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After Six Months, CAFTA Failing The Poorest, Benefiting the Richest

by LADB Staff

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CAFTA has been in effect for six months in Nicaragua and El Salvador, and data show that the results are in line with what both supporters and opponents of the agreement expected; the strong players are benefiting, the weak are not (see NotiCen, 2004-11-18).

In El Salvador, first of Central America's countries to implement the treaty, the many thousands of promised jobs have failed to materialize, and, said economist Raul Moreno, only big businesses, importers mainly, have seen gains.

In Nicaragua, says William Rodriguez of the Centro de Estudios Internacionales, "CAFTA has sown the seeds for unfair trade. Nicaragua is a small country that can hardly compete with the US." Nicaragua's Ministry of Development, Industry, and Commerce (Ministerio de Fomento Industria y Comercio, MIFIC) said that, since the treaty came into effect, exports to the US have increased by 38%. Increases in exports of coffee, raw sugar, beef, and gold, which account for 98% of exports to the US, saw the biggest gains. Some of these commodities have seen substantial increases in world prices, irrespective of the treaty. MIFIC reported that the country has also seen broader diversification of exports, adding 171 products to its list of products for export.

Since CAFTA's onset, Nicaragua's sugar exports have risen, but only 37 of the country's 339 sugar companies have exported more than US\$400,000, and they account for 90.8% of the total exports. Where 10% of the companies reap 90% of the business, that is evidence that the sugar business is controlled by small groups and economic monopolies, says Rodriguez. By far the largest profit went to a single company, Nicaragua Sugar State Limited.

This is not what President Enrique Bolanos promised in the campaigning leading up to ratification of CAFTA, when he called the treaty a road to progress and the only hope for Nicaragua. Small producers say they now feel cheated. "Small producers have been unable to tap