CAFTA-DR – WILL U.S. SMALL BUSINESS BENEFIT?

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OVERVIEW AND SUMMARY

Does small business even matter in trade agreements?

Discussions about U.S. trade agreements have historically tended to focus on the "big picture" – how the nation as a whole would be affected by the agreement – or on how sectors of the economy, such as agriculture, apparel, and manufactured goods would fare. While these are important elements to consider, the impact of a trade agreement such as CAFTA-DR on U.S. small business should also be a central part of the discussion.

Why? Not simply because small business is a vital component of the American economy. With smaller companies accounting for over half of the nation's gross domestic product and private sector employment, that point is beyond dispute. Nor because Main Street in America needs to see the tangible benefits of international trade, though that's vital, too.

Small business is crucial to trade agreement discussions for three very practical reasons: (a) more and more U.S. exporters *are* smaller businesses; (b) exports by smaller American companies are growing at least as fast as exports from larger American companies, and (c) smaller company exports have much greater upside potential in many markets, sectors and situations, particularly in developing countries.

With exports now accounting for 25% of U.S. economic growth, this kind of a practical focus in trade policy is vital. It will align trade policy with the capabilities of the small business "job-generating machine," the source of over two-thirds of our nation's net new jobs, upon which much of our economic and social progress depend.

The number of small business exporters in the U.S. has rocketed over 300% since 1986, and now approaches a quarter million companies. The value of American small business exports now tops $180 billion – in merchandise exports alone, without counting the service exports that small businesses are especially well equipped to deliver. Today over 97% of all U.S. exporters are small businesses. Their activity is broadly dispersed across the country, accounting for half the dollar value of exports from New York and Florida, for example. More than one-fourth of all U.S. zip codes show merchandise exports of over $500 million a year.[1]

[1] Here, as elsewhere in these statistics, "small and mid-sized enterprises" (or exporters or "SME's") refers to U.S. businesses with fewer than 500 employees.

But all this still is not enough. U.S. trade deficits are growing.

To address them, there are really only two options: restricting imports or spurring exports. Virtually every reputable economist maintains that limiting imports by political fiat will lower the U.S. standard of living. That leaves the alternative: ramping up exports.

Where could that substantial export growth come from?

While nearly all Fortune 500 companies already export and most of them are truly global, only about 10% of U.S. companies with fewer than 500 employees export. Among companies with fewer than 100 employees, it's less than 5%. Thus, despite the recent impressive gains in smaller company exporting, there is still a huge untapped potential. Double the number of small company exporters and hundreds of thousands of new, high paying export jobs will be created in the U.S. Double it and trade prosperity will expand on Main Streets all across America. A recent comprehensive study of U.S. companies engaged in international trade found that companies which started trading internationally between 1993 and 2000 had about *five times the employment growth* of other companies. Companies that stopped trading during this period actually *lost* jobs.[2]

Global trade flows are increasing, but they are also differentiating. As more countries and sectors open up to international trade, smaller markets and smaller sales volumes become feasible and profitable. Trading opportunities open up for agile niche players.

Will CAFTA-DR help?

Arguably nowhere in the world are small U.S. exporters better positioned to expand into new markets than in the nations covered by the CAFTA-DR agreement. Already, when the CAFTA-DR nations import, they buy from us. Over two-thirds of the dollar value of their non-oil imports comes from the United States. This is the greatest "market share" that U.S. exports enjoy in any region of the world. Moreover, the CAFTA-DR countries buy from U.S. *small businesses*. Smaller U.S. companies account for 37% of all U.S. exports to the CAFTA-DR region, and that percentage ranges as high as 70% (for Nicaragua). (See Table 3). These are extraordinarily high percentages, among the highest for small U.S. exporters in any region of the world. Simply put, the CAFTA-DR markets have enormous built-in demand for U.S. products and services, as well as a high degree of acceptance of smaller U.S. company exporters.

How can CAFTA-DR accentuate these trends?

CAFTA-DR's greatest benefit for smaller American companies is that it would lower transaction costs in the region. This helps all businesses, but it makes the biggest difference for smaller companies. They operate on thinner margins and they have fewer dollars of sales and units of production across which to spread their costs.[3]

As transaction costs fall, smaller and smaller sales orders become economical to fill. That opens greater opportunities for smaller companies.

