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United States Employment Impact Review of the Dominican Republic – Central America – United States Free Trade Agreement

U.S. Department of Labor

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Abstract

[Excerpt] This employment impact review was prepared pursuant to section 2102(c)(5) of the Trade Act of 2002. Section 2102(c)(5) requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review describes the contents of the Dominican Republic – Central America – United States Free Trade Agreement (hereafter, CAFTA-DR or FTA), including a summary of the labor provisions in the FTA, and assesses the potential economic effects of the FTA on employment and labor markets in the United States.

Keywords

Dominican Republic-Central America-United States Free Trade Agreement, labor provisions, employment, labor markets, CAFTA-DR

Comments

Suggested Citation

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United States Employment Impact Review of the Dominican Republic – Central America – United States Free Trade Agreement

Pursuant to section 2102(c)(5) of the Trade Act of 2002, the United States Trade Representative, in consultation with the Secretary of Labor, provides the following United States Employment Impact Review of the Dominican Republic — Central America – United States Free Trade Agreement. The report was prepared by the U.S. Department of Labor.

June 2005

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Executive Summary

This employment impact review was prepared pursuant to section 2102(c)(5) of the Trade Act of 2002. Section 2102(c)(5) requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review describes the contents of the Dominican Republic – Central America – United States Free Trade Agreement (hereafter, CAFTA-DR or FTA), including a summary of the labor provisions in the FTA, and assesses the potential economic effects of the FTA on employment and labor markets in the United States.

The major finding of this review is that the FTA is expected to have a negligible effect on employment in the United States. This finding is attributable to, among other factors, the volume of bilateral trade between the United States and the other Parties (the Central American nations of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua and the Dominican Republic), the fact that over four-fifths of all U.S. imports from the other Parties already enter the United States duty-free, provisions in the FTA for the gradual removal of U.S. tariffs on import-sensitive goods from the other Parties over an extended period, and safeguards contained in the FTA to attenuate the effects of any increases in imports that may cause serious injury to a domestic industry. These findings are also reinforced by the results of two modeling studies commissioned by the U.S. Department of Labor.

The FTA will give U.S. exporters greater access to the CAFTA-DR countries' markets. When the FTA enters into force, most U.S. industrial goods will gain immediate duty-free access to the markets of those countries and U.S. service providers will also gain greater access to those markets. As U.S. goods and service-producing industries become more competitive in these markets, it is expected that U.S. merchandise and service exports to the CAFTA-DR countries will increase. This especially should be the case for capital and industrial goods, including information technology products, automobiles, machinery and equipment, construction equipment, and chemicals; many agricultural products, including grains, meats, dairy, and fruits and vegetables; and financial and other business related services, including banking and insurance. U.S. imports from CAFTA-DR Parties of products made from parts and materials from the Parties are also expected to increase as a result of the FTA.

I. Introduction: Overview of the Employment Impact Review Process

A. Scope and Outline of the Employment Review

This employment impact review consists of an introduction and three additional parts. Part II discusses the background and setting of the Dominican Republic – Central America – United States Free Trade Agreement, including the economic setting, current barriers to trade, and the major elements of the FTA. Part III considers the potential economic and employment effects of the FTA on industrial employment and labor markets in the United States. Part IV describes the Labor Chapter of the FTA, including the provisions for labor cooperation and a capacity building mechanism.

B. Legislative Mandate

This review of the employment impact of the Dominican Republic – Central America – United States Free Trade Agreement is pursuant to section 2102(c)(5) of the Trade Act of 2002 ("Trade Act") (Pub. L. No. 107-210, 116 stat. 933). Section 2102(c)(5) provides that the President shall:

> review the impact of future trade agreements on United States employment, including labor markets, modeled after Executive Order 13141 to the extent appropriate in establishing procedures and criteria, report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on such review, and make that report available to the public...

The President, by Executive Order 13277 (67 Fed. Reg. 70305, Nov. 19, 2002), assigned the responsibility for conducting reviews under section 2102(c)(5) to the United States Trade Representative (USTR), who delegated such responsibility to the Secretary of Labor with the requirement that reviews be coordinated through the Trade Policy Staff Committee (67 Fed. Reg. 71606, Dec. 2, 2002).

The employment impact review is modeled, to the extent appropriate, after Executive Order 13141 (64 Fed. Reg. 63169, Nov. 18, 1999) on the environmental review of trade agreements; the guidelines developed for the implementation of that order have been adapted for use in this employment review.[1]

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[1] Executive Order 13141, on Environmental Review of Trade Agreements, commits the U.S. government to a policy of careful assessment and consideration of the environmental impacts of trade agreements, including factoring environmental considerations into the development of its trade negotiating objectives. The Order directs that, in certain instances, written environmental impact reviews be made and made available to the public in final form. Also, the Order directs the Office of the U.S. Trade Representative (USTR) and the Council on Environmental Quality (CEQ) to oversee the implementation of the Order, including the development of procedures or guidelines pursuant to the Order. In December 2000, USTR and CEQ published *Guidelines for the Implementation of Executive Order 13141—Environmental Review of Trade Agreements*. The Order and Guidelines are available on the USTR web site at: http://www.ustr.gov/TradeSectors/Environment/Guidelines_for_Environmental_Reviews/Section_Index.ht

C. Public Outreach and Comments

1. Responses to Federal Register Notice

The U.S. Department of Labor and USTR jointly issued a notice in the *Federal Register* on March 19, 2003 announcing the initiation of a review of the potential impact on U.S. employment of the proposed U.S.-Central America FTA (CAFTA), including the effects on domestic labor markets, and requesting written public comment on the review and provision of information on potentially significant sectoral or regional employment impacts (both positive and negative) in the United States as well as other likely labor market effects of the FTA.[2] Eight submissions were received in response to the notice and are summarized in Appendix 1.

After the President announced his intention on August 4, 2003 to add the Dominican Republic to the U.S.-Central America FTA negotiations, the U.S. Department of Labor and USTR jointly issued a notice in the *Federal Register* on September 4, 2003 announcing the initiation of an U.S. employment impact review of the proposed U.S.-Dominican Republic FTA.[3] Four submissions were received in response to the notice and are also summarized in Appendix 1.

2. Reports of the Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) and Other Advisory Committees

Section 2104(e) of the Trade Act requires that advisory committees provide the President, USTR, and Congress with reports under section 135(e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement. The advisory committee reports for the U.S.-Central America FTA were submitted on March 19, 2004 and are available on the USTR web site.[4] The advisory committee reports on expanding the CAFTA to include the Dominican Republic were submitted on April 22, 2004 and are also available on the USTR web site.[5] These reports are summarized in Appendix 2.

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ml. USTR and CEQ jointly oversee implementation of the Order and Guidelines, while USTR, through its Trade Policy Staff Committee (TPSC), is responsible for conducting individual reviews.

[2] See 68 Fed. Reg. 13358-13359 (March 19, 2003).

[3] See 68 Fed. Reg. 52623-52624 (September 4, 2003).

[4] See http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA-DR/CAFTA_Reports/Section_Index.html.

[5] See http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA-DR/DR_Reports/Section_Index.html.

II. Background and Contents of the FTA

The CAFTA-DR represents a continuation of the economic integration of the economies in the Americas. The FTA will not only strengthen U.S. ties with the five nations of Central America and the Dominican Republic, but also build upon and solidify the preferences extended to these countries under the Caribbean Basin Initiative (CBI). President Reagan initiated the CBI nearly two decades ago to promote political and economic stability in the region through development of new industrial sectors, diversification of production, and improved access to the U.S. market.

Since 1984, the United States—under the Caribbean Basin Economic Recovery Act (CBERA), also known as the CBI—has provided 24 beneficiary countries unilateral duty-free access or reduced rates of duty for 6,330 products specified in the Harmonized Tariff Schedule of the United States (HTS) at the 8-digit level.[6] The Central American and Caribbean nations of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic have been among the top beneficiaries of the CBERA. The CBERA was extended in May 2000 through the enactment of the Caribbean Basin Trade Partnership Act (CBTPA), which was implemented on October 1, 2000.[7] The FTA will open their markets to U.S. exporters and further secure these countries' access to the U.S. market.

The effects of the FTA on the U.S. economy and U.S. employment are expected to be minimal, especially since more than 80 percent this trade already enters the United States duty-free. The FTA will also serve to strengthen bilateral ties and, over time, reinforce economic reform and economic development in the other Parties and enhance the competitiveness of all Parties globally.

The FTA will create some new opportunities for U.S. workers, farmers, and businesses by eliminating barriers to trade with the CAFTA-DR countries. Over 80 percent of the U.S. exports of consumer and industrial products to the Central American and Dominican Republic Parties and the United States will be duty-free upon entry into force of the FTA, with the balance becoming duty-free within ten years. All but a few tariffs on U.S. agricultural products will be eliminated within twenty years, with immediate market

[6] The HTS of the United States contained approximately 10,297 8-digit HTS tariff lines in 2002. About 3,213 lines (or 31.3 percent) were most favored nation/normal trade relations (MFN/NTR) duty-free, and the remaining 7,084 lines were subject to U.S. import duties. The CBERA provides duty-free or reduced rates of duty for about 89.4 percent of these tariff lines.

[7] The CBTPA extended duty-free or reduced rates of duty to some 460 8-digit HTS items previously excluded from the trade preferences under the CBERA, including footwear, canned tuna, petroleum products, and watches and watch parts. The CBTPA also expanded duty-free (and quota-free) treatment to certain clothing assembled in the CBI region from U.S.-origin inputs, as well as limited quantities of apparel made from fabric knit in the CBI region from U.S. yarns. While the benefits under CBERA are permanent, those under the CBTPA will expire September 30, 2008 or when the United States enters into the Free Trade Agreement of the Americas (FTAA) or a similar free trade agreement with a CBTPA beneficiary country. The other major U.S. trade preference program now available to the CAFTA-DR countries, except Nicaragua, is the U.S. Generalized System of Preferences (GSP) which is not as comprehensive as the CBERA and CBTPA. Benefits under the GSP program will expire December 31, 2006, unless extended by the Congress.

access being provided to most of the products with longer staging through preferential tariff-rate quotas. Several key U.S. export sectors that are likely to benefit include information technology products, automobiles, construction equipment, machinery, and chemicals. Under the FTA, U.S service providers will enjoy increased access and opportunities in the CAFTA-DR country markets.

The day that the FTA enters into force, over 99 percent of originating, non-agricultural goods from the CAFTA-DR countries will have duty-free access to the U.S. market. The CAFTA-DR Parties' textile and apparel, electronics, and instrument sectors are expected to benefit from the FTA and build upon existing production-sharing arrangements with the United States that will enhance the competitiveness of all the Parties globally.

A. Bilateral Economic Setting

1. Population and the Economy

The combined population of the CAFTA-DR countries in 2002 was 43.0 million (or 15.1 percent of that of the United States). With a combined area slightly smaller than twice the size of Michigan, the CAFTA-DR countries' gross domestic product (GDP) was $86.7 billion in 2002, approximately 0.8 percent the U.S. GDP of $10.4 trillion. (See Table II.1) The combined economy of the six CAFTA-DR countries is comparable in size to that of Kansas, which had a gross state product of $87.2 billion in 2001. Gross national income (GNI) per capita (on a purchasing power parity basis) in 2002 in the CAFTA-DR countries ranged from $2,350 in Nicaragua to $8,560 in Costa Rica, that is, between 6.5 percent and 23.7 percent of U.S. GNI per capita of $36,110.

2. Labor Force

a. <u>U.S. Labor Force</u>

In 2003, the U.S. civilian labor force totaled 147 million workers, and of this total, 47 percent (68 million) of the labor force was female.[8] The service-producing industries are the major source of employment in the United States. In 2003, service-producing industries accounted for 78 percent of total U.S. employment of 138 million. Other major sectors of employment included manufacturing, which accounted for 12 percent of total U.S. employment, mining and construction, which accounted for about 8 percent, and agriculture, which accounted for about 2 percent. On an occupational basis, approximately 35 percent of all the employed persons were in either managerial professions (15 percent of total employment) or professional and related occupations (20 percent of total employment); other major occupational categories of U.S. employment were sales and office occupations (26 percent of total employment) and service occupations (16 percent of total employment). On the industrial basis used for cross-country analysis, civilian U.S. employment in 2003 was distributed across industrial

[8] The labor force is defined as persons in the civilian non-institutional population age 16 years and older who are employed or are actively seeking employment. See *Employment and Earnings* 51:1(January 2004).

sectors as follows: 1.7 percent in the agricultural sector, 20.0 percent in industry, and 78.3 percent in the service sector.[9]

The unemployment rate in the United States was 6.0 percent for 2003. However, the unemployment rate for the first three quarters of 2004 was slightly lower, on average 5.6 percent; the unemployment rate was 5.4 percent for November 2004. The majority of the unemployed in 2003 were job losers and those who had completed temporary jobs (55 percent). Reentrants to the labor force made up 28 percent of the unemployed in 2003, new entrants represented 7 percent, and job leavers accounted for 9 percent.[10]

b. The Labor Force in the CAFTA-DR Countries

The size of the labor force in the CAFTA-DR countries in 2001, generally the most recent year for which data are available, ranged from 1.6 million in Costa Rica to 4.9 million in Guatemala. The labor force participation rate varied from about 52 percent in Honduras and Nicaragua to slightly over 60 percent in Costa Rica and Guatemala in 2001. Women made up approximately one-third of the labor force in the CAFTA-DR countries. Employment ranged from 1.5 million in Costa Rica to 4.8 million in Guatemala. (See Table II.2)

The CAFTA-DR economies are largely based on agriculture and the importance of the agricultural and related sectors is apparent in the distribution of employment by industrial sector. Wholesale and retail trade and restaurants and hotels also accounted for significant shares of employment, reflecting the importance of tourism to the CAFTA-DR economies. Community, social and personal services, and manufacturing contributed importantly, but to a lesser degree, to employment in each country. (See Table II.3)

Unskilled and elementary positions were among the top occupational categories of employment in each CAFTA-DR country.[11] In some cases, these occupational categories include unskilled agricultural and related workers, and, in other cases, skilled and unskilled agricultural workers are counted separately. Because of differences in occupational category definitions, it is not possible to accurately assess the share of unskilled workers in the workforce. In general, employment in elementary positions accounted for about 20 percent of the employed in the Dominican Republic, nearly 30 percent in Costa Rica and Guatemala, nearly 35 percent in El Salvador, and nearly 40 percent in Nicaragua. Agricultural and related workers, service workers, and craft and trade workers also accounted for significant shares of employment. (See Table II.4)

Unemployment rates varied widely across the CAFTA-DR countries in 2001 and 2002. Guatemala and Honduras had the lowest unemployment rates at 3.1 percent and 3.9

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[9] *Agriculture* includes agriculture, forestry, hunting and fishing; *Industry* includes manufacturing, mining, and construction; and *Services* includes transportation, communication, public utilities, trade, finance, public administration, private household services, and miscellaneous services. See *Comparative civilian labor force statistics, ten countries: 1959 - 2003*, U.S. Bureau of Labor Statistics, June 23, 2004; available at: http://stats.bls.gov/fls/fls/forc.pdf.

[10] See *Employment and Earnings* 51:1(January 2004), table 27.

[11] Elementary positions include certain basic sales and service occupations and laborers.

percent, respectively. In Costa Rica and El Salvador, the unemployment rates were 6.0 percent and 7.0 percent, respectively. The highest unemployment rates were in Nicaragua (10.5 percent) and the Dominican Republic (15.6 percent).[12] (See Table II.5)

Workers seeking their first job accounted for a sizeable percentage of the unemployed in all of the CAFTA-DR countries. Manufacturing, wholesale and retail trade, community and related services, and agricultural and related activities were the main industrial sectors of prior employment among workers who had previously held jobs. (See Table II.6)

The major occupation categories of prior employment of currently unemployed workers were the same as for employed workers. Unskilled and elementary positions accounted for the largest share in all CAFTA-DR countries. Service workers, craft and trade workers, and plant and machinery operators and assemblers also accounted for significant shares of prior employment. (See Table II.7)

3. *International Trade in Goods*

a. Global and Bilateral Trade in Goods

U.S. trade in goods represented 19 percent of its GDP in 2004. U.S. goods trade with the world amounted to $2.3 trillion ($807.5 billion exports and $1,472.9 billion imports) in 2004. Based on available statistics from the World Trade Organization (WTO), the United States was the world's 2nd largest merchandise exporter (behind Germany) and number one merchandise importer on a country basis in 2004.[13]

Trade in goods represented 61.9 percent of the combined GDP of the CAFTA-DR countries in 2004. (See Table II.8) During 2004, the CAFTA-DR countries' goods trade with the world amounted to $52.4 billion ($19.2 billion in exports and $33.2 billion in imports). Based on available statistics from the WTO, if the CAFTA-DR countries were taken together they would have been the world's 39th largest merchandise exporter and the world's 28th largest merchandise importer on a country basis in 2004 (if all intra-EU trade is excluded).[14] CAFTA-DR exports consisted primarily of agricultural and fishery products and textile and apparel items, while their imports consisted primarily of fuel, raw materials, capital equipment, and chemicals.

U.S. bilateral total goods trade with the CAFTA-DR countries accounted for 1.9 percent ($15.7 billion) of overall U.S. merchandise exports to the world and 1.2 percent ($17.7 billion) of overall U.S. merchandise imports from the world in 2004. Taken together, the

[12] The U.S. State Department notes unofficial reports that the unemployed and underemployed in Nicaragua accounted for between 40 and 50 percent of the labor force in 2002. See U.S. Department of State, *Country Reports on Human Rights Practices-2002: Nicaragua*, Washington, DC, March 31, 2003; available at: http://www.state.gov/g/drl/rls/hrrpt/2002/18339.htm.

[13] Trade rankings, which are based on a general trade definition, are compiled by the World Trade Organization (WTO); see *International Trade Statistics 2004* (Geneva: World Trade Organization, 2004), Table I.5, p. 19.

[14] Ibid, Table I.6, p. 20.

CAFTA-DR countries ranked as the 14th largest U.S. goods export market (similar to Hong Kong or Australia) and the 16th largest source for U.S. goods imports (similar to Thailand) in 2004. In contrast, the United States was the largest export destination and the largest import supplier for these countries in 2004. The shares of country exports going to the United States and country imports coming from the United States were: 47 percent of Costa Rica's exports and 51 percent of its imports, 57 percent of El Salvador's exports and 36 percent of its imports, 53 percent of Guatemala's exports and 42 percent of its imports, 65 percent of Honduras' exports and 51 percent of its imports, 58 percent of Nicaragua's exports and 23 percent of its imports, and 84 percent of the Dominican Republic's exports and 49 percent of its imports. Between 2001 and 2004, U.S. merchandise exports to the CAFTA-DR countries increased by 16 percent, while U.S. merchandise imports from the CAFTA-DR countries increased by 9.6 percent.

b. U.S. Merchandise Exports to the CAFTA-DR Countries

U.S. goods domestic exports to the CAFTA-DR countries amounted to $15.0 billion in 2004. Over 46 percent was accounted for by the top 10 5-digit export-based North American Industry Classification System (NAICS) industries and included textile and apparel articles, apparel accessories, semiconductors, special classification products,[15] resin and synthetic rubber products, petroleum products, and electrical equipment. (See Table II.9)

c. U.S. Merchandise Imports from the CAFTA-DR Countries

U.S. goods imports for consumption from the CAFTA-DR countries amounted to $17.7 billion in 2004. Over half (51 percent) was accounted for by two 5-digit import-based NAICS industries—men's and boy's apparel and women's and girls' apparel. The remaining top ten items accounted for another 27 percent of imports and included a variety of food and agricultural products (such as non-citrus fruits and tree nuts, fish products, and tobacco products) and several manufactured products (such as motor vehicle electrical parts, semiconductors and electronic components, medical equipment and supplies, and hosiery and socks). (See Table II.10)

4. International Trade in Services

The United States was the world's number one commercial services exporter ($287.7 billion) and number one commercial services importer ($228.5 billion) in 2004, based on data from the WTO.[16] By comparison, Central American country exports of commercial

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[15] For the purposes of relating foreign trade statistics to U.S. industrial output and employment, the Bureau of the Census has mapped 10-digit HTS numbers used for U.S. exports and import statistics to their closest NAICS-based code. Some categories of traded items have no direct domestic counterpart and are classified in specially created NAICS-based 91000-99000 categories that have no domestic direct counterpart. For example, NAICS 99000—Special Classification Provisions, not otherwise specified or included contains primarily exports of low-value shipments not specified by kind, exposed film and prerecorded tapes, articles imported for repairs, returned goods, and articles donated to charity.

