MANCHESTER TRADE
INTERNATIONAL BUSINESS ADVISORS

DRAFT

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US-CARICOM Trade and Investment Relations

Stephen Lande, President, Manchester Trade Limited Inc (MTL)

Introduction:

It is an honor to have been invited by the Shridath Ramphal Center of the University of the West Indies, the US Embassy in Barbados and the Caribbean Policy Consortium, to be the initial presenter in their series on Trade and Investment relations. The presentation focuses on deepening relations in the trade and investment areas. Later presentation in the series will focus on other areas through the introduction of new US initiative, a so-called CBI 2.0 initiative.

The idea for such an initiative originated in a paper prepared for CSIS in 2018 by widely respected political science analyst and past high-level official at a number of respected NGO's, Georges Fauriol. Fauriol introduced the idea of updating and expanding the scope of the 1984 Caribbean Basin Economic Recovery Act known as the Caribbean Basin through a CBI 2.0 proposal. This nomenclature was derived from the Trump Administration initiative which updated the North American Free Trade Agreement (NAFTA) originally implemented in 1994 by NAFTA 2.0, This initiative eventually became finalized in the United States Mexico, Canada Agreement (USMCA) which was 90 percent NAFTA with the remaining 10 percent containing new provisions strengthening labor rights.

The initiative would go well beyond the original CBI which was limited to preferential trade benefits to address and ameliorate or eliminate US policies slowing economic growth in Caricom countries. CBI specifically provided duty-free treatment for products excluded from the United States Generalized System of Preferences (GSP), a 1974 law which provided duty-free entry for imports into the United States from all developing countries. The CBI largely excluded sensitive agricultural products meaning products which are grown in the tropics but compete with temperate agriculture. Also excluded were labor intensive assembling and manufacturing where the U.S, had a limited but a shrinking domestic industry. However, these concessions provided minimal benefit to CARICOM members at the time,[1] which even with preferential entry was not competitive in labor intensive manufacturing. There were attempts to establish manufacturing to take advantage of the program but these activities were doomed to failure since the Caribbean's small population and tourist-

[1] Haiti did not become a full member of CARICOM until 2020.

based economy meant that they lacked the comparative advantage to compete in low wage manufacturing. In fact, the only products which benefited significantly was rum through specific tax arrangements and a newly developing ethanol industry.

In fact, beyond tourism, the members of CARICOM at this time were all economies largely dependent on mineral extraction, production of tropical products which were either already duty-free or if they competed with US production, they remained subject to strict quotas. Thus, it was not surprising that in addition to Haiti, the benefits largely went to Central America and the Dominican Republic.
Despite this, the CBI was widely welcomed since it represented a broad engagement by the US in the CARICOM countries. The fact that CARICOM members were not able to benefit from the enhanced market access did not become apparent until many years later. The immediate aftermath of passage was that the US position in the region improved significantly.

Over time, the program lost much of its relevance, The Dominican Republic and Central America left the CBI when they entered into an FTA with the U.S. The U.S. implemented the Hope Act (Haitian Hemispheric Opportunity through Partnership Encouragement Act) which provided textile benefits only for Haiti in 2008. In addition, third countries introduced their own programs. The European Union increased its presence through forcing Caribbean countries to negotiation reciprocal Economic Partnership Agreements (EPAs) requiring the Caricom to phase in duty-free treatment on between 70 and 80 percent of EU imports into CARICOM. More recently, Chinese initiative represented by infrastructure development and commercial outreach posed a challenge to the formerly dominant US and European presence in the region.

There have been no significant trade and investment initiatives applicable to CARICOM other than technical improvements to CBERA passed in 2000 and in 2002. The U.S.-Caribbean Trade and Investment Framework Agreement (TIFA) signed in 2013 by then Vice President Biden and the President of Haiti created a reinvigorated Trade and Investment Council. The TIC has only met two or three times since then and only at a senior bureaucratic level and has introduced few if any significant initiatives. Fauriol mentioned that a promising template for reenergizing the Caribbean emerged with the Strategic Engagement Act of 2016 which required the Administration to develop a strategy for the region. Unfortunately, the strategy known as Caribbean 2020 was developed only by the State Department without active interagency engagement and instead being a proactive program became a long list of tasks without follow-up.

