

11-18-2004

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Recommended Citation

LADB Staff. "CAFTA Development Model." (2004). <https://digitalrepository.unm.edu/noticen/9258>

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CAFTA Development Model

by LADB Staff

Category/Department: Central America

Published: 2004-11-18

In giving US President George W. Bush another term as president, the Nov. 2 US elections also enhanced the probability that the Central America Free Trade Agreement (CAFTA) would soon come before the US Congress for ratification, just as international organizations and the CAFTA countries themselves have begun to seriously rethink the treaty.

A recent UN Development Program (UNDP) report has pointed to a "democratic deficit" in the texts of the agreement, support for internal renegotiating CAFTA is strong in the region, and support for the treaty in the US Congress is not as strong as proponents might have hoped. The argument at the heart of the UNDP report is that CAFTA will not translate into advances in human development for those in the signatory countries who need it.

Author of the study Juan Alberto Fuentes has concluded that the agreement, if it only produces gains for big producers and exporters, will result in a further widening of the social gap, putting democracy at risk. He said, speaking of Guatemala where the study was done, that the country must design a program by which the benefits of trade liberalization reach all sectors and that it must be inclusive. In the report, the UN agency proposes an internal negotiation regarding how to implement CAFTA.

UNDP economist Kamal Malhorta goes further in recommending a strengthened state apparatus to regulate trade under the agreement and to prepare sectors that are not ready for the changes. "I believe the FTA presents very rigid labor, environmental, and intellectual property structures that could negatively affect the Central American countries," he said.

State intervention

The suggestion that the state ought to intervene brought different shades of criticism. Hugo Maul of Guatemala's Centro de Investigaciones Economicas Nacionales (CIEN) disagreed on state trade controls but recognized the necessity of getting small producers prepared. Fanny de Estrada of the Asociacion de Exportadores de Productos no Tradicionales (Agexpront) took the position that a rising economic tide would raise all boats without any government interference whatsoever. The membership of her organization would stand to benefit most under CAFTA, if the UNDP analysis is accurate.

Other international opposition

A Human Rights Watch (HRW) briefing paper also recommended opposition to CAFTA for similar reasons. The March 2004 paper took no position on free trade, but said, "We believe that trade agreements can provide meaningful leverage to promote workers' rights, but only when meaningful,

enforceable labor-rights protections are built into the fabric of the accords." The paper said the labor-rights provisions in CAFTA are "fundamentally flawed" because they only require countries to comply with their own labor laws, which may or may not be consistent with international standards, and, even with that, "It fails to require that parties' enforcement of their labor laws include procedural guarantees and provide for adequate remedies to redress any violations." HRW recommends that Congress reject the accord and renegotiate it to include provisions that effectively protect labor rights.

Opposing the agreement from the agricultural point of view, the international development agency Oxfam warned that CAFTA endangers the livelihood of thousands of small farmers who already are impoverished (see NotiCen, 2003-10-23). In its report, *A Raw Deal for Rice Under DR-CAFTA*, Oxfam details how the agreement "could devastate Central American rice farmers by opening the region's borders to massively subsidized US rice exports." Oxfam uses DR-CAFTA to include the Dominican Republic, now a CAFTA signatory (see NotiCen, 2004-01-22).

In the US, said Oxfam trade-policy advisor Stephanie Weinberg, the rice industry receives more than US\$1 billion in government subsidies, more than the entire national budget of Nicaragua, and more than the US crop's total value, which was estimated at US\$844 million in 2002.

Examining Honduras, where rice protections were rapidly eliminated in the 1990s, Oxfam found that cheap US imports destroyed the industry. The number of Honduran producers fell from 25,000 to fewer than 2,000. Employment in the sector fell from 150,000 to fewer than 11,200 jobs. Production fell by 86%, and foreign-currency spending on rice grew from US\$1 million to more than US\$20 million. Consumers suffered too; prices rose 12%. Renegotiation advocates suffered a setback in the US elections. Democrat John Kerry, the loser, had said in his campaign that he would renegotiate to insert labor and environmental provisions into the text that would be sent to Congress (see NotiCen, 2004-06-03).

