rest of the CBI benefits, dependent upon countries' compliance with eligibility criteria, or renewing it for a substantial period of time.

Allowing the program to lapse in the hope that the beneficiary countries would move more quickly towards a free trade agreement (FTA) is not in line with the realities of the region. The CBTPA countries that are not already party to an FTA are very small developing economies that, in many cases, lack the capacity to rapidly implement an FTA's requirements.

The CBTPA is an important stepping stone – it not only strengthens our relationship with these countries but also encourages a deeper level of reform. With its emphasis on meeting the requirements of the WTO and internationally recognized labor conditions, among other conditions, CBTPA encourages just the type of reform needed to prepare for greater trade integration. Allowing it to expire

would only send a negative signal to countries working hard to institute important reforms.

2) Simplify Rules of Origin:

Second, while CBTPA notably expands duty-free treatment to key products, this expanded market access comes with the burden of complicated rules of origin that restrict trade and can be difficult for small producers to navigate. For apparel exports to qualify for duty-free treatment, numerous conditions must be met, including the requirement of using U.S. yarn and thread.

The removal of global apparel quotas in 2005 had a significant impact on apparel producers in the Caribbean region, as China and other large, low-cost producers in Asia became increasingly able to claim global market share. CBTPA preferences have helped these countries merely hang on in an increasingly competitive global apparel market. Renewing CBTPA and relaxing the rules of origin for CBI countries would help these very small, vulnerable economies remain in the global apparel business.

B. Haiti - HOPE Act

Haiti deserves special consideration because of its particular political and economic vulnerabilities. With around eighty percent of its population living in abject poverty and a per capita GDP of only \$480, Haiti is the poorest country in the hemisphere and the only country in the region classified among the world's least developed countries (LDCs). The HOPE Act was a good step towards addressing Haiti's particular needs, but it was only a first step.

For Haiti, the apparel industry is of particular importance. In Haiti, as in the rest of the region, many of those working in the apparel sector are poor women who have few other economic opportunities. According to industry experts, women comprise over sixty percent of the apparel industry. These jobs, which often support between ten and fifteen family members, enable women to send children to school, care for the sick, and provide food and improved livelihoods for entire families. In addition, jobs in the apparel sector give rise to opportunities in related industries and services. Without preference programs like CBTPA and HOPE, these opportunities – and the promise of a better future they bring – would not exist.

While HOPE does create the possibility of increased trade in apparel, its provisions are still exceedingly complicated. Importantly, HOPE does allow Haiti to use fabric from third countries, but this benefit is limited by both quantitative restrictions and a restrictive value rule that shifts over the duration of the program. HOPE includes preferences for woven apparel, but they apply for only a short, three-year period. For knit apparel, an area of specialization for the Haitian apparel industry, similar benefits do not apply. Further, total apparel exports to the United States are capped, preventing larger-scale growth. These complicated

requirements create a very high bar for a poor country like Haiti and limit the country's ability to see true economic gains. Careful attention should be given right away to how to build upon the HOPE Act.

HOPE, like CBTPA, is not permanent, and most of its benefits are set to expire in 2012, with some expiring even sooner. Extending these benefits for a substantial period of time no shorter than ten years – or even better, making them permanent – would give investment in sectors such as apparel a chance to really take root in Haiti. Simplifying and relaxing the rules of origin and further increasing opportunities for apparel producers would allow for additional jobs to be created, helping those, including poor women, who need the help most. Ultimately, because of the level of poverty in Haiti, Haiti, like other LDCs, should receive enhanced preferential access for all products, with simple and easy-to-meet rules of origin under a permanent preference program.

C. Trade Capacity Building

1) Haiti:

Haiti also suffers from lack of infrastructure and supply side deficiencies. Current U.S. aid to Haiti has made a difference, particularly in areas such as microcredit and assistance to small farmers and artisans, yet much more needs to be done.

While Haiti currently receives more aid than the other countries of the region, further attention should be given to ensuring that these funds are used to help Haiti address those areas that could most directly contribute to economic development and poverty reduction. Infrastructure is needed to modernize port facilities and to equip manufacturers to enhance existing production. While protecting internationally recognized human and worker rights is a notable component of the HOPE Act, Haiti, like many other very poor countries, could use capacity building funds to help improve its ability to meet these conditions.

2) Regional Capacity Building Needs

Like Haiti, the other countries in the region lack the infrastructure necessary to continue to develop and expand their economies. Greater capacity building in areas like trade facilitation, intellectual property rights (IPR), environment, and sanitary and phytosanitary (SPS) requirements would help countries better meet international standards. If a broader FTA arrangement with the region is indeed down the road, building the capacity now to meet FTA requirements would help both the United States and the countries themselves, particularly the poorest in those countries who may otherwise be vulnerable to the economic transition that can accompany an FTA.

Trade capacity building could also help the CBI countries diversify exports. The United States provides relatively generous trade capacity building assistance to the CAFTA countries, which already dominate the region's trade. We should now scale up capacity building assistance for the other, smaller, countries in the region, which are still struggling to achieve some level of sustainable economic development.

3) Trade Capacity Building for Services:

Finally, for most countries in the region, economic growth opportunities are arising in services sectors such as tourism, financial services and professional services. While goods market access remains important to keep the benefits already generated, greater attention should be paid to how to expand opportunities in services over the longer term. Trade capacity building assistance focused on services could be the key to much-needed economic diversification and could simultaneously open up opportunities for U.S. industry to invest and do business in the region.

Thank you again for the opportunity to testify today. I would be happy to answer any questions you have.