The Economic Impacts of CAFTA-DR on the Southern U.S. Beef, Rice and Soybean Industries

Southern Agricultural Economics Association Annual Meetings

Orlando, FL, February 7, 2006

http://cnas.tamu.edu

Flynn Adcock, Sarah McMahon, and Parr Rosson

Center for North American Studies

Department of Agricultural Economics

Texas A&M University

Overview

- **Overview Trade with CAFTA-DR Nations**
- **Overview of CAFTA-DR**
- **Estimation of Impacts on U.S. and the South of Additional Exports to CAFTA-DR Nations**
- **Conclusions & Implications**

CAFTA-DR Demographic and Economic Overview

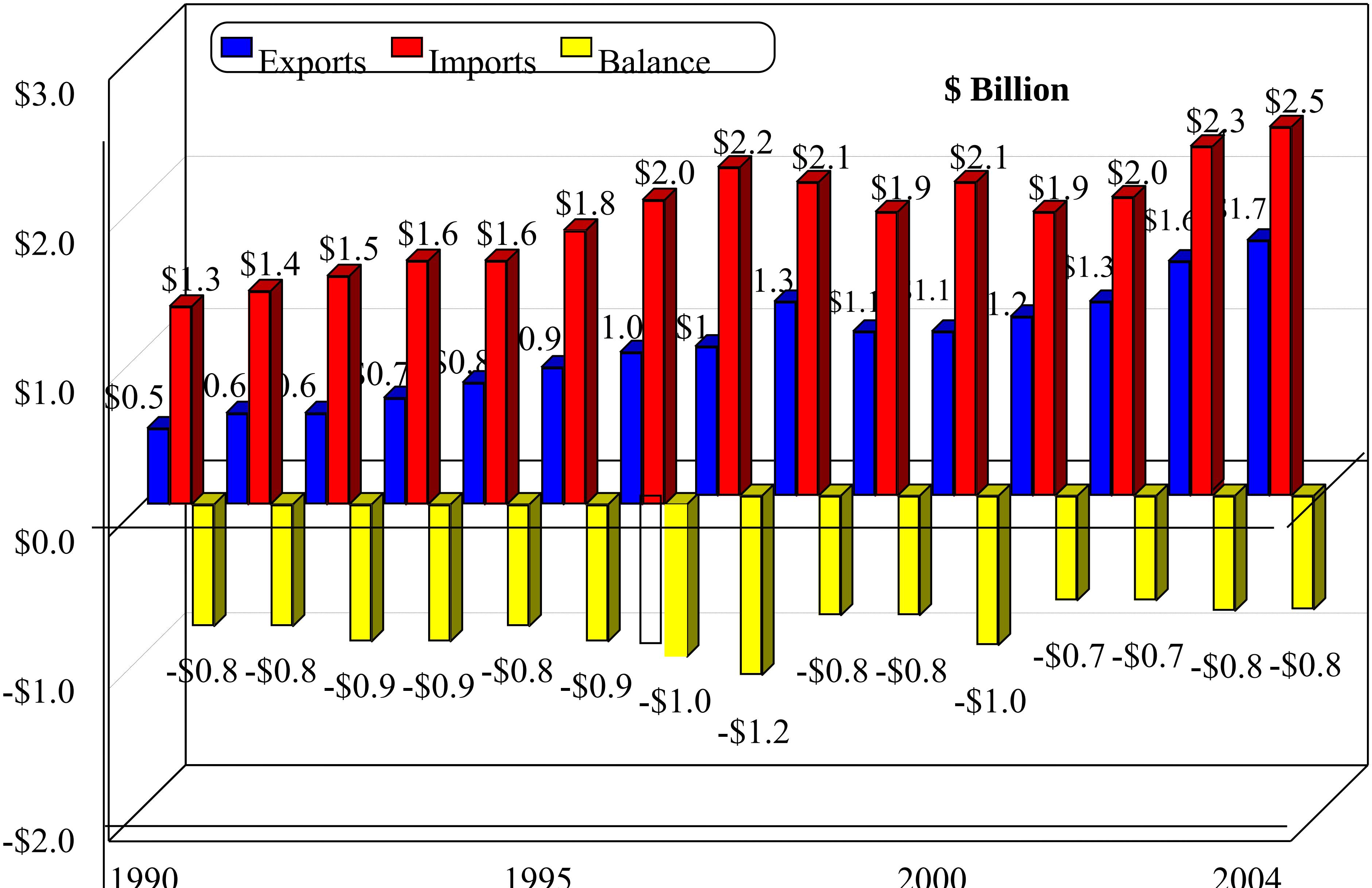
Country	Population (millions)	Growth Rate (%)	Literacy Rate (%)	Population Below Poverty Level (%)	Agricultural Population (%)	GDP (billion)	GDP Real Growth Rate (%)	GDP Per Capita
United States	**295.7**	**0.92**	**97**	**12**	**0.7**	**$11.75 *trillion***	**4.4**	**$40,100**
Costa Rica	4.0	1.48	96	18	20	$37.97	3.9	$9,600
Dominican Republic	9.0	1.29	84.7	25	17	$55.68	1.7	$6,300
Guatemala	14.7	2.57	70.6	75	50	$59.47	2.6	$4,200
El Salvador	6.7	1.75	80.2	36.1	17.1	$32.35	1.8	$4,900
Honduras	7.0	2.16	76.2	53	34	$18.79	4.2	$2,800
Nicaragua	5.5	1.92	67.5	50	30.5	$12.34	4	$2,300
CAFTA-DR	**46.83**	**1.86**	**79.20**	**42.85**	**28.10**	**$216.60**	**3.03**	**$5,017**