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[2] *Importers, Exporters and Multinationals: A Portrait of Firms in the U.S. That Trade Goods*, Andrew B. Bernard, J. Bradford Jensen, Peter K. Schott, National Bureau of Economic Research, NBER Working Paper 11404, June 2005, pp. 4-5.
[3] *Cost of Developing a Foreign Market for a Small Business: The Market and Non-market Barriers to Exporting by Small Firms*, Palmetto Consulting, SBA Office of Advocacy, November 2004.

CAFTA-DR would accomplish this lowering of transaction costs in several ways.

- *Lower tariffs*. Only one of the six nations covered by the agreement has tariffs roughly comparable to ours. The others range from twice as high as ours to four times as high (see Table 4). Those tariffs will fall.

- *Elimination of "non-tariff barriers".* These are assorted "costs of doing business" -- like licenses and permits – plus the costs of the long waits often required to obtain them. Because most non-tariff barriers are fixed costs, they fall most heavily on smaller companies that have fewer dollars and units of sales over which to spread the costs. Spending $10,000 on a permit, and waiting six months for it, is a nuisance for a major corporation. It can be a deal-breaker for a smaller company.

- *Reduced customs costs.* CAFTA-DR also would make customs procedures in the region simpler, more open and more harmonized. This means that smaller exporters won't have to learn as many rules or deal with as many officials as in the past. It also means that smaller companies will be better able to market, warehouse and price for the region as a whole, rather than setting up entirely separate channels for each country within it. Selling prices will reflect these economies of scale. This will be a win-win for smaller exporters and for their customers in the CAFTA-DR area.

- *Lower transportation costs*. As part of the CAFTA-DR process, ports, transportation, communication, and customs inspections facilities are being improved. This will cut the costs of moving goods into and through the region.

- *Enhanced ability to utilize e-commerce*. The Agreement provides a legal framework for the use of e-commerce – and the protection of intellectual property – in the region. E-commerce is one of the great "levelers" between large and small business. It makes small companies more competitive by saving marketing and communication costs and strengthening productivity. Wider utilization of e-commerce also reduces small business <u>opportunity costs</u> in entering new markets, since much buyer and seller information can be disseminated nearly as quickly and inexpensively as it would be in the domestic market.

- *Lower export financing costs*. Export financing, which is a part of the price of many exported goods, includes "country risk premiums" assigned to individual nations by export finance institutions. CAFTA-DR would almost certainly lower risk premiums in the region because the Agreement establishes recourse procedures for trade disputes and increases the transparency of government decisions affecting trade. Lower financing costs would make U.S. goods sold in the region less expensive. And by cutting trading costs, it would make smaller sales more economical.

It is worth noting that, for its part, the United States has already implemented most of these steps. Over 80% of goods imports and 99% of agricultural imports from the CAFTA-DR region have entered the U.S. duty-free for about twenty years. Most of our non-tariff barriers are already very low. There is only one customs procedure for all fifty U.S. states. Our transportation infrastructure and e-commerce are already modernized. And so on. At least with respect to these types of issues, the fears expressed by some that CAFTA-DR changes would "open the floodgates" to imports from the region do not seem very well supported by the evidence.

Besides reducing transaction costs, CAFTA-DR also will help smaller U.S. exporters by <u>making more customers available</u>. It will do this in two ways.

First, it will gradually make more of the *government procurement* by the CAFTA-DR countries transparent and accessible to American businesses. That is no small achievement; most governments in the world, including our own, tend to at least try to use government contracts to reward their friends and allies. The kinds of purchases that the governments in the CAFTA-DR region are likely to make – basic roads, schools, clinics, communications networks, water treatment equipment, etc. – are just what many small and mid-sized U.S. companies are superb at delivering.