There are many economic programs applicable to the region. In fact, they will be discussed in some detail by the next panelist, Patrick Duddy, long-time State Department official and currently a Duke University. Many of the programs are quite innovative and deserve the attention of traders and investors. However, none are aimed at the region with the exception of the CBI which unfortunately is limited to trade preferences. What is needed is a program which deals with the special problems of the region in other areas such as in offshore banking, exposure to natural disasters, reliance on tourism. Such a program must allow agencies sufficient flexibility to deal with these problems in unique ways. Specific agencies would only agree to provide special benefits to the Caribbean if part of a Presidential initiative.

CBI which provided special trade provision for the region only came about due to a White House initiative. President Reagan and the National Security Council tasked the USTR Bill Brock and its Deputy Bob Hormats to develop a costless response to the request of newly elected Jamaican President Edward Seaga for a Marshall plan to combat Russian and Cuban influence in the region. Trade preferences had only a small impact on the budget and thus was preferred over the Seaga suggestion for a Marshal Plan. In addition, the President needed an economic response to challenges in Central America to accompany US policy in I support the Contras combatting the Communist influenced Ortega regime.

Then conditions now exist for another White House initiative for the region. The recent Summit of Democracies President Biden argued that democracies working together could provide the type of inclusive economic growth which is necessary to main support for democratic forms of governments as opposed to authoritarianism, protection and expansion of human rights and anti-corruption efforts. There is no region in the world more attached to democratic values than the Caricom countries, In fact if one excludes Haiti which come from a different tradition than the other CARICOM countries, no region in the world could boast that all its members countries were invited to the Summit. Since there will be a follow up Summit next year, implementation of CBI 2.0 would strengthen the US-Caricom partnership and enable the Biden Administration to demonstrate the advantage of democracies working together. Coincidentally, the objective of strengthening democracy s were remarkably close to the announced aims of the original CBI 40 years ago.

What results are possible which would allow the Biden Administration to demonstrate the advantages of democratic governments working together with common goals.

Below are examples of the contents of the program and the specific achievements which are possible.

1. The U.S. would grant privileged access to USG funds to promote private sector investment in CARICOM countries to assist them in overcoming the disadvantage of being Small Vulnerable Islands and to reward them for their democratic traditions. The access would be similar to that provided for least developed countries. Such access could easily be justified by the SVIs' lack of economic diversification, less accessible locations and being more exposed to natural disasters worsened by climate change, A concrete result for the next Summit could be for the new United States International Development Financial Corporation (USIDFC) which provides Chinese level of support for US private sector investment and the Trade Development Agency of the USG, providing assistance in feasibility and prefeasibility studies to allot special funding for projects in CARICOM countries and actual fast track approval of a few projects.

2. Working with the Small Business Administration (SBA) and the Minority Business Development Agency (MBDA) of the Department of Commerce, and the CARICOM Ambassadorial Group, a special outreach should be developed with the Caribbean Diaspora. A Diaspora conference should be convened by the end of the year.

3. USAID should focus on developing programs to assist CARICOM entrepreneurs in preparing investment profiles to interest US investors. These profiles should be distributed by Commerce Department field offices, SBA and MBDA in the US. The objective would be to point a few successful investments in the near future.

4. The Caribbean Coalition of Services should be tasked with preparing a study on barriers to Caribbean export of services. An example of such an obstacle includes social security requirements that beneficiaries can only be covered for expenses made in the US and thus one is disincentivized form engage in medical tourism in the Caribbean. At least one or two obstacles

should be identified and addressed in this study. The White House should work with the service provides and the Caribbean governments to remove such unjustifiable restrictions.

5. The US and Caribbean authorities have improved their cooperation in combatting money laundering. Yet, financial transaction has not been sufficiently derisked to allow US banks to feel comfortable to enter correspondent relations with Caribbean domiciled banks. There should be intensified efforts for sufficiently derisking to allow one or two American banks to enter such correspondent banking relationship. The Treasury should work with US banks to protect them from OFAC penalties if Treasury has reviewed the offshore banking procedures and determined that they meet lofty standards. Under current rules. are sufficient. Under current rules, despite the best effort of any of these entities, the U.S, bank is subject to penalties if funds transferred through a correspondent bank in the Caribbean ends up in questionable hands.

Follow-Up

To be clear, the idea of using the follow-up Summit of Democracies as an action forcing event to introduce, develop and implement a CBI 2.0 initiative is novel to Washington. In fact, as far as this presenter knows, this presentation is the first time, that there has been any serious discussion of a CBI 2.0 initiative since the Fauriol mention. Also, any such initiative would have to go beyond the trade and investment issues discussed in this paper.

The author looks forwards to discussing next steps with participants in this discussion.