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Costa Rica's Pyrrhic CAFTA Victory

by LADB Staff
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The US concluded its free-trade deal, the Central America Free Trade Agreement (CAFTA), in Washington on Dec. 17, but lost one country in the bargain. Costa Rica, at the very last moment, withdrew from the negotiations. The issue over which Costa Rica left the table was insurance.

Ronulfo Jimenez, coordinator of the government's economic team, told reporters the issue of insurance came up for the first time in this round, and, because this is the last scheduled round, there would be no time to draw up a counterproposal to US demands. The US demanded total access to the Costa Rican insurance industry. "We want to sign a treaty," said Jimenez, "but not just any treaty." He expressed hope that Washington might understand that San Jose has its "peculiarities" and needs longer than the other countries to open some of its industries to the international market.

By peculiarities, Jimenez was referring to national monopolies on some industries, of which the insurance business is one. These monopolies play a role in the national identity, much as does PEMEX, the oil monopoly, in Mexico.

Exemplifying the peculiarity, President Abel Pacheco has said, "I don't believe in privatization of national property; that doesn't mean not believing in certain forms of openings that will benefit, in the first place, the Costa Rican people and, in the second place, the institutions themselves."

Lots of support

The government was generally supported by the opposition for its decision to leave the table. Jose Miguel Corrales of the Partido Liberacion Nacional (PLC), the principal opposition party, called the withdrawal "a good sign," given that the government also stated its intention to return to negotiations with the US in January, to try for a bilateral deal. Corrales' attitude was in part sustained by his belief that the Bush administration would not go to the US Congress with a CAFTA that does not include Costa Rica. "God willing, an FTA [free-trade agreement] will emerge from this that truly serves our country," he said.

The president of the Union Costarricense de Camaras, Samuel Yankelewitz, was disdainful of the four countries, Guatemala, Honduras, El Salvador, and Nicaragua, that signed the agreements at the conclusion of the Washington round. "It seems to me the Central American governments had little guidance" in the negotiations, he said, and added that "they were disposed to sign whatever was they put in front of them." The business leader was particularly scornful of the textile negotiation, believing that the accord puts at risk "hundreds of thousands" of maquila jobs. "They have acted very imprudently, and the Salvadoran Minister of Economy [Miguel] Lacayo has behaved frivolously, playing with the lives and economy of many businesses that provide some 400,000 or 500,000 jobs. Ronald Saborio, Costa Rican ambassador to the World Trade Organization

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(WTO), also supported his government's pullout. He said that conditions for concluding a trade pact with the US simply "are not on the table."

Costa Rica's decision to go it alone, to deal bilaterally with the US rather than in concert, is not new behavior for Central America's most economically advanced country. The strategy of returning alone in January takes into account that, even with Costa Rica, CAFTA would not be an easy sell in the US Congress. Without its participation, the probability of congressional approval sinks lower. Costa Rica is the largest market in the region for the US.

The gamble

From one perspective, Costa Rica may have the administration of US President George W. Bush over a barrel. At the opening of this ninth round of talks on Dec. 8, chief US negotiator Regina Vargo said that the administration was "really worried" that, if an agreement was not reached, the legislature would not have time to pass CAFTA in 2004. While the statement may have been largely meant as incentive for isthmus dealmakers to knuckle down, there also may have been some truth to it.

It has been repeatedly reported that the Bush administration needs CAFTA as a precursor to a larger and more important Free Trade Area of the Americas (FTAA). This plan has been knocked off track by the spectacular failure of WTO talks in Mexico last September (see NotiSur, 2003-10-10) and by the leadership of Brazil in opposing US proposals.

But the Costa Rican departure could also facilitate a US strategy shift, announced after the WTO debacle when administration spokespersons said that the US would now seek bilateral agreements, rather than the more grandiose regional deals. In that case, slowing congressional action on CAFTA is not entirely undesirable. In any event, within Costa Rica, comfort with the tactic seems nearly universal. The Costa Ricans were put off by the US game plan.

Laura Rodriguez, private-sector advisor, noted the end-game pressure, and said, "It's too rushed, to take decisions today." The US strategy put off the most difficult issues to the end of the yearlong process and at the same time controlled the clock, so that it could leave the Central Americans, most of them desperate for an agreement that promised greater access to US markets, with a take-it-or-leave-it option with no time remaining. Costa Rica, the richest of the countries, was the only one that could afford to leave it.

Scheduling a rematch

After conferring with US Trade Representative Robert Zoellick, Costa Rica's Foreign Trade Minister Alberto Trejos told the media, "The United States and Costa Rica evaluated the situation and arrived at the conclusion that the FTA is very valuable for both nations but in the stipulated timeframe would not reach a balanced accord for both. Thus the delicate decision was taken." Trejos said he and Zoellick would set a date next week for the resumption of talks.

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Following the decision, the Costa Rican negotiating team was treated to an ovation from about a hundred business people, deputies, politicians, and representatives of civil society who were there to follow the progress of the proceedings. The feelings were genuine and deep; some observers were reportedly in tears. There were hugs and kisses. Commented one Costa Rican, "I don't know how the other Central Americans abandoned their principles in those sectors on which their economies depend." Negotiators from the other countries did not fare so well. They faced angry representatives of the productive sectors of their countries.

What scant appreciation they got for their efforts came from Trejos, who congratulated them for having gotten an agreement "that fulfills the aspirations of their countries." The sacrosanct national insurance industry was the designated last straw, but deal-breakers also included failure to come to terms on the treatment of pork, sugar, onions, potatoes, and textiles. More than 50% of Costa Rica's exports go to the US. The country ships more than US$2 billion annually in agricultural products to the US.

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