Chamber of Commerce of the United States of America

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AACCLA

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Testimony before the House of Representatives Committee on Energy and Commerce Subcommittee on Commerce, Trade, and Consumer Protection

on the

U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA)

on behalf of the

Chamber of Commerce of the United States of America

and the

Association of American Chambers of Commerce in Latin America (AACCLA)

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The Chamber of Commerce of the United States of America (U.S. Chamber) and the Association of American Chambers of Commerce in Latin America (AACCLA) are pleased to present the House Committee on Energy and Commerce Subcommittee on Commerce, Trade, and Consumer Protection with this testimony regarding the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). Our organizations strongly support Congressional approval of this landmark trade agreement, and we urge the House to do so as soon as possible.

The U.S. Chamber is the world's largest business federation, representing more than three million businesses of every size, sector and region. AACCLA represents 23 American Chambers of Commerce in 21 Latin American and Caribbean nations, and its 20,000 member companies manage over 80% of all U.S. investment in the region.

International trade plays a vital part in the expansion of economic opportunities for our members. As such, the U.S. Chamber and AACCLA have helped lead the business community's effort to make the case for new free trade agreements. We do so because U.S. businesses have the expertise and resources to compete globally — if they are allowed to do so on equal terms with our competitors.

From this perspective, DR-CAFTA is an outstanding trade agreement. It will slash trade barriers for U.S. exports, enhance protections for U.S. investment overseas, and strengthen the competitiveness of American companies — both big and small — throughout the world. We believe the agreement is worthy of your support.

Opening Trade, Generating Growth

America's international trade in goods and services accounts for nearly a fifth of our country's GDP. As such, it is difficult to exaggerate the importance of the leadership demonstrated by Congress in renewing Presidential Trade Promotion Authority (TPA) two and a half years ago. As we predicted, this action by Congress has helped reinvigorate the international trade agenda and has given a much-needed shot in the arm to American businesses, workers, and consumers.

When TPA lapsed in 1994, the United States was compelled to sit on the sidelines while other countries negotiated numerous preferential trade agreements that put American companies at a competitive disadvantage. As we pointed out to Congress during our aggressive advocacy campaign for approval of TPA, the United States was party to just three of the roughly 150 free trade agreements in force between nations at that time.

The passage of TPA allowed the United States to complete negotiations for bilateral free trade agreements with Chile, Singapore, Australia, and Morocco, all of which won bipartisan approval in Congress. These agreements are already bearing fruit; for example, the Department of Commerce reports that U.S. exports to Chile rose by an astonishing 33% in 2004, the first year of implementation of the U.S.-Chile Free Trade Agreement. Free trade agreements with roughly 20 additional countries are now in various stages of completion.

Why is DR-CAFTA so critical? First, the agreement is good for workers, consumers, and businesses in the United States. And second, the agreement is good for workers, consumers, and businesses in Central America and the Dominican Republic.

Big Markets, Big Opportunities

The commercial benefits of DR-CAFTA for the United States are expected to be highly significant. While these six democracies look small on a map, they are excellent customers for American business. Purchasing $15.7 billion in U.S. exports in 2004, Central America and the Dominican Republic buy more U.S. goods than Australia, Italy, or Sweden.

These existing trade flows make DR-CAFTA the largest free trade agreement in more than a decade. In fact, the 45 million citizens of Central America and the Dominican Republic purchase more U.S. goods than the 1.5 billion citizens of India, Indonesia, and Russia — combined.

What is the United States selling to these countries? About one-third of all U.S. exports to Central America and the Dominican Republic are made by the U.S. textile and apparel industries. Computers, electronics, and information technology products represent almost another third. And farm products, ranging from soup to nuts, account for a large share of American sales to the six countries.

This success story began 20 years ago, when a tremendous bipartisan coalition created the Caribbean Basin Initiative. By a vote of 392 to 18, the House of Representatives decided in July 1983 to do away with most tariffs on imports from Central America and the Caribbean in an effort to help the region with "trade, not aid." The Senate followed suit with a similarly significant favorable vote.

