Center for Agricultural Policy and Trade Studies
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# Agricultural Policy Brief

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## The Addition of the Dominican Republic to the Central American Free Trade Agreement: What it Means for U.S. Agriculture

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The United States signed a free trade agreement (FTA) in August 2004 with the Dominican Republic that integrates the country into the Central American Free Trade Agreement (CAFTA), signed in May 2004 between the United States and five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). The Dominican Republic joins these Central American countries and the United States in being a member of CAFTA. The FTA must be approved by the U.S. Congress before being implemented, and the legislature had not yet considered it as of early 2005.

Prior to the inclusion of the Dominican Republic, Koo et al. (2003) analyzed the effect of CAFTA on the U.S. sugar industry and U.S. agriculture in general. The objective of this paper is to expand upon the previous study by examining the impact that an FTA including the Dominican Republic could have on U.S. agriculture.

### General Characteristics of the Countries

The Dominican Republic is a country of 8.8 million people situated on the island of Hispaniola in the Caribbean Sea. The country has a per capita GDP of about $6,000 (Table 1). Of the six CAFTA countries besides the United States, the Dominican Republic has the second largest population and the second highest per capita GDP. Agriculture accounted for 10.7 percent of the Dominican Republic's GDP in 2003, which is below the average of the five Central American members of CAFTA. In the United States, on the other hand, just 1.4 percent of GDP comes from agriculture.

The Dominican Republic's total imports equaled about $8 billion in 2003, and exports were near $5.5 billion. The country's total imports and exports are equal to about 15 percent and 10 percent of GDP, respectively, which is similar to those for the five Central American countries. While the United States and most of the Central American countries are net exporters of agricultural products, the Dominican Republic has been net importer in recent years. Agricultural exports for the Dominican Republic totaled $604 million in 2003, while imports equaled $752 million. Almost 33 percent of the total exports from the five Central American countries is agricultural exports, while just 11 percent of the Dominican Republic's exports and 8.7 percent of U.S. exports are agricultural products. Meanwhile, 9.5 percent of imports by the Dominican Republic consists of agricultural products, compared to 13.4 percent for the Central America countries and 4.2 percent for the United States.

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Table 1. General Characteristics of the CAFTA Countries

| | | Dominican Republic | Five Central American countries | United States |
|---|---|---|---|---|
| Population | (million people) | 8.8 | 37.0 | 293.0 |
| Per capita GDP | ($ purchasing power parity) | 6,000 | 4,100 | 37,800 |
| % GDP from Agriculture | (%) | 10.7% | 15.9% | 1.4% |
| Total Exports | (billion $) | 6 | 14 | 715 |
| Total Imports | (billion $) | 8 | 23 | 1,260 |
| Agricultural Exports | (billion $) | 0.6 | 4.6 | 62.3 |
| Agricultural Imports | (billion $) | 0.8 | 3.1 | 53.5 |
| Total Land | (1,000 hectares) | 4,838 | 41,350 | 915,896 |
| Agricultural Land | (1,000 hectares) | 3,696 | 18,988 | 411,863 |
| Arable Land | (1,000 hectares) | 1,096 | 5,238 | 176,018 |
| Per Capita Arable Land | (hectares) | 0.12 | 0.14 | 0.60 |

Note: Most recent available data reported. Sources: U.S. Census Bureau, CIA World Factbook, FAOSTAT

The Dominican Republic has 3.7 million hectares of agricultural land and 1.1 million hectares of arable land. The country has similar land resources to the five Central American countries, which combine to equal 19 million hectares of agricultural land and 5.2 million hectares of arable land. In comparison, the United States has 412 million hectares of agricultural land and 176 million hectares of arable land. The Dominican Republic has 0.12 hectares of arable land per capita, which is similar to that for the five Central American countries, while the United States has 0.60 hectares of arable land per capita. Lower per capita arable land indicates a decreased likelihood of having an exportable surplus of agricultural products.

## Dominican Republic Agricultural Production and Trade

Agricultural goods produced in the Dominican Republic include sugarcane, coffee, cotton, cocoa, tobacco, rice, beans, potatoes, corn, bananas, cattle, pigs, dairy products, beef, and eggs (Central Intelligence Agency 2005). Figure 1 shows the amount of land devoted to specific crops in the Dominican Republic in 2003. Sugarcane, coffee, cocoa beans, and rice are the primary crops, accounting for more than half of the harvested area. The country also produces and exports cigars. The most important agricultural exports are cigars, sugar, and cocoa beans (Table 2). The Dominican Republic's largest agricultural imports are corn, tobacco leaves, soybean meal, soybean oil, and wheat (Table 3).