[16] Trade rankings, which are based on a balance of payments definition, are compiled by the WTO; see *International Trade Statistics 2004*, Table I.7 (Geneva: World Trade Organization, 2004), p. 21.

services to the world amounted to $4.5 billion (Costa Rica, $2.0 billion; El Salvador, $0.8 billion; Guatemala, $1.1 billion; Honduras, $0.5 billion; and Nicaragua, $0.2 billion) and their imports of commercial services from the world totaled $4.2 billion (Costa Rica, $1.2 billion; El Salvador, $0.9 billion; Guatemala, $1.0 billion; Honduras, $0.7 billion; and Nicaragua, $0.3 billion) in 2004.[17] The Dominican Republic's exports of commercial services to the world amounted to $3.4 billion and its imports of commercial services from the world amounted to $1.1 billion in 2004. Data on bilateral U.S. services trade with the CAFTA-DR countries are not available.

5. Foreign Direct Investment (FDI)

U.S. foreign direct investment (FDI) in the five Central American countries (on a stock basis) was $3.4 billion in 2004 ($1.8 billion in Costa Rica, $779 million in El Salvador, $294 million in Guatemala, $270 million in Honduras, and $261 million in Nicaragua). U.S. FDI in the Dominican Republic (on a stock basis) was $860 million in 2004.[18] U.S. FDI in the CAFTA-DR countries was concentrated in the manufacturing sector, especially in the assembly of apparel, electronics, and medical goods made from U.S. parts and materials in facilities located in the free trade zones and export processing zones. Data on foreign direct investment by investors from the CAFTA-DR countries in the United States are not available.

B. Current Barriers to Bilateral Trade

1. Trade in Goods

In 1995, the members of the Central American Common Market (CACM), which is comprised of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, agreed to set a harmonized common external tariff (CET) at a rate of zero to 15 percent on most items. Each member was allowed to set its own timetable for implementing the CET. The members of the CACM also have bilateral free and preferential trade agreements with a number of countries, including Mexico, the Dominican Republic, and Panama.

The Dominican Republic has negotiated free trade agreements with the member countries of the CACM and the Caribbean Community (CARICOM) except Haiti. A number of items, including various meat, dairy, fish, and other agricultural products, are excluded from these agreements. The product and services coverage under the Dominican Republic's FTA with the CACM was significantly upgraded in the CAFTA-DR. Items produced in free trade zones are also subject to duty under the CARICOM agreement. Dominican trade with these two regions, however, accounts for only two percent of its trade with the world.

Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua each have a free trade agreement with Mexico. Costa Rica also has free trade agreements with Canada and Chile. El Salvador also has a free trade agreement with Panama.

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[17] Ibid, Tables A6 and A7, p. 171 and p. 175.
[18] See "U.S. Direct Investment Abroad," *Survey of Current* Business (Sept. 2004) pp. 136-137.

a. Costa Rica

Costa Rica completed its tariff realignment to the levels specified in the CET in January 2000.[19] The external tariff rate on some agricultural products exceeds 15 percent, for example, dairy products (40 to 65 percent) and poultry (150 percent). The external tariff rate on new and used automobiles ranges from 52 to 79 percent.[20] One hundred percent of Costa Rica's tariffs are bound at rates between zero and 233.1 percent, with an average rate of 42.8 percent. Approximately 1.9 percent of Costa Rican imports are bound duty free, and 98.1 percent are subject to a bound duty.[21] In 2001, the average applied duty rate was 5.5 percent, with 48.5 percent of imports entered duty free and 51.5 percent assessed duties.[22]

b. El Salvador

All of El Salvador's tariffs are bound at rates between zero and 164.4 percent, with an average rate of 36.6 percent. Approximately 2.1 percent of its imports are bound duty free, and 97.9 percent are subject to a bound duty.[23] In 2000, the average applied duty rate was 7.1 percent, with 48.2 percent of imports entered duty free and 51.8 percent assessed duties.[24]

c. Guatemala

All of Guatemala's tariffs are bound at rates between zero and 257.0 percent, with an average rate of 42.3 percent.[25] In 1999, the average applied duty rate was 7.4 percent, with 47.5 percent of imports entered duty free and 52.5 assessed duties.[26]

d. Honduras

In December 2000, Honduras set its tariff rate on non-CACM capital goods, medicines, agricultural inputs, and raw materials at one percent and its external tariff rate on finished goods at 16 percent. All of Honduras's tariffs are bound at rates between zero and 60.0 percent, with an average rate of 32.5 percent. All imports are subject to a bound duty rate

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[19] See *2004 National Trade Estimate Report on Foreign Trade Barriers* (Washington DC: Office of the U.S. Trade Representative, 2004).
[20] Ibid.
[21] See *World Trade Report*, Appendix Table IIB.1 (Geneva: World Trade Organization, 2003).
[22] Ibid, Appendix Table IIB.4.
[23] Ibid, Appendix Table IIB.1.
[24] Ibid, Appendix Table IIB.4.
[25] Ibid, Appendix Table IIB.1.
[26] Ibid, Appendix Table IIB.4.

that is greater than zero.[27] In 2000, the average applied duty rate was 7.3 percent, with no imports entering duty free and all imports assessed duties.[28]

e. Nicaragua

Nicaragua imposes a tariff of 15 percent on many finished consumer goods. Some items are subject to an additional temporary tariff of 5 to 10 percent. Some agricultural commodities, such as rice, corn, and chicken parts, face special tariffs; the tariff on rice is 103.5 percent. Nicaragua also levies a 15 percent value-added tax on most items other than agricultural inputs.[29] All of Nicaragua's tariffs are bound at rates between zero and 200.0 percent, with an average rate of 41.7 percent.[30] In 2002, the average applied duty rate was 4.7 percent, with 49.1 percent of imports entered duty free and 50.9 percent assessed duties.[31]

f. The Dominican Republic

All of the Dominican Republic's tariffs are bound at rates between zero and 99.0 percent, with an average rate of 34.9 percent.[32] In 2000, the average applied duty rate was 8.4 percent, with 10.7 percent of imports entered duty free and 89.3 percent assessed duties.[33]

g. The United States

All but two U.S. tariff lines are bound and some 31 percent of all tariff lines are duty free. In 2002, the overall average MFN/NTR tariff was just over 5 percent.[34] The average tariff on agricultural products was 12 percent.[35] Certain footwear and several agricultural products (such as tobacco, peanuts, certain dairy products, and sugar) have duties in the 50-350 percent range. Most U.S. tariffs on textiles and clothing are in the 15-30 percent range. Tariff escalation is present in textiles and clothing, nonmetallic minerals, and basic metal industries. In 2002, 48 percent of the total value of U.S. clothing imports (24 percent of the total volume) was subject to quantitative restraints (quotas).[36] While tariffs

[27] Ibid, Appendix Table IIB.1.
[28] Ibid, Appendix Table IIB.4.
[29] See *2004 National Trade Estimate Report on Foreign Trade Barriers* (Washington DC: Office of the U.S. Trade Representative, 2004).
[30] See *World Trade Report*, Appendix Table IIB.1 (Geneva: World Trade Organization, 2003).
[31] Ibid, Appendix Table IIB.4.
[32] Ibid, Appendix Table IIB.1.
[33] Ibid, Appendix Table IIB.4.
[34] See *Trade Policy Review: United States*, Report by the Secretariat, WT/TPR/S/126 (Geneva: World Trade Organization, 2003.
[35] See Paul Gibson, John Wainio, Daniel Whitley, and Mary Bohman, *Profiles of Tariffs in Global Agricultural Markets,* Agricultural Economic Report No. 796, Economic Research Service, U.S. Department of Agriculture, January 2001, p. iv; available at: http://ers.usda.gov/publications/aer796/AER796.pdf.
[36] "Tariff escalation" is a term used for the situation when tariff rates for an item increase by stage of processing, that is, higher tariff rates are applied to an item that has undergone further processing or

will remain, all U.S. quantitative restraints on textiles and apparel were removed as the result of the expiration of the WTO Agreement on Textiles and Clothing on December 31, 2004.

2. Trade in Services

a. Costa Rica

Costa Rica's insurance, telecommunications, electricity distribution, petroleum distribution, potable water, sewage, and railroad transportation industries are state monopolies. In addition, there are restrictions on the participation of foreign companies in some private sector activities, such as customs handling, provision of medical services, and certain professions requiring Costa Rican registration and long-term residency of the persons providing the services.

Costa Rica has ratified its commitments under the 1997 WTO Financial Services Agreement and accepted the Fifth Protocol to the WTO General Agreement on Trade in Services (GATS).[37] Under this agreement, Costa Rica committed to allow foreign financial service providers to establish 100 percent owned bank subsidiaries in Costa Rica that provide lending and deposit-taking services, leasing services, credit card services, and financial information services. Costa Rica made no commitments in the WTO for the provision of securities trading, underwriting services, or any type of insurance services.

Since 1995, private commercial banks have been permitted to offer checking accounts and savings deposits of less than 30 days and, since 1996, to access the Central Bank's discount window. However, private commercial banks are required to open branches in rural areas of the country or to deposit with the Central Bank 17 percent of their checking account deposits for state-owned commercial banks that have rural branches in order to qualify for the benefits of the law. Costa Rican regulations restrict the ability of certain professions to practice on a permanent basis in Costa Rica. For example, medical practitioners, lawyers, certified public accountants, engineers, architects, teachers, and other professionals must be members of an officially recognized professional association, which sets residency, examination, and apprenticeship requirements.

b. El Salvador

El Salvador maintains few barriers to services trade. El Salvador has accepted the Fifth Protocol to the WTO GATS, which was necessary to bring its commitments on financial services into effect. Foreign investors are limited to 49 percent of equity in free reception

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manufacture before importation. See *Trade Policy Review: United States*, Report by the Secretariat, WT/TPR/S/126 (Geneva: World Trade Organization, 2003).

[37] The Fifth Protocol to the GATS contains as annexes the schedules of specific member-country commitments and list of exemptions from Article II of the GATS, which concerns financial services.

TV and AM/FM radio broadcasting. There are no such restrictions on cable television ownership. Notaries must be Salvadoran citizens.

c. Guatemala

Currently, international telephone calls must be routed through facilities licensed by the Guatemalan Superintendency of Telecommunications. U.S. companies have alleged anti-competitive behavior, including unilateral changes of interconnection rates, by the country's dominant fixed-line telephone service provider, Telgua, which is a subsidiary of Telmex of Mexico. Guatemala's courts have ruled against Telgua in cases where a verdict was reached, but the anticompetitive practices continue.

Foreign banks are currently not permitted to open branches in Guatemala, though they may establish local subsidiaries subject to the conditions of the Monetary Board, including capital and lending requirements based exclusively on the balance sheet of the local subsidiary.

Guatemala's law forbids the operation of foreign insurance companies or the supply by foreigners or foreign companies of many professional services reserved for professionals with locally recognized academic credentials. Many professionals must have graduated from a recognized university and must be registered in a professional association. Notary publics must be Guatemalan nationals. Guatemala's National University can validate foreign degrees, but this often requires additional course work or examinations.

d. Honduras

Currently, special government authorization must be obtained to invest in the tourism, hotel, and banking services sectors. Foreigners may not hold a seat in Honduras' two stock exchanges or provide direct brokerage services in these exchanges. Honduras' professional bodies heavily regulate the licensing of foreigners to practice law, medicine, engineering, accounting, and other professions.

e. Nicaragua

Nicaragua has ratified its commitments under the 1997 WTO Financial Services Agreement. Nicaragua's WTO commitments cover most banking services, including acceptance of deposits, lending, leasing, guarantees, and foreign exchange. However, its WTO commitments do not cover security or asset management. Nicaragua allows foreign banks to operate either as 100 percent owned subsidiaries or as branches. Since several major U.S. banks withdrew in the 1970s, no U.S. bank has yet reentered the Nicaraguan financial market.

Legislation passed in 1996 opened the insurance industry to private sector participation. Private insurance companies now compete with the government-owned firm INISER. However, no U.S. or other foreign insurance company has entered the Nicaraguan market.

f. The Dominican Republic

In October 2002, the Dominican Republic passed a new monetary and financial law that provides for national treatment of investors in most areas of the financial services sector. The law established a regulatory regime for monetary and financial institutions and permits foreign investment in financial intermediary activities in the Dominican Republic.

The Dominican Republic has ratified the 1997 WTO Financial Services Agreement, and its new monetary and financial law appears to go beyond the commitments of the WTO agreement. The Dominican Republic has committed itself to allow foreign banks to establish branches or local companies, with up to 100 percent foreign equity, that provide deposit-taking, lending, and credit card services. Foreign investors may also own up to 100 percent equity in local suppliers of leasing and insurance service suppliers. There is no longer any need for local participation. However, the Dominican Republic's Insurance Law still requires that Dominican shareholders hold at least 51 percent of the shares in a national insurance company.

g. The United States

The U.S. services and investment regimes are generally open,[38] with some exceptions. In the maritime sector, cabotage laws reserve domestic routes to U.S. operators and government support for U.S.-flag vessels. The United States restricts foreign ownership and control of U.S. air transport carriers, and the provision of domestic air service is restricted to U.S. carriers. The United States also restricts foreign investment in telecommunications, radio broadcast, atomic energy, and energy pipelines. Insurance is subject to regulation at the state level, as are most professional services. Also, under the Exon-Florio Amendment to the Defense Production Act, the President has the authority to suspend or prohibit foreign mergers, acquisitions, and takeovers, where there is credible information of a threat to national security.

C. Major Elements of the FTA

The FTA consists of a Preamble, 22 chapters and associated annexes and schedules. The chapters are: Initial Provisions; General Definitions; National Treatment and Market Access for Goods; Rules of Origin and Origin Procedures; Customs Administration and Trade Facilitation; Sanitary and Phyto-Sanitary Measures; Technical Barriers to Trade; Trade Remedies; Government Procurement; Investment; Cross-Border Trade in Services; Financial Services; Telecommunications; Electronic Commerce; Intellectual Property Rights; Labor; Environment; Transparency; Administration of the Agreement and Trade Capacity Building; Dispute Settlement; Exceptions; and Final Provisions. The annexes include the non-conforming measures relating to the investment, services, and financial

[38] See *Trade Policy Review: United States*, Report by the Secretariat, WT/TPR/S/126 (Geneva: World Trade Organization, 2003) and *Statement on Foreign Direct Investment Policy* (U.S. Department of Treasury, December 26, 1991).

services obligations, the tariff schedules of each Party, and the product-specific rules of origin.

The complete text of the FTA and summary fact sheets are available on USTR's web site.[39] For a detailed summary of the FTA, see *Summary of the Dominican Republic – Central America – United States FTA Required under Section 162 of the Trade Act of 1974 (19 U.S.C. §2212)* which was prepared by USTR.

[39] See http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA-DR/Section_Index.html.

III. Potential Economic and Employment Effects of the FTA

The focus of this review is on the potential impact of the FTA on U.S. employment and labor markets. It is based on a qualitative assessment of the likely economic effects of removing barriers to trade between the Parties, given the current structure and volume of U.S.-CAFTA-DR trade. This analysis is supported by two quantitative economic modeling studies of the impact of the FTA on U.S. employment; the results of these studies are summarized in Appendix 3 of this Review.

The major finding of this Review is that the FTA is expected to have a negligible effect on employment in the United States. This is attributable to, among other factors, the volume of bilateral trade between the United States and the other Parties, the fact that over 80 percent all U.S. imports from the other Parties already enters the United States duty free, provisions in the FTA for the gradual removal of U.S. tariffs on certain goods (primarily agricultural products) from the other Parties over a twenty-year period, and safeguards contained in the FTA. This finding of a negligible U.S. employment effect is also supported by the two economic modeling studies of the FTA that are discussed in greater detail in Appendix 3.

Among the factors considered in this U.S. employment impact review of the FTA were:

- *The Current Volume and Industrial Structure of U.S.—CAFTA-DR Country Trade*

U.S. domestic exports to the CAFTA-DR countries have averaged about $13.9 billion a year over the last four years, about 2.1 percent of all U.S. exports to the world in 2004. Though small in volume, U.S. exports of manufactured goods accounted for over 86 percent of all U.S. exports to the Parties in 2004, and they were concentrated in a few industrial categories: textiles and fabrics; apparel and accessories; computer and electronic products; chemicals; food manufacturing;[40] and machinery, except electrical. Outside of the manufacturing sector, U.S. exports of agricultural products to the CAFTA-DR countries have been strong and increasing. (See Table III.1)

U.S. imports for consumption from the CAFTA-DR countries have averaged about $16.5 billion a year over the last four years, about 1.2 percent of all U.S. imports from the world in 2004. CAFTA-DR country exports to the United States have been concentrated mainly in apparel and accessories and to a lesser degree in agricultural products, miscellaneous manufactured products (jewelry and medical instruments), and computer and electronic products. (See Table III.2)

The CAFTA-DR countries are important markets for U.S. exporters of apparel and accessories and textiles and fabrics, accounting for 39 percent and 29 percent, respectively, of all U.S. exports of these items. This reflects the extensive U.S. production-sharing arrangements with the region.

[40] Nearly two-thirds of these food manufacturing exports were starch and vegetable fats and oils and meat products and meat packing products.

U.S. trade in textiles and apparel with the Parties has historically involved production-sharing arrangements in which U.S. firms send cut garment parts to the Parties for assembly into finished garments that are then reimported into the United States. U.S. imports of finished apparel from the CAFTA-DR countries now account for 54 percent of all products imported from these countries. There are also some other production-sharing arrangements, though less significant, in the assembly in these countries of computer and electronic products and medical and measuring instruments made of U.S. materials. The FTA's rules of origin (which are discussed below) will encourage further regional integration among the Parties and the expansion of production-sharing arrangements through the requirement that goods benefiting from duty-free entry under the FTA be made substantially of materials produced by one or more of the Parties.

The CAFTA-DR countries (especially the Dominican Republic, Honduras, and El Salvador and to a lesser degree Guatemala and Nicaragua) currently make extensive use of U.S. materials in production-sharing operations. In 2003, $3.7 billion in goods assembled in the CAFTA-DR countries, containing $2.2 billion in U.S. materials (59 percent), entered the United States under the production-sharing provisions of HTS 9802 that assess duty only on the foreign value-added (41 percent, in this case) to assembled articles with U.S. content.[41] Most of the production-sharing arrangements in the CAFTA-DR countries (85 percent) are engaged in the assembly of apparel and accessories and, to a lesser extent, the assembly of electrical equipment, appliances, and components, with U.S.-content value of over 60 percent. (See Table III.3)

- *What the FTA Will Do*

Trade in Goods

The market access provisions in Chapter 3 of the FTA set out the schedules for the elimination of tariffs on originating goods from the Parties. Over four-fifths of all U.S. imports from the Central American countries and the Dominican Republic already enter the United States MFN/NTR duty-free or duty-free under unilateral U.S. tariff preference programs.

Table III.4 summarizes the tariff removal phase-in schedule for U.S. tariffs on non-agricultural goods originating from the CAFTA-DR partners as well as the phase-in schedule for removal of their tariffs on these goods originating from the United States. Most of the value of two-way non-agricultural and non-textile trade (over 99 percent) will become duty-free on entry into force of the FTA, with the balance becoming duty-free by year ten of the FTA. (See Table III.4-A) Tariffs on originating non-agricultural textile goods will be phased out in a similar manner by the Parties over a ten-year period, with the bulk of the value of textile trade (nearly 100 percent) becoming duty-free immediately. (See Table III.4-B)

[41] U.S. import duties are applied to the adjusted dutiable value, which is the dutiable value less the value of U.S. contents. The dutiable values presented in Tables III.5 and III.6 do not take into account this adjustment for items entered under the HTS 9802.00.80 provisions that results in a smaller amount of duty actually paid on the entry.