Second, it will *empower more small companies in the six CAFTA-DR nations to import.* To help CAFTA-DR succeed, the U.S. government has been assisting these countries to become more "trade ready". Company managers in the region are learning about international trade. Customs officials, product standard inspectors and food safety monitors are being trained. As this "capacity building" process continues, larger and larger swaths of companies within the CAFTA-DR countries will be looking for ways to take advantage of the newly streamlined trading opportunities with the United States. *Nearly all these "new to trade" companies will be small*, because nearly all the businesses in the region are small. Such companies are likely to seek out counterpart small businesses in the U.S. As a saying in international trade goes "SME's like SME's." In other words, all other things being equal, small and medium size enterprises (SME's) prefer to trade with other companies like themselves. Smaller exporters will fill smaller orders and are often more flexible on product and order changes, financing terms and delivery schedules than are larger companies. Also, smaller exporters typically offer their customers peer-to-peer relationship between CEO's -- highly valued by companies that are new to international trade.

The more that smaller companies in the region become "trade ready", the greater the payoffs will be for smaller American exporters. American SME's and CAFTA-DR SME's will find one another.

Finally, CAFTA-DR helps U.S. small companies because, throughout the region, *"what they want is what we sell"*: the types of products these nations are projected to demand play directly to the strengths of many smaller U.S. exporters. Products like pollution control equipment, hotel and restaurant supplies, beauty and hair care products, office and paper products, construction equipment, franchises, advertising, and professional services.

Evidence of the likely payoffs for smaller American exporters can be seen in results of other trade agreements. In the nine years that followed the NAFTA agreement, the number of U.S. small businesses exporting to Canada grew 110%; those exporting to Mexico grew 284%. The value of goods sold by these small companies more than doubled. Even steeper spikes, though from a smaller initial base, have been seen in U.S. small business exports to nations like Jordan and Israel, that also have entered into bilateral trade agreements with the U.S. in recent years.

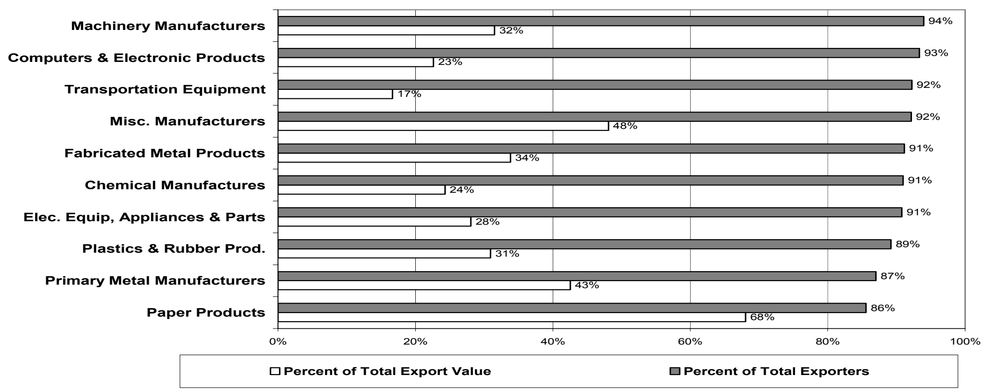
Last year's trade agreements with Australia and Morocco, which Congress approved with substantial bipartisan majorities, have continued this progress. Still, those markets are on distant continents, where U.S. exporters face formidable challenges from entrenched European and Asian competitors. Central America and the Caribbean are on our doorstep; they know and buy American products now – and want more of them. As developing countries, they have many buyers with modest budgets placing modest orders -- a scenario that U.S. small business exporters handle exceptionally well.

A LOOK AT SMALL BUSINESS EXPORTS

The growth of exporting by U.S. small businesses has been a remarkable feature of the U.S. economy over the past two decades. Between 1986 and 2001 the number of small business exporters more than tripled, rising from 65,400 to 230,736. Small businesses now account for 97% of all U.S. exporting firms and the *number* of small business exporters is growing at twice the rate of large exporters.[4] The *value* of small business exports also has been increasing faster than the value of large business exports. By 2002, that value had risen to $182 billion, or about 30% of the value of all U.S. exports.

Small business exporters have significant market penetration in key sectors. Table 1 shows these high percentages (86%-94%) of small business merchandise exporters, as compared to total firms, for the top ten manufacturing sectors, ranked by the number of exporters and by their total export value.

Table 1 - Small Businesses as % of Total Exporters & Value of Exports
Top Sectors by Number of Exporters 2001



Source: Small & Medium-Sized Exporting Companies: A Statistical Handbook, Results from the Exporter Data Base, International Trade Administration, Trade Development, Office of Trade and Economic Analysis, October 2003.