Source: http://www.cia.gov

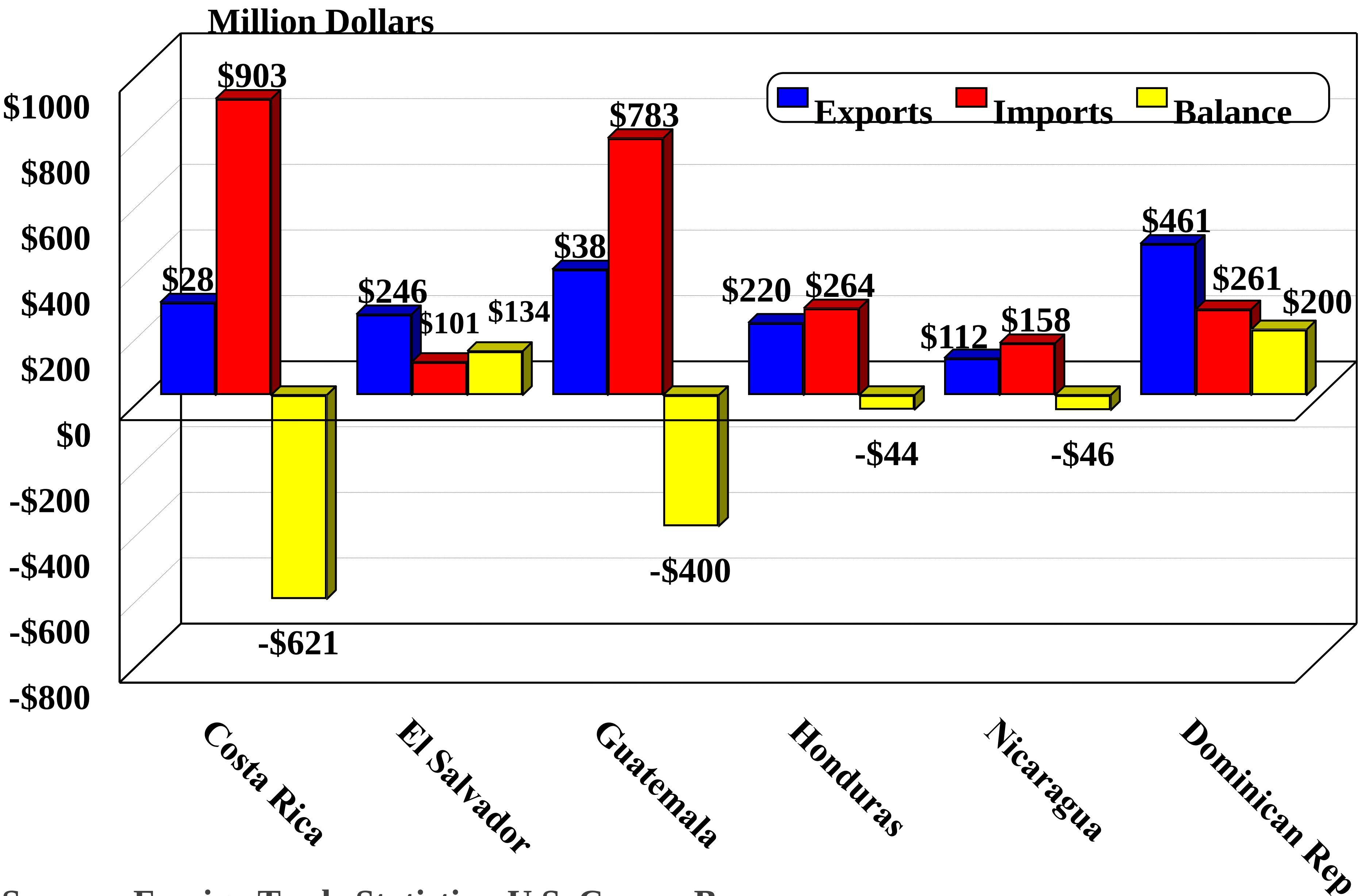
U.S. Trade with the CAFTA-DR Countries

- 12th largest trading partner of the United States.
- U.S. is the **largest supplier of agricultural imports to the CAFTA-DR region, accounting for 40%** of agricultural imports.
- **Declining U.S. market share** due to preferential access conditions afforded to third countries by Central America through bilateral trade agreements.
- 2003 two-way trade between the United States and the CAFTA-DR countries totaled $31.9 billion
- **2004 U.S. agricultural exports to the region were $1.7 billion; Same amount through November 05**