Consumer and industrial goods: Virtually all CAFTA-DR partners' non-agricultural goods will receive immediate duty-free access to the U.S. market; the remaining U.S. tariffs on canned tuna, and certain rubber or plastic footwear will be eliminated in the tenth year of the FTA.

Slightly more than eighty percent of U.S. exports of consumer and industrial goods will become duty-free in the CAFTA-DR countries under the FTA upon entry into force of the agreement. Key U.S. sectors that will benefit from the immediate elimination of CAFTA-DR partners' import duties include information technology products,[42] agricultural and construction equipment, paper products, chemicals, and medical and scientific equipment. Dominican tariffs on U.S. automobiles and automobile parts will be phased out within five years. All remaining CAFTA-DR partners' tariffs on U.S. consumer and industrial goods will be eliminated by the tenth year of the FTA.

Textiles and apparel: Textiles and apparel (except for three tariff lines that will become duty-free in ten years) will be duty-free and quota-free upon entry into force of the FTA, if they meet the FTA's rule of origin. The benefits for textiles and apparel will apply retroactively to January 1, 2004, on a reciprocal basis.

Agriculture: All agricultural products are covered under the FTA. Liberalization will occur through tariff reductions, expansion of new tariff-rate quotas, and a combination of the two approaches. The United States will apply the same in-quota and out-of-quota tariffs to each of the Parties, but the country-specific quantities of product subject to the lower in-quota tariff may vary by country. Each of the CAFTA-DR Parties has a separate schedule of commitments providing access for U.S. agricultural products.

Tariffs will be eliminated for all products, except sugar for the United States, fresh potatoes and fresh onions for Costa Rica, and white corn for the other Central American countries. Tariffs will be phased out according to a country-specific schedule on a product and country-specific basis. Phase-outs for most products are immediate, 5, 10, 12, or 15 years. For a few products, the phase-out periods are 18-20 years (certain dairy products in all Parties; chicken leg quarters and rice in the CAFTA-DR Parties). As a general rule, tariffs will be reduced in equal annual amounts over the phase-out period. For specified sensitive agricultural products, tariff reductions are back-loaded with no cuts in the initial years of the phase-out period and larger cuts in the latter years of the phase-out period. For some agricultural products, immediate market access will be provided through the creation of preferential tariff-rate quotas (zero duty access for a specified quantity of imports).

The United States already provides duty-free access for a wide range of agricultural products (including pork, poultry, vegetables, fruits and nuts, dried beans and lentils, potatoes, wheat and barley, corn and corn products, rice, soybeans, and processed

[42] Guatemala, Honduras, Nicaragua, and the Dominican Republic will soon join the WTO's Information Technology Agreement, which removes tariff and non-tariff barriers to information technology products. Costa Rica and El Salvador are already participants.

products) imported from the CAFTA-DR Parties; the United States will continue to do so under the FTA.

The U.S. tariff on peanuts will be phased out over a fifteen-year period and preferential tariff-rate quota access will be established for the CAFTA-DR Parties. U.S. tariffs on tobacco will be phased out over a fifteen-year period, except where current duty treatment under the CBERA grants duty-free access (for those products, the tariff is set at zero immediately). U.S. tariffs on cotton will be phased out over a fifteen-year period.

The United States will phase out its 26 percent over-quota tariff on beef over a fifteen-year period and its over-quota tariff on certain dairy products (which now ranges up to 60 percent) over a twenty-year period, with tariff cuts back-loaded and quantity-based safeguards applied if certain conditions exist.

The United States will not cut its (approximately 100 percent) over-quota duty on imported sugar. Under the FTA, the United States has established preferential in-quota quantities for each of the Parties, starting at an aggregate 107,000 metric tons and growing to about 151,000 metric tons in year fifteen, and thereafter growing by two percent annually. The United States will also establish a 2,000 metric ton tariff-rate quota, with no growth, for sugar from Costa Rica. The total increase in the CAFTA-DR Parties' access to the U.S. sugar market is about 1.2 percent of U.S. consumption in the first year, growing to about 1.7 percent in year fifteen of the FTA. Provisions in the FTA ensure that Parties can only use the tariff-rate quota for surplus production and may not substitute imported sugar in their domestic market for product exported to the United States. Other provisions allow the United States to provide compensation in lieu of sugar imports under the tariff-rate quotas.

The FTA allows the CAFTA-DR countries to continue to share in the duty-free quota for ethanol produced in CBI beneficiary countries. El Salvador and Costa Rica were granted specific allocations of the overall CBI quota.

More than half of current U.S. farm exports to the CAFTA-DR Parties (which totaled over 1.6 billion dollars in 2003) will become duty-free upon entry into force of the FTA, including certain beef, cotton, wheat, soybeans, many fruits and vegetables, and processed food products (including wine).[43] Tariffs on most U.S. farm products will be phased out within 15 years, with all but a handful eliminated by the twentieth year. Duty-free access under tariff-rate quotas will be established for U.S. beef, pork, poultry, rice, corn, certain dairy products, certain potato and potato products, and certain dried beans.

[43] For a more detailed product-specific summary of the phase-out of tariffs on agricultural goods, see "CAFTA-Agriculture: Specific Fact Sheet," Office of the United States Trade Representative, March 3, 2004.

Rules of Origin

To be eligible for the benefits under the agreement, the FTA's rules of origin generally require a good to be an "originating good" (i.e., a good wholly obtained or produced in the territory of one or more of the Parties from originating materials). If certain non-originating materials are used, the good may still be considered to be originating if the material undergoes a change in tariff classification, or the good meets a specific regional value content, or both, as set out in the product-specific rules of origin in Annex 4.1 of the FTA.

The FTA contains a *de minimis* provision for non-textile goods that do not meet the requirements of an originating good. Generally, if the value of non-originating materials used in the production of a good that do not undergo the required change in tariff classification does not exceed 10 percent of the adjusted value of the good, and the good otherwise meets all other applicable criteria, it qualifies as an originating good. There are, however, some exceptions to this general rule. For textile and apparel goods, the *de minimis* quantity is set at 10 percent of the weight of non-originating materials, except for elastomeric yarns, which must all be formed in the territory of a Party.

Textile and apparel goods must meet a yarn-forward rule (i.e., be produced from yarns or fabrics originating in a Party) in order to be considered as originating goods under the FTA. There are limited exceptions to this rule for fabrics, yarns and fibers found not to be available in commercial quantities in a timely manner (i.e., in "short supply"), certain nylon filament yarn, and for limited quantities of materials produced in Canada or Mexico in certain apparel goods.

Under the FTA, the United States will provide preferential tariff treatment for limited quantities of specified non-originating apparel goods that are assembled in Nicaragua for the first ten years of the agreement. The United States will charge Costa Rica only 50 percent of the MFN/NTR rate of duty for limited quantities of specified non-originating wool apparel goods assembled in Costa Rica for the first two years of the agreement.

Trade Remedies

The FTA contains three separate safeguard mechanisms—a general safeguard, an agriculture safeguard, and a textile safeguard—that should provide additional means of helping industries adjust to increased imports resulting from the FTA:

General safeguard (Chapter 8): If as a result of the reduction or elimination of a customs duty under the FTA during the transition period, an originating good is being imported into the territory of a Party in such quantities so as to be a substantial cause of serious injury, or threat thereof, to a domestic producer of a like or directly competitive product, the importing Party may: suspend the further reduction of any rate of customs duty on a good provided for under the FTA for that good; or increase the customs rate of duty on a good to a level not to exceed the lesser of the MFN/NTR applied rate of duty on the good in effect on the day at the time the action is taken and the MFN/NTR applied rate of duty on the good in effect on the day immediately preceding the date of entry into force of the FTA. A safeguard may be applied for up to four years (including any extensions of the action). A Party may not apply a safeguard measure more than once on the same good. The Party imposing a safeguard must provide compensation or may be subject to the withdrawal of substantially equivalent concessions by the exporting Parties.

Procedural requirements that apply to safeguard proceedings are set out in an Annex. The United States already complies with these requirements. The Parties retain the right to apply WTO safeguard measures, but cannot apply a WTO safeguard and an FTA safeguard on the same good simultaneously.

<u>Agricultural safeguard (Article 3.15)</u>: Agricultural safeguard measures may be applied during the tariff elimination period for certain agricultural goods. These agricultural safeguard measures allow for tariff increases after imported quantities increase above specified levels. Specifically, if imports exceed the volume trigger for the good, the importing Party may assess a percentage of the difference between the MFN/NTR rate and the preferential FTA rate of duty as an additional duty. However, the total duty on an originating good under an agricultural safeguard measure may not exceed the lesser of the prevailing MFN/NTR applied rate of duty and the MFN/NTR applied rate of duty in effect on the day immediately preceding the date of entry into force of the FTA. The importing Party may not, with respect to the same agricultural good, at the same time, impose or maintain an agricultural safeguard measure and a safeguard measure under Chapter 8 (Trade Remedies), or a WTO safeguard measure. Further, no Party may impose an agricultural safeguard measure after the tariff elimination period, or once the good achieves duty-free status under the FTA, or that increases an in-quota duty on an agricultural good subject to a tariff-rate quota.

<u>Textile safeguard (Article 3.23)</u>: In order to deal with emergency conditions that might result from the reduction or elimination of tariffs on textile and apparel goods provided for in the agreement, the FTA allows the Parties to temporarily increase the rate of duty on specified textile and apparel goods. A Party may increase the rate of duty up to a rate not to exceed the lesser of the MFN rate of duty in effect at the time the safeguard action is taken and the MFN duty in effect on the date of entry into force of the agreement. No safeguard action may be maintained for a period exceeding three years, and no safeguard action may be taken or maintained after the first five years of the agreement. The Party taking a safeguard action is obliged to provide compensation in textile and apparel goods to the other Party.

<u>Antidumping and countervailing duties</u>: The United States agreed to continue to consider the CAFTA-DR countries as beneficiary countries under the countervailing and antidumping law provisions that exempt CBI beneficiary countries from cumulation with non-CBI beneficiary countries in the determination of material injury or threat thereof.

Trade in Services

Under the FTA, U.S. service exporters will be accorded substantial market access across a wide range of sectors, including telecommunications, express delivery, computer and related services, tourism, energy, transport, construction and engineering, banking and securities, insurance, audio/visual and entertainment, professional, environmental, and other sectors. Many of the CAFTA-DR Parties have agreed to change "dealer protection" regimes and loosen restrictions that lock U.S. firms into exclusive or inefficient distributor arrangements.

Under the FTA, the Central American countries and the Dominican Republic will accord substantial market access in services across their entire services regime, subject to very few exceptions. In professional services, Costa Rica, Nicaragua, Guatemala and Honduras will allow the cross-border supply of certain professional services on a reciprocal basis and to provide for temporary licensing of certain professional services. The Dominican Republic and El Salvador also made broad commitments in professional services.

For Costa Rica, liberalization in insurance will be achieved through a phased-in approach with an initial opening at entry into force and the vast majority of the market open by 2008, and full opening by 2011. In addition to the opening in insurance in Costa Rica, the FTA requires that the Central American countries and the Dominican Republic permit U.S. financial service suppliers to establish as a subsidiary, joint venture or a branch (within 3-4 years for insurance) in banking and insurance.

Costa Rica made specific commitments to gradually open its telecommunications market in three key areas (private network services, Internet services, and wireless services) and committed to establishing a regulatory framework to help foster effective market access. The other Central American countries will also further open their telecommunications markets to competition on a nondiscriminatory basis.

The United States is not required to modify any of its laws affecting trade in services as the result of the FTA. The United States has ensured its current services regime by including current restrictions in the list of exempted areas among the non-conforming measures under the FTA.

- *The Potential Effects of Removing Current Barriers to Trade*

The short-term effects of the FTA will come from the removal of tariffs on bilateral merchandise trade. The CAFTA-DR countries will phase out tariffs on about 80 percent of their imports of U.S. non-agricultural and non-textile goods upon implementation of the FTA, with the remaining tariffs being phased out over ten years, while the United States will phase out immediately over 99 percent of its import tariffs on these goods from CAFTA-DR countries, with the few remaining tariffs being phased out by the tenth year of the FTA. All Parties have agreed to eliminate in a similar manner nearly all import tariffs on textiles and apparel upon entry into force of the FTA, with the few remaining tariffs being phased out by the tenth year of the FTA. Tariffs on all agricultural products, except sugar for the United States, fresh potatoes and fresh onions for Costa Rica, and white corn for the other Central American countries, will be phased out over twenty years, with some immediate market access being provided through preferential tariff-rate quotas for some agricultural products. In the long term, the FTA may lead to increased FDI and increased economic efficiencies in the Parties as well as enhanced transparency and democratic institutions in the CAFTA-DR countries.

Most U.S. exports to the CAFTA-DR countries face relatively high average applied import tariff rates, with some bound tariff rates ranging up to 257 percent. The removal of CAFTA-DR country tariffs on goods from the United States will boost the competitiveness of U.S. products in the CAFTA-DR countries, especially for many agricultural products as well as U.S.-made machinery and equipment, automobiles, chemicals, footwear, textile products, information technology equipment, and computers and related devices. As seen above, the FTA will open more fully to U.S. service providers the services markets in the CAFTA-DR countries.

Slightly less than one-fifth (19.8 percent) of all U.S. imports from the CAFTA-DR countries, or $3.3 billion, were subject to duties in 2003, and an estimated $494 million in duties were paid at an average *ad valorem* rate of 14.8 percent. Apparel imports accounted for 88 percent of the dutiable value and 97 percent of the calculated duties on all U.S. imports from the CAFTA-DR countries in 2003. Other U.S. import NAICS-based subsectors in which imports from the CAFTA-DR countries faced average rates of U.S. duties over 5 percent in 2003 included leather and allied products (11.1 percent), textiles and fabrics (7.7 percent), textile mill products (7.2 percent); nonmetallic mineral products (5.5 percent); and furniture and fixtures (5.4 percent). (See Table III.5)

U.S. imports from the CAFTA-DR countries that qualified for reduced duties or duty-free entry under several U.S. trade preference programs (CBERA, CBTPA, or GSP) amounted to slightly over 51 percent of all U.S. imports from the CAFTA-DR countries, or $8.6 billion in 2003.[44] (See Table III.6) U.S. imports from the CAFTA-DR countries that entered either duty-free or at reduced rates of duty under provisions of the CBERA amounted to $2.2 billion in 2003 and consisted primarily of agricultural products (23.5 percent), food manufacturing (20.2 percent), miscellaneous manufactured commodities (13.8 percent), and electrical equipment, appliances, and components (8.0 percent). U.S. imports from the CAFTA-DR countries that entered either duty-free or at reduced rates of duty under provisions of the CBTPA amounted to $6.2 billion in 2003 and were comprised almost entirely of apparel and accessories (96.3 percent; all of which entered duty-free), oil and gas (2.7 percent), leather and allied products (0.8 percent) and petroleum products (0.1 percent). U.S. imports from the CAFTA-DR countries that entered duty-free under the GSP program amounted to $236 million in 2003 and mainly consisted of food manufacturing (28.5 percent), plastics and rubber products (11.9 percent), electrical equipment, appliances, and components (11.1 percent), and beverages and tobacco (9.4 percent). (See Table III.7)

[44] Nicaragua is not a U.S. GSP beneficiary country.

The immediate removal of U.S. tariffs on the volume of imported goods from the CAFTA-DR countries on which U.S. import duties are assessed does not appear to pose a threat to U.S. producers of like or similar products. While it is difficult to assess whether any increased imports from the CAFTA-DR countries as the result of the FTA will displace U.S. production or replace imports from other foreign suppliers, it is more likely that any increased amounts would come at the expense of other country suppliers, especially in apparel, where there are already numerous other developing country suppliers to the highly competitive U.S. market.

- *The Dynamic Nature of the U.S. Labor Market*

The degree to which U.S. workers may experience new employment opportunities or job dislocations due to the FTA depends, in part, on the magnitude and significance of the change in industry employment resulting from the FTA. The predicted impact of the FTA on U.S. employment in all sectors is likely to be very small in relation to the ordinary turnover of workers. For example, during the month of June 2004, the overall hire rate in private industries was 3.7 percent of total private employment (or 4.0 million workers) and the overall separation rate was 3.4 percent (or 3.8 million workers).[45] Equally large rates of hires and separations exist at specific industry levels.[46] Since the FTA is expected to have a very small effect on trade flows into the United States, it is reasonable to expect that the employment change at the more detailed industry level will be undetectable and indistinguishable from normal labor market turnover. This conclusion is bolstered by the results of two economic modeling studies, discussed in Appendix 3, which found that the FTA would have a negligible effect on U.S. employment.

- *Features in the FTA to Mitigate Against Any Harmful Impact*

Several provisions of the FTA are designed to help mitigate against possible adverse impacts. Strict rules of origin and rules to protect against transshipment of goods should assure that only U.S. imports from the CAFTA-DR countries benefit from the FTA. The gradual phase out of U.S. duties should prevent surges of imports of sensitive products from the other Parties. Safeguard measures and emergency actions provided for in the FTA assure the availability of remedies should there be any harmful increase in imports from the CAFTA-DR partners.

[45] The hire rate is the number of persons hired during the month divided by employment. Likewise, the separation rate is the total number of separations during the month divided by employment. Total separations include voluntary, involuntary, and other separations (e.g., retirement). U.S. Department of Labor, Bureau of Labor Statistics, *Job Openings and Labor Turnover: June 2004*, News release, USDL 04-1519, Washington, DC, August 11, 2004.
[46] Ibid.

IV. The Labor Chapter of the FTA

The Labor Chapter of the FTA fully meets the relevant provisions of the Trade Act of 2002 (Trade Act). The FTA promotes internationally recognized core labor standards, obligates the Parties to effectively enforce their labor laws, and makes the effective enforcement of a Party's labor laws subject to the equivalent dispute settlement procedures and remedies that are applicable to commercial disputes. In addition, the Chapter contains detailed procedural guarantees for the judicial enforcement of labor laws and a commitment to ensure that access to tribunals in labor matters in each country is fair and transparent. These provisions should contribute to the effectiveness of labor law enforcement.

The Labor Chapter of the U.S.-CAFTA-DR Agreement is similar to the labor chapters of other recent FTAs (with Australia, Morocco, Chile, and Singapore) and addresses the particular circumstances of the CAFTA-DR partners' labor laws and practice and ensures that labor rights in the CAFTA-DR countries are protected and enforced. The FTA's Labor Chapter includes a detailed elaboration of the procedural guarantees relating to the processes of judicial tribunals, the final decisions of a case, independence of the judiciary, remedies, and promotion of public awareness. The Chapter establishes a labor cooperation and capacity building mechanism to improve labor laws and enforcement, and build the capacity of the CAFTA-DR Parties to monitor and enforce labor rights. Several areas of potential cooperation, which may be undertaken on a bilateral or regional basis, were developed in consultation with the International Labor Organization. In support of the FTA process, the Department of Labor has made grants for technical assistance to educate the public on core labor standards and to improve the administrative capacity of the CAFTA-DR governments in labor matters.

A. Summary of the Labor Chapter

The Labor Chapter consists of eight Articles and an Annex as follows:

In Article 16.1, "[t]he Parties reaffirm their obligations as members of the ILO and their commitments under the ILO *Declaration on Fundamental Principles and Rights at Work and its Follow-up."*[47] The Parties agree that they shall strive to ensure that such labor principles and the internationally recognized labor rights as defined in the Trade Act of 2002 are recognized and protected by domestic law.