Services exports are also a vital part of the small business picture. Small businesses are prominent in services like IT consulting, retailing, and architecture and engineering and similar fields that are technology and/or "intellectual capital" intensive. U.S. small businesses' frequent comparative advantage as innovators in such fields makes these services very tradable. Service exports reached $340 billion in 2004, accounting for 30% of total U.S. exports and contributing to a trade surplus in service exports of more than $48 billion.[5] Although service export statistics are not broken down by firm size, statistical sampling suggests that there are as many as one-hundred thousand U.S. small business services exporters.

NAFTA has significantly benefited small business exporters. From 1994 to 2001, Canada and Mexico showed the biggest dollar gains in U.S. small business exports.[6] They now account for over 35% of all small business exports.[7] Over approximately the same period, the U.S. small businesses *share* of total exports grew by over 6%.[8] From 1992-2001 the number of small businesses exporting to Canada grew from 45,266 to 95,174, or 110%, while those exporting to Mexico grew from 10,859 to 41,678 or 284%. The value of small businesses exports to NAFTA countries increased by 141%, rising from $25 billion to over $60 billion.[9]

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[4] *Small & Medium-Sized Exporting Companies: A Statistical Handbook*, Results from the Exporter Data Base, International Trade Administration, Trade Development, Office of Trade and Economic Analysis, October 2003. The statistics apply to merchandise exports only.
[5] *Free Trade in Services, Opening Dynamic New Markets, Supporting Good Jobs*, Office of the U.S. Trade Representative, May 31, 2005, and *CAFTA-DR Benefits to U.S. Commerce*, www.ita.doc.gov/cafta/key_benefits/services.asp
[6] NAFTA came into force January 1, 1994.
[7] *International Trade Issue Brief,* National Small Business Association, February 1, 2004.
[8] *Trade Facts*, Office of the United States Trade Representative, CAFTA Policy Brief – May 2005.
[9] U.S. Department of Commerce, Export Data Base

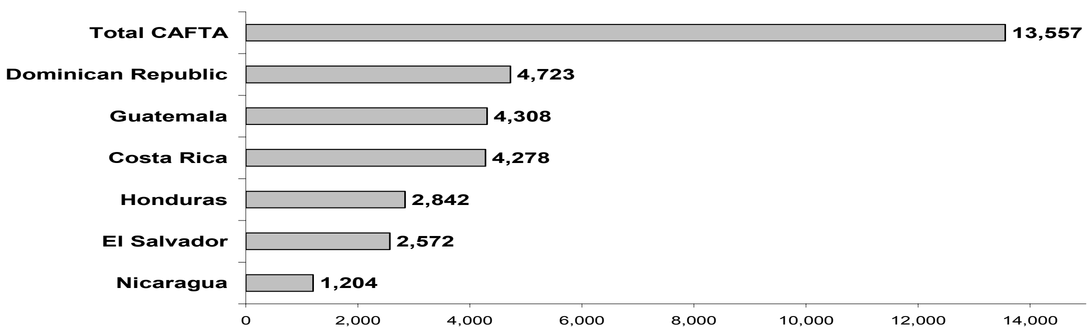
U.S. SMALL BUSINESSES AND THE CAFTA-DR REGION

Central America and the Dominican Republic, with a combined population of 45 million, make up the 2nd largest U.S. export market in Latin America behind Mexico. As a group, these six countries amount to U.S.'s 13th largest trading partner with total trade of nearly $33 billion in 2004.[10] The U.S. exported $15.7 billion to CAFTA-DR countries in 2004.[11] This is comparable to the U.S. exports of $17 billion to France and exceeds by half the $10.5 billion in U.S. exports to Italy. The U.S. is CAFTA-DR's most important trading partner providing 70% of the region's non-oil imports and buying over 50% of their exports.[12]

U.S. trade with the region is growing. It has doubled since 1995, with U.S. exports to CAFTA-DR increasing by 16.4% between 2000 and 2004 alone -- as compared to the 4.8% growth in all U.S. exports over the same period.[13] The sectors of merchandise exports to CAFTA-DR that appear to offer the best prospects for small businesses include: yarn and fabrics, chemicals, beauty and hair products, consumer goods, office and paper products, information technology products, office machinery, refrigerators, freezers, special purpose vehicles, environmental/pollution control technologies, construction equipment and building supplies, and hotel and restaurant equipment. [14] Service exports to CAFTA-DR which offer the best prospects for small businesses include: franchising, financial services, tourism, car rentals, express delivery, wireless communications, advertising and professional services (construction, architectural and accounting).[15]

In 2002, the latest year for which data is available, 13,557 small businesses exported to CAFTA-DR countries. Table 2 shows the breakdown by country of the number of small businesses currently exporting merchandise to CAFTA-DR.