The Dominican Republic produced about 1.1 million metric tons of sugar per year during the 1970s and early 1980s, and exports surpassed 1 million metric tons during a number of years in the 1970s. Production declined in the late 1980s and throughout the 1990s to a low of 371 thousand metric tons in 1998/99. During the last three years, production has been steady at about 500 thousand metric tons. Domestic consumption in the Dominican Republic has been steady at about 320 thousand metric tons per year, and exports have remained at 185 thousand metric tons, most of which are shipped to the United States.

**Figure 1. Harvested Area of Dominican Republic Crops, 2003 (hectares)**

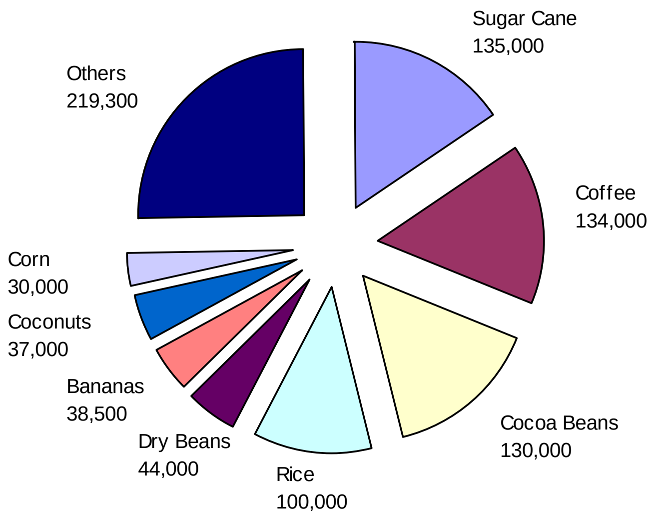


Table 2. Dominican Republic Agricultural Exports, 2003

| Product | value (1,000 dollars) |
|---|---|
| Cigars | 212,329 |
| Sugar | 90,869 |
| Cocoa Beans | 67,909 |
| Bananas | 34,203 |
| Beverages Dist Alcoholic | 22,226 |
| Beer of Barley | 18,862 |
| Extract Tea, Mate, Prep. | 13,081 |
| Coffee Roasted | 11,243 |
| Cantaloupes & other Melons | 10,151 |
| Avocados | 9,537 |

Source: FAOSTAT

Table 3. Dominican Republic Agricultural Imports, 2003

| Product | value (1,000 dollars) |
|---|---|
| Corn | 113,449 |
| Tobacco Leaves | 85,753 |
| Soybean Meal | 82,008 |
| Soybean Oil | 56,151 |
| Wheat | 52,268 |
| Beverages Dist Alcoholic | 29,939 |
| Sugar Confectionery | 16,048 |
| Wine | 15,020 |
| Infant Food | 13,586 |
| Barley | 13,228 |

Source: FAOSTAT

## U.S. - Dominican Republic Agricultural Trade

The United States has had an agricultural trade surplus with the Dominican Republic in recent years (Figure 2). U.S. agricultural exports to the country equaled $461 million in 2004, while imports totaled $261 million. The major U.S. exports to the country are corn, soybean meal, tobacco, and wheat (Table 4). Sugar and cocoa are the most important U.S. imports from the country, while other imports include coffee, malt beverages, avocados, and tobacco (Table 5).

The United States has a large market share for many of the agricultural products imported by the Dominican Republic. A report from the USDA's Foreign Agricultural Service (FAS) (October 1, 2004a) indicates that 82 percent of all agricultural imports by the Dominican Republic in 2002 were exported by the United States. In many years, the United States kept close to 100 percent market share for Dominican imports of corn, wheat, and soybean meal.