U.S. Agricultural Trade with CAFTA-DR



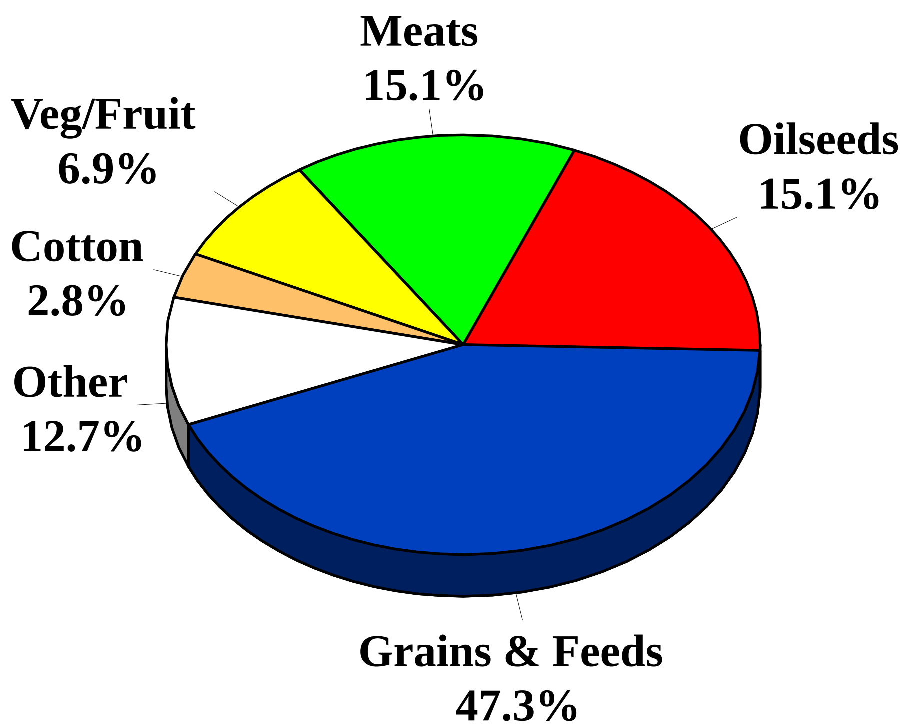
2004 U.S. Ag Trade with CAFTA-DR



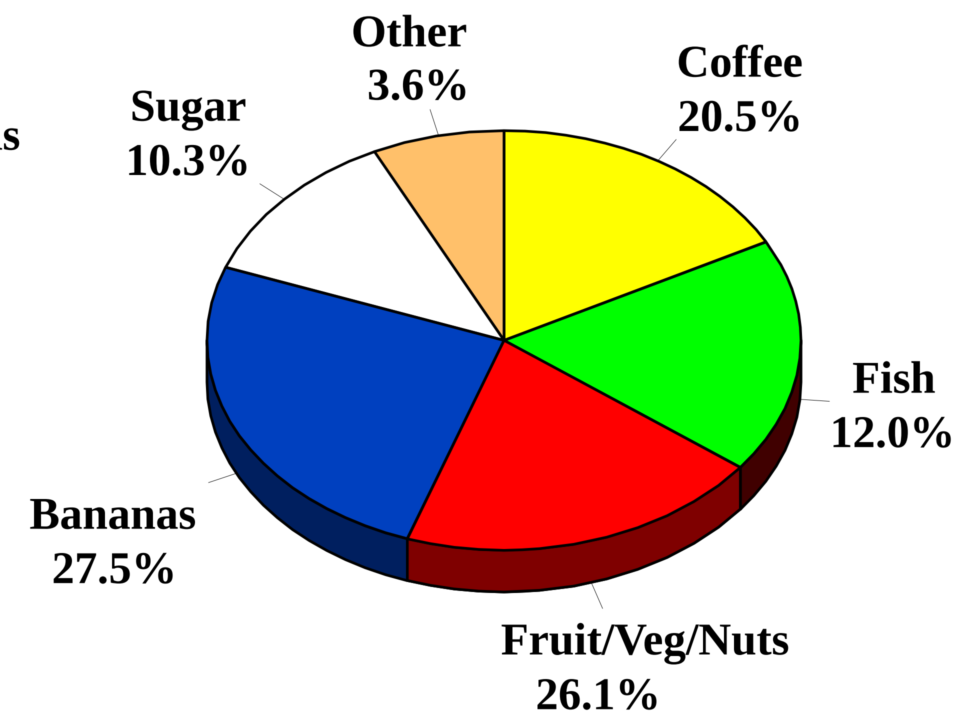
Source: Foreign Trade Statistics, U.S. Census Bureau

2004 CAFTA-DR Agricultural Trade by Sector

US Exports: $1,705 billion



US Imports: $2,469 billion



USDA, FATUS.

Increased Market Access

- The Central American Free Trade Agreement-Dominican Republic:
  - Allows for a more **reciprocal trade relationship** between the U.S., Central America and the Dominican Republic.
  - **Eliminates tariff barriers to U.S. exports.**
- **99% of agricultural exports** from the CAFTA-DR region enter the U.S. duty free.
- **Average allowed tariffs** for U.S. exports of agricultural products into the CAFTA-DR region:
  - Costa Rica -- 42%
  - Dominican Republic -- 40%
  - El Salvador -- 41%
  - Guatemala -- 49%
  - Honduras -- 35%
  - Nicaragua -- 60%

CAFTA-DR Tariffs and Proposed Phase Out

Product	Range of 2004 *Applied* Tariffs	Maximum *Bound* Tariff	TRQ/Time
Beef	15% - 30%	79%	Y/15 Years-HQ N/Immediate
Rice	15% - 60%	90%	Y/20 Years
Soybeans	1% - 5%	91%	N/Immediate

CAFTA-DR Prospects

- With passage, U.S. **agricultural export gains of $1.5 billion annually** after 20 year phase in (AFBF Study).

- **Immediate access:**
  - HQ Beef
  - Cotton
  - Wheat
  - Soybeans

- **Long Term:**
  - 20 Years: Dairy, Poultry and Rice
  - 10-15 Years: Corn
  - 15 Years: Other Beef and Pork Products

- **Limitations:**
  - Infrastructure
  - Income
  - Growth/Distribution
  - Plant and Animal Health

Methodology

- The economic impacts of expanded U.S. agricultural exports to Central America and the Dominican Republic were **estimated using an input-output model of the United States.**

- Baseline export estimates were developed using a **three year average from 2001-2003.**

- After calculating baseline exports these numbers were ran through **IMPLAN to determine the impact of specific U.S. agricultural exports to the CAFTA-DR region on total business activity (output), income, and jobs.**

IMPLAN Definitions

- ***Output (Total Business Activity):*** Value of output required to support additional demand, in this case, additional exports to CAFTA-DR nations.

- ***Income:*** Employee compensation, proprietary income, and other payments generated from U.S. agricultural exports to the CAFTA-DR region.

- ***Employment:*** Represents the number of jobs supporting both directly and indirectly U.S. agricultural exports to the CAFTA-DR region.