Following the election, Senate Foreign Relations Committee chairman Richard Lugar (R-IN) said CAFTA would be coming to the present Congress rather than waiting for the newly elected, more heavily pro-Bush Congress, to take office in January. "Given the results of the elections," said Lugar, "I think the treaty will be ratified by the present Congress. I'm not going to specify that it will be in a week or a month, but it's not going to take years. This treaty has a great importance for the countries involved and for us in terms of our friendship with Central America."

Battle lines drawn

A more numerous Republican majority in both houses of Congress, however, does not signal automatic passage of CAFTA in its present form. Said AFL-CIO international economist Thea Lee, "We should look forward to a major fight. I think the opposition in the United States will be strong, and it will cross party lines." Lee was speaking to a group of business lobbyists. Bill Morley, vice president for legislative affairs at the US Chamber of Commerce, said the business community was preparing for a major campaign to sway lawmakers in favor of passage. For the sides of the argument represented by Lee and Morley, the issues are largely job loss resulting from outsourcing versus increased trade.

Central Americans betting on CAFTA had expected a longer wait for US action and were encouraged by Lugar's announcement. In El Salvador, President Antonio Saca greeted the news enthusiastically. Although the opposition Faribundo Marti para la Liberacion Nacional (FMLN) has a majority in the legislature, Saca's governing Alianza Republicana Nacionalista (ARENA) is coalesced with the Partido de Conciliacion Nacional (PCN) and has the necessary votes to pass CAFTA.

El Salvador was singled out by HRW as a country where labor laws are particularly inadequate, but Saca was looking beyond details to a better tomorrow. "I'm very happy about what's happening," he said. "Giving Central America this treaty helps us to become a prosperous nation." His enthusiasm was echoed by a number of prominent Salvadoran business leaders. Saca's fulsome endorsement of CAFTA's potential to blanket the region in prosperity, standing as it does in counterpoint to popular and nongovernmental-organization (NGO) critiques, points to the probability that passage of the treaty opens the door to an examination in the region of the market-state relationship.

This was the view taken by economist Gert Rosenthal in a keynote speech to a regional meeting last March on the question, What reforms does the Central American development model need? Rosenthal is the former executive secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), is Guatemala's permanent representative to the UN, and is currently under consideration for the secretary-generalship of the Organization of American States (OAS). In his speech, he noted that once CAFTA is in place, the region would have very little margin for adjustment in an environment where all the countries will be in competition for the same markets under a set of unbreakable rules.

State-market relationship must evolve

Rosenthal counseled against the doctrinaire attitude that market efficiencies will bring universal benefit with the state on the sidelines, and he used the example of the Asian tigers, whose economic turnaround depended on governmental intervention. Instead, he recommended seeking a constructive interaction between public and private sectors free of ideology and prejudices, with a pro-active role for the state emphasizing public financing to allow states to apply countercyclical measures to the markets. This would include technical expertise at the government's disposal so that timely policy changes could be implemented. The effectiveness of these mechanisms depends, in turn, on stability in the "juridical-institutional-organizational" spheres.

Reforms would also be needed in health and education access for the region's people. Rosenthal considered integrated policies among the countries essential to survival under CAFTA. Rosenthal took the view that political and economic liberty are inextricably linked, that democracy in the area depends on the economic ability of those now left out to contribute to generalized growth, and that growth must take place under reformed, serious environmental policies.

Finally, and in his words, "Perhaps the most urgent is to reactivate growth in a region whose performance since 2000 registers a virtual standstill. Costa Rica in 2003 is the only exception. Growth is not a sufficient condition, but it is necessary to accede to development. That is, in this first stage

of reforms of the model, the emphasis must be put on measures capable of generating growth and employment."

-- End --