**Figure 2. Dominican Republic Agricultural Trade with the United States**

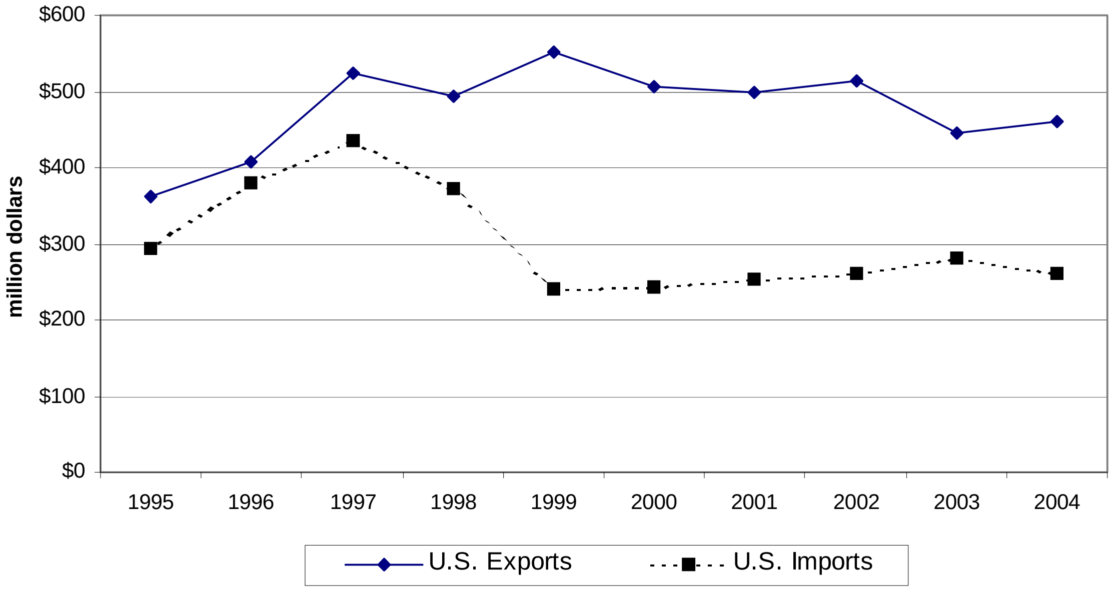


Table 4. U.S. Agricultural Exports to Dominican Republic

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| | ----------- | ----------- | thousand dollars | ----------- | ----------- |
| Total Agricultural | 506,350 | 497,933 | 513,200 | 444,833 | 461,205 |
| Corn | 91,841 | 90,874 | 103,520 | 100,462 | 82,540 |
| Tobacco, unmanufactured | 101,194 | 85,271 | 81,193 | 66,257 | 71,203 |
| Wheat | 36,924 | 38,759 | 45,316 | 40,072 | 53,956 |
| Rice-Paddy, Milled | 14,173 | 3,786 | 75 | 2,559 | 35,738 |
| Soybean Meal | 66,956 | 69,608 | 69,782 | 73,218 | 30,908 |
| Dairy Products | 15,013 | 14,827 | 13,284 | 9,166 | 16,300 |
| Soybean Oil | 4,383 | 6,488 | 18,225 | 7,875 | 14,035 |

Source: FAS/USDA

Table 5. U.S. Agricultural Imports from Dominican Republic

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| | ----------- | ----------- | thousand dollars | ----------- | ----------- |
| Total Agricultural | 243,450 | 254,221 | 260,138 | 280,451 | 260,741 |
| Sugar | 77,950 | 65,493 | 69,461 | 77,238 | 74,051 |
| Cocoa and products | 16,183 | 28,765 | 38,340 | 55,242 | 40,405 |
| Malt Beverages | 12,069 | 12,700 | 19,023 | 18,077 | 19,572 |
| Avocados | 8,333 | 8,471 | 10,760 | 13,988 | 16,195 |
| Tobacco, unmanufactured | 27,077 | 24,329 | 12,133 | 10,466 | 15,297 |
| Molasses | 10,047 | 11,851 | 11,114 | 10,389 | 11,891 |
| Coconut Meat | 11,169 | 11,464 | 9,848 | 8,883 | 8,046 |
| Coffee, including products | 11,287 | 6,608 | 7,796 | 10,989 | 305 |

Source: FAS/USDA

Data from the FAS's Production, Supply, and Distribution (PS&D) database show that the Dominican Republic imports close to 1 million metric tons of corn in a year, with all purchases coming from the United States. The Dominican Republic was the ninth-largest importer of U.S. corn in 2003. The country was the fourth-largest importer of U.S. corn in the Western Hemisphere, after Canada, Mexico, and Colombia. Corn production in the Dominican Republic is limited, and the country's livestock industry relies on imports from the United States (FAS June 14, 2004).