Under Article 16.2, the Parties agree that they "shall not fail to effectively enforce their labor laws, through a sustained or recurring course of action or inaction, in a manner affecting trade between the Parties." The labor laws included under this provision are

[47] The Declaration, enacted by the ILO in 1998, commits all member countries to " . . . promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of those Conventions, namely: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation."

those internationally recognized labor rights listed in Article 16.8 (see below). Article 16.2 represents the primary obligation of each Party under the agreement; violation of this obligation is subject to the same state-to-state dispute settlement procedures that apply to the other chapters of the FTA. The article recognizes the Parties' authority to decide for themselves how to enforce labor laws, and to exercise discretion regarding investigatory, prosecutorial, regulatory, and compliance matters. Under this article, the Parties further "recognize that it is inappropriate to encourage trade or investment by weakening or reducing the protections afforded in domestic labor laws" and agree that each Party shall "strive to ensure that it does not waive or otherwise derogate from, or offer to waive or otherwise derogate from, such laws in a manner that weakens or reduces adherence to internationally recognized labor rights, as an encouragement for trade with the another Party, or as an encouragement for the establishment, acquisition, expansion, or retention of an investment in its territory."

Article 16.3 provides for procedural guarantees and public awareness in which the Parties agree to ensure that interested and affected persons have access to impartial and independent judicial and non-judicial tribunals for the enforcement of the Parties' labor laws and may seek enforcement of their rights. The Parties further agree to ensure that proceedings are fair, equitable, and transparent and to promote public awareness of their labor laws. The Parties agree that such proceedings shall comply with due process of law, be open to the public, and not entail unwarranted delays. They also agree to provide that final decisions in proceedings are to be in writing, made available to the Parties to the proceedings and the public, and based on evidence the Parties were able to hear; and that the parties to such proceedings may seek remedies to ensure the enforcement of their labor rights.

Article 16.4 establishes the institutional arrangements for overseeing the agreement. It establishes a cabinet-level Labor Affairs Council to oversee the implementation and progress of this chapter, including the activities of the Labor Cooperation and Capacity Building Mechanism. The Article also provides for the designation by each Party of a point of contact within its labor ministry for the purposes of implementing this chapter. The points of contact are to provide for receipt and consideration of submissions from the public on matters related to implementation of this chapter.

Article 16.5 establishes a Labor Cooperation and Capacity Building Mechanism among the Parties to promote respect for the principles embodied in the ILO *Declaration on Fundamental Principles and Rights at Work and its Follow-up* and compliance with ILO Convention 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour*. The Parties further agree that the objectives of this mechanism will be designed to strengthen each Party's institutional capacity to fulfill the common goals of the FTA.

Article 16.6 establishes a mechanism for consultations between Parties to resolve any matter that may arise under this Chapter. If the consulting Parties are unable to resolve a matter, a consulting Party may request that the Council be convened to consider the matter. If a Party believes that another Party is not in compliance with its effective enforcement obligation in Article 16.2, the Party must seek consultations under the Labor Chapter before it may invoke the provisions of the Dispute Settlement Chapter.

Article 16.7 establishes a roster of labor experts from which panelists would be selected for any arbitral panel created to resolve a dispute arising under the Labor Chapter.

Article 16.8 sets forth a list of internationally recognized labor rights that includes: (1) the right of association; (2) the right to organize and bargain collectively; (3) a prohibition on the use of any form of forced or compulsory labor; (4) a minimum age for the employment of children and the prohibition and elimination of the worst forms of child labor; and (5) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

Annex 16.5 of the Labor Chapter establishes the framework for the Labor Cooperation and Capacity Building Mechanism and lists a range of activities in which the Parties agree to cooperate in accordance with Article 16.5. (See below)

B. Labor Cooperation

Under the FTA, the Parties recognize that cooperation provides enhanced opportunities to further advance common commitments on labor matters, including the ILO *Declaration on Fundamental Principles and Rights at Work and its Follow-up* and compliance with ILO Convention 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour*. To assist in further implementing these commitments, the FTA establishes a Labor Cooperation and Capacity Building Mechanism that provides a framework for the labor ministries to work together to promote respect for core labor standards and compliance with ILO Convention No. 182 and to improve systems of administration and enforcement of labor laws, among other things. The contact point provided for in Article 16.4 of the Labor Chapter will also serve as a contact point for the cooperation mechanism.

The Labor Affairs Council (as established in Article 16.4) will work through the contact points of the Parties' labor ministries to carry out the work of the Labor Cooperation and Capacity Building Mechanism. The Parties will cooperate to establish priorities for cooperation, develop specific cooperative activities, exchange information regarding each Party's labor laws and practices, and seek support, as appropriate, from international organizations to advance common commitments.

Under the Labor Cooperation and Capacity Building Mechanism, the Parties may undertake cooperative activities on any labor issue considered appropriate, such as: (1) fundamental labor rights and their effective application; (2) the worst forms of child labor; (3) labor administration; (4) labor inspectorates and inspection systems; (5) alternative dispute resolution; (6) labor relations; (7) working conditions; (8) migrant workers; (9) social assistance programs; (10) labor statistics; (11) employment opportunities; (12) gender issues; and (13) technical issues and information exchange.

Cooperation activities under the Labor Cooperation and Capacity Building Mechanism may be carried out by any means the Parties deem appropriate, including by: (1) technical assistance projects; (2) exchanging government delegations, professionals, and specialists, including through study visits; (3) sharing of information, standards, regulations and procedures and best practices, including through the exchange of pertinent publications and monographs; (4) organizing joint conferences, seminars, workshops, meetings, training sessions, and outreach and education programs; (5) developing collaborative projects or demonstrations; and (6) undertaking joint research projects, studies and reports, including by engaging independent specialists with relevant expertise.

In identifying areas for cooperation and carrying out cooperative activities under the Labor Cooperation and Capacity Building Mechanism, the Parties are to consider views of their respective worker and employer representatives, as well as other members of civil society.

For the past several years, the CAFTA-DR countries and the United States have been undertaking cooperative efforts to improve respect for core labor standards. Labor department officials from the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua have implemented projects on a wide range of worker rights issues, including labor-management relations, occupational safety and health inspections, and the worst forms of child labor. The U.S. Department of Labor has funded bilateral efforts as well as projects through the International Labor Organization and other independent organizations. These programs have resulted in regional initiatives to improve workplace safety, remove children from hazardous work conditions, and prevent labor disputes.

Future efforts will build on current initiatives among the countries to promote internationally recognized labor rights. Cooperation will take the form of technical assistance programs, specialized consultations and targeted training programs in the areas of public awareness of worker rights, labor inspections systems, and exploitive child labor, among others. Also as part of the FTA process, the U.S. Department of Labor has allocated $6.75 million for technical assistance in the five Central American economies and an additional $1 million for technical assistance in the Dominican Republic over the next three years to address these issues. These funds will be used to educate the public on core labor standards and to improve the administrative capacity of the CAFTA-DR governments in labor matters.

The U.S. Department of Labor will also continue to support efforts in the CAFTA-DR countries aimed at reducing exploitive child labor. Through the International Labor Organization’s program to eliminate the worst forms of child labor, U.S.-funded projects in several sectors of the CAFTA-DR economies will remove children from hazardous and exploitive work and provide them with educational opportunities.

C. Administration of the Agreement

Chapter 19 of the FTA establishes a Free Trade Commission of cabinet-level representatives from each of the Parties to supervise the implementation of the FTA and consider all types of matters raised under it. Also, the Commission is "to resolve disputes that may arise regarding the interpretation or application of this Agreement." The United States Trade Representative represents the United States on the Commission. The Chapter includes additional provisions on the administration of dispute settlement proceedings that require designation by each Party of an office to assist the Free Trade Commission. The Chapter also provides for the establishment of a Committee on Trade Capacity Building to help encourage "reforms and investments necessary to foster trade-driven economic growth, poverty reduction, and adjustment to liberalized trade."

D. Dispute Settlement

Under Chapter 20 of the FTA, a Party may invoke dispute settlement if it believes another Party has acted in a manner inconsistent with its obligations under the FTA. Following a period for government-to-government consultations, a Party involved in the dispute may refer the matter to the Free Trade Commission, which will attempt to resolve the dispute. If the Commission cannot resolve the dispute within a specified period, any Party involved in the dispute may refer the matter to an arbitral panel. Once a panel constituted under the Chapter has issued a final report, the Parties will seek to agree on how to resolve the dispute, normally in a way that conforms to the panel's determinations and recommendations. If the disputing Parties are not able to reach agreement on a resolution of the dispute, they will seek to agree on trade compensation. If they cannot agree on compensation, or if an agreed outcome is not implemented, the complaining Party may suspend trade benefits of equivalent effect with respect to the defending Party.

Disputes concerning a Party's obligations under the labor or environment chapters of the FTA generally follow the same procedures as for commercial disputes. However, if a panel finds that a Party has not met its labor or environmental law enforcement obligations and the disputing Parties cannot agree on how to resolve the dispute, or if the defending Party fails to implement an agreed resolution, an annual monetary assessment (not to exceed $15 million annually, adjusted for inflation) may be imposed on the defending Party. These assessments are to be expended under the direction of the Free Trade Commission for appropriate labor or environmental initiatives. The chapter also contains a provision providing for a five-year review of the operation of the dispute settlement procedures for labor and environment disputes.

Appendix 1: Summary of Public Responses to the *Federal Register* Notices on the U.S. Employment Impact Review of the FTA

The U.S. Department of Labor and USTR received eight written submissions in response to a notice in the *Federal Register* seeking comments on the potential U.S. employment and labor market effects of the proposed U.S.-Central American Free Trade Agreement (CAFTA).[48] The submissions are summarized below; the bracketed text following the summary reflects how the FTA addresses the concerns raised in the submission:

- The American Sugar Alliance (ASA)—a national coalition of growers, processors, and refiners of sugar beets, sugarcane, and corn for sweeteners—argued that the reduction or elimination of tariffs on sugar from Central America would result in a major destabilization of the U.S. market, sharply reduced producer prices and income, and great loss of jobs; ASA had expressed similar concerns in an earlier submission on the U.S-Australia FTA. ASA estimated that a substantial portion of jobs in the U.S. sugar industry (15,000 out of slightly over 61,300) would be lost if tariffs were eliminated on imports of sugar from Central America. The ASA further observed that many of these direct job losses would occur in areas such as the Northern Great Plains, Hawaiian outer islands, and southern Louisiana where alternative employment opportunities, within and outside agriculture, are very limited. The ASA also opined that U.S. efforts to reform the grossly distorted world sugar market should be done within the multilateral context of the WTO and not piecemeal through the framework of FTAs. The ASA also noted that workers in the U.S. sugar industry enjoy fair wages, high environmental and safety standards, and, in most cases, the option of union representation, which is in sharp contrast to the situation in most Central American countries. [Under the FTA, the CAFTA-DR countries will receive a very small increase in access under the U.S. tariff-rate quota for sugar. The U.S. MFN/NTR over-quota base tariff rate on sugar from the CAFTA-DR countries will not change. Additionally, the CAFTA-DR includes a "net exporter" requirement which ensures that CAFTA-DR countries do not substitute imported sugar in order to export their sugar to the United States. The CAFTA-DR establishes a mechanism that allows the United States to provide some form of alternative compensation to CAFTA-DR exports in place of U.S. imports of sugar, if the United States chooses to exercise this option.]

- The American Dehydrated Onion and Garlic Association (ADOGA) opposed any tariff reduction on U.S. imports of dehydrated onion and garlic under the FTA because the industry is extremely import-sensitive; ADOGA has reiterated this concern in each of their submissions on the U.S. employment impact of free trade agreements with Singapore, Morocco, and Australia. ADOGA argued that duty-free treatment of dehydrated onion and garlic from Central America would have a devastating effect on their industry, its 4,000 employees, their families, and the economically distressed small rural California communities in which they operate that offer few alternative employment opportunities. If dehydrated onion and garlic is not exempted from tariff elimination under the FTA, ADOGA called for the longest possible tariff phase-out period (nothing less than 15 years). [Dehydrated onion and garlic from the CAFTA-DR countries can currently enter the United States duty-free under the Caribbean Basin Economic Recovery Act (CBERA); these items will continue to be duty-free upon entry into force of the FTA.]

- The National Customs Brokers and Forwarders Association of America, Inc. (NCBFAA), a national association representing licensed customs brokers and transportation intermediaries, and identical submissions from The American Association of Exporters and Importers (AAEI) and two of its members (private licensed customhouse brokerages Comstock & Theakston, Inc. and C.J. Holt & Company, Inc.) argued that restricting or eliminating duty drawback[49] for U.S.-Central America trade would disadvantage U.S. companies (by increasing costs and reducing profits) in

[48] See 68 Fed. Reg. 13358-13359 (March 19, 2003).

[49] Duty drawback programs permit a manufacturer to recoup the duties paid on imported materials that are unused and then exported, or are used to produce a finished product which is then exported.

terms of their export trade and have a direct negative effect on jobs in the United States, particularly those related to export trade. The submissions from AAEI, Theakston, and Holt estimated approximately 2,843 high quality U.S. jobs benefited from duty drawback related to U.S. exports to Central America in 2000. All of these submissions urged maintaining without restriction the existing duty drawback programs in each of the Parties to the FTA to encourage exports, company profitability, competitiveness, and employment. [Under the FTA, current duty drawback provisions are not modified.]

- The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) noted that:

  The small U.S. trade surplus with CAFTA countries in 1991 has already turned into a deficit of $2.1 billion in 2002. The surge in imports from Central America has resulted in lost job opportunities in key U.S. industries already devastated by imports. Central America has established an export platform to the United States in several industries (such as apparel and electrical machinery). The history of past U.S. trade agreements suggests that CAFTA would only exacerbate these trends.

  The industries with the highest levels of imports from Central America in 2002 and the largest increases in imports over the past decade experienced significant job losses in the United States (SIC 23—Apparel and Other Textile Products; SIC 22—Textile Mill Products; SIC 38—Instruments and Related Products; SIC 36—Electronic and Other Electrical Equipment; and SIC 35—Industrial Machinery and Equipment).[50] While the surges in imports of these items from Central America were not responsible for the total U.S. job losses in these industries, they did contribute to employment losses in industries already devastated by competition from low-wage countries and technological change.

  The recent surge in imports from Central America increased the number of workers who were certified for training under the Trade Adjustment Assistance (TAA) program in the following key U.S. industries: SIC 23, SIC 36, SIC 35, and SIC 38.

  Given that Central American countries already enjoy relatively good market access to the United States under the CBI and they represent a relatively small export market for the United States (other than intermediate goods), one of the primary incentives for all parties for a CAFTA will be the investment provisions of the agreement.

  In certain sectors such as apparel, improving political stability and low wages in Central America relative to the rest of the hemisphere provide an attractive incentive for inward FDI. U.S. investments (computers, pharmaceuticals, financial services, etc.) in Central America demonstrate that investment can go beyond unskilled, labor-intensive activities.

  Without significant improvements over the NAFTA model, the trade and investment provisions of CAFTA could cause the U.S. economy to lose more than 100,000 manufacturing jobs by the end of the decade, including 84,000 jobs in the U.S. apparel industry and tens of thousands of jobs in the U.S. electrical machinery industry.

- David Harris, MD, of Red Wing, Minnesota, opined that based on his recent visit to the free trade zones in Nicaragua, American companies make good profits at the expense of unfair arrangements for Nicaraguan workers and American workers also lose out through downward pressure on wages around the world and loss of employment here in the United States. In his view, free trade is not fair trade, and we can do much better and still make a decent profit.

[50] The North American Industry Classification System (NAICS) replaced the Standard Industrial Classification (SIC) in 2002. Correspondence tables between the SIC and NAICS codes are available at: http://www.census.gov/epcd/naics02.

After the President announced his intention on August 4, 2003 to add the Dominican Republic to the U.S.-Central America FTA negotiations, the U.S. Department of Labor and USTR issued a notice in the *Federal Register* requesting comments on the potential U.S. employment and labor market effects of the proposed U.S.-Dominican Republic Free Trade Agreement.[51] Four submissions were received in response to the notice and are summarized below; the bracketed text following the summary reflects how the FTA addresses the concerns raised in the submission:

- The American Sugar Alliance (ASA) reiterated their views on the impact of the CAFTA since the U.S.-Dominican Republic FTA will be modeled on CAFTA. ASA also noted that the Dominican Republic is currently the largest beneficiary of the U.S. tariff rate quota sugar program and the effect of adding the Dominican Republic to CAFTA would depend on the Dominican Republic's ability to expand (either through increased production or imports) their sugar exports to the United States.

- The American Dehydrated Onion and Garlic Association (ADOGA) reiterated the same concerns that they had about the U.S.-CAFTA in its submission for the U.S.-DR FTA. ADOGA argued that duty-free treatment of dehydrated onion and garlic from the Dominican Republic would open the door to low-cost imports from a country with less restrictive and costly regulations, pose an unacceptable risk of lower-than-cost transshipments through the Dominican Republic of dehydrated onions and garlic from China, and have a devastating effect on the U.S. industry and its employees. ADOGA observed that in 1983, before the domestic dehydrated onion and garlic industry became aware of the import sensitivity of its product, dehydrated onion and garlic were among the items granted duty-free entry under the Caribbean Basin Economic Recovery Act (CBERA). ADOGA also noted that the CBERA contains safeguard provisions for reinstitution of U.S. import duties on duty-free imports under the CBERA if such imports are found to be a substantial cause of injury or threat there of to a domestic producer of a like product. ADOGA observed that every subsequent U.S. free trade agreement or preferential trade agreement has recognized the import sensitivity of dehydrated onion and garlic and has provided for the longest tariff phase-out for these products. ADOGA noted that dehydrated onion and garlic are no less import-sensitive today and should be exempted from the FTA and instead, if eligible, entered under the CBERA.

- The American Apparel and Footwear Association (AAFA)—the national trade association of the apparel and footwear industries—opined that if negotiated properly and swiftly, the U.S.-Dominican Republic FTA, concluded as part of the U.S.-Central America FTA (CAFTA), would be instrumental in promoting the continued competitiveness of U.S. textile, apparel, and footwear companies. AAFA observed further that because many U.S. companies maintain production-sharing relationships with the Dominican Republic, swift implementation of the U.S.-Dominican Republic FTA would likely have a positive economic impact in the United States, including providing additional opportunities for U.S. employment in the production of inputs (e.g., fabrics, yarns, and shoe findings) and the provision of services (e.g., distribution and shipping) for this production-sharing trade. AAFA noted the importance of these production-sharing arrangements by observing that the Dominican Republic represents the fourth largest market for U.S. exports of textiles and apparel and the seventh largest source of U.S. apparel imports; also, the Dominican Republic represents the fifth largest U.S. export market for footwear and footwear parts and the eleventh largest source of U.S. footwear imports. [Under the FTA, U.S. production-sharing arrangements with the CAFTA-DR countries are not modified and qualifying non-rubber footwear imports from the CAFTA-DR countries will be able to enter the United States duty-free upon entry into force of the FTA and preferential tariffs on certain qualifying rubber or plastic footwear will be phased-out over ten years.]

[51] See 68 Fed. Reg. 52623-52624 (September 4, 2003).

- The Tile Council of America, Inc. (TCA), the trade association of the American ceramic tile industry, reiterated their view, which had been expressed in their prior submission on the U.S. employment impact of the U.S.-Australia FTA, that multiple U.S. free trade agreements will injure the U.S. ceramic tile industry's manufacturing operations. In their view, the cumulative effect of new U.S. market access commitments and proposals (such as the U.S.-Dominican Republic FTA) would open the U.S. market to a flood of low-priced imports—often at dumped and subsidized prices underwritten by the virtual absence of environmental and labor standards commensurate with those of the United States—and result in a ruinous effect on American producers, especially in import-sensitive industries such as the U.S. ceramic tile industry. The U.S. ceramic tile industry has faced increasing import penetration (now 80 percent or more) that has resulted in numerous plant closings, or other operating plants running well below capacity, and employment contractions. TCA feels that if additional market access commitments are made in the U.S.-Dominican Republic FTA for ceramic tile, that this will simply exacerbate the conditions that are causing the disappearance of the U.S. ceramic tile industry. TCA opined that the United States must safeguard the interests and continued viability of small- and medium-sized domestic manufacturing businesses producing import-sensitive and already highly import-impacted products, such as ceramic tile, in the United States by excluding them from any further tariff reductions or concessions. In their view, such action would support the Administration's pro-growth manufacturing agenda to enhance growth and create and maintain U.S. jobs in the manufacturing sector. [Ceramic tiles from the CAFTA-DR countries can currently enter the United States duty-free under the Caribbean Basin Economic Recovery Act (CBERA); under the FTA, these items will continue to be duty-free upon entry into force of the FTA.]

