

**Costa Rica Ratifies the Central American Free Trade Agreement as the
Last Participant to Implement the Agreement: Full Implementation Will Help Ag Trade**

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Costa Rica narrowly approved the ratification of the Central American Free Trade Agreement (CAFTA-DR) with the U.S. on Sunday (10-07-07). Costa Rica was the last country to ratify the agreement and the only one to take the ratification process to a popular vote. The agreement entered into force between the U.S. and four countries in 2006 where implementation occurred as follows: El Salvador, March 1, 2006; Guatemala, June 1, 2006; Honduras, April 1, 2006; Nicaragua, April 1, 2006 and with the Dominican Republic on March 1, 2007.

The U.S. ratified the agreement on August 2, 2005, shortly after a narrow (217-215) margin of passage in the House. The Senate passed the CAFTA-DR on June 30, 2005 by a 54-45 margin. While only fifty-two percent of voters in Costa Rica backed the agreement and the U.S. had warned Costa Rica that it could lose valuable access to U.S. markets if the country rejected the agreement, it appears there is significant opposition to opening borders to trade, both in U.S. and the other countries involved.

The objective of CAFTA-DR is to open U.S. and Central America markets, creating a free-trade zone similar to that created between the US, Mexico and Canada as a result of the North American Free Trade Agreement (NAFTA). Once approved the agreement eliminates tariffs on more than 80 percent of U.S. exports of consumer and industrial products, phasing out the rest over 10 years. In terms of agricultural trade, CAFTA-DR provisions eliminate tariffs on basic grains, such as rice, beans and corns both immediately and gradually depending on country and product specific agreements. As such, opponents to the agreement contend that the agreement particularly affects the rural sector throughout Latin America where small farmers are unable to compete with subsidized agricultural imports from the U.S. Opponents argue that the agreement has very troubling implications for poverty and development in a region that is predominantly rural and agriculture based.

Opponents in the U.S. argue that free trade agreements cost U.S. workers jobs by opening industries to competition from countries that may not have the same safety, quality and other standards as the U.S.

Even without the agreement, eighty percent of the products from CAFTA-DR countries entered the U.S. duty free under the Caribbean Basin Initiative, Generalized System of Preferences and most favored nation programs, while U.S. goods imported by Central American Countries were subject to an average tariff level of 55 percent. The CAFTA-DR will provide reciprocal access for U.S. products and services with five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) and the Dominican Republic.

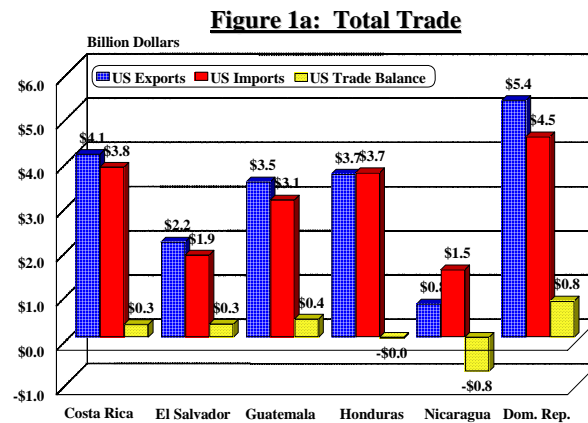
CAFTA-DR Trade Surplus

The CAFTA-DR is proving to be an important tool in expanding U.S. trade relations in the region. Trade with the six CAFTA-DR trading countries represent the second largest U.S. export market in Latin American, behind only Mexico. The six CAFTA-DR nations purchased \$19.6 billion in U.S. exports in 2006, an increase of 16 percent over 2005. (See Figure 1).

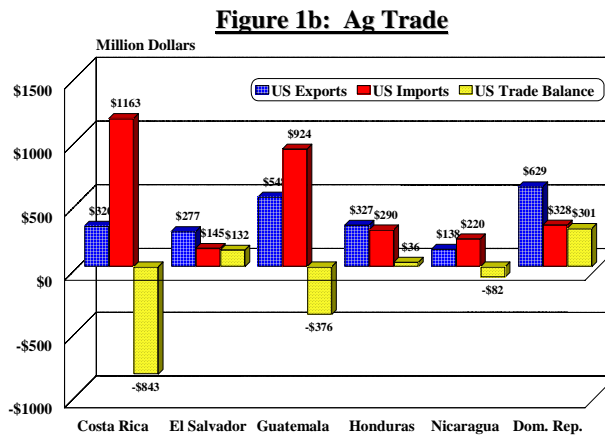
The U.S. imported \$18.6 billion from the six nations in the CAFTA-DR region last year, up 3 percent from 2005.

The U.S. recorded a trade surplus of \$0.8 billion with the six CAFTA-DR countries in 2006, compared to a deficit of \$1.2 billion in 2005.

Figure 1: U.S. Trade with CAFTA-DR 2006



Source: Foreign Trade Statistics, U.S. Census Bureau



Source: Foreign Agricultural Trade of the U.S.

International Trade Negotiations

It appears clear that the U.S. is aggressively pursuing agricultural trade liberalization to increase U.S. access to other foreign markets in regional trade agreements and in the Doha Round of multilateral trade negotiations as well. Congress is set to debate at least four new trade agreements in the next year, including accords with Colombia and South Korea. Other agreements which will be debated in Congress include proposed agreements with Peru and Panama and attempts to revive negotiations under the World Trade Organization (WTO) which got bogged down and were ended last summer, but were revived earlier this fall. While the progress and outcome of the Doha talks are still uncertain, successful completion will be important in opening new markets and eliminating export subsidies, and could have implications for US farm policy as well.