Table 2 - Number of Small Businesses Exporting to CAFTA-DR 2002*



* Merchandise Exports. Individual country total cannot be summed to reach group total because any given firm can export to multiple countries.

Source: CAFTA-DR, A State Export View, 2000-2004, U.S. Deprtment of Commerce, February 2005.

Small businesses were responsible for about 37% of the value of U.S. merchandise exports to CAFTA-DR, substantially higher than the roughly 28% small business share of total U.S. merchandise exports, and among the highest shares that U.S. small exporting companies achieve in any region of the world. Table 3 provides the percentage and value of small business merchandise exports to the six countries in 2002, the latest year for which dollar values are available.

[10] *CAFTA SME Stats*, Office of the United States Trade Representative, Small Business Sector, May 4, 2005.
[11] *U.S.-Dominican Republic-Central American Free Trade Agreement*, U.S. Chamber of Commerce Fact Sheet, 2005.
[12] *Comments for U.S. International Trade Commission*, U.S. Chamber of Commerce, Investigation No. TA-2104-13, April 27, 2004.
[13] Office of Trade and Industry Information, International Trade Administration, U.S. Department of Commerce.
[14] *The 2004 National Export Strategy*, Trade Promotion Coordinating Committee, April 2004, p. 36; *CAFTA, Expanding Shares of the Free Trade Pie*, Office of the U.S. Trade Representative, January 10, 2004.
[15] Ibid.

Table 3 - U.S. Small Business Exports* to CAFTA-DR Countries[16]

Country	Number of Exporters	Number of SME Exporters	Value of Known SME Exports	SME Share of Exports	Total Known Exports
COSTA RICA	5,467	4,278	613,557,302	22.5	2,731,777,836
DOMINICAN REPUBLIC	5,852	4,723	1,666,477,829	44.3	3,765,200,698
EL SALVADOR	3,357	2,572	506,560,771	34.6	1,464,471,729
GUATEMALA	5,395	4,308	815,252,864	46.5	1,753,231,966
HONDURAS	3,596	2,842	749,347,397	32.6	2,296,498,305
NICARAGUA	1,600	1,204	269,242,696	70.1	384,028,949
CAFTA	15,625	13,557	4,620,438,859	37.3	12,395,209,483

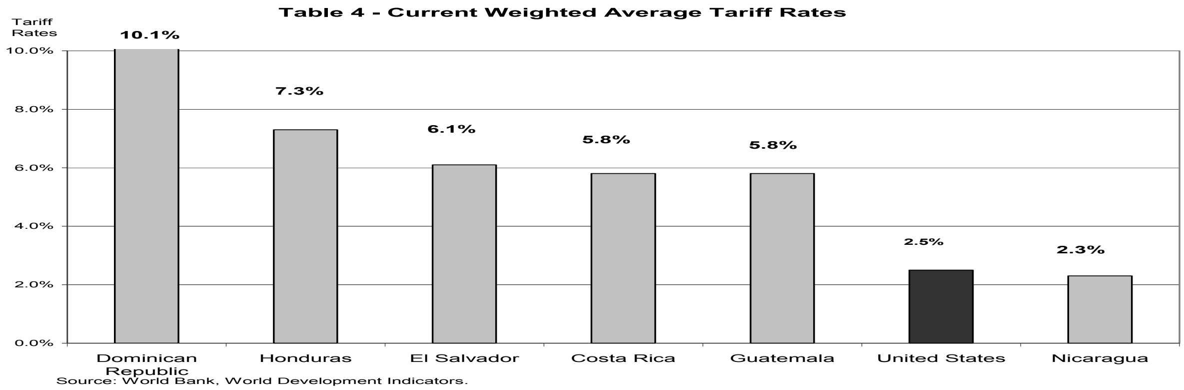
* Merchandise exports, 2002.

