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CAFTA-DR: A Resounding Success

Accord is a "Win-Win" for Workers, Farmers, and Companies

by John Murphy

Executive Summary

- CAFTA-DR has been a dramatic success. In just two years, it has helped American companies large and small increase their exports to Central America and the Dominican Republic by an impressive 55%.
- U.S. exports of agricultural products to the region more than doubled, and nearly 20,000 small businesses are successfully tapping the Central American and Dominican markets.
- The Chamber estimates that machinery exports to Central America and the Dominican Republic sustain more than 100,000 American jobs — similar to the number of Americans employed by General Motors.
- Belying criticism that the CAFTA-DR market is insignificant, U.S. companies today export more to these six countries than to Italy, a G7 economy that is one of the largest and richest in the world.
- The U.S. trade balance with Central America and the Dominican Republic went from a $1.2 billion deficit in 2005 to a projected $5 billion surplus in 2008.
- Thanks in part to CAFTA-DR, Central America and the Dominican Republic in 2006-2007 achieved their highest economic growth rates since the early 1990s, successfully diversified their exports, and greatly increased the volume of direct investment they are attracting from overseas.

On January 1, Costa Rica will become the last of seven signatory countries to implement the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). CAFTA-DR entered into force over the first six months of 2006 between the United States and four Central American countries (El Salvador in March, Honduras and Nicaragua in April, and Guatemala in July). It entered into force with the Dominican Republic in March 2007.

While the agreement was only narrowly approved by Congress, it has proven to be a resounding success. It is creating new opportunities in Central America and the Dominican Republic for U.S. exporters, and its benefits are flowing directly to U.S. small businesses, manufacturers, farmers and ranchers, and textile and apparel workers, among others. It has also brought substantial benefits to Central America and the Dominican Republic in the form of major new investments, faster economic growth, and opportunities for small businesses.

Benefits for U.S. Workers, Farmers, and Companies

CAFTA-DR is a clear success in achieving its basic goal of boosting trade and, in turn, economic growth. Total trade between the United States and the other six CAFTA-DR countries is on track to surpass $46 billion in 2008, representing an expansion of more than 30% in just three years. U.S. exports to Central America and the Dominican Republic have risen by an even more impressive 55% between 2005 and 2008 and are projected to surpass $26 billion in 2008.[1]

Some key U.S. export sectors saw even stronger growth over the 2005-2008 period. U.S. machinery exports to the region rose by 50% from $3.9 billion to $5.9 billion. The Chamber estimates that machinery exports to Central America and the Dominican Republic sustain more than 100,000 American jobs — approximately the number of Americans employed by General Motors.

For American farmers and ranchers, the increase in sales has been dramatic. U.S. exports of agricultural products rose by an impressive 127% to $2.7 billion. Exports of cereals (grains), the largest component of U.S. farm sales to the region, doubled to $1.7 billion.

Belying criticism that the CAFTA-DR market is insignificant, U.S. exports to Central America and the Dominican Republic in 2007 exceeded U.S. exports to Italy, a G7 economy that is one of the largest, richest, and most sophisticated in the world. In fact, the six countries purchased more U.S. exports than Russia, Indonesia, and South Africa combined.

While most economists reject the contention that trade deficits are by definition harmful to the U.S. economy, the prediction made by some opponents of CAFTA-DR that it would increase the U.S. trade deficit has not been borne out in practice. In fact, the U.S. trade balance with these countries went from a $1.2 billion deficit in 2005 to a $3.7 billion surplus in 2007 and a projected $5 billion surplus in 2008.

Beyond the statistics, the most impressive results under CAFTA-DR may be for smaller companies. Today, a quarter million small or medium-sized U.S. companies export. These smaller firms make up 97% of all exporters, and their overseas sales represent nearly a third of all U.S. merchandise exports.[2] By 2006, nearly 20,000 U.S. companies were exporting to Central America and the Dominican Republic, and small businesses represented about 90% of all exporters.

For small exporters, a tariff of 20%, 10%, or even 5% can be enough to shut them out of foreign markets, and non-tariff barriers can be deal breakers. Consequently, trade agreements such as CAFTA-DR can provide outsized benefits for these smaller companies.

Before Congress approved CAFTA-DR in 2005, the U.S. Chamber and the Association of American Chambers of Commerce in Latin America (AACCLA) released a book entitled *Faces of Trade with Central America and the Dominican Republic* to highlight some 50 U.S. companies that were already benefiting from trade with these countries but that stood to do even better with a free trade agreement. The Chamber recently revisited these firms and confirmed that many are drawing impressive benefits from the agreement.