The Caribbean Basin Initiative eliminated tariffs on nearly all imports from Central American and the Caribbean. In 2003, 77% of Central American and Dominican industrial products (including 99% of non-apparel industrial products) and 99.5% of agricultural products entered the United States duty-free.

Making Trade a Two-Way Street

More than any previous free trade agreement, DR-CAFTA is about reciprocity. It will level the playing field for the thousands of U.S. workers and businesses that rely on exports to Central America and the Dominican Republic. It will provide immediate, duty-free access to the six-country market for more than 80% of U.S. consumer and industrial goods and more than half of all U.S. agricultural exports to the six countries, with further openings phased in.

To gauge the commercial value of the agreement, the U.S. Chamber of Commerce has released a series of state-by state economic impact studies that found substantial economic gains for American workers and the economy from DR-CAFTA. We used a widely respected input-output economic model known as RIMS II that has been used for years by economists at the U.S. Department of Commerce and elsewhere, and we proceeded with some very conservative assumptions about the growth of exports. For instance, we assumed that U.S. exports to the six countries would grow at only half the rate of growth of exports to Chile in 2004, the first year of implementation of the free trade agreement with that country.

The results are extremely promising. In the first year of DR-CAFTA's implementation, the agreement would generate $3.9 billion in new sales across all industries and $866 million in new earnings for workers in the 12 states profiled. In would also create over 26,000 new jobs in its first year. This table summarizes our findings:

Summary of Findings of State-by-State Economic Impact Studies

The full studies are available at: www.uschamber.com/goto/drcafta

AFTER ONE YEAR	Increased sales in all industries	Increased earnings of employees in all industries	New jobs created in all industries
Alabama	190,000,000	40,000,000	1,490
California	221,000,000	51,000,000	1,287
Florida	985,000,000	232,000,000	7,008
Georgia	262,000,000	52,000,000	1,516
Illinois	79,000,000	24,000,000	693
Louisiana*	339,000,000	77,000,000	2,769
New Jersey	71,000,000	14,000,000	342
New York	149,000,000	32,000,000	794
North Carolina	736,000,000	163,000,000	5,404
Pennsylvania	94,000,000	20,000,000	608
South Carolina	167,000,000	27,000,000	912
Texas	683,000,000	134,000,000	3,326
TOTAL	**$3,976,000,000**	**$866,000,000**	**26,149**

* "CAFTA: Potential for Louisiana's Prosperity," by Dr. James A. Richardson, Alumni Professor of Economics, Louisiana State University, March 2004. This study used the U.S. Department of Commerce's Bureau of Economic Analysis Regional Input-Output Modeling System (RIMS II) in the same fashion as the U.S. Chamber studies. However, the figures cited in this table are based on a projected increase in exports from Louisiana to the other DR-CAFTA countries of 16%. The U.S. Chamber studies use a figure of 17% for the first year. For comparison, U.S. exports to Chile rose by 33% in 2004, the first year of implementation of the U.S.-Chile Free Trade Agreement.

Nine years after implementation, DR-CAFTA would boost sales by over $20 billion in the 11 states for which data are available. In the same period, the agreement would raise workers' earnings by $4.5 billion and create more than 130,000 new jobs in the 11 states.

AFTER NINE YEARS	Increased sales in all industries	Increased earnings of employees in all industries	New jobs created in all industries
Alabama	1,021,000,000	214,000,000	7,901
California	2,486,000,000	573,000,000	13,132
Florida	5,200,000,000	1,200,000,000	36,982
Georgia	1,405,000,000	283,000,000	8,691
Illinois	445,000,000	97,000,000	2,402
New Jersey	381,000,000	79,000,000	1,801
New York	802,000,000	173,000,000	4,215
North Carolina	3,900,000,000	876,000,000	28,913
Pennsylvania	504,000,000	107,000,000	3,062
South Carolina	701,000,000	144,000,000	6,273
Texas	3,600,000,000	718,000,000	17,127
TOTAL	**$20,445,000,000**	**$4,464,000,000**	**130,499**

As noted above, the vast majority of Central American and Dominican exports already enter the U.S. marketplace duty-free, so the risk of job losses due to enhanced competition from imports is extremely limited. In sectors where imports from Central America and the Dominican Republic are not entering the United States duty-free, the U.S. average tariff is significantly lower than that faced by our exports to these countries. While U.S. rates average 3.6%, Guatemala's average applied industrial tariff is 7.1%, Honduras's is 6.7%, El Salvador's is 6.5%, Nicaragua's is 4.9%, Costa Rica's is 4.6% and the Dominican Republic's is 10.7% (2001 figures).