Appendix 2: Summary of Trade Advisory Committee Reports on the FTA

Pursuant to the requirements of the Trade Act, the trade advisory committee reports for the U.S.-Central America FTA were submitted to the President, USTR, and Congress on March 19, 2004 and are available on the USTR web site.[52] The advisory committee reports for the U.S.-Dominican Republic FTA were submitted on April 22, 2004 and are also available on the USTR web site.[53] Since most of the comments received on the DRFTA were substantially the same as those received on the CAFTA, they are not repeated here.

The Advisory Committee for Trade Policy and Negotiations (ACTPN), with the exception of the member representing organized labor, expressed the view that the CAFTA fully meets the negotiating principles and objectives laid out in the Trade Act of 2002 and is in the interest of the United States. Most of the other 29 trade advisory committees expressed the view that the CAFTA is in the economic interest of the United States and indicated their support.

The majority of the Sweeteners Agricultural Technical Advisory Committee (ATAC) strongly opposed the additional market access granted to Central American (and subsequently, the Dominican Republic) sugar producers, while a minority, representing sugar users, supported the agreement, but stated that it did not go far enough in eliminating protection for domestic producers. The Processed Foods ATAC also argued that the failure to eliminate over-quota duties on sugar has already impacted negatively the U.S. industry, both domestically and globally through lost or delayed export opportunities. A minority of beef representatives on the Animals and Animal Products ATAC stated that increased market access for Central American beef would hurt the domestic industry.

The Industrial Sector Advisory Committee on Energy (ISAC 6) stated its overall support for the agreement, but expressed its disappointment with various measures that require concessions, reserve to the governments, or otherwise impede access to the Central American energy market for U.S. investors. The Committee on Ferrous Ores and Metals (ISAC 7) supported the agreement, but also stated that the effect on the industries it represents would be minimal; they also noted that the agreement did not address the issue of U.S. dollar exchange rates and their effect on trade. The Committee on Services (ISAC 13) was supportive of the FTA, but disappointed in only the prospective coverage of certain investment agreements. The Committee on Textiles and Apparel (ISAC 15) was split between its apparel members, who support the agreement, and its textile members, some of whom oppose it. Many Committee members said that the agreement would create a more integrated regional production base that will help U.S., Central American, and Dominican producers to compete in global markets, while some others expressed some disappointment with some of the rules of origin and staging schedules.

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[52] See http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA-DR/CAFTA_Reports/Section_Index.html.
[53] See http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA-DR/DR_Reports/Section_Index.html.

In the case of the Dominican Republic, the Committee on Footwear and Leather Products (ISAC 8) noted that the agreement would allow "some items which are now made in Asia, or which were destined to be moved there, to be…sourced in the Dominican Republic as well." The Committee on Wholesaling and Retailing (ISAC 17) stressed the importance of amending the Caribbean Basin Trade Partnership Act (CBTPA) to permit the continuation of co-production relationships between plants (primarily garments and textiles) located in the Dominican Republic and Haiti.

The Intergovernmental Policy Advisory Committee (IGPAC), which represents state and local governments, indicated overall support for the agreement, but expressed concern about the possibility that the provisions of the agreement might override state and local government statutes and regulations enacted in the public interest. The IGPAC mentioned specific concerns about market access, investment and investor-state dispute settlement, and procurement. While acknowledging that USTR had consulted with the IGPAC on these matters, the Committee suggested that these consultations could be improved.

The Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) reports on the two agreements argued that they would lead to deteriorating trade balances, lost jobs, and worker rights violations, citing its views of NAFTA. The LAC claimed that the agreements would reward companies for moving American jobs abroad, as well as give them the freedom to deny worker rights in other countries. The LAC opined that the agreements do not fully meet the negotiating objectives laid out by Congress in Trade Promotion Authority and criticized the exclusion of obligations to guarantee international standards on worker rights. Reiterating the concerns it raised regarding the recently negotiated free trade agreements with Chile, Singapore, Australia, and Morocco, the LAC claimed that the agreements are a step backward from U.S. unilateral trade preference programs and the Jordan FTA in terms of protecting core worker rights. Specifically, the LAC was critical of the agreements' labor provisions that commit the Parties to enforce their own labor laws without any enforceable obligation for those laws to meet international standards as defined by the ILO. The LAC remarked that the agreements allow countries to maintain their laws below international standards and deny basic labor rights. The LAC also voiced disagreement with the agreements' dispute resolution procedures and the differences between the treatment of labor and investment disputes. The LAC criticized the use of monetary assessments in labor matters instead of trade sanctions for commercial disputes, which it viewed as more effective. On the issue of employment impacts, the LAC claimed that the agreements would seriously threaten American workers, especially in the apparel and sugar industries. The LAC also stated that the agreements' provisions on investment, procurement, and services would constrain the ability of the U.S. government to regulate in the public interest and provide public services.

Appendix 3: Summary of Modeling Methodologies, Assumptions, and Results of Contractor Studies of the FTA

The U.S. Department of Labor commissioned two studies in August 2003 to study the potential effects of the FTA on U.S. employment. The studies used different methodologies that attempted to quantify and assess the impact of the FTA on the U.S. economy and industrial employment in the United States. Since the studies were conducted before the FTA negotiations were completed, the modelers made certain assumptions regarding the possible outcomes of the actual negotiations; in many cases, these assumptions do not necessarily reflect the actual outcome of the negotiations. These studies are summarized below.

A. Modeling Methodologies and Assumptions

In one study, Global Insight, a macroeconomic forecasting firm, used their integrated set of proprietary econometric models to estimate the effects of the proposed FTA on the U.S. economy and employment. The models they used are based on estimated historical statistical and behavioral relationships among key measures of the U.S. economy. Their analysis assumed that all tariff barriers on trade in goods between the Parties are removed, but do not take into account any liberalization of import quotas on goods or trade in services between the Parties. Global Insight examined two forecast scenarios: (1) Immediate—the immediate removal of all tariff barriers on goods on January 1, 2004, and (2) Phase in—the gradual removal of these barriers over the 10-year period 2004-2013. Their analysis provided annual forecasts of the economic impact of the FTA, as measured by the difference between the forecast under each tariff removal scenario and the baseline forecast (no change in tariffs). For each scenario, the time paths of the short-term effects of the agreement on U.S. output, international trade, and employment were calculated. In addition, changes from baseline U.S. employment due to the implementation of the FTA under each scenario were calculated over the period 2004-2013 by detailed U.S. industry to show how industrial employment might adjust over time to the FTA.

The Global Insight analysis estimated the direct and indirect effects of the tariff removal under the FTA. The direct effect captures the effect of bilateral tariff elimination or reduction on U.S. imports and U.S. exports; it was estimated using Global Insight's World Trade Model (which contains 70 countries or aggregate regions and 77 commodity categories) with no or lower tariffs on trade between the Parties. The indirect effect measures the effect of an increase in the exports of one industry on the output of another industry; it was estimated using their Industry Model (input-output based with 128 U.S. industries) with results from their World Trade and U.S. Macro Models. The total effect of the FTA on each variable is equal to the sum of the direct and indirect effects. The expenditure-induced effects, which gauge the multiplier impact of the FTA on the U.S. economy and any corresponding higher demand for imports from the CAFTA-DR partners and the rest of the world, were found to be less than one million dollars in increases in U.S. imports from the CAFTA-DR partners. These effects were too small to measure at the level of analysis conducted and were not estimated since the volume of

U.S. trade with the CAFTA-DR partners is only about 2.1 percent of all U.S. merchandise exports and 1.4 percent of all merchandise imports in 2002.[54]

In the other study, Professors Drusilla Brown of Tufts University, Kozo Kiyota of Yokohama National University and the University of Michigan, and Robert Stern of the University of Michigan (BKS) used their version of the Michigan Model of World Production and Trade, which is a multi-country computable general equilibrium (CGE) model,[55] to evaluate the economic effects (including sectoral employment changes) of the proposed FTA.

The version of the Michigan Model used in the BKS study is a CGE model of world production and trade that contains 18 economic sectors in each of 22 countries or world regions.[56] The model incorporates some aspects of increasing returns to scale, monopolistic competition, and product variety. The data for the model are based on Version 5.4 of the Purdue University Center for Global Trade Analysis Project (GTAP) database for 1997, together with some data derived from other sources, which were updated and recalibrated to the year 2005 (and include all of the tariff liberalizations implemented as the result of the Uruguay Round of multilateral trade negotiations). The model is static in the sense that it is based on a single set of equilibrium conditions rather than relationships that vary over time. Therefore, the model's time horizon depends on the assumptions made about which variables adjust, or do not adjust, to changing market conditions and the short- or long-term nature of these adjustments. The model assumes the aggregate, economy-wide level of employment is held constant in each country. Thus, the effects of trade liberalization are not allowed to affect a country's overall rate of employment or unemployment. This assumption was made because overall employment is determined by macroeconomic factors and policies that are not contained in the model. The model focuses on changes in the composition of employment across industrial sectors as determined by the microeconomic interactions of supply and demand resulting from trade liberalization. In this model, employment will expand in some sectors and decrease in others, with no change in aggregate employment. No assumptions are made about growth in productivity or the rate of economic growth. (In

[54] Global Insight prepared a methodology paper for the U.S. Department of Labor that describes more fully the individual models and linkages used in their assessment of the U.S. employment impact of the FTA; the paper is available upon request from the U.S. Department of Labor.

[55] Multi-country computable general equilibrium (CGE) models are based on microeconomic foundations and simulate the workings and inter-relationships of all producing, consuming, and investing, savings, and trading sectors of an economy. CGE models are used to analyze the effects of trade liberalizations on the composition of output, employment, trade and wages across economic sectors and factors of production. CGE models generally assume full employment (or that the aggregate level of employment does not change) and focus on the change in industrial composition of employment resulting from trade liberalization.

[56] The data used in the BKS study for the CAFTA-DR partners were taken from the GTAP 5.4 database and refer to an aggregate region called Central America and the Caribbean (CAC). Since these data cannot be disaggregated by individual countries in the region, BKS assume in their study that the CAC aggregate data can be interpreted as a proxy for the CAFTA-DR partner countries. BKS consider this is to be a reasonable assumption because the CAFTA-DR countries accounted for about two-thirds of U.S. exports to the CAC region and about three-quarters of U.S. imports from the region over the period 1997-2001. For further information about the model, see http://www.Fordschool.umich.edu/rsie/model.

contrast, the baseline forecast used in the Global Insight study builds in these types of assumptions.) Also, the Michigan Model, like the set of Global Insight models, makes no assumptions about changes in foreign direct investment.

In contrast to the Global Insight study, the BKS study assumes that all trade barriers between the Parties are removed at the same time and are not phased out over time. The study simulates the effects of the removal of agricultural barriers, manufactures tariffs, and service barriers by all the Parties. Non-tariff measures are estimated with tariff equivalents of the barrier. The services barriers are based on financial data on average gross (price-cost) margins, measured relative to the world's economy with the lowest margin in a sector. BKS note that the tariff equivalents used to approximate services barriers are considerably higher than the tariff barriers on merchandise imports and may be subject to overstatement.

Since both studies were conducted before the FTA negotiations were completed, their modeling efforts do not accurately reflect the final terms of the FTA. For example, the Global Insight study employed a macro forecasting modeling that used a stylized representation of the FTA and assumed all tariffs on bilateral trade between the Parties would be removed either immediately or over a ten-year period. In fact, U.S. tariffs on the most sensitive agricultural products are phased out over a 20-year period under the FTA, and in some cases base rates remain in place for a few very sensitive products (e.g., sugar); so this modeling effort represents an upper bound of the potential effects on U.S. employment from liberalization of trade with the CAFTA-DR countries. In a similar vein, the BKS study used a computable general equilibrium modeling approach that can be viewed as a simulation experiment that uses a stylized or hypothetical representation of the FTA that involves eliminating all tariffs and other trade barriers between the Parties; however, under the final terms of the FTA, the United States will neither modify its current regime for trade in services nor completely remove all tariffs and/or quotas on imported products. Again, this model predicts an upper bound on the potential U.S. employment effects from liberalization of trade between the Parties.[57] Section II.C of this review discusses in greater detail the contents of the final version of the negotiated FTA.

B. Probable Aggregate Economic Effects

This section presents the modeling studies' estimates of the probable aggregate economic effects of the FTA; the potential sectoral U.S. employment effects of the FTA are presented in the next section.

The Global Insight study found that the macroeconomic effects of the FTA on the U.S. economy would be positive but extremely small. Their study found that U.S. exports, imports, and employment would all rise slightly as the result of the FTA. The major

[57] See Thomas Hertel, David Hummels, Maros Ivanic, and Roman Keeney, "How Confident Can We Be in CGE-based Assessments of Free Trade Agreements?" NBER Working Paper 10477 (Cambridge, MA: National Bureau of Economic Research, May 2004), p. 16; available at: http://www.nber.org/papers/w10477.

conclusions of the Global Insight study concerning the aggregate economic effects of the FTA on the U.S. economy are discussed below and summarized in Appendix Table 3.1:

- If tariffs on goods were eliminated immediately by the Parties to the FTA (the "immediate" scenario), real U.S. exports (measured in 1997 dollars) to the CAFTA-DR partners would rise by $184 million in 2004 (1.1 percent above the predicted baseline for U.S. exports to the CAFTA-DR partners in 2004 and 0.02 percent above the predicted baseline for total U.S. exports to the world); nearly 80 percent of this increase would be accounted for by U.S. exports of textiles and apparel; other manufactures; electronics; transportation equipment; chemicals; and food, beverage, and tobacco products. Real U.S. exports to the CAFTA-DR partners would eventual rise by $257 million in 2013 (1.0 percent above the baseline for U.S. exports to the CAFTA-DR partners in 2013 and 0.02 percent above the baseline for total U.S. exports to the world). If the tariff cuts were phased in over ten years (the "phase-in" scenario), the incremental rise in real exports would be more gradual (starting at $17 million above the baseline in 2004), reaching the same magnitude above the baseline as under the immediate scenario by 2013 ($257 million).

- Under the immediate scenario, real U.S. imports (measured in 1997 dollars) from the CAFTA-DR partners would rise an additional $772 million in 2004 (5.7 percent above the baseline); nearly 80 percent of this increase would be accounted for by U.S. imports of textiles and apparel; food, beverages, and tobacco; and other manufactures goods. U.S. imports from the CAFTA-DR partners would eventually rise by $1,118 million in 2013 (5.5 percent above the baseline). Under the phase-in scenario, real imports from the CAFTA-DR partners would increase more gradually (starting at $105 million above the baseline in 2004), reaching nearly the same level as under the immediate scenario by 2013 ($1,118 million). Real U.S. imports from all countries (total imports) would rise an additional $155 million in 2004 (0.01 percent above the baseline) and $241 million by 2013 (0.01 percent above the baseline) under the immediate scenario. Total U.S. imports would increase less rapidly as they approach 2013 because some of the increase in U.S. imports from the CAFTA-DR partners would come at the expense of increased U.S. imports from other countries. Under the phase-in scenario, total U.S. imports would increase more gradually, starting at less than $14 million above the baseline in 2004 and reach $241 million above the baseline by 2013, the same amount above the baseline under the immediate scenario in that year. The impact of the FTA on U.S. imports includes the direct effects (due to tariff elimination). The expenditure-induced effects (i.e., the multiplier effects of higher U.S. exports on GDP, employment, and income), resulting from the induced impact on U.S. imports from the CAFTA-DR partners, alone, were found to be insignificant, largely because U.S. imports from the CAFTA-DR partners are such a small share of total U.S. imports.

- The total impact on U.S. employment of trade liberalization under the two tariff removal scenarios includes the direct and indirect effects. The direct effect on employment tends to be permanent (about the same amount above or below the baseline each year), while the indirect effect tends to increase initially and then disappear as markets adjust and capacity constraints are reached (see Appendix Figure 3.1). Since the direct effects are linked only to sectors that are directly affected by the removal of tariffs (i.e., goods-producing sectors such as agriculture, mining, and manufacturing), there are no direct effects on employment in the construction and service-producing sectors; for these, the total effect includes only indirect effects.

- Under the immediate scenario, U.S. employment would rise by an additional 750 jobs in 2004 (0.0007 percent above the baseline), peaking at 1,111 additional jobs in 2005 (0.0010 percent above the baseline), and then taper off to 180 additional jobs in 2013 (0.0001 percent above the baseline) as the indirect effects of the FTA begin to dampen and resource constraints begin to set in. Under the phase-in scenario, the number of additional jobs (above the forecasted baseline employment) would increase slowly but steadily from 89 in 2004 to 170 in 2013. The annual gains in U.S. employment that result from the FTA would be greater during the early years of the FTA under the immediate tariff removal scenario than under the phase-in scenario, but they would diminish by year ten of the FTA as the annual gains under the phase-in scenario rise above those realized under the immediate scenario. Thus, the total number of jobs gained over the ten-year horizon will be slightly greater under the immediate scenario than under the phase-in scenario.

- The relatively small size of the value of CAFTA-DR country trade with the United States, from a U.S. perspective, makes the macroeconomic impact on real U.S. GDP too small to measure at the level of analysis conducted by Global Insight.

Overall, the Global Insight study of the economy-wide effects of the FTA suggests that the total effect of the FTA on the U.S. economy under either tariff removal scenario would be positive, but negligible. If all tariffs were removed immediately, the positive small changes in U.S. employment would peak in the second year of the agreement and then begin tapering off; if tariff removal were phased in over ten-years, the positive effects on U.S. employment would be miniscule initially, but then would start rising and approach the same annual incremental level above the baseline by the tenth year that would have been reached after just five years under the immediate tariff removal scenario.

Like the Global Insight study, the BKS study found that the macroeconomic effects for the United States of the FTA would be positive but extremely small or negligible, even if *all* trade barriers were removed. Their study found that U.S. exports, imports, and output would all rise slightly as the result of removing all bilateral barriers to trade in goods and services under the FTA. The major conclusions of their study concerning the aggregate economic effects of the FTA on the U.S. economy are:

- There would be increases in U.S. exports to the CAFTA-DR partners (an increase of $8.1 billion, with the largest percentage increases in agricultural products; food, beverages, and tobacco; textiles; wearing apparel; and leather products and footwear) and in U.S. imports from the CAFTA-DR partners (an increase of $9.8 billion, with the largest percentage increases in the same sectors as for exports, except for leather products and footwear); total U.S. imports would increase by only $8.3 billion, implying that some of the increase in U.S. imports from the CAFTA-DR partners will come at the expense of other country suppliers.

- There would be a negligible, but positive, change in U.S. gross output (an increase of $6.1 billion, with increases in all U.S. sectors except for textiles and wearing apparel).

- The FTA would boost global welfare by $15.7 billion, with U.S. welfare increasing by $17.3 billion (0.17 percent of U.S. GNP) and the CAFTA-DR partners' welfare increasing by $5.3 billion (4.4 percent of the CAFTA-DR partners' GNP); the rest of the world would experience a negligible welfare loss. Welfare measures how aggregate consumption possibilities may change in a country (i.e., whether a country's population as a whole is worse or better off than before), but do not indicate how these gains will be distributed across segments of the society.

- Most of the welfare gains for the United States ($13.5 billion) would come from the removal of services barriers , while most of the gains for the CAFTA-DR partners ($3.5 billion) would occur in the manufactures sector, mainly in textiles and apparel.

- As the result of the FTA, the estimated changes in the real returns to both labor and capital (the factors of production in their model) would increase in the Parties to the FTA (by 0.06 percent for labor and 0.07 percent for capital in the United States and by 4.4 percent for labor and 4.5 percent for capital in the CAFTA-DR partners).