One example is Mamá Lycha, of Houston, Texas, a food products firm. Since 2004, when the Chamber first interviewed the firm's president Luis Padilla, the company has expanded its number of employees by 50%, from 12 to 18, and CAFTA-DR is one reason why the firm has achieved this growth. Mr. Padilla says, "We are just

U.S. Exports to Central America and the Dominican Republic, 2005-2008 (thousands of dollars and percentages)					
	2005	2006	2007	2008*	% Change 2005-2008
TOTAL	**16,826,889**	**19,603,498**	**22,412,939**	**26,016,892**	**54.6%**
Electric machinery	2,347,981	2,913,893	3,450,776	3,662,771	56.0%
Fuels	2,608,337	1,700,110	2,771,911	3,686,642	198.6%
Other machinery	1,585,277	1,842,277	2,131,049	2,248,418	41.8%
Plastics	976,582	1,150,508	1,286,049	1,467,944	50.3%
Cotton yarn, fabric	1,006,483	1,147,357	1,214,426	1,354,698	34.6%
Cereals	759,731	944,579	1,192,854	1,648,786	117.0%
Vehicles	506,034	627,107	851,174	853,393	68.6%
Knit fabrics	867,476	727,778	770,887	811,030	-6.5%
Paper products	584,083	687,888	751,822	815,379	39.6%
Medical & optical instruments	508,919	579,755	675,084	682,112	34.0%
Knit apparel	868,513	740,247	479,909	266,749	-69.3%
Animal feeds and other food waste	231,639	296,196	385,163	554,837	139.5%
Precious stones	309,964	377,067	383,683	423,275	36.6%
Manmade staple fibers and fabrics	252,799	262,887	281,370	352,755	39.5%
Manmade filaments, fabrics	165,077	214,052	238,850	224,694	36.1%
Non-knit apparel	450,109	286,928	221,363	184,927	-58.9%
Animal & vegetable oils and fats	104,267	129,731	190,899	326,323	213.0%
Chemicals	116,527	138,369	182,098	216,771	86.0%
Iron and steel articles	121,460	132,490	170,582	207,213	70.6%
Fertilizers	111,049	119,424	164,521	249,294	124.5%
Other foods	132,273	187,190	162,441	160,586	21.4%
Organic chemicals	124,164	128,990	151,791	205,581	65.6%
Meats	91,301	97,362	142,004	162,731	78.2%
Paints, tanning materials, dyes	95,877	111,177	137,317	152,274	58.8%
Rubber articles	85,122	107,924	135,213	151,180	77.6%
Oilseeds, fruits, other grains	111,225	106,561	129,865	149,218	34.2%

Source: Foreign Trade Division, U.S. Census Bureau, U.S. Department of Commerce.
**Figures for 2008 are based on data through September 2008 and projections for the final quarter of the year.*

beginning to see the impacts of the CAFTA-DR agreement, but we hope that its provisions will continue to fuel our growth."

Another example is International Export Sales, of St. Rose, Louisiana, which sells supermarket equipment and light industrial refrigeration equipment. The number of jobs at this firm has grown at an even faster clip: the firm has gone from four employees to eight since the firm's executives were first interviewed.

Wilma Castro, Sales Manager with the company, reports: "Our business with Central American has increased 100% since CAFTA-DR took effect. I have found that when I explain to clients that they can now purchase my products without the tariffs they paid before CAFTA-DR, they buy more. I have won many new clients this year just by explaining to them the impact of CAFTA-DR on their purchase."

CAFTA-DR also represents a lifeline for the U.S. textile industries. With the end of the global quota system covering trade in textiles in 2005, international competition for the textile and apparel sector has become much more intense. In this context, CAFTA-DR is proving to be an indispensable tool to ensure the continued competitiveness of the textile and apparel industry in the Western Hemisphere.

Between 2005 and 2008, U.S. exports to Central America and the Dominican Republic of inputs for the apparel industry — cotton and manmade fibers, filaments, and fabrics — rose by 20% to $2.7 billion. At a time when America's textile and apparel sectors face unprecedented global competition, Central America and the Dominican Republic have proven to be excellent customers for these inputs.

Calculating that the agreement would bring just such an outcome, nearly the entire U.S. textile and apparel supply chain supported Congressional approval of CAFTA-DR. This included farm and industry representatives ranging from cotton growers and yarn spinners to textile and apparel manufacturers.

By selling their inputs to apparel manufacturers in Central America and the Dominican Republic — where fabric and other inputs are cut and sewn into garments for export — all parties have been better able to cut costs, stay competitive, and hold onto customers. CAFTA-DR is not a panacea for the textile and apparel sectors or for any other sector, but it has given these industries a fighting chance.

Benefits for Central America and the Dominican Republic

Similarly, CAFTA-DR is delivering benefits for Central America and the Dominican Republic in the form of economic growth and expanding trade and investment. According to the International Monetary Fund, the Central American countries enjoyed average economic growth rates above 5% in 2006 and 2007, their highest since the early 1990s. The Dominican Republic achieved growth rates in this period approaching 10%. These improvements are not due to any one factor, but growing trade and investment are clearly paying benefits for the region.

