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Central America Free Trade Agreement Increasingly Divisive As U.S. Becomes Fourth To Ratify

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The US House of Representatives passed the Central America Free Trade Agreement (CAFTA) into law on July 28, by the narrowest of margins, 217-215. The agreement squeaked by only after the time allotted for the vote was extended to allow for last minute arm-twisting.

The agreement will go into effect in January 2006, but as yet only three other countries, El Salvador (see NotiCen, 2005-01-06), Honduras, and Guatemala, have ratified it. Unless they follow suit, Nicaragua, the Dominican Republic, and Costa Rica will not be part of the pact. They have two years to decide.

The US congressional action appears to have done nothing to resolve the sharp divisions regarding CAFTA in any of the countries or palliate the anxieties over who will benefit and who will suffer. The agreement is still mired in contradictions. Claims have been made on both sides that are either patently untrue or still unproven.

US Trade Representative (USTR) Rob Portman issued a statement on Aug. 2, saying, "America's support for CAFTA-DR sends a strong signal to the world that the United States is committed to market liberalization." But the facts as widely reported are that the machinations involved in the last-minute wheeling and dealing sent a strong signal in the opposite direction. To get holdouts on board, Portman promised to limit free trade between the US and China, to delay tariff-free imports of Mexican textiles into Central America, and to limit the import of Chinese textiles to Nicaragua.

US President George W. Bush said in remarks at his signing of The Dominican Republic-Central American Free-Trade Agreement Implementation Act, "And all of us understand that by strengthening ties with democracies in our hemisphere, we are advancing the stability that comes from freedom." That statement does not comport, however, with events leading up to congressional approvals in the three countries that have already ratified CAFTA (see NotiCen, 2005-02-17).

In Guatemala, for instance, angry demonstrators put stability and governability in question as thousands milled around the legislature, preventing, for a time, deputies from entering and voting on CAFTA. Several popular and labor organizations announced plans to revisit the legislature in similarly large numbers. Director of the Central General de Trabajadores de Guatemala (CGTG) Jose Pinzon announced a forthcoming protest in front of the Congress.

In Costa Rica, where the trade pact has not been ratified, labor groups announced "a general strike without precedent" if President Abel Pacheco sends CAFTA to the legislature. Pacheco has been the most reticent and unconvinced of the Central American presidents since the process began early in 2004. "If President Pacheco sends the free-trade agreement to the Congress, we are prepared to

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defend the country and struggle against the treaty to the bitter end," said Fabio Chavez, director of the Comision Nacional de Enlace, a consortium of several organizations.

Chavez warned that the national strike, "never before seen" in the country, would consist of marches, demonstrations, and civil disobedience. Actions of this kind, which have been seen before, have effectively brought the nation to a halt in the past. Albino Vargas of the Asociacion Nacional de Empleados Publicos y Privados (ANEP) was equally vehement, charging the pact would turn Central American countries into "guinea pigs in the geopolitical tableau of the US superpower." He went on, "This treaty does not serve Costa Rica. We reiterate and reaffirm our most outright rejection," promising to do "whatever must be done to impede its passage."

Like Chavez, Vargas and his organization will not even countenance sending the legislation to the Congress, because, "first it must be the object of a great debate in which all sectors of this country participate." He promised that anyone who underestimates the reach of the social movement would get a severe shock.

National identity not negotiable

The social movement is particularly incensed that negotiators bargained away the insurance and telecommunications sectors. Costa Rica is unique among the CAFTA countries in considering these sectors part of the national patrimony and, as such, nonnegotiable. "The free-trade agreement is a trap to privatize state institutions and deteriorate the quality of jobs, since it is proven that 100,000 agricultural jobs will be lost," Vargas said. Vargas' concerns are not far from those of Pacheco. He has said he would not send up the treaty until he was satisfied it would benefit the poorest Costa Ricans and until the Congress passes a fiscal-reform package that has been stalled in the legislative machinery for almost three years.