The BKS study does not yield aggregate employment effects. The CGE methodology used in their study estimates the changes in sectoral U.S. employment due to changes in production or output arising from the FTA under the assumption that there is no change in *total* U.S. employment (i.e., aggregate employment does not change, but is redistributed across economic sectors as the result of realizing new efficiencies arising from removing trade barriers between the United States and the CAFTA-DR partners). Put another way, the BKS study shows the way U.S. sectoral employment might look today if the United States had fully adjusted to an FTA with the CAFTA-DR partners.

C. Potential Sectoral Employment Effects

The results of the Global Insight study show that the relative contributions of the direct and indirect effects to the total effect of the FTA on U.S. employment are very small and vary across sectors.[58] For example, under the immediate tariff removal scenario, the average annual U.S. employment gain over 2004-2013 would be an annual increase of 392 jobs a year above the baseline, of which nearly one-fifth would be due to more permanent direct effects and four-fifths due to indirect effects. Since the two hypothetical Global Insight FTA impact scenarios involved only the removal of tariffs (but not the removal of quotas on goods or barriers to trade in services), the direct effects of the FTA account for most of the total effect on employment in the agricultural, mining, and manufacturing sectors—the goods-producing portion of the U.S. economy that is directly exposed to removal of tariffs on imported items they produce domestically. In contrast, the total effect of the FTA on U.S. employment in industries in the construction and the service-producing sectors comes solely from the indirect effects as a result of changes in construction decisions and purchases of services by directly affected mines, manufacturers, or farms (see Appendix Table 3.2 and Appendix Figure 3.2).

Since the total effect on U.S. employment under Global Insight's phase-in scenario is miniscule and only starts to reach incremental levels above the baseline in the tenth year (when all remaining tariffs are removed) that are comparable to those reached under the immediate tariff removal scenario in the second year, the discussion here of the sectoral impacts on employment concentrates on the results under Global Insight's immediate tariff removal scenario (see Appendix Figure 3.1). Under the immediate scenario, even on a broad sectoral basis, the average annual employment effects of the FTA (measured by the average annual percentage above the sector baseline employment) are tiny but positive: 103 additional workers a year (or 0.0006 percent) in manufacturing; 31 additional workers a year (or 0.0004 percent) in construction; 281 additional workers a year (or 0.0003 percent) in service-producing industries; 25 fewer workers a year (or (-0.0011 percent) in agriculture; and one additional worker a year (or 0.0003 percent) in mining.

In the BKS study, which hypothetically assumes that all bilateral trade barriers (i.e., agricultural barriers, quotas on goods, tariffs on manufactures, and barriers to trade in services) between the United States and the CAFTA-DR partners are removed at one time, the sectoral U.S. employment effects of the FTA are also extremely small.[59]

The BKS study found that the type of trade barrier (agricultural barriers, tariffs on manufactures, or barriers to trade in services) removed on U.S. trade with the CAFTA-DR partners would affect sectoral U.S. employment in different ways. The tariff equivalents used in the BKS model for services barriers are generally much higher (while

[58] The sector definitions used in the Global Insight study are based on the North American Industry Classification System (NAICS). See Office of Management and Budget, Executive Office of the President, *North American Industry Classification System, United States, 2002* (Lanham, MD: Bernan, 2002).

[59] The sector definitions used in the BKS study are based on aggregations of categories of the United Nations International Standard Industrial Classification System that were used in the GTAP database. See "Methods and Classifications" section of the United Nations Statistics Division's website at http://unstats.un.org/unsd/cr/registry/default.asp for a description of the United Nations International Standard Industrial Classification System (ISIC).

those for agricultural barriers are generally only slightly higher) than the tariff rates applied on goods because of successive rounds of multilateral trade negotiations have lowered tariffs on goods. Hence, it would be expected that the model will generate much stronger effects as the result of removing barriers to trade in services. However, the United States did not make any changes in its trade-in-services regime under the FTA. The BKS study shows that removal of agricultural trade barriers would increase U.S. employment in the mining, manufacturing, and service-producing sectors, balanced by employment losses in the agriculture and construction sectors. Removal of tariffs on manufactured goods would increase U.S. employment in the agriculture, mining, and service-producing sectors that would be offset by employment declines in the construction and manufacturing sectors. Removal of services trade barriers would result in employment increases in the agriculture, mining, construction, and manufacturing sectors that would be balanced by employment declines in the service-producing sector (see Appendix Table 3.3).

The BKS study found that the total effect on sectoral U.S. employment resulting from the removal of all trade barriers (agricultural barriers, tariffs on manufactures, and service barriers) at one time under the FTA would have miniscule effects. Slight increases in U.S. employment in the agriculture, mining, construction, and service-producing sectors that would be offset by a slight decline in employment in the manufacturing sector. The implication is that, as the result of the FTA, U.S. workers would move from the sector contracting in employment (manufacturing) into the sectors expanding in employment (agriculture, mining, construction, and service-producing). The size of the change in total employment in each sector would be extremely small: an increase of 0.06 percent (or 2,173 more workers) in agriculture; an increase of 0.09 percent (or 596 more workers) in mining; an increase of less than 0.001 percent (or 31 additional workers) in construction; an increase of less than 0.001 percent in service-producing industries; and a decline of 0.02 percent (or 3,567 fewer workers) in manufacturing—implying that sectoral employment adjustment to a new equilibrium under the FTA, which the authors' suggest might take two to three years at a minimum to reach, would be negligible.

The hypothetical results of the BKS study indicate that the potential negative direct employment effects of removing agricultural trade barriers in the agriculture sector would be more than made up for by indirect employment increases in agriculture due to removal of manufacturing and services trade barriers; similarly, the negative direct employment effects of removing barriers to trade in services in the service-producing sector would more than made up for by indirect employment gains in services due to the removal of agricultural trade barriers and tariffs on manufactured good. However, the overall decline in employment in the manufacturing sector (although very small) would be due to the removal of tariffs on manufactured goods, despite increases in employment arising from the removal of barriers to trade in agriculture and services. Within the manufacturing sector, the BKS study finds that any employment declines would be limited to textiles and apparel, the former with a decline of 5,133 workers or -0.55 percent of industry employment, and the latter, with a decline of 14,006 workers or -1.77 percent of industry employment). All other manufacturing industries would experience an employment gain. Overall, U.S. employment would be expected to increase, though by a very small or negligible amount (either in absolute or percentage terms). The BKS study concluded that the FTA would have comparatively negligible effects on U.S. sectoral output and employment.

Tables and Figures

Table II.1: Area, Population, Gross Domestic Product, and Gross National Income Per Capita for the CAFTA-DR Countries, 2002

Country	Area	Population (millions)	Gross Domestic Product (billion US$)	Gross National Income Per Capita	
				Nominal (US$ per person)	**PPP Basis**[2] (international dollars per person)
Costa Rica	Slightly smaller than WV	3.9	16.8	4,070	8,560
El Salvador	Slightly smaller than MA	6.4	14.3	2,110	4,790
Guatemala	Slightly smaller than TN	12.0	23.3	1,760	4,030
Honduras	Slightly smaller than TN	6.8	6.6	930	2,540
Nicaragua	Slightly smaller than NY	5.3	4.0	710	2,350
Subtotal	Slightly larger than CA	34.4	65.0	--	
Dominican Republic	Slightly more than twice the size of NH	8.6	21.7	2,140[1]	6,270
Grand Total	Slightly smaller than twice the size of MI	43.0	86.7	--	

[1]Data for 2002 were not available; World Bank approximation.
[2]PPP is Purchasing Power Parity, measured in international dollars that have the same purchasing power as the U.S. dollar has in the United States; World Bank estimates.

Notes: WV is West Virginia; MA is Massachusetts; TN is Tennessee; NY is New York; CA is California; NH is New Hampshire; and MI is Michigan.

Source: World Bank, World Development Indicators database, available at: http://www.worldbank.org/data .

TABLE II.2: Labor Force Size, Percent Female, Participation Rate, and Employment Level in the CAFTA-DR Countries, 2001

Country	Labor Force (millions)	Percent Female (percent)	Participation Rate (percent)	Employed (millions)
Costa Rica[1]	1.6	31.4	60.3	1.5
El Salvador	2.6	36.9	53.3	2.5
Guatemala[2]	4.9	29.5	60.9	4.8
Honduras	2.4	32.2	51.8	2.3
Nicaragua	1.9	36.3	52.0	1.7
Dominican Republic	3.8	31.1	54.3	3.2

[1]Data are for persons age 15 and above.
[2]Data are for May 2002.

Notes: Data are for persons age 10 years and above, except as noted.

Sources: Information on labor force size, labor force participation, and employment come from the International Labor Organization, *Central America Key Indicators of the Labor Market*, [online database] 2003 [cited September 15 2003]; available at http://www.oit.or.cr/estad/kilm. Information on the percent of the labor force that is female comes from The World Bank, *World Development Indicators 2003,* [CD-ROM].

TABLE II.3: Leading Industrial Sectors of Employment in the CAFTA-DR Countries, Most Recent Year

Country (Year)	**Leading Industrial Sectors of Employment** (percent of all employed)
Costa Rica (2002)	19.1 percent - Wholesale and retail trade and repair 15.3 percent - Agriculture and cattle-raising 14.3 percent - Manufacturing 6.7 percent - Construction
El Salvador (2001)	27.2 percent - Wholesale and retail trade, restaurants, and hotels 21.8 percent - Agriculture, hunting, forestry, and fishing 18.6 percent - Community, social, and personal services 17.6 percent - Manufacturing
Guatemala (May 2002)	38.7 percent - Agriculture 22.0 percent - Wholesale and retail trade 15.0 percent - Manufacturing 12.6 percent - Community, social and personal services
Honduras (2002)	39.6 percent - Agriculture, hunting, forestry, and fishing 21.6 percent - Wholesale and retail trade, restaurants, and hotels 14.3 percent - Manufacturing 13.2 percent - Community, social and personal services
Nicaragua (2001)	34.2 percent - Agriculture, hunting, and fishing 23.2 percent - Wholesale and retail trade, restaurants and hotels 21.0 percent - Community, social and personal services 11.4 percent - Manufacturing
Dominican Republic (2001)	27.3 percent - Wholesale and retail trade, restaurant and hotel services 25.4 percent - Community, society, and personal services 15.3 percent - Manufacturing 14.9 percent - Agriculture, hunting, forestry, and fishing

Sources: Costa Rica: Instituto Nacional de Estadística y Censos, *Cifras Básicas Sobre Fuerza de Trabajo - Julio 2002*, October 2002, Table 6; available from http://www.inec.go.cr/encuesta2002.htm; El Salvador: International Labor Organization, *Central America Key Indicators of the Labor Market - online*; Guatemala: Instituto Nacional de Estadística - Guatemala, *Resultados de la Encuesta Nacional de Empleo e Ingresos (ENEI)*, Instituto Nacional de Estadística Guatemala, May 2002; available from http://www.segeplan.gob.gt/ine/productos/mecovi/default.htm; Honduras: International Labor Organization, *Central America Key Indicators of the Labor Market - online*.; Nicaragua: Gobierno de la República de Nicaragua - Instituto Nacional de Estadísticas y Censos, *Encuesta Nacional Sobre Medición de Nivel de Vida, 2001 - Proyecto MECOVI*, 2001, 143; available from http://www.inec.gob.ni ; Dominican Republic: International Labor Organization, *Central America Key Indicators of the Labor Market - online*.

TABLE II.4: Leading Occupations of Employment in the CAFTA-DR Countries, Most Recent Year

Country (Year)	**Leading Occupations of Employment** (percent of all employed)
Costa Rica (2002)	27.2 percent - Unskilled workers 16.2 percent - Sales and services workers 12.0 percent - Skilled manufacturing, including craftworks, construction, mechanics, and graphic arts
El Salvador (1999)	33.7 percent - Elementary occupations including elementary sales and service occupations, agricultural, fishery and related laborers, and laborers in mining, contribution, manufacturing, and transport 15.6 percent - Service workers, shop and market workers 15.3 percent - Craft and related trade workers
Guatemala (2002)	29.2 percent - Unskilled workers, 21.6 percent - Agriculture and fishery workers 20.2 percent - Crafts and manufacturing
Honduras (2001)	31.9 percent - Agriculture workers, animal husbandry, hunters, forest and fishery workers 25.7 percent - Production and related workers, transport equipment operators, and laborers 16.6 percent – Salespersons
Nicaragua (2001)	37.2 percent - Unskilled labor 15.2 percent - Salespersons 13.3 percent - Skilled agricultural and fishery workers
Dominican Republic (1997)	20.1 percent - Elementary occupations including elementary sales and service occupations, agricultural, fishery and related laborers, and laborers in mining, contribution, manufacturing, and transport 19.1 percent - Service workers, shop and market workers 16.2 percent - Craft and related trade workers

Sources: Costa Rica: Costa Rica Instituto Nacional de Estadística y Censos, *Cifras Básicas Sobre Fuerza de Trabajo - Julio 2002*, Table 5; El Salvador: International Labor Organization, *ILO LABORSTA*; Guatemala: Instituto Nacional de Estadística Guatemala, *Resultados de la ENEI*.; Honduras: International Labor Organization, *ILO LABORSTA*.; Nicaragua: Gobierno de la República de Nicaragua - Instituto Nacional de Estadísticas y Censos, *Encuesta Nacional Sobre Medición de Nivel de Vida, 2001*, 140; Dominican Republic: International Labor Organization, *ILO LABORSTA*.

TABLE II.5: Unemployment Rates in the CAFTA-DR Countries, 2001

Country	Unemployment rate (percent)
Costa Rica[1]	6.0
El Salvador	7.0
Guatemala[2]	3.1
Honduras	3.9
Nicaragua	10.5
Dominican Republic	15.6

[1]Data are for persons age 15 and above.
[2]Data are for May 2002.

Notes: Data are for persons age 10 years and above, unless otherwise noted, in the formal sector.

Sources: International Labor Organization, *Central America Key Indicators of the Labor Market - online*; International Labor Organization, *ILO LABORSTA*; Guatemala: Instituto Nacional de Estadística Guatemala, *Resultados de la ENEI*; Nicaragua: Instituto Nacional de Estadística - Nicaragua, *Compendio Estadístico 2000-2002*.

TABLE II.6: Leading Industrial Sectors of Prior Employment for the Unemployed in the CAFTA-DR Countries, Most Recent Year

Country (Year)	**Industrial Sector of Prior Employment**	**Percent of All Unemployed**
Costa Rica[1] (July 2001)	Workers seeking their first jobs	15.9
	Manufacturing	17.8
	Wholesale and retail trade, repair of motor vehicles, motorcycles, and personal and household goods	15.0
	Agriculture, hunting, and fishing	13.1
El Salvador (1999)	Workers seeking their first jobs	18.0
	Agriculture, hunting and forestry	23.3
	Manufacturing	14.6
	Construction	12.8
	Wholesale and retail trade, restaurants and hotels, and repair of motor vehicles and motorcycles	12.5
Guatemala	No information available	--
Honduras (September 2001)	Workers seeking their first jobs	20.6
	Manufacturing	21.2
	Wholesale and retail trade, restaurants and hotels	14.6
	Community, social, and personal services	13.8
Nicaragua	No information available	--
Dominican Republic (1997)	Workers seeking their first jobs[2]	52.7
	Community, social, and personal services	13.4
	Manufacturing	12.8
	Wholesale and retail trade, restaurants and hotels	7.5

[1]Data are for persons age 12 years and above.
[2]This may include workers not classifiable by economic activity.

Notes: Data are for persons age 10 years and above, except as noted.

Source: International Labor Organization, *ILO LABORSTA.*

TABLE II.7: Leading Occupations of Prior Employment for the Unemployed in the CAFTA-DR Countries, Most Recent Year

Country (Year)	**Occupation of Prior Employment**	**Percent of All Unemployed**
Costa Rica[1] (July 2001)	Workers seeking their first jobs	15.9
	Elementary occupations	35.5
	Service workers, and shop and market workers	14.7
	Clerks	8.9
	Plant and machine operators and assemblers	8.9
El Salvador (1999)	Workers seeking their first jobs	18.0
	Elementary occupations	41.3
	Craft and related trade workers	12.0
	Service workers, and shop and market workers	9.3
Guatemala	No information available	--
Honduras (September 2001)	Workers seeking their first jobs	20.6
	Elementary workers	42.8
	Service workers	8.2
	Sales workers	7.2
Nicaragua	No information available	--
Dominican Republic (1997)	Workers seeking their first jobs[2]	52.7
	Elementary occupations	12.8
	Service workers, and shop and market workers	8.9
	Craft and related trade workers	8.0
	Plant and machinery operators and assemblers	7.0

[1]Data are for persons age 12 years and above.
[2]This may include workers not classifiable by economic activity.

Notes: Data are for persons age 10 years and above, except as noted.

Source: International Labor Organization, *ILO LABORSTA*.

Table II.8: CAFTA-DR Partners' Merchandise Trade with the World, 2003

Country	**Merchandise Trade (Exports plus Imports) as a Share of GDP** (percent)	**Merchandise Exports to the World** (millions of dollars)	**Merchandise Imports from the World** (millions of dollars)
Costa Rica	78.9	6,101	7,643
El Salvador	59.8	3,136	5,763
Guatemala	37.8	2,635	6,722
Honduras	66.0	1,332	3,276
Nicaragua	61.0	605	1,887
Subtotal CAFTA	57.4	13,809	25,291
Dominican Republic	80.5	5,439	7,883
Grand Total CAFTA-DR	61.9	19,248	33,174

Source: Trade share of GDP is calculated from GDP from the World Bank, World Development Indicators database (April 2005); export and import values are from *International Trade Statistics 2004* (Geneva: World Trade Organization, 2004).

Table II.9: Leading 5-Digit NAICS-based U.S. Exports to CAFTA-DR Countries, 2001-2004

(sorted by 2004 value)

5-Digit NAICS-based U.S. Export Industry	Value of U.S. Exports to CAFTA-DR Countries ($mil.)				Percent of	
	2001	2002	2003	2004	Total U.S. Industry Exports in 2004	All U.S. Exports to CAFTA-DR Countries in 2004
Total U.S. Exports to CAFTA-DR Countries……	13,024.6	13,531.6	14,371.7	14,980.0	2.1	100.0
The leading NAICS-based in 2004 were:						
99000—Special Classification Provisions…………	722.3	705.6	809.9	947.1	3.5	6.3
32411—Petroleum Refinery Products……………..	301.9	340.9	945.0	944.6	7.7	6.3
33441—Semiconductors and Other Electronic Components………………………………………..	412.7	924.7	1,029.1	903.4	1.9	6.0
31324—Knit Fabrics and Lace………...…………..	271.3	541.9	810.7	866.8	51.6	5.8
31321—Broadwoven Fabrics……………………...	642.9	855.8	721.2	826.0	27.0	5.5
31522—Men's and Boys' Apparel………………...	1,344.9	1,046.1	938.4	645.1	39.3	4.3
31311—Fibers, Yarns, and Threads…….…………	210.9	280.0	411.8	525.4	61.2	3.5
32521—Resin and Synthetic Rubbers……………..	340.5	378.9	361.6	496.1	2.6	3.3
31523—Women's and Girls' Apparel……………..	771.4	642.3	485.5	413.4	30.5	2.8
33531—Electrical Equipment...……………………	162.9	167.5	198.1	345.5	4.1	2.3

Note: The value of U.S. exports is the free alongside ship (FAS) value of domestic U.S. exports at the U.S. port of export. NAICS 99000—Special Classification Provisions, not otherwise specified or included contains primarily exports of low-value shipments not specified by kind, exposed film and prerecorded tapes, articles imported for repairs, returned goods, and articles donated to charity.

Source: Compiled from official statistics of the U.S. Department of Commerce, Bureau of Census.

