

Trade Liberalization and the Dominican Republic

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Abstract

Over the last several decades, trade barriers have fallen substantially, and agreements promoting free trade between countries have proliferated. One such agreement, the Central American Free Trade Agreement (CAFTA, or CAFTA-DR), aimed to lower trade barriers between Central American countries and the United States.

1 Context

The Central American Free Trade Agreement was modeled upon the success of the North American Free Trade Agreement between the United States, Canada, and Mexico (?).

In 2003, negotiations began on the Central American Free Trade Agreement, with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the United States taking part in the discussions. The Dominican Republic joined the negotiations in early January, retitling the agreement the Dominican Republic-Central America Free Trade Agreement. The goal of the bill was to create a free trade zone similar to the one created by the North American Free Trade Agreement in 1994. President George W. Bush of the United States signed CAFTA-DR into law in 2005, but it took another two years for the Dominican Republic to fully implement the agreement, which it did in 2007.

One of the explicit aims of CAFTA-DR was to reduce tariffs uniformly for United States imports into member Central American countries, and to "progressively eliminate customs

duties on originating goods” [[Office of the United States Trade Representative, Executive Office of the President](#)]. Tariffs on most products exported to the United States (U.S.) from Central America were already duty-free as part of the Caribbean Basin Initiative, and so CAFTA-DR largely eliminated tariffs on imported American goods, rather than eliminating American tariffs on exports of Central American products. The bill put a moratorium on establishing new tariff lines or raising customs duties between the parties involved, and explicitly defined a time line for each good to have its tariffs reduced. Based upon World Trade Organization data¹, I find CAFTA-DR reduced average Dominican Republic (D.R.) tariff rates on imports from member countries from 12.33% to 2.73% from 2006 to 2007. Many goods were to be declared duty free initially upon implementation of the agreement, but many more were to have their tariff rates phased in a period of generally 5-10 years.

2 Data

Data for this project comes from combining several easily accessible databases, allowing for straightforward replication of my results.

For tariff data in 2002, I use the [World Trade Organization](#) Tariff Analysis database, which provides tariff rates at the Harmonized System (HS) six digit level. To compute tariffs in 2013, I employ direct text from the CAFTA-DR bill, provided online by the [Office of the United States Trade Representative, Executive Office of the President](#) at the HS eight digit level, as well as the source above.

I use several sources to estimate the share of economic activity in a given municipality in the Dominican Republic.

Information on the number of companies by size in a given industry at the municipality level in the Dominican Republic is provided by [Oficina Nacional de Estadística, República Dominicana](#) ONE for 2010². I then combine this with Integrated Public Use Microdata

¹Using a import-weighted average of tariff rates for Harmonized System two-digit product codes, the nominal average decrease is larger

²Note – this source used to be accessible online, but when I recently went back the site threw an error

Series International (IPUMS) data

3 Exogeneity of Tariff Decreases

when attempting to download the data.

References

Office of the United States Trade Representative, Executive Office of the President. Dominican Republic-Central American Free Trade Agreement, Final Text. www.ustr.gov.

Oficina Nacional de Estadística, República Dominicana. Website. www.one.gob.do.

World Trade Organization. Tariff Analysis Online Facility - Database. www.tariffdata.wto.org.

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