Central American and Dominican exports to the United States rose by about 10% between 2005 and 2008 and are projected to approach $20 billion in 2008 (up from $18 billion in 2005). This is less vigorous growth than seen in U.S. exports to Central America and the Dominican Republic, but the six countries have succeeded in one key trade goal they envisioned under CAFTA-DR, namely, diversifying their exports.

For example, El Salvador's exports to the United States of non-traditional exports (i.e., all exports other than textiles, apparel, and coffee) rose at an annual rate of 33% over the first two years after CAFTA-DR's entry into force. These non-traditional exports today account for twice the share of total exports they did in 2005.[3] Similar export diversification is evident in the other Central American countries and the Dominican Republic, with value-added agricultural and agribusiness products playing a prominent role in this success story.

During the negotiations for CAFTA-DR, most political leaders in Central America and the Dominican Republic cited the prospect of attracting more foreign direct investment (FDI) as the key development opportunity presented by the accord. In this area, the six countries are reaping remarkable benefits.

According to the United National Economic Commission for Latin America and the Caribbean (ECLAC), Costa Rica and Honduras attracted FDI in 2006 and 2007 at triple the annual average rate they did in 1998-2002 (years that offer a reasonable benchmark for comparison). El Salvador attracted FDI at twice the rate it did in 1998-2002, and the other three countries attracted 31-58% more FDI annually than they did in the same reference period. While CAFTA-DR has only now entered into force for Costa Rica, the expectation that it would do so soon is widely viewed as an important factor in its success in attracting more FDI.

FDI Inflows to Central America and the Dominican Republic, 1993-2007
(millions of dollars and percentages)

	1993-1997*	1998-2002*	2003-2007*	2006-2007*	% Change 2006-2007 vs 1998-2002
Costa Rica	343	552	1,082	1,679	204%
Dominican Republic	266	997	1,160	1,579	58%
El Salvador	22	448	555	873	95%
Honduras	65	259	608	745	188%
Guatemala	89	325	280	445	37%
Nicaragua	100	235	262	309	31%

*Source: United National Economic Commission for Latin America and the Caribbean (ECLAC), estimates based on official figures as of April 30, 2008. * Annual averages.*

This is a remarkable performance for Central America and the Dominican Republic, and it strongly suggests that the trade agreement and the region's integration have allowed it to attract investor attention at a new level.

According to ECLAC, these countries have recently attracted far more FDI relative to the size of their economies than the Latin American average. In fact, they outperformed the Latin American giants, Brazil and Mexico, by a wide margin, and were bested only by Panama and Chile. The Latin American countries with the worst performance by this measure were Ecuador, Bolivia, and Venezuela.[4]

As in the United States, many small companies in Central America and the Dominican Republic are benefiting from trade under the agreement. For example, Muebles Guayacán, a small company located near Antigua, Guatemala, makes furniture, doors, and other wood products. With the help of the Trade Capacity Building Institute in New Orleans, which was created as part of the CAFTA-DR process, the owner of Muebles Guayacán was introduced to some construction companies, including a woman who was in the market for doors for post-Katrina reconstruction in Louisiana. So far a deal worth $135,000 is in the offing, an astronomical sum for a small manufacturer in semi-rural Guatemala.

In El Salvador, Pahnas, a tamale and pupusa exporting company, has quadrupled its sales from $200,000 in 2004 to $800,000 in 2006 by taking advantage of new duty-free access to U.S. markets. The company's Rodolfo Papini says, "We are currently selling to 17 supermarkets in Miami, and CAFTA-DR made this possible."
In addition, companies from around the world are looking at Central America and the Dominican Republic in a new light thanks to CAFTA-DR, and they are directing investment to the region and creating jobs. For example, Nina Simone, a Brazilian shoe manufacturer, is investing $3.5 million in El Salvador and will create 400 jobs during the first year of operations. The firm reports it would not have invested in El Salvador had it not been for CAFTA-DR.

Conclusion

CAFTA-DR has proven to be a resounding success. By giving U.S. workers, farmers and companies a level playing field in Central America and the Dominican Republic, the agreement has brought real benefits to the United States. It has also brought benefits to Central America and the Dominican Republic in the form of new investment, faster economic growth, and opportunities for small businesses. With such a strong "early harvest" from the agreement, its long-term benefits are likely to be even more impressive — a clear "win-win" for the United States, Central America, and the Dominican Republic.

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[1] The trade statistics in this document are from the Foreign Trade Division of the U.S. Census Bureau, U.S. Department of Commerce. Figures for 2008 are based on data through September 2008 and projections for the final quarter of the year.
[2] The small business export statistics in this document are from the International Trade Administration, U.S. Department of Commerce.
[3] Export diversification statistics provided by the Embassy of El Salvador, Washington, D.C.
[4] *Foreign Investment in Latin America and the Caribbean 2007*, United National Economic Commission for Latin America and the Caribbean (ECLAC).