Table II.10: Leading 5-Digit NAICS-based U.S. Imports from CAFTA-DR Countries, 2001-2004

(sorted by 2004 value)

5-Digit NAICS-based U.S. Import Industry	Value of U.S. Imports from CAFTA-DR Countries ($mil.)				Percent of	
	2001	2002	2003	2004	Total U.S. Industry Imports in 2004	All U.S. Imports from CAFTA-DR Countries in 2004
Total U.S. Imports from CAFTA-DR Countries…	15,272.8	16,035.7	16,862.1	17,700.1	1.2	100.0
The leading NAICS-based in 2003 were:						
31522—Men's and Boys' Apparel...………………	4,462.2	4,631.3	4,762.7	4,676.4	19.3	26.4
31523—Women's and Girls' Apparel……………..	4,077.9	3,967.9	3,936.6	4,333.4	11.7	24.5
11133—Noncitrus Fruits and Tree Nuts………...…	1,211.3	1,214.3	1,343.4	1,391.3	20.8	7.9
33911—Medical Equipment and Supplies……..….	675.3	755.2	963.0	936.5	6.1	5.3
33441—Semiconductors and Other Electronic Components………………………………………..	659.7	781.8	977.1	875.0	1.3	4.9
98000—U.S. Goods Returned and Reimported Items……………………………………………….	264.2	389.0	354.5	377.4	1.1	2.1
31511—Hosiery and Socks.……………………….	221.8	277.1	295.4	358.9	27.3	2.0
31222—Tobacco Products………..……………….	256.5	268.9	277.3	304.5	51.1	1.7
11411—Fish, Fresh, Chilled or Frozen and Other Marine Products……………………………………	323.4	327.4	294.4	295.0	3.3	1.7
33632—Motor Vehicle Electrical and Electronic Equipment …………………………………….	66.9	97.3	162.8	278.5	2.8	1.6

Note: The value of U.S. imports is the customs value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones).

Source: Compiled from official statistics of the U.S. Department of Commerce, Bureau of Census.

Table III.1: U.S. Exports to CAFTA-DR Countries by NAICS-based Sector and Subsector, 2001-2004

NAICS-based U.S. Export Sector and Subsector	Value of U.S. Exports to CAFTA-DR Countries ($thous.)				Percent of	
	2001	2002	2003	2004	Total U.S. Subsector Exports in 2004	All U.S. Exports to CAFTA-DR Countries in 2004
Total U.S. Exports to CAFTA-DR Countries…	**13,024,610**	**13,531,637**	**14,371,699**	**14,979,970**	**2.1**	**100.0**
11—Agriculture and Livestock Products………	**826,188**	**824,108**	**846,155**	**981,676**	**2.6**	**6.6**
111—Agricultural Products………………………	741,490	780,502	811,651	952,646	3.0	6.4
112—Livestock and Livestock Products…………	24,598	29,292	22,302	17,614	1.8	0.1
113—Forestry Products…………………………..	10,392	6,850	4,512	4,035	0.2	(2)
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products…………………………………..	49,708	7,464	7,690	7,380	0.2	(2)
21—Oil, Gas, Minerals and Ores……………….	**39,646**	**69,869**	**91,241**	**79,189**	**0.9**	**0.5**
211—Oil and Gas…………………………………	24,464	46,542	63,806	52,076	1.7	0.3
212—Minerals and Ores………………………….	15,182	23,327	27,435	27,112	0.5	0.2
31-33—Manufacturing…………………………..	**11,369,939**	**11,859,890**	**12,554,609**	**12,894,944**	**2.0**	**86.1**
311—Food Manufacturing………………………..	729,482	707,374	691,002	688,695	2.7	4.6
312—Beverages and Tobacco Products…………..	29,986	35,287	39,201	34,811	1.0	0.2
313—Textiles and Fabrics………………………...	1,461,583	2,019,650	2,178,380	2,541,924	30.4	17.0
314—Textile Mill Products………………………...	75,958	92,885	80,562	81,863	4.0	0.5
315—Apparel and Accessories……………………	2,788,780	2,196,240	1,920,201	1,598,329	36.7	10.7
316—Leather and Allied Products………………...	136,325	109,352	103,296	98,382	4.5	0.7
321—Wood Products……………………………...	76,259	70,665	57,020	58,186	1.4	0.4
322—Paper………………………………………...	531,345	533,745	537,083	584,871	3.9	3.9
323—Printing, Publishing and Similar Products….	42,580	49,278	52,308	52,362	1.1	0.3
324—Petroleum and Coal Products……………….	303,082	341,882	947,312	946,392	7.5	6.3
325—Chemicals…………………………………...	978,254	1,053,853	1,083,392	1,207,145	1.1	8.1
326—Plastics and Rubber Products……………….	359,203	387,215	420,129	377,676	2.2	2.5
327—Nonmetallic Mineral Products……………	78,634	65,141	74,351	77,661	1.2	0.5
331—Primary Metal Manufacturing………………	89,350	94,402	160,987	160,943	0.8	1.1
332—Fabricated Metal Products…………………..	202,812	168,611	203,003	200,352	1.0	1.3
333—Machinery, Except Electrical……………….	764,037	808,158	702,569	714,566	0.8	4.8
334—Computer and Electronic Products………….	1,370,484	1,773,277	1,874,650	1,815,092	1.5	12.1
335—Electrical Equipment, Appliances, and Components………………………………………..	414,812	393,171	422,226	579,603	2.5	3.9
336—Transportation Equipment…………………..	434,785	441,516	473,643	578,830	0.4	3.9
337—Furniture and Fixtures………………………	58,248	52,893	48,561	45,797	1.7	0.3
339—Miscellaneous Manufactured Commodities...	443,941	465,295	484,731	451,460	1.9	3.0
51—Information………………………………….	**(1)**	**555**	**240**	**902**	**0.2**	**(2)**
511—Publishing Industries (except Internet)……..	(1)	555	240	902	0.2	(2)
91-99—Special Classification Provisions………	**788,837**	**777,214**	**879,453**	**1,023,259**	**2.7**	**6.8**
91—Waste and Scrap……………………………...	29,080	43,533	41,356	39,042	0.5	0.3
92—Used or Second-hand Merchandise…………..	37,409	28,119	28,241	37,119	1.8	0.2
99—Special Classification Provisions, not otherwise specified or included……………………	722,348	705,562	809,856	947,097	3.5	6.3

(1) Less than $500.
(2) Less than 0.05 percent.

Note: The value of U.S. exports is the free alongside ship (FAS) value of domestic U.S. exports at the U.S. port of export.

Source: Compiled from official statistics of the U.S. Department of Commerce, Bureau of Census.

Table III.2: U.S. Imports from CAFTA-DR Countries by NAICS-based Sector and Subsector, 2001-2004

NAICS-based U.S. Import Sector and Subsector	Value of U.S. Imports from CAFTA-DR Countries ($thous.)				Percent of	
	2001	2002	2003	2004	Total U.S. Subsector Imports in 2004	All U.S. Imports from CAFTA-DR Countries in 2004
Total U.S. Imports from CAFTA-DR Countries	**15,304,374**	**16,012,705**	**16,861,768**	**17,662,595**	**1.2**	**100.0**
11—Agriculture and Livestock Products………	**1,907,840**	**1,935,354**	**1,999,839**	**2,091,986**	**7.5**	**11.8**
111—Agricultural Products………………………	1,573,119	1,596,835	1,693,056	1,780,837	12.4	10.1
112—Livestock and Livestock Products………….	1,735	2,234	1,604	1,811	0.1	([1])
113—Forestry Products…………………………..	9,605	9,855	10,585	13,904	0.7	0.1
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products…………………………………..	323,380	326,431	294,593	295,431	3.3	1.7
21—Oil, Gas, Minerals and Ores……………….	**105,385**	**156,034**	**171,391**	**181,744**	**0.1**	**1.0**
211—Oil and Gas…………………………………	100,870	154,621	167,506	179,559	0.1	1.0
212—Minerals and Ores………………………….	4,515	1,414	3,885	2,185	([1])	([1])
31-33—Manufacturing…………………………..	**12,878,267**	**13,363,563**	**14,109,339**	**14,718,339**	**1.2**	**83.3**
311—Food Manufacturing………………………..	478,092	516,657	615,067	648,830	2.3	3.7
312—Beverages and Tobacco Products…………..	280,213	300,569	311,089	338,281	2.9	1.9
313—Textiles and Fabrics………………………...	17,334	13,225	12,998	17,848	0.2	0.1
314—Textile Mill Products………………………..	70,192	69,183	62,435	57,570	0.5	0.3
315—Apparel and Accessories……………………	9,141,037	9,190,035	9,274,654	9,603,250	13.6	54.4
316—Leather and Allied Products………………...	260,765	194,651	180,774	181,395	0.7	1.0
321—Wood Products……………………………...	62,598	57,193	60,951	64,030	0.3	0.4
322—Paper………………………………………....	36,778	51,379	43,839	42,056	0.2	0.2
323—Printing, Publishing and Similar Products….	2,646	8,364	10,326	4,473	0.1	([1])
324—Petroleum and Coal Products……………….	1,964	12,453	16,723	2,957	([1])	([1])
325—Chemicals…………………………………...	89,352	105,910	93,037	100,587	0.1	0.6
326—Plastics and Rubber Products……………….	94,491	121,594	169,764	202,581	0.8	1.1
327—Nonmetallic Mineral Products……………...	49,869	58,680	68,232	84,576	0.5	0.5
331—Primary Metal Manufacturing………………	124,547	199,948	213,378	296,322	0.5	1.7
332—Fabricated Metal Products…………………..	40,646	42,879	38,333	48,903	0.1	0.3
333—Machinery, Except Electrical……………….	17,253	35,025	40,909	45,765	([1])	0.3
334—Computer and Electronic Products………….	694,394	809,318	1,055,100	996,091	0.4	5.6
335—Electrical Equipment, Appliances, and Components………………………………………..	248,669	260,343	269,461	273,440	0.6	1.5
336—Transportation Equipment…………………..	79,539	111,109	179,862	302,174	0.1	1.7
337—Furniture and Fixtures………………………	68,686	63,587	53,291	62,867	0.3	0.4
339—Miscellaneous Manufactured Commodities...	1,019,202	1,141,461	1,339,116	1,344,065	1.9	7.6
51—Information………………………………….	**20**	**24**	**23**	**27**	**([1])**	**([1])**
511—Publishing Industries (except Internet)……..	20	24	23	27	([1])	([1])
91-99—Special Classification Provisions……….	**412,863**	**557,730**	**581,177**	**670,498**	**1.1**	**3.8**
91—Waste and Scrap……………………………...	63,563	77,936	123,862	183,316	6.0	1.0
92—Used or Second-hand Merchandise…………..	2,808	2,025	3,029	2,422	([1])	([1])
98—U.S. Goods Returned and Reimported Items...	264,614	388,478	354,835	378,755	1.1	2.1
99—Special Classification Provisions, not otherwise specified or included……………………………….	81,878	89,291	99,451	106,003	0.5	0.6

([1]) Less than 0.05 percent.

Note: The value of U.S. imports is the customs value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones).

Source: Compiled from official statistics of the U.S. Department of Commerce, Bureau of Census.

Table III.3: U.S. Imports from CAFTA-DR Countries under Production Sharing Provisions of HTS 9802, 2003

Country/NAICS-based U.S. Import Subsector	**HTS 9802 Total Customs Value** ($000)	**U.S. Content Value** ($000)	**U.S. Content Share of Total Customs Value** (percent)	**HTS 9802 Total Value Share of Country Total U.S. Imports** (percent)
Country				
Costa Rica………..	528,198	315,609	59.8	15.7
El Salvador………………………………………..	620,143	355,616	57.3	30.7
Guatemala…………………………………………	239,550	65,642	27.4	8.1
Honduras………………………………………….	922,944	607,066	65.8	27.9
Nicaragua…………………………………………	60,256	45,691	75.8	7.8
CAFTA subtotal………………………………	2,371,091	1,389,624	58.6	19.1
Dominican Republic……………………………..	1,354,129	808,146	59.7	30.4
CAFTA-DR total……………………………	3,725,220	2,197,771	59.0	22.1
By NAICS-based U.S. Import Subsector				
Top 20 HTS 9802 entries for each CAFTA-DR Country,[1] total……………………………………..	3,090,033	1,870,190	60.5	--
314—Textile Mill Products………………….	2,854	35	1.2	4.6
315—Apparel and Accessories………………	2,638,021	1,637,208	62.1	28.4
326—Plastics and Rubber Products…………	69,714	27,056	38.8	41.1
334—Computer and Electronic Products……	53,100	20,216	38.1	5.0
335—Electrical Equipment, Appliances, and Components……………………………	165,323	110,434	66.8	61.4
336—Transportation Equipment……………..	73,351	28,286	38.6	40.8
339—Miscellaneous Manufactured Commodities……………………………	87,670	46,955	53.6	6.5
All other 9802 items not in the top 20 item total for each country, total……………………………………	635,187	327,581	51.6	--

[1] The top twenty 8-digit HTS items from each CAFTA-DR country entered under the production sharing provisions of HTS 9802 correlated to the NAICS-based classification system.

Note: The HTS 9802 provisions included in this table are the following production sharing provisions for the CAFTA-DR countries: the normal assembly of products containing parts and components from the United States, which are levied duty only on the foreign value added (HTS 9802.00.80); and apparel items under the CBTPA provisions for duty-free entry of apparel and textile luggage assembled from U.S.-formed and U.S.-cut fabric (HTS 9802.00.80.44, 9802.00.80.46, and 9820.11.03); apparel cut and assembled from U.S. fabric (HTS 9820.11.06 and 9820.11.18); certain apparel of "regional knit fabrics," including apparel knit-to-shape directly from U.S. yarn (other than socks) and knit apparel cut and assembled from regional or regional and U.S. fabrics (HTS 9820.11.09 and 9820.11.12); brassieres cut and assembled in the United States and/or the region from U.S. fabric (HTS 9820.11.15); and textile luggage cut and assembled from U.S. fabric (HTS 9820.11.21). The following items, which also enter the United States duty-free under the CBTPA, are not included in the table above: apparel cut and assembled from fabrics or yarn in "short supply" (HTS 9820.11.24); apparel cut and assembled from fabrics or yarns designated as not available in commercial quantities in the United States (HTS 9820.11.27); and handloomed, handmade, and folklore articles (HTS 9820.11.30).

Source: United States International Trade Commission Data Web, Imports under Production-Sharing Provisions of HTS 9802; available at: http://www.usitc.gov.

Table III.4: Bilateral Tariff Removal Phase-in Schedule for Non-Agricultural Goods under the FTA

A. Non-Agricultural and Non-Textile Goods

Duty-Free Beginning of Year	Phase out of U.S. Tariffs on CAFTA-DR Goods		Phase out of CAFTA-DR Country Tariffs on U.S. Goods	
	2000-2002 Average Value of Imports (millions of dollars)	**Percent of Import Value**	**2001 CAFTA+2002 DR Value of Imports** (millions of dollars)	**Percent of Import Value**
Immediate	3,857.4	99.8	6,723.6	80.9
Year 5	--	--	389.0	4.7
Year 10	6.0	0.2	1,193.9	14.4
Total	3,863.4	100.0	8,306.4	100.0

Note: The value of U.S. imports is based on the 2000-2002 average value of U.S. imports from the CAFTA-DR countries. The value of the CAFTA countries' imports is based on data for 2001 and the value of the Dominican Republic's imports is based on data for 2002, both are expressed in U.S. dollars.

Source: U.S. Department of Commerce, International Trade Administration.

B. Non-Agricultural Textile Goods

Duty-Free Beginning of Year	Phase out of U.S. Tariffs on CAFTA-DR Goods		Phase out of CAFTA-DR Country Tariffs on U.S. Goods	
	2002 Value of Imports (millions of dollars)	**Percent of Import Value**	**Value of Imports**	**Percent of Import Value**
Immediate	9,307.7	100.0	NA	NA
Year 10	1.7	([1])	NA	NA
Total	9,309.4	100.0	NA	NA

([1]) Less than 0.05 percent.

Note: The value of U.S. imports is based on the 2002 value of U.S. imports from the CAFTA-DR countries; comparable data by staging category were not available for the phasing out of the CAFTA-DR countries' tariffs on imports of U.S. textile and apparel goods, but the CAFTA-DR countries will phase out their textile and apparel tariffs according to the same schedule as the U.S. textile and apparel tariff elimination for the CAFTA-DR countries.

Source: U.S. Department of Commerce, International Trade Administration.

Table III.5: Customs Value, Dutiable Value, Calculated Duties, and Average Rate of Duty on U.S. Imports from CAFTA-DR Countries by NAICS-based Subsector, 2003

NAICS-based U.S. Import Subsector	Customs Value ($thous.)	Dutiable Value ($thous.)	Calculated Duties ($thous.)	Average Rate of Duty (percent)
315—Apparel and Accessories………..……………..	9,274,654	2,938,422	481,376	16.4
111—Agricultural Products………………………….	1,693,056	2,325	114	4.9
339—Miscellaneous Manufactured Commodities…...	1,339,116	39,653	430	1.1
334—Computer and Electronic Products……………	1,055,100	15,055	345	2.3
311—Food Manufacturing…………………………..	615,067	18,439	449	2.4
980—U.S. Goods Returned and Reimported Items….	354,835	87	([1])	0.1
312—Beverages and Tobacco Products…..………….	311,089	2,038	65	3.2
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products……………………………………..	294,593	0	0	0
335—Electrical Equipment, Appliances, and Components………………………………………….	269,461	21,307	522	2.4
331—Primary Metal Manufacturing…………….…..	213,378	1,273	6	0.5
316—Leather and Allied Products……...……………	180,774	14,905	1,656	11.1
336—Transportation Equipment...…………………..	179,862	92,882	4,419	4.8
326—Plastics and Rubber Products..………………..	169,764	3,476	114	3.3
211—Oil and Gas…………………………………….	167,506	0	0	0
910—Waste and Scrap……………………………….	123,862	40	1	2.8
990—Special Classification Provisions……………..	99,451	99,376	178	0.2
325—Chemicals……………………………………..	93,037	27,390	45	0.2
327—Nonmetallic Mineral Products……...…………	68,232	302	17	5.5
314—Textile Mill Products…………………………..	62,435	44,120	3,198	7.2
321—Wood Products…………………...…………	60,951	262	12	4.6
337—Furniture and Fixtures………..……………..	53,291	20	1	5.4
322—Paper………………………………………...	43,839	1,064	6	0.6
333—Machinery, Except Electrical………………….	40,909	2,489	72	2.9
332—Fabricated Metal Products…………………….	38,333	472	17	3.7
324—Petroleum and Coal Products………………….	16,723	2,626	12	0.5
313—Textiles and Fabrics…………………………..	12,998	11,662	898	7.7
113—Forestry Products……………………………...	10,585	0	0	0
323—Printing, Publishing and Similar Products…….	10,326	97	([1])	0.5
212—Minerals and Ores……………………………..	3,885	0	0	0
920—Used or Second-hand Merchandise……………	3,029	688	1	0.2
112—Livestock and Livestock Products…………….	1,604	0	0	0
511—Publishing Industries (except Internet)………..	23	0	0	0
Total, all subsectors…………………………………	16,861,768	3,340,470	493,956	14.8

([1]) Less than $500.

Note: The customs value of U.S. imports is the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation. The customs value given is for imports for consumption, which represents the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones. The dutiable value represents the customs value of the foreign merchandise imported into the United States that is subject to duty. The calculated duty represents the estimated import duties collected. Estimated duties are calculated based on the applicable rates of duty as shown in the Harmonized Tariff Schedule of the United States Annotated for Statistical Reporting Purposes. Estimates of calculated duty do not necessarily reflect amounts of duty paid. The average rate of duty is the ratio of calculated duties over dutiable value, expressed in percentage terms.

Source: Compiled from official statistics of the U.S. Department of Commerce, Bureau of Census.

