# Potential Economic Impacts of CAFTA-DR on Texas Congressional District 17

## CNAS Issue Brief 2007-08

December 3, 2007

http://cnas.tamu.edu

The United States, along with Central America and the Dominican Republic began implementing the Central American Free Trade Agreement-Dominican Republic (CAFTA-DR) in 2006. The agreement includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic.

The CAFTA-DR countries have a combined population of 46 million people and a gross domestic product (GDP) of $263 billion. Per capita GDP ranges from a low of $3,100 in both Honduras and Nicaragua to a high of $12,500 in Costa Rica. Guatemala is the most populous country, with 12.7 million people, but its per capita GDP is $5,000. Dominican Republic per capita GDP of $8,400 makes it the second most affluent country in the region.

The Central American-Dominican Republic region consists of a potentially large consumer base, but it also has relatively low purchasing power. More than half of the economically active population subsists below the poverty line in many CAFTA-DR countries. In most countries, the capital cities represent the major markets for higher valued foods and beverages. As these countries become more developed with improved infrastructure and higher incomes, they will become stronger markets for U.S. food and agricultural product exports.

Approximately 50 percent of U.S. agricultural exports began entering CAFTA-DR duty- free upon implementation. High quality U.S. beef (choice and prime cuts), wheat, cotton and soybeans are already entering the market duty free. These products are important to District 17 and are already benefiting from CAFTA-DR. The remaining duties will be eliminated over periods up to 18 years for rice and 20 years for dairy. CAFTA-DR gives the United States a competitive advantage over other countries such as Canada and the European Union, which do not have preferential access to these markets.

It is estimated that CAFTA-DR will increase the value of total U.S. agricultural exports by $1.6 billion after full phase-in (American Farm Bureau Federation). At the end of the 20 year implementation period increased sugar imports could reduce the U.S. benefits of CAFTA-DR by about $181 million, resulting in a net gain in U.S. agricultural exports to these countries of approximately $1.4 billion.



Agricultural exports from District 17 to CAFTA-DR countries reached $2.8 million in 2006, up 40 percent from $2.0 million in 2000/01 (Center for North American Studies). Exports of grains (wheat, sorghum and corn) were valued at $1.2 million in 2006, followed by processed livestock products exports (beef, edible offal and hides/skins) of $764,000, cotton exports of $491,000 and poultry meat exports of $137,000. Other important exports were dairy ($73,000), soybeans ($55,000) and other crops ($25,000).

Total D-17 business activity needed to support the production and distribution of agricultural exports to CAFTA-DR was valued at $4.5 million in 2006. About $1.2 million was attributed to business activities supporting grain production for export, followed by $840,000 for processed livestock products exports, $492,000 for cotton exports, and $273,000 for poultry meat exports. Agriculture support activities (veterinary services, crop spraying, pesticide applications and marketing), ranching and poultry production required $284,000 in business activity to support exports to CAFTA-DR. District 17 exports required 95 full time equivalent jobs to produce agricultural products for CAFTA-DR countries. Approximately 64 jobs were required for grain production, followed by nine for cotton, and 22 in all other sectors.

The sectors in CD-17 currently benefitting the most from exports to CAFTA-DR are grains, cotton, beef, poultry, dairy and soybeans. In the future, however, as CAFTA-DR evolves into a more value-added product market, it is likely that exports of processed foods, snack foods, beverages, and consumer-ready items will increase. These exports will be important to Texas because additional business activity and employment will be needed to support production in CD-17 and other regions the state.

**Economic Impacts of CD-17 Agricultural Exports to CAFTA-DR Countries in 2006**

| **Product** | **Exports** | **Business Activity*** | **Employment*** |
|---|---|---|---|
| | *(Thousand Dollars)* | | *(Number of Jobs)* |
| Grains | $1,225 | $1,230 | 64 |
| Processed Livestock Products | $764 | $840 | 3 |
| Cotton | $491 | $792 | 9 |
| Poultry Meats | $137 | $273 | 1 |
| Processed Dairy Products | $73 | $80 | 1 |
| Soybeans | $55 | $55 | 2 |
| Other Crops | $25 | $41 | 1 |
| Agricultural Support Activities | *** | $284 | 7 |
| Other | $9 | $1,209 | 7 |
| **Total** | **$2,779** | **$4,504** | **95** |

* Business Activity includes the value of exports plus the value of all purchased inputs required to support the production of those exports.
** Employment includes all full-time equivalent jobs required to support exports.
Source: Center for North American Studies, Texas Agricultural Experiment Station and Texas Cooperative Extension, Texas A&M University System, College Station, Texas.

For additional information, please contact: Parr Rosson or Flynn Adcock at 979-845-3070 or e-mail: prosson@tamu.edu, Department of Agricultural Economics (TAMU 2124), Center for North American Studies, Texas A&M University, College Station, TX 77843-2124.