WHAT CAFTA–DR WILL DO FOR SMALL BUSINESSES

The CAFTA-DR Agreement will reduce transaction costs for smaller exporters in a number of ways -- removing tariffs and non-tariff barriers to trade, lowering customs costs, and, by reducing risks, lowering the costs of trade financing. It will reduce opportunity costs by eliminating onerous regulations, increasing transparency, strengthening the protections for investments and property, streamlining and moving toward harmonized customs clearances, and establishing arbitration and recourse procedures for trade disputes. In addition to substantially reducing these transaction costs, the Agreement would facilitate greater cost recovery and increased profits by expanding the size of the market. CAFTA-DR will also stimulate the growth of small company buyers in the region, who are likely to purchase many of the products and services they need from small business sellers in the U.S. And it will provide U.S. firms with non-discriminatory access to the government procurement processes in the region.

With respect to tariffs on U.S. products and services, CAFTA-DR would substantially "level the playing field". For twenty years, most products from Central America and the Dominican Republic have entered the U.S. duty free. Through the Caribbean Basin Initiative and the Generalized System of Preferences, the U.S. eliminated tariffs on 80% of the merchandise imports from the CAFTA-DR countries and 99% of the agricultural imports. Yet U.S. exports have continued to face higher tariffs and onerous non-tariff barriers in the region.[17] As Table 4 shows, except for one country in the region (Nicaragua), current tariffs in the six countries are double, triple or quadruple the 2.5% average U.S. rate.

[16] Exporter Data Base, U.S. Department of Commerce; U.S. Census Bureau, Foreign Trade Statistics; and U.S. Small Business Administration.
[17] *CAFTA Policy Brief*, Office of the United States Trade Representative. February 2005



Source: World Bank, World Development Indicators.

The CAFTA-DR Agreement also would immediately remove most non-tariff barriers, such as licenses that are only required of U.S. companies and requirements for American companies to have offices in the region in order to trade there. Such barriers are particularly onerous for small businesses. Their units of goods sold, and revenue produced, are not great enough to minimize the effects of such costs on final selling prices. CAFTA-DR will also eliminate dealer protection laws, which for decades gave exclusive distribution rights to a select few. By clearing away such barriers CAFTA-DR will create new opportunities for entrepreneurs and small businesses.[18]

The Agreement, and related activities by the U.S. government, will stimulate the development of new customers for American small business exporters. The U.S. has several such initiatives to assist these six developing countries in preparing more of their domestic small businesses for international trade.

First, the U.S. Agency for International Development (USAID) has helped CAFTA-DR countries build infrastructure (i.e. port, transportation and communication facilities) and provided training on trade related issues, such as customs administration and food safety.

Second, the U.S. Trade and Development Agency (USTDA) is funding activities in the region that could lead to excellent exporting opportunities – activities like telecommunication regulatory reform, telecommunications infrastructure improvements, national energy development, port modernization and operations efficiency, regional transportation networks, trade documentation efficiency, e-government and IT training and technology transfer.[19]

Third, the U.S. has provided substantial assistance targeted at helping small entrepreneurs to build businesses and form business associations in CAFTA-DR countries.[20]

Fourth, the U.S. Small Business Administration (SBA) helped create the Micro, Small and Medium-sized Enterprises (SME) Congress in the region to enhance the ability of small businesses to participate in and benefit from international trade opportunities.

All of this activity will benefit U.S. small businesses. Building a modern trade infrastructure helps reduce transaction costs. Strengthening small businesses in the region increases trade opportunities for U.S. small companies, because small businesses prefer to trade with one another. The expression "SME's like other SME's" exemplifies this. In other words, all other things being equal, small and medium size enterprises (SME's) prefer to trade with other companies like themselves. Smaller exporters will fill smaller orders and are often more flexible on product and order changes, financing terms and delivery schedules than are

[18] *The Critical Role of CAFTA in a Freedom Agenda for the Americas*, Daniel W. Fisk, The Heritage Foundation, Heritage Lectures No. 879, April 28, 2005.
[19] *The 2004 National Export Strategy*, Trade Promotion Coordinating *Committee*, April 2004, p. 37
[20] *From Crisis to Commonwealth: CAFTA and Democracy in Our Neighborhood*, Robert B. Zoellick, The Heritage Foundation, Web Memo, May 16, 2005.

larger companies. Also, smaller exporters typically offer their customers peer-to-peer relationship between CEO's -- highly valued by companies that are new to international trade.