Table III.6: U.S. Imports from CAFTA-DR Countries by U.S. Import Program and Country, 2003

(thousands of dollars)

Country	No Program Claimed	CBI	PR-CBI	CBTPA	GSP	Civil Aircraft	Total
Customs Value of U.S. Imports from:							
Costa Rica……………………………	2,216,307	660,118	37	422,869	54,278	317	3,353,928
El Salvador…………………………..	805,616	71,876	0	1,113,270	27,716	0	2,018,478
Guatemala……………………………	1,818,867	317,555	905	770,470	46,289	0	2,954,085
Honduras…………………………….	1,103,407	221,882	31	1,953,210	33,154	0	3,311,683
Nicaragua…………………………….	520,035	99,753	14	149,247	..	6	769,056
CAFTA subtotal……………………	6,464,232	1,371,184	987	4,409,066	161,437	323	12,407,230
Dominican Republic…………………	1,764,711	856,965	70	1,757,701	75,063	28	4,454,538
Total U.S. Imports from CAFTA-DR Countries							
	8,228,943	2,228,148	1,057	6,166,768	236,499	352	16,861,768
Customs Value…………………………	3,305,230	34,970	0	268	2	0	3,340,470
Dutiable Value…………………………	492,747	1,191	0	18	0	0	493,956
Calculated Duties………………………							

Note: The following U.S. import programs are available to the CAFTA-DR countries:
CBI: Reduced duty or duty-free under the Caribbean Basin Economic Recovery Act of 1983 (CBERA). [Subsection 213(b) of the CBERA, as amended]
PR-CBI: Duty-free for a Puerto Rico product improved or advanced in value in a CBERA beneficiary country, with any materials added being a product of a CBERA beneficiary country or the United States, and returned to the United States. [Subsection 213(a)(5) of the CBERA, as amended]
CBTPA: Duty-free under the United States-Caribbean Basin Trade Partnership Act (CBTPA) of 2000, as amended.
GSP: Duty-free under the Generalized System of Preferences (GSP). [Section 503(a)(1)(B) of the Trade Act of 1974, as amended] Nicaragua is not a U.S. GSP beneficiary country.
Civil Aircraft: Duty-free under the WTO Agreement on Trade in Civil Aircraft.

The customs value of U.S. imports is the value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones). Because of rounding, figures may not add to totals shown. The dutiable value represents the customs value of the foreign merchandise imported into the United States that is subject to duty. The calculated duty represents the estimated import duties collected. Estimated duties are calculated based on the applicable rates of duty as shown in the Harmonized Tariff Schedule of the United States Annotated for Statistical Reporting Purposes. Estimates of calculated duty do not necessarily reflect amounts of duty paid.

Source: Compiled from official statistics of the U.S. Department of Commerce, Bureau of Census.

Table III.7: U.S. Imports from CAFTA-DR Countries by U.S. Import Program and NAICS Sector and Subsector, 2003

(thousands of dollars)

NAICS Subsector	No Program Claimed	CBI	PR-CBI	CBTPA	GSP	Civil Aircraft	Total
U.S. Imports from CAFTA-DR Countries.	**8,228,943**	**2,228,148**	**1,057**	**6,166,768**	**236,499**	**352**	**16,861,768**
11—Agriculture and Livestock Products	**1,457,520**	**530,364**	**333**	**0**	**11,622**	**0**	**1,999,839**
111—Agricultural Products…………………	1,157,236	524,003	333	0	11,485	0	1,693,056
112—Livestock and Livestock Products……	1,332	271	0	0	0	0	1,604
113—Forestry Products……………………	4,503	5,945	0	0	137	0	10,585
114—Fish, Fresh, Chilled, or Frozen and Other Marine Products………………………	294,449	144	0	0	0	0	294,593
21—Oil, Gas, Minerals and Ores………	**3,879**	**5**	**0**	**167,506**	**0**	**0**	**171,391**
211—Oil and Gas……………………………	0	0	0	167,506	0	0	167,506
212—Minerals and Ores……………………	3,879	5	0	0	0	0	3,885
31-33—Manufacturing……………………	**6,187,335**	**1,697,106**	**725**	**5,999,262**	**224,877**	**35**	**14,109,340**
311—Food Manufacturing…………………	97,090	450,221	114	245	67,396	0	615,067
312—Beverages and Tobacco Products……	29,733	259,183	0	0	22,172	0	311,089
313—Textiles and Fabrics…………………	11,953	1,041	0	0	4	0	12,998
314—Textile Mill Products…………………	52,904	7,483	0	0	2,049	0	62,435
315—Apparel and Accessories……………	3,246,256	86,613	376	5,940,363	1,046	0	9,274,654
316—Leather and Allied Products………	115,403	11,108	1	50,819	3,443	0	180,774
321—Wood Products………………………	19,141	30,612	211	0	10,987	0	60,951
322—Paper…………………………………	2,403	32,091	0	0	9,345	0	43,839
323—Printing, Publishing and Similar Prod	5,736	2,613	0	0	1,977	0	10,326
324—Petroleum and Coal Products………	8,763	127	0	7,833	0	0	16,723
325—Chemicals……………………………	39,231	49,227	0	0	4,579	0	93,037
326—Plastics and Rubber Products………	74,276	67,275	0	0	28,213	0	169,764
327—Nonmetallic Mineral Products………	23,552	40,503	19	0	4,158	0	68,232
331—Primary Metal Manufacturing………	168,262	44,605	0	0	510	0	213,378
332—Fabricated Metal Products…………	7,766	11,061	0	0	19,507	0	38,333
333—Machinery, Except Electrical………	27,570	10,169	0	0	3,171	0	40,909
334—Computer and Electronic Products…	984,826	57,546	0	0	12,700	28	1,055,100
335—Electrical Equipment, Appliances, and Components……………………………	65,933	177,327	4	0	26,198	0	269,461
336—Transportation Equipment…………	129,548	49,528	0	0	780	6	179,862
337—Furniture and Fixtures………………	52,014	1,255	0	0	22	0	53,291
339—Miscellaneous Manufactured Commod	1,024,976	307,518	0	0	6,621	0	1,339,116
51—Information……………………………	**23**	**0**	**0**	**0**	**0**	**0**	**23**
511—Publishing Industries (except Internet)	23	0	0	0	0	0	23
91-99—Special Classification Provisions…	**580,186**	**673**	**0**	**0**	**0**	**317**	**581,176**
91—Waste and Scrap………………………	123,862	0	0	0	0	0	123,862
92—Used or Second-hand Merchandise……	2,367	662	0	0	0	0	3,029
98—U.S. Goods Returned and Reimported	354,518	0	0	0	0	317	354,835
99—Special Classification Provisions, not otherwise specified or included…………	99,439	12	0	0	0	0	99,451

Note: See the note to Table III.6 for a definition of the U.S. import programs. The value of U.S. imports is the customs value (the appraised value of the merchandise, exclusive of import duties, freight, insurance, and other charges incurred in placing the merchandise alongside the carrier at the port of exportation) of U.S. imports for consumption (the amount that immediately enters U.S. consumption channels, but not bonded warehouses or Foreign Trade Zones). Because of rounding, figures may not add to totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce, Bureau of Census.

Appendix Table 3.1: Total Effect on U.S. Real Exports, Real Imports, and Employment Due to the FTA based on Global Insight's Immediate and Phase-in Tariff Removal Scenarios

Item and Scenario	Year 1 2004	Year 2 2005	Year 3 2006	Year 4 2007	Year 5 2008	Year 10 2013	Average 2004-2013
U.S. Exports to CAFTA-DR Countries (mil. 1997 dollars):							
Immediate	184	190	197	205	213	257	219
% from baseline	1.1%	1.1%	1.1%	1.0%	1.0%	1.0%	1.0%
10-year Phase In	17	36	57	79	103	257	125
% from baseline	0.1%	0.2%	0.3%	0.4%	0.5%	1.0%	0.6%
U.S. Imports from CAFTA-DR Countries (mil. 1997 dollars):							
Immediate	772	810	846	883	920	1,118	942
% from baseline	5.7%	5.6%	5.6%	5.6%	5.6%	5.5%	5.6%
10-year Phase in	105	180	265	358	460	1,118	554
% from baseline	0.8%	1.2%	1.8%	2.3%	2.8%	5.5%	3.3%
U.S. Employment (number of jobs)							
Immediate	750	1,111	438	271	187	180	392
% from baseline	0.0007%	0.0010%	0.0004%	0.0002%	0.0002%	0.0001%	0.0003%
10-year Phase in	89	275	248	190	172	170	192
% from baseline	0.0001%	0.0002%	0.0002%	0.0002%	0.0001%	0.0001%	0.0002%

Source: Global Insight (2004).

Appendix Table 3.2: Sectoral U.S. Employment Effects of the FTA under Global Insight's Immediate Tariff Removal Scenario

(number of employees and percent change from baseline employment)

Change in U.S. Sector Employment	Year 1 2004	Year 2 2005	Year 3 2006	Year 4 2007	Year 5 2008	Year 10 2013	Average 2004-2013
All Industries							
Direct	106	87	72	60	52	96	76
Indirect	644	1,024	367	211	135	84	315
Total	750	1,111	438	271	187	180	392
Percent change from baseline	0.0007%	0.0010%	0.0004%	0.0002%	0.0002%	0.0001%	0.0003%
Agriculture							
Direct	-39	-40	-42	-43	-44	17	-25
Indirect	0	0	0	0	0	0	0
Total	-39	-40	-42	-43	-44	17	-25
Percent change from baseline	-.0017%	-.0018%	-.0018%	-.0019%	-.0019%	0.0008%	-.0011%
Mining							
Direct	1	1	1	1	1	1	1
Indirect	0	0	0	0	0	0	0
Total	1	1	1	1	1	1	1
Percent change from baseline	0.0003%	0.0003%	0.0003%	0.0002%	0.0002%	0.0002%	0.0003%
Construction							
Direct	0	0	0	0	0	0	0
Indirect	31	144	61	18	13	10	31
Total	31	144	61	18	13	10	31
Percent change from baseline	0.0005%	0.0021%	0.0009%	0.0002%	0.0002%	0.0001%	0.0004%
Manufacturing							
Direct	143	126	112	101	94	78	100
Indirect	10	10	4	3	3	1	4
Total	154	135	116	104	97	79	103
Percent change from baseline	0.0010%	0.0008%	0.0007%	0.0006%	0.0006%	0.0005%	0.0006%
Service-Producing							
Direct	0	0	0	0	0	0	0
Indirect	603	870	301	190	120	73	281
Total	603	870	301	190	120	73	281
Percent change from baseline	0.0007%	0.0010%	0.0003%	0.0002%	0.0001%	0.0001%	0.0003%

Note: Direct and indirect employment effects may not sum to total due to rounding.

Source: Global Insight (2004).

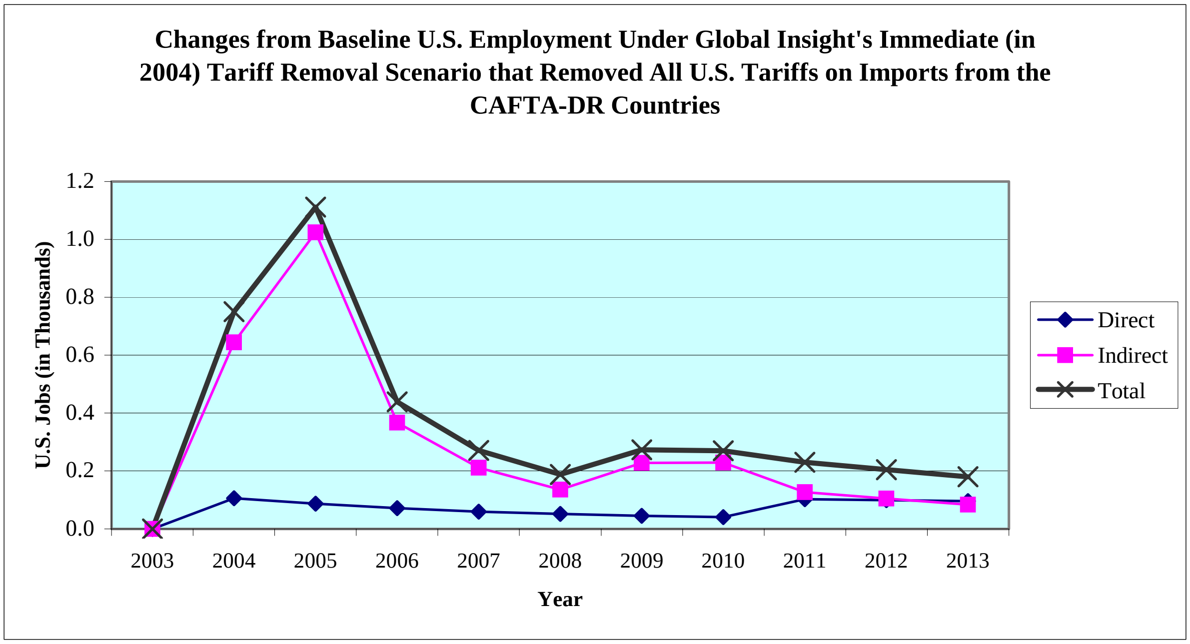
Appendix Table 3.3: Michigan Model Estimates of the Changes in U.S. Employment Due to Removal of Trade Barriers in Agriculture, Manufacturing, and Services under the FTA

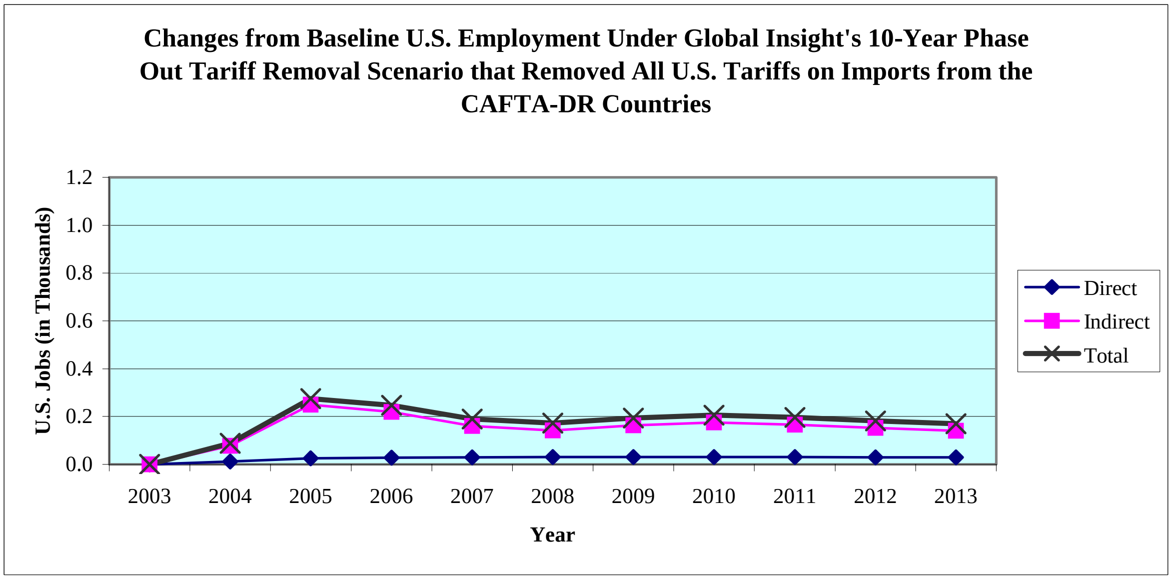
(number of workers affected and percent change in sector employment)

Sector	Removal of Agricultural Barriers	Removal of Manufactures Tariffs	Removal of Service Barriers	Total
Agriculture	-2,497 -0.07%	3,781 0.11%	889 0.02%	2,173 0.06%
Mining	61 0.01%	510 0.08%	25 0.00%	596 0.09%
Construction	-4 0.00%	-43 0.00%	78 0.00%	31 0.00%
Manufacturing	1,855 0.01%	-5,991 -0.03%	573 0.00%	-3,567 -0.02%
Service-Producing	586 0.00%	1,743 0.00%	-1,562 0.00%	767 0.00%

Source: Brown, Kiyota, and Stern (2004).

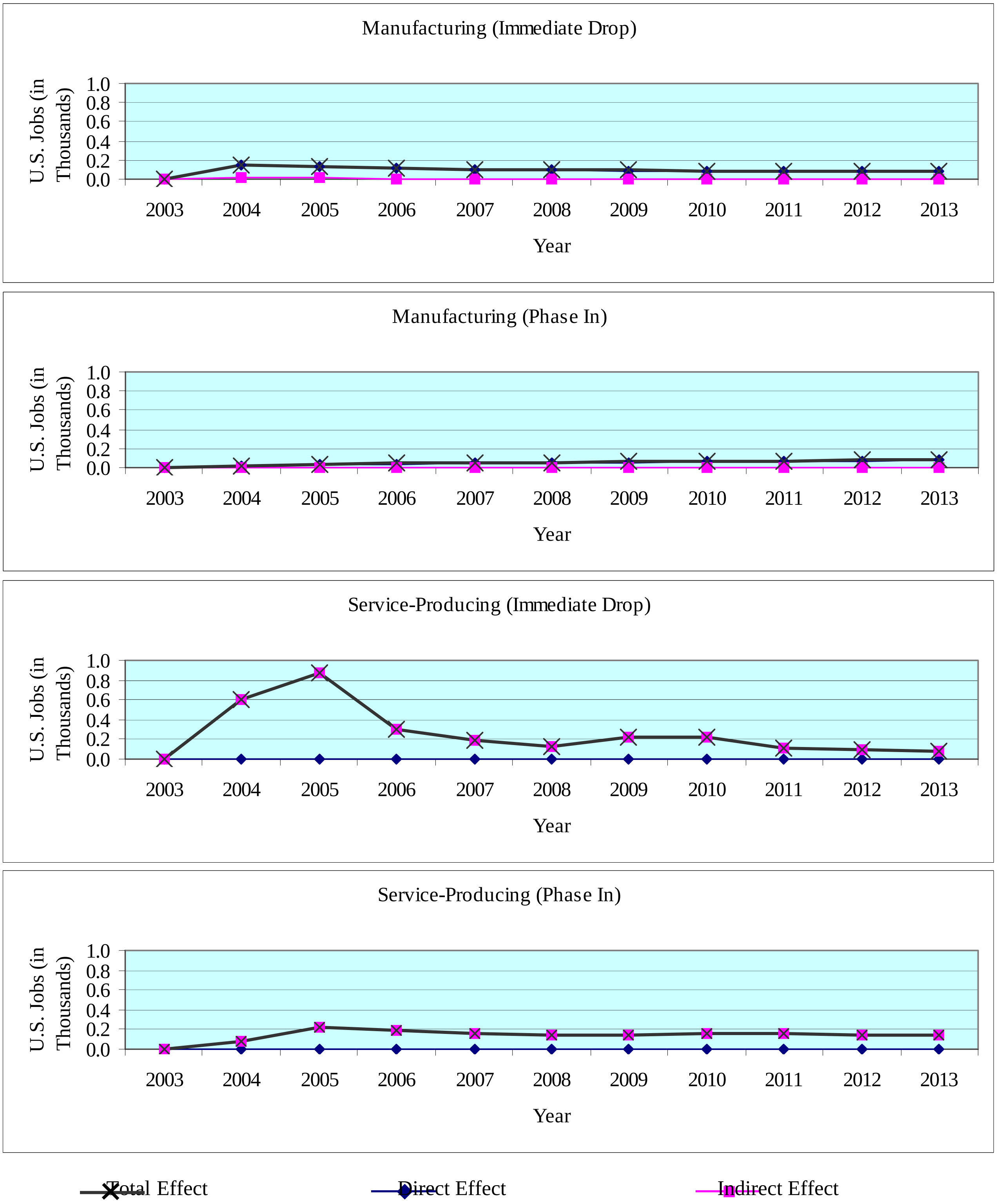
Appendix Figure 3.1: Change from Baseline U.S. Employment Due to the FTA under Global Insight's Immediate and Phase-in Scenarios





Source: Global Insight (2004).

Appendix Figure 3.2: Change from Baseline U.S. Employment in Manufacturing and Service Producing Industries Due to the FTA under Global Insight's Immediate and Phase-in Tariff Removal Scenarios



Source: Global Insight (2004)