Because of an unfavorable climate, wheat and soybeans are not grown in the Dominican Republic. Almost all Dominican wheat imports are from the United States because of quality, proximity, and price (FAS March 23, 2004). The country does not import soybeans because it does not have the crushing facilities (FAS March 30, 2004). Instead, they import soybean meal and soybean oil. The United States has been the main supplier of soybean meal to the Dominican Republic, but there is increased competition from South America. U.S. market share for soybean meal dropped from 100 percent in 2002 to about 66 percent in 2003 due to lower prices from Brazil (FAS March 30, 2004). U.S. market share for soybean oil has been much lower (6 percent in 2002) and has also declined due to the availability of lower-priced oils from South America (FAS March 30, 2004).

The Dominican Republic is one of the leading exporters of sugar to the United States (Table 6). The United States restricts imports through use of a tariff-rate quota (TRQ). Under this system, each country is allocated a different quota. The Dominican Republic's annual allocation of 185 thousand metric tons is the largest allotment given and equals 16.4 percent of the total U.S. import quota (FAS October 1, 2004b). The Dominican Republic's sugar exports to the United States are usually close to its quota allocation.

Table 6. U.S. Sugar Imports by Source

| | 2000 | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| | ---metric tons--- | | | | |
| Dominican Republic | 199,981 | 151,366 | 170,439 | 178,647 | 177,608 |
| Guatemala | 151,490 | 85,779 | 92,006 | 238,688 | 157,959 |
| Philippines | 91,663 | 89,573 | 76,692 | 137,609 | 137,278 |
| Brazil | 152,202 | 230,731 | 129,189 | 154,673 | 133,367 |
| Costa Rica | 67,920 | 22,821 | 15,274 | 39,574 | 129,378 |
| Colombia | 68,535 | 58,774 | 91,428 | 153,645 | 129,292 |
| Australia | 92,158 | 83,413 | 90,756 | 79,197 | 88,478 |
| El Salvador | 60,661 | 80,197 | 55,557 | 77,966 | 64,182 |
| Nicaragua | 56,969 | 4,205 | 21,366 | 32,897 | 49,340 |
| Argentina | 42,579 | 43,581 | 65,377 | 43,958 | 41,784 |
| Peru | 21,857 | 62,453 | 41,760 | 40,926 | 41,278 |
| Mexico | 86,556 | 126,367 | 182,896 | 35,540 | 36,332 |
| Panama | 65,835 | 47,070 | 37,609 | 38,423 | 24,973 |
| Honduras | 5,592 | 22,185 | 10,691 | 25,469 | 15,739 |
| Others | 309,583 | 247,930 | 313,006 | 253,238 | 214,030 |

Source: FAS/USDA

## Effects of the Free Trade Agreement on Trade Flows

The addition of the Dominican Republic could benefit U.S. grains, oilseeds, meats, and processed foods, while it could have some negative impact on U.S. sugar. The elimination of tariffs on soybean oil and sorghum and the increase in market access for rice, beef, pork, poultry, and dairy could lead to increased U.S. exports of these commodities. The Report of the Agricultural Technical Advisory Committee for Trade in Animals and Animal Products (a committee of industry leaders reporting to the U.S. President, Congress, and the U.S. Trade Representative) concludes that the agreement with the Dominican Republic is favorable for beef, pork, poultry, and dairy.

If the agreement passes, the duty on crude soybean oil will be eliminated immediately. The 20 percent duty on refined soybean oil will gradually be eliminated over 15 years through linear cuts, and refined soybean oil, corn oil, cottonseed oil, and margarine face a restrictive safeguard measure which will be phased out over 15 years (Agricultural Technical Advisory Committee for Grains, Feed, and Oilseeds 2004). The Dominican Republic has been a growing market for soybean oil, and this agreement could help the United States compete against South American producers. However, the long phase-in period will slow potential growth in refined soybean oil exports. Free trade for rice faces a longer phase-in period of 20 years.

Since the Dominican Republic does not currently impose any tariffs on U.S. wheat, corn, barley, soybeans, or soybean meal, the FTA may not have a significant effect on U.S. exports of these commodities. The agreement would, however, lock in these zero tariff rates. U.S. exports to the Dominican Republic could also increase if the agreement leads to increased economic growth in the country.