Support from Farms to Factories

The Chamber is far from alone in recognizing the potential of DR-CAFTA; studies prepared by other organizations have also projected impressive gains. A study by the American Farm Bureau Federation, which is the nation's largest association of farmers and ranchers, projected that the agreement will boost U.S. agricultural exports by $1.5 billion, which explains why over 50 leading agricultural commodity groups have endorsed the agreement.

In the textile and apparel sectors, the agreement will promote even stronger partnerships between companies in the United States, Central America, and the Dominican Republic. This will enable this hemisphere to compete more effectively in the face of rising international competition in these sectors since the demise of the global system of quotas on textiles on January 1, 2005. Most experts predict that Asian textile and apparel manufacturers will be the principal beneficiaries of the end of quotas — at the expense of apparel producers in Central America and the Dominican Republic, and their textile suppliers in the United States.

For years, the U.S. textile industry has benefited from an integrated supply chain and market with the DR-CAFTA nations, which constitute a key sourcing location for U.S. apparel and retail companies. Unlike other garment production centers, Central America and the Dominican Republic have emerged as the dominant consumers of U.S. textile products. Since the passage of the U.S.-Caribbean Basin Trade Partnership Act in 2000, the region has become one of the largest and fastest growing export markets for U.S. cotton growers, yarn spinners, and fabric mills.

As a result, garments imported from Central America and the Dominican Republic have U.S. content exceeding 50% while garments imported from Asia typically have less than 1% U.S. content. Without DR-CAFTA, apparel operations in Central America and the Dominican Republic will not be able to compete with Asian manufacturers, who have been ramping up sales since the global quota regime on textiles ended in January. If apparel manufacturers in Central America and the Dominican Republic cannot compete with Asia, a domino effect will hit cotton growers, yarn spinners, and fabric mills in the United States as their best customers go under.

On a more general level, the evidence is overwhelming that trade is a powerful tool to strengthen the U.S. economy. As former U.S. Trade Representative Robert Zoellick has pointed out, the combined effects of the North American Free Trade Agreement (NAFTA) and the Uruguay Round trade agreement that created the World Trade Organization (WTO) have increased U.S. national income by $40 billion to $60 billion a year. This helped lead to the creation of millions of new American jobs in the past 15 years. Many of these jobs were created in the export sector where, on average, jobs pay 13 to 18% more.

In addition to the increased wages, the lower prices generated by NAFTA and the Uruguay Round on imported items mean that the average American family of four has gained between $1,000 to $1,300 in spending power — an impressive tax cut, indeed.

Benefits for Central America and the Dominican Republic

The U.S. Chamber and AACCLA are speaking in favor of DR-CAFTA to advance the interests of U.S. businesses, workers, and consumers. However, it's clear that the agreement will also be beneficial for workers, consumers, and businesses in Central America and the Dominican Republic — some of our closest neighbors.

Consider what Central America and the Dominican Republic were like 20 years ago. Several of these countries were at war, internally, and with violence spilling across their borders. Contrast that with the peaceful and democratic elections we have seen just in the past 18 months in El Salvador, Guatemala, and the Dominican Republic. It's worth recognizing that the outgoing administrations all supported DR-CAFTA strongly — and so do the new ones. These countries made some tough choices, and they've been rewarded with economic growth and progress in the fight against poverty.

Consider the example of El Salvador, which in the 1990s brought inflation under control, fought corruption, and moved toward a more free market economy. As a result, per capita incomes in El Salvador grew 10 times faster in the 1990s than in the 1980s.