On the other side of Costa Rica's national argument, former foreign trade minister and CAFTA negotiator Alberto Trejos said, "To remain without CAFTA would be devastating" for the country. He estimated a loss of between 70,000 and 500,000 jobs without the treaty, without making clear the reason for the wide range or where those losses would occur. In the other CAFTA countries, the argument regarding jobs tends to polarize the rich and poor, but in Costa Rica, polls have shown the wealthier classes to be nearly as evenly divided regarding the treaty as poorer sectors of the population.

The Inter-American Development Bank (IDB) has loaned Costa Rica money for a variety of CAFTA-related projects that could shed some light on what the government and private sector consider the major issues in need of rectification to make the treaty if not more viable, at least more attractive. A loan in the pipeline would support fiscal reform, the measure Pacheco has determined a prerequisite. In the area IDB calls competitiveness, there is a recent loan covering rural roads, science and technology, and trade. Two loans have gone to sustainable-development programs, focusing on the Atlantic Huetar Region, one of the poorest in the country. A private-sector loan has gone for building a toll road linking San Jose with main international airports and the port of Calderas.

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These loans contrast with those in Guatemala, where funding for poverty-reduction projects like rural water, electrification, and development programs appear to dominate. IDB loans to the other CAFTA countries are more similar to those of Guatemala than to those of Costa Rica. Comparatively then, the pattern of funding for CAFTA support seems to recognize Costa Rica's higher degree of development, favor the productive sectors, and reflect the 50-50 split in the population regarding the treaty by aiming at the middle class.

These loans do not include others that might be CAFTA related, like the Sistema de Interconexion Electrica de los Paises de Centroamerica (SIEPAC) electricity-transmission line (see NotiCen, 1996-12-05), alternative-financing schemes for small enterprises, production and marketing of export crops for small-scale farmers, etc.

In the US, the extreme narrowness of the vote had analysts commenting that passage was not all that the Bush government hoped. The victory was interpreted as the result of a generous distribution of pork, largely through the highway bill, that went right down to the wire, as some canny representatives held out for all they could get, with Vice President Richard Cheney playing Santa Claus as the clock ran out on the voting process and the majority Republican leadership ignored the deadline. The payoffs have the potential to erupt into a scandal of their own.

On Aug. 3, The New York Times reported that the highway bill had run almost US$9 billion over budget and that the overrun had been hidden by accounting chicanery. The article emphasized that Bush had in the recent past threatened to veto the bill if it went over budget, but now he intends to sign it. The magnitude of the deal making contrasts unfavorably with the North American Free Trade Agreement (NAFTA) vote in 1993, where President Bill Clinton applied pressure by phone to get passage of a far larger treaty (see SourceMex, 1993-11-17).

Coming at a cost of credibility

Watchdog groups have reacted strongly to the giveaways, which were by no means limited to CAFTA vote buying. Pete Sepp, spokesperson for the National Taxpayers Union, said, "The green-eyeshade folks can portray this as a complex accounting move that has no impact on the big picture, but people who look at this and realize it is designed to mask the cost by US$9 billion will beg to differ." Former US representative Pat Toomey (R-PA), now president of the conservative Club for Growth, said, "I am concerned the president is going to lose any remaining credibility on fiscal discipline if he signs it."

Also involved in the arm-twisting were appeals to agricultural interests and to national security. The National Corn Growers Association and the American Soybean Association were particularly pleased. Said Rep. John Shimkus (R-IL), "With Illinois the second-largest exporter of soybeans in the nation, our soybean producers will directly benefit." Clyde Prestowitz, a Reagan-era trade negotiator, summed up the vote, saying, "You can sell anything in America if you call it agriculture or national security, and even using both they won by just two votes." I.M. Destler, University of Maryland professor and trade expert, said, "Trade policy continues to be in political trouble, given the narrow margin of passage even after squeezing people like they did."

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Absent the rhetoric, CAFTA's real importance is as a precursor to the Free Trade Area of the Americas (FTAA), a much larger initiative that the administration hoped to have signed in 2005, now an impossibility. The narrowness of the vote and the way in which it was won deprive the government of the momentum it would have gotten from a margin of victory nearer to those of other trade agreements. NAFTA passed the House with a vote of 234-200. Perhaps more important, the well-aired shortcomings of CAFTA will, say many observers, make the treaty of little use as a model for negotiating the FTAA, the real prize, if indeed FTAA ever is negotiated.

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