The agreement could increase the Dominican sugar exports to the United States as it increases the country's quota allocation. The size of the increase, however, is not large. In the first year of CAFTA, the Dominican Republic will be allowed to export an additional 10 thousand metric tons of sugar to the United States above its current quota allocation of 185 thousand metric tons. After the first year, the Dominican Republic's quota allocation will continue to grow by 200 metric tons per year (Table 7). As Koo et al. (2003) conclude, the overall potential increase in sugar imports from CAFTA members and other countries could have a significant, harmful effect on the U.S. sugar industry. The addition of the Dominican Republic to CAFTA, however, will not have a significant impact on the level of sugar imports from these countries. Without the Dominican Republic, CAFTA allows for an increase of 97 thousand metric tons in the first year and 138 thousand metric tons in year 15. With the Dominican Republic, CAFTA allows for an increase

Table 7. CAFTA Sugar Quota Increases (metric tons)

| Year | Guatemala | El Salvador | Nicaragua | Costa Rica | Honduras | Dominican Republic | CAFTA without Dominican Rep. | CAFTA with Dominican Rep. |
|---|---|---|---|---|---|---|---|---|
| 1 | 32,000 | 24,000 | 22,000 | 11,000 | 8,000 | 10,000 | 97,000 | 107,000 |
| 2 | 32,640 | 24,480 | 22,440 | 11,220 | 8,160 | 10,200 | 98,940 | 109,140 |
| 3 | 33,280 | 24,960 | 22,880 | 11,440 | 8,320 | 10,400 | 100,880 | 111,280 |
| 4 | 37,000 | 28,000 | 23,320 | 11,660 | 8,480 | 10,600 | 108,460 | 119,060 |
| 5 | 37,740 | 28,560 | 23,760 | 11,880 | 8,640 | 10,800 | 110,580 | 121,380 |
| 6 | 38,480 | 29,120 | 24,200 | 12,100 | 8,800 | 11,000 | 112,700 | 123,700 |
| 7 | 39,220 | 29,680 | 24,640 | 12,320 | 8,960 | 11,200 | 114,820 | 126,020 |
| 8 | 42,000 | 31,000 | 25,080 | 12,540 | 9,120 | 11,400 | 119,740 | 131,140 |
| 9 | 42,840 | 31,620 | 25,520 | 12,760 | 9,280 | 11,600 | 122,020 | 133,620 |
| 10 | 43,680 | 32,240 | 25,960 | 12,980 | 9,440 | 11,800 | 124,300 | 136,100 |
| 11 | 44,520 | 32,860 | 26,400 | 13,200 | 9,600 | 12,000 | 126,580 | 138,580 |
| 12 | 47,000 | 34,000 | 26,840 | 13,420 | 9,760 | 12,200 | 131,020 | 143,220 |
| 13 | 47,940 | 34,680 | 27,280 | 13,640 | 9,920 | 12,400 | 133,460 | 145,860 |
| 14 | 48,880 | 35,360 | 27,720 | 13,860 | 10,080 | 12,600 | 135,900 | 148,500 |
| 15 | 49,820 | 36,040 | 28,160 | 14,080 | 10,240 | 12,800 | 138,340 | 151,140 |
| Per year growth after year 15 | 940 | 680 | 440 | 220 | 160 | 200 | 2,440 | 2,640 |

Source: U.S. Trade Representative, CAFTA-DR Final Text, Annex 3.3 U.S. General Notes and Appendix 1 of 107 thousand metric tons in the first year and 151 thousand metric tons in year 15. Most of the increase in sugar imports under CAFTA will come from Guatemala, El Salvador, and Nicaragua. Furthermore, the Dominican Republic may not have the capacity to significantly increase sugar exports to the United States.

## Conclusions

The addition of the Dominican Republic to CAFTA could be positive to U.S. agriculture overall, but the impact would not likely be substantial. Sugarcane, coffee, cocoa beans, and rice are the primary crops in the Dominican Republic, and the most important agricultural exports are cigars, sugar, and cocoa beans. The country's largest agricultural imports are corn, tobacco leaves, soybean meal, soybean oil, and wheat. The United States currently is the main supplier of agricultural exports to the Dominican Republic and the largest importer of agricultural products from the country. The elimination of tariffs on soybean oil and sorghum and the increase in market access for rice, beef, pork, poultry, and dairy could lead to increased U.S. exports of these commodities. The agreement could result in an increase in Dominican sugar exports to the United States as it increases the country's quota allocation. The size of the increase, however, is not large. CAFTA, overall, could have a negative effect on the U.S. sugar industry, but the addition of the Dominican Republic will not have a significant impact.

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