

PolicyPennings by Daryll E. Ray & Harwood D. Schaffer

US balance of trade impacts of CAFTA-DR on agriculture and other economic sectors

This week we continue our examination of the impact of trade agreements on agriculture as well as the US balance of trade by looking at the Central America-Dominican Republic Free Trade Agreement (CAFTA-DR). This trade agreement includes the US, El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic and Costa Rica.

US domestic exports to El Salvador as a percent of imports for consumption increased from 113.0 percent to 126.3 percent between 2006 and 2014 (numbers above 100 percent indicate that US exports are greater than US imports while numbers less than 100 percent indicate the opposite). US exports of crops increased by \$124 million from \$139 million in 2005, the year before CAFTA-DR began to come into effect, to \$263 million in 2014. Over that period, El Salvador exports of crops to the US increased by \$4 million. The US balance of trade increased from -\$204 million in 2005 to \$630 million in 2014. The largest US economic sectors seeing an increase in net exports over the period were the manufacturing of petroleum and coal products (\$746 million) and the manufacturing of pharmaceuticals and chemicals (\$208 million). The net imports of manufactured apparel products and accessories from El Salvador showed an increase from \$1.4 billion to \$1.8 billion. The change in the balance of trade with El Salvador from 2005, the year before CAFTA-DR went into implementation for most participating countries, to 2014 was \$834 million.

Like El Salvador, US domestic exports to Guatemala as a percent of imports increased between 2005 and 2014—106.3 percent to 134.3 percent. In crop agriculture, imports increased faster than exports over the period, leaving a net change in the balance of trade of \$579 million. The net exports of manufactured food and kindred products to Guatemala increased by \$280 million between 2005 and 2014. The largest increase in net exports to Guatemala came from manufactured petroleum and coal products (\$1.4 billion). The US experienced an increase in the US balance of trade with Guatemala of \$1.9 billion since the inception of CAFTA-DR.

The US increased its domestic exports to Honduras faster than its imports for consumption between 2005 and 2014. As a result US domestic exports to Honduras as a percent of imports for consumption increased from 95.6 percent to 126.7 percent. Net agricultural crop exports to Honduras declined by \$93 million while net exports of manufactured food and kindred products increased by \$247 million. Once again the largest increase in net exports to Honduras came from the manufacturing of petroleum and coal products (\$1.3 billion). Overall the balance of trade

with Honduras changed from negative to positive, increasing by \$1.8 billion between 2005 and 2014.

US domestic exports to Nicaragua as a percent of imports for consumption declined from 46.2 percent to 29.9 percent. Net exports of agricultural products declined by \$222 million while the manufacture of food and kindred products decreased by \$103 million. The largest change in net exports came in the manufacturing of apparel and accessories (\$790 million). The change in the US balance of trade with Nicaragua was \$1.6 billion between 2005 and 2014.

US domestic exports from Dominican Republic as a percent of imports for consumption increased rapidly from 110.9 percent in 2006 to 159.2 percent in 2008 and has been on a plateau since then with the 2014 percentage coming in at 161.4. Between 2005 and 2014, net exports of agricultural products increased by \$91 million while the net exports of manufactured food and kindred products increased by \$557 million. The US balance of trade with Dominican Republic increased by \$3.0 billion between 2005 and 2014.

While the other countries of CAFTA-DR implemented the agreement some time in 2006 or early 2007 (thus we analyzed them using 2005 as the base year before the agreement went into implementation), Costa Rica did not implement the agreement until January 1, 2009 so we have used 2008 as the base year for making comparisons. Like with Nicaragua, US domestic exports to Costa Rica increased more slowly than US imports for consumption from Costa Rica. As a result, US exports as a percent of imports from Costa Rica declined from 77.6 percent in 2009 to 65.6 percent in 2014. As a result, the US balance of trade with Costa Rica, which had been \$1.1 billion in 2008, declined to \$3.3 billion in 2014. For crop production net exports declined by \$391 million while manufactured food and kindred products declined by \$42 million. The largest decline in net exports came in electronics (\$5.2 billion).

The implementation date for Costa Rica, which was so different from the other 5 countries, complicates comparisons across time because for some countries the gains came early in the period while for others it came later on. Just looking at 2014, we see that the balance of trade with all CAFTA-DR countries for crop agriculture was \$2.0 billion, while manufacturing of food and kindred products had a balance of trade of \$1.1 billion. The overall balance of trade with these countries was \$553 million in 2014.

For the 6 years since Costa Rica implemented the agreement, the balance of trade for all export and import commodities for the CAFTA-DR countries was \$6.2 billion; for all agriculture that number was

Originally published in *MidAmerica Farmer Grower*, Vol. 37, No. 52, January 8, 2016
 Reproduction Permission Granted with: 1) Full attribution to Harwood D. Schaffer and Daryll E. Ray, Agricultural Policy Analysis Center, University of Tennessee, Knoxville, TN;
 2) Copy of reproduction sent to Information Specialist, Agricultural Policy Analysis Center, 309 Morgan Hall, Knoxville, TN 37996-4519

US balance of trade impacts of CAFTA-DR on agriculture and other economic sectors
Cont. from p. 1

\$12.6 billion. For the 6 years between 2000 and 2005, inclusive, the balance of trade for agriculture for all CAFTA-DR countries was \$7.1 billion. US agriculture does benefit from some trade agreements but the historical data suggest that US agriculture, especially crop agriculture, is not a consistent winner in trade agreement sweepstakes.

Harwood D. Schaffer is a Research Assistant Professor in the Agricultural Policy Analysis Center, Institute of Agriculture, University of Tennessee.

Daryll E. Ray is Emeritus Professor, Institute of Agriculture, University of Tennessee, and is the former Director of the Agricultural Policy Analysis Center (APAC). (865) 974-3666; Fax: (865) 974-7484 ; hdschaffer@utk.edu and dray@utk.edu; <http://www.agpolicy.org>.