THE CARIBBEAN BASIN TRADE BILL: GOOD ECONOMIC POLICY AND GOOD NEIGHBOR POLICY

Congress is considering legislation to reduce tariffs on some products from countries in the Caribbean Basin and could include this measure in the FY 1996 budget reconciliation package. This would be a wise action. The legislation is important to the economies of the Caribbean Basin and to the American companies that built factories there in the past decade under the incentives of President Reagan's 1983 Caribbean Basin Initiative.

The adoption of NAFTA in 1993 reduced tariffs on products from Mexico and created a tariff disadvantage for Caribbean countries. Many American companies with facilities currently located there are considering whether to shift production to Mexico. Diverting trade from Caribbean nations to Mexico because of the tariff differential certainly would benefit Mexico, but only at the expense of the smaller economies the Reagan Administration sought to help. Extending free trade to include imports from the Caribbean nations will prevent this distortion of the market.

The Caribbean Basin Trade Security Act (H.R. 553 and S. 529), introduced in January by Representative Phil Crane (R-IL) and Senator Bob Graham (D-FL), preserves the Reagan Administration's initiative to build up the economy of the Caribbean Basin and continues the United States commitment to open trade and economic development through free-market incentives. It would do this by reducing tariff barriers equivalent to NAFTA. A modified version of this bill is being considered by both the House and Senate.

Competitive Disadvantage. Many American companies, particularly in the apparel industry, have invested in Caribbean Basin countries during the past 10 years. During 1994, some $4.6 billion in textile and apparel products was shipped to the United States from the region. Because of NAFTA, however, goods shipped from Mexico are becoming less expensive relative to products shipped from the Caribbean, where tariffs are higher. Mexico shipped $2.4 billion in textiles and apparel to the United States in 1994, and the amount is expected to increase in 1995. Companies now operating in the Caribbean Basin are considering relocating to Mexico because of the less costly trade restrictions. The bill would provide that the rules of origin for component parts of goods imported from the Caribbean are the same as those that apply to goods from Mexico. It also would set equal tariff rates.

Industry groups, including the American Apparel Manufacturers Association, American Textile Manufacturers Institute, United States Apparel Industry Council, American Yarn Spinners Association, American Fiber Manufacturers Association, and National Cotton Council, as well as the Association of American Chambers of Commerce in Latin America, have urged the Senate Finance Committee to include the Caribbean Basin Trade Security provision in the FY 1996 budget reconciliation legislation to stop the investment diversion caused by Mexico's more favorable trade situation. The industry groups say approximately 275,000 American jobs depend on current Caribbean trade because of the way production has been diversified in the past decade.

Protectionism vs. Free Trade. The Caribbean Basin legislation may become the first battle in the 104th Congress between advocates of protectionism and supporters of freer trade. The bill enjoys bipartisan support. H.R. 553, introduced by a Republican, was co-sponsored by the top-ranking Democratic members on the House Ways and Means Committee, and all subsequent co-sponsors have been Democrats. S. 529, introduced by a Democrat, is co-sponsored by Senator Charles Grassley (R-IA), chairman of the Senate Trade Subcommittee. But opponents blocked the addition of this legislation to the FY 1996 budget reconciliation during the Ways and Means Committee markup on September 12-13. Opponents of the bill are predominantly Members of Congress who also opposed NAFTA and GATT in the last Congress. Unfortunately, they have been joined by several otherwise free-market freshmen.

Regrettably, H.R. 553 and S. 529 have become symbols of the populist debate over trade policy. Those who opposed NAFTA and GATT in 1993 and 1994 now see the Caribbean Basin Trade Security bill as another chance to argue against international trade. They claim that American jobs will be lost and that further reducing tariffs on imports from the Caribbean Basin will cost $1.1 billion in lost tariff revenue over the next five years. But the reality is that tariff revenue from the Caribbean already is being lost from the diversion of trade to Mexico. The legislation actually would preserve tariff revenue that otherwise would be lost over time.

Certainly there may be some U.S. jobs at risk under NAFTA as other textile apparel manufacturers establish production in Mexico. But the argument that U.S. jobs will be lost due to the Caribbean Basin Trade Security Act is flawed. Reducing Caribbean tariffs to NAFTA levels will facilitate ongoing production in joint U.S.-Caribbean factories. NAFTA created those incentives for investment two years ago. Moving factories and jobs to Mexico from the Caribbean and reducing tariffs for Caribbean countries so that existing production facilities can remain profitable will not cost U.S. jobs but will preserve Caribbean jobs and a flow of tariff revenues to the United States. Because of generally higher transportation costs and tariffs under current law, any jobs at risk are in the Caribbean.

The Senate Finance Committee should include the Caribbean Basin Trade Security Act in its FY 1996 budget reconciliation bill, and the House of Representatives should reconsider last month's Ways and Means Committee decision. American companies have made substantial investments in the Caribbean region in response to the trade incentives Congress established after 1983. The promise of improved economic growth in Mexico following the implementation of NAFTA should not come at the expense of small, developing countries of the Caribbean Basin. Free trade fosters production and investment by allowing consumer demand to set the terms of profitability and by getting government-imposed trade barriers and tariffs out of the way. The Caribbean Basin Initiative in the 1980s started this process in the Caribbean, and NAFTA has opened Mexico even more to market forces. Eliminating the remaining barriers to Caribbean trade will level the playing field.

Supporters of deregulation and the free market should continue the program started by the Reagan Administration to build up the economy of the Caribbean Basin and reinforce the message of United States commitment to open trade and worldwide economic growth through free-market incentives.

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