CAFTA-DR also will open up more government sales opportunities for smaller American companies. The Agreement provides for a fair and transparent government procurement process with non-discriminatory access for U.S firms. It also requires competitive bidding for contracts and makes available extensive proposal information on the Internet. Governments will be required to publish their tendering and award rules in advance. Small businesses will not have to spend large amounts of time (a major opportunity cost) learning where, when and how to submit and prepare bids. Many of the types of purchases that governments in the region are likely to make – basic roads, schools, clinics, water treatment equipment, etc. – are just what many small and mid-sized U.S. companies are superb at delivering. U.S. small businesses are also well suited to competing for Central American and Dominican Republic government contracts because of the moderate size and needs of these countries. Purchases relating to health care, environmental remediation, and computer, communication, insurance, financial and accounting services, for example, are likely to be modest enough for smaller American companies to fulfill comfortably.

The Agreement also raises the bar for intellectual property protection, with strong provisions covering patents, copyrights and trademarks. IP piracy would be criminalized, and procedures for obtaining damages put into place.[21] This will be especially beneficial for small companies in such IP-dependent fields as computer and IT consulting, medical equipment, architecture and engineering, environmental services, and energy services.

E-commerce also will be opened up. Small businesses make extensive use of the Internet for communications and international trade marketing. They use websites to promote products and e-mail to conduct business transactions. Using e-commerce can markedly reduce the costs and the time they must devote to international trade and can "level the playing field" with larger companies in terms of marketing information, acquisition of new sales prospects, online ordering, etc..

The Agreement liberalizes many trade sectors in Central America and the Dominican Republic where U.S. small businesses enjoy a strong competitive position in international trade. Small business manufactures can expect to see export growth in sectors such as medical and scientific equipment, computers and information technology products, agricultural and construction equipment, paper products, textiles and apparel, and consumer goods, as well as such service exports as IT consulting, architecture and engineering, audio/visual services, energy services, distance learning and education consulting, transportation, financial services, entertainment, and environmental remediation services.

The CAFTA-DR framework will improve the ability of governments in the region to pass and enforce laws protecting international trade and to adopt internationally-recognized commercial and economic standards relating to trade.[22] These kinds of policies lower the opportunity costs of trade by reducing the time needed to gather reliable and accurate market and regulatory information. They also reduce risk, and therefore trade insurance costs, allowing small businesses to be more competitive in quoting prices. Risk and/or expensive trade insurance costs, can be major barriers for small businesses exports, since these risks or costs cannot be spread over large outputs and revenues.

The CAFTA-DR region's trade potential has been underscored by the progress the six countries have made in implementing policies favorable to commerce and economic growth, as measured by The Heritage Foundation's/Wall Street Journal *Index of Economic Freedom*. This index annually measures the business and entrepreneurial environment of 160 nations. Trade policy, capital flows, foreign investment, private property rights and regulation are among the items measured. Table 5 shows the gains made by the CAFTA-DR countries in the *Index of Economic Freedom* since 1995. The index scores economic freedom on a scale of 1 through 5, with 1 being the best and 5 the worst.