Again, if things are going so well, what do we need DR-CAFTA for? The agreement is strong medicine, and it represents an opportunity to make sure the progress of the past two decades doesn't slip away. The agreement will enhance democratic institutions, business transparency, and economic reform — all while locking in a strong partnership with the United States. Consider the following:

1) DR-CAFTA will guarantee transparency in government procurement, with competitive bidding for contracts and extensive information made available on the Internet — not just to well-connected insiders;

2) DR-CAFTA will ensure a level playing field in the regulatory environment for services, including telecoms, insurance, and express shipments; and

3) DR-CAFTA will shore up legal protections for copyrights, patents and trademarks, so that creative artists who produce movies and television shows, researchers who create new medicines, and companies that create software will be protected. Pirates and counterfeiters will be put on notice that these countries will protect intellectual property with the full force of the law.

Fighting Poverty, Helping Workers

Finally, DR-CAFTA will help in the fight against poverty. Despite significant progress in the past 20 years, many Central Americans continue to live on just a few dollars a day. By enhancing opportunities for economic growth, the agreement will help provide jobs at all levels of the Central American and Dominican economies, while providing governments with additional resources for much-needed education, health care, and basic infrastructure projects.

Some critics charge that the agreement doesn't do enough to protect workers' rights, even though it does more in this regard than any trade agreement in history. The agreement builds on the fact that five of these countries have ratified all eight of the core conventions of the International Labor Organization; the sixth country, El Salvador, has ratified six of the conventions and is already upholding the final two based on provisions in its own constitution.

The *Washington Post* summarized the situation in an editorial: "It is a bad idea to oppose trade deals on the grounds that labor protections are advancing, but not quite fast enough … This neglects the truth that the best way to boost workers' bargaining capacity is to boost job creation, so that labor is in strong demand. Trade deals that create jobs are good for workers' rights as well as workers' incomes." We agree.

What the Chamber is Doing

The U.S. Chamber and AACCLA are conducting an ambitious educational strategy to build support for Congressional approval of DR-CAFTA. In concert with our partners in the Business Coalition for U.S.-Central America Trade, the Chamber and AACCLA have organized hundreds of face-to-face meetings with members of Congress to make the case for the agreement. We have also met with members of Congress in their districts throughout the country as part of our ongoing "TradeRoots" program to educate business people and workers about the benefits of open trade. We have found broad support for the agreements, both in the Congress and in the business community.

As part of this "TradeRoots" effort, the U.S. Chamber and AACCLA have published a "Faces of Trade" book to highlight small businesses in the United States that are already benefiting from trade with Central America and the Dominican Republic — and that stand to benefit even more from free trade with these two markets. We invite you to review these success stories and see the face of American trade today (electronic copies of the book are available at www.traderoots.org). It isn't just about multinational corporations, which can usually find a way to access foreign markets, even where tariffs are high. DR-CAFTA will first assist the hundreds of thousands of small companies that are accessing international markets — and that are meeting their payroll, generating jobs, and growing the American economy.

The U.S. Chamber and AACCLA are also making the case for the agreement in a nationwide tour with the Central American and Dominican ambassadors to meet with local business people, farmers, and journalists in their home towns. We've organized major events in more than a dozen cities with the ambassadors, and people from all walks of life are excited to learn about how DR-CAFTA will create new opportunities for business and employment.

This is just the tip of the iceberg. We've generated a wealth of information about the potential benefits of these agreements and our efforts to make them a reality. In the interest of brevity, I would simply urge you to contact the Chamber if you need more information. Our websites are a good place to start: www.uschamber.com and www.aaccla.org. Another great source of information is the website of the Business Coalition for U.S.-Central America Trade at www.uscafta.org.

Conclusion

Trade expansion is an essential ingredient in any recipe for economic success in the 21st century. If U.S. companies, workers, and consumers are to thrive amidst rising competition, new trade agreements such as DR-CAFTA will be critical. In the end, U.S. business is quite capable of competing and winning against anyone in the world when markets are open and the playing field is level. All we are asking for is the chance to get in the game.

The U.S. Chamber and AACCLA appreciate this committee's leadership on these critical issues, and we ask you to move expeditiously to bring DR-CAFTA to a vote. Thank you.