Economic Impacts of CAFTA-DR on Texas

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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 Texas to CAFTA-DR countries reached $95.6 million in 2006, up 40 percent from $54.4 million in 2000/01 (Center for North American Studies). Exports of grains (wheat, sorghum and corn) were valued at $45.6 million in 2006, followed by cotton exports of $23.0 million, livestock products exports (beef, edible offal, fats/oils, and hides/skins) of $14.7 million, and poultry meat exports of $4.9 million. Other important exports were dairy ($2.2 million), fruits and vegetables ($1.7 million) sugar ($854,000), and soybeans ($770,000).

Total Texas business activity needed to support the production and distribution of agricultural exports to CAFTA-DR was valued at $184.7 million in 2006. About $45.7 million was attributed to business activities supporting grain production for export, followed by $23.0 million for cotton exports, $17.9 million for livestock products exports, and $6.0 for poultry meat exports. Agriculture support activities (veterinary services, crop spraying, pesticide applications and marketing), ranching and poultry production required $10.1 million in business activity to support exports to CAFTA-DR.

Business activity in the amount of $73,978 from other sectors of the Texas economy, ranging from energy to wholesale trade to real estate to trucking, were required to support agricultural exports to CAFTA-DR nations.

Texas exports required 2,415 full time equivalent jobs to produce agricultural products for CAFTA-DR countries. Approximately 1,414 jobs were required for grain production, followed by 237 for cotton, and 176 in all other agricultural products, and 167 for agricultural support activities. Additionally, 588 from non-agricultural related sectors of the economy were required to support these Texas exports. Income from all sources was estimated at $81.5 million, with more than half in the non-agricultural sectors and the remainder concentrated in grains and cotton.

The sectors in Texas currently benefitting the most from exports to CAFTA-DR are grains, cotton, beef, poultry, dairy, and fruits and vegetables. 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.

Economic Impacts of Texas Agricultural Exports to CAFTA-DR Countries in 2006

Product	**Exports**	**Business Activity***	**Income**	**Employment***
	(Thousand Dollars)			*(Number of Jobs)*
Grains	$45,567	$45,746	$21,860	1,414
Cotton	$22,971	$23,042	$8,700	237
Livestock Products	$14,667	$17,893	$4,501	35
Poultry Meats	$4,948	$5,987	$1,021	26
Dairy	$2,165	$2,314	$242	3
Fruits and Vegetables	$1,679	$1,711	$1,132	29
Sugar and Related Products	$854	$860	$332	44
Soybeans	$770	$773	$418	15
Other Crops	$1,997	$2,334	$1,186	24
Agricultural Support Activities	***	$10,120	$3,454	167
Other Economy-wide Activities	***	$73,978	$42,196	588
Total	**$95,618**	**$184,758**	**$81,558**	**2,415**

* 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.

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