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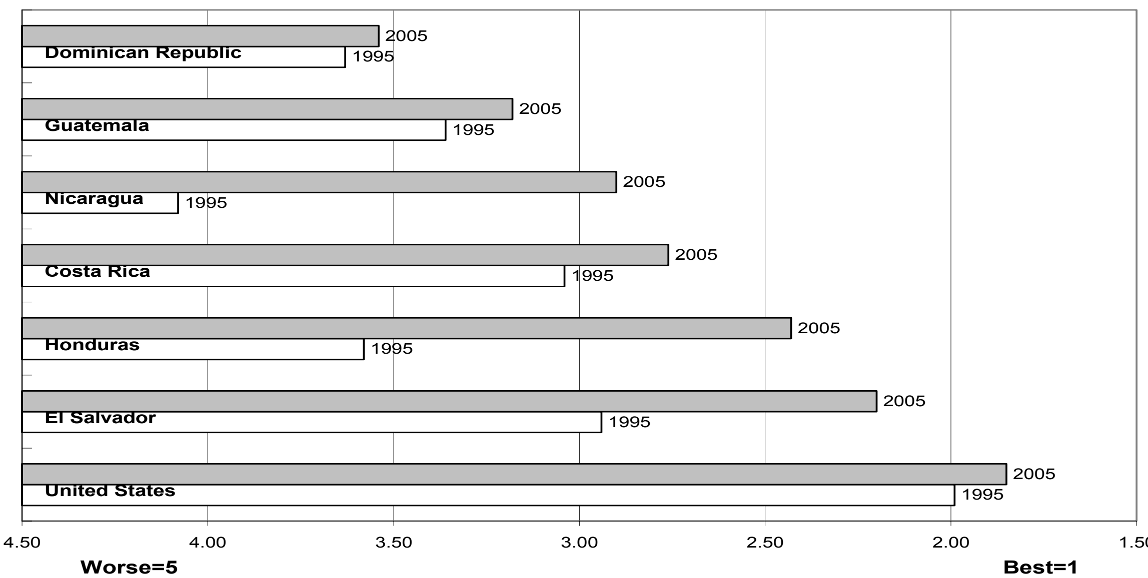
[21] *The Dominican Republic-Central American-United States Free Trade Agreement, Summary of the Agreement,* Office of the U.S. Trade Representative, p. 18-20.
[22] Fisk, op.cit.

Table 5 - CAFTA-DR Index of Economic Freedom



Source: The Heritage Foundation, 2005

The value of this index has been recognized by the Millennium Challenge Corporation (MCC), the new U.S. initiative to tie foreign assistance to improvements in freedom and democracy. MCC has adopted the index as one factor in selecting countries to receive U.S. development assistance -- based on their performance in governing justly, investing in their citizens, and encouraging economic freedom. Two CAFTA nations, Honduras and Nicaragua, which made respective 10 year gains of 32% and 29% in the index, are among 16 developing countries around the world selected by the MCC for development grant assistance.

CONCLUSIONS

U.S. small businesses look set to become some of the biggest winners of the Central American - Dominican Republic - United States Free Trade Agreement. The treaty will create a range of opportunities for increased trade in fields where U.S. small businesses are internationally competitive and will foster a stable environment for economic growth.

Regional free trade agreements like CAFTA are especially favorable to small businesses. Such agreements eliminate a broad swath of trade barriers and promote access to a larger regional market. This allows smaller companies to broaden the sales area over which their costs can be spread without markedly raising their opportunity costs.

The CAFTA-DR agreement also will significantly reduce transaction costs by eliminating tariffs and market access barriers such as costly distribution agreements, certifications, licenses and local presence requirements. It will reduce opportunity costs by ensuring transparency, equal consideration in government procurement, due process and the legal protection of property and investment.

Recent U.S. experience with free trade agreements in Latin America (Chile and Mexico) suggests that both the number of small businesses exporting to CAFTA-DR and the value of those exports should more than double over the next decade.

The six CAFTA-DR countries already comprise the 2nd largest U.S. export market in Latin America. American small businesses are responsible for a large portion of that trade, and sales to the region are growing three times faster than U.S. trade overall. This is a region that welcomes U.S. products and U.S. small businesses.

The Agreement will make enormous strides in making ever-smaller sales to the region commercially viable, and it will help develop an array of new buyers – principally CAFTA-DR small businesses – for U.S. products and services. The effects will be to offer tens of thousands of U.S. small businesses new opportunities in the CAFTA-DR market. That could have a strong positive effect on export-driven jobs and growth in this country.

For the CAFTA-DR region, the results are likely to be the kind of striking reductions in poverty and widening of prosperity that have been seen in active trading countries around the world during the past half century.

Here's how Enrique Iglesias, President of the Inter-American Development Bank, a leading source of development assistance in the region, recently put it:

"This is a commitment of historic proportions. Better access for goods and services from the U.S., implementation of an open, rules-based framework for U.S. investment and technology and strengthened intellectual property rights protection will all serve to enhance these countries productivity, international competitiveness and ability to generate growth and employment, the two most important factors for poverty reduction."

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