Impact of U.S. Exports to the CAFTA-DR Region

Estimated Impacts of U.S. Agricultural Exports to the CAFTA-DR Countries				
Commodity	**Baseline Exports**	**Output**	**Income**	**Employment**
	Million Dollars			**Number of Jobs**
Beef	$9.03	$67.89	$24.87	503
Rice	$83.92	$227.78	$108.46	2,709
Soybean	$48.04	$119.06	$62.66	1,781
Total	**$140.99**	**$414.72**	**$195.99**	**4,993**

AFBF Estimated Exports

- Two scenarios were analyzed:
  - **(1) No agreement in 2024**
  - **(2) Passage of the agreement with full implementation by 2024**

AFBF Estimated Exports to the CAFTA-DR Region				
	1999-01	**2024 U.S. Exports**		**CAFTA-DR**
Commodity	**U.S. Exports**	**Without CAFTA-DR**	**With CAFTA-DR**	**Difference**
		Value Million Dollars)		
Beef	$10.05	**$27.26**	**$74.33**	$47.08
Rice	$97.00	**$220.91**	**$312.42**	$91.51
Soybean Meal	$140.42	**$292.35**	**$348.92**	$56.57
Soybean Oil	$28.90	**$59.13**	**$87.52**	$28.39

Impacts of AFBF Estimated Exports

Commodity	Output	Income	Employment
	Value (Million Dollars)		
Without Passage of CAFTA-DR			
Beef	$110.3	$50.5	953
Rice	$711.4	$432.6	5,631
Soybean Meal and Oil	$1,162.0	$663.8	10,358
Total	**$1,983.7**	**$1,147.0**	**16,942**
Passage of CAFTA-DR			
Beef	$300.7	$150.3	2,600
Rice	$1,006.1	$611.9	7,964
Soybean Meal and Oil	$1,442.9	$824.4	12,861
Total	**$2,749.8**	**$1,586.5**	**23,425**

Regional Share of Production Example

- **AFBF Estimated Rice Exports increase by $91.5 Million with a CAFTA-DR Must be Supported by $294.7 Million in Output ($1,006.1 Million - $711.4 Million)**
- **Southern States Account for 72.3% of U.S. Rice Production**
- **As a Result, the South Gains $66.2 Million in Rice Exports with Output of $213.1 Million Needed to Support the Exports**

Impacts of AFBF Estimated Increased Beef Exports due to CAFTA-DR by Region of Country

Region	Exports	Output	Income	Employment
	Million Dollars			*Number of Jobs*
South	$9.9	$40.2	$13.5	348
Midwest	$27.1	$109.5	$36.8	947
West	$8.7	$35.0	$11.8	303
Northeast	$1.4	$5.7	$1.9	49
Total	**$47.1**	**$190.4**	**$64.0**	**1,647**

Impacts of AFBF Estimated Increased Rice Exports due to CAFTA-DR by Region of Country

Region	**Exports**	**Output**	**Income**	**Employment**
	Million Dollars			*Number of Jobs*
South	$66.2	$213.1	$90.2	1,687
Midwest	$5.2	$16.2	$7.1	133
West	$20.1	$64.8	$27.5	513
Northeast	$0.0	$0.0	$0.0	0
Total	**$91.5**	**$294.7**	**$124.8**	**2,333**

Impacts of AFBF Estimated Increased Soybean Product Exports due to CAFTA-DR by Region of Country

Region	Exports	Output	Income	Employment
	Million Dollars			*Number of Jobs*
South	$12.6	$41.6	$16.3	370
Midwest	$71.3	$235.7	$92.2	2,100
West	$0.0	$0.0	$0.0	0
Northeast	$1.1	$3.7	$1.4	33
Total	**$85.0**	**$280.9**	**$109.9**	**2,503**

Conclusions and Implications

- Some trade gains without passage of CAFTA-DR, but limited.
- Long phase-in periods and back loaded tariff reductions postpone gains.
- Costa Rica is a major source of market potential.
- CAFTA-DR countries gain permanent access to U.S. market.
- Trade disruptions have large potential impacts.

Conclusions and Implications

- Growth in agricultural exports to CAFTA-DR expected to increase, as is related economic activity
- The Southern U.S. gains most from expected increases in rice exports, though beef and soybean products will lead to some gains
- ONLY EXPORTS CONSIDERED HERE - Need to examine economic impacts of increased sugar imports and increased competition in some horticulture crops.
- Market window analysis to determine extent of competitiveness or complementarity.
- Trade Reform is at a crossroads: Protectionism or Progress?

Thank You!

Questions?

Center for North American Studies

CNAS

http://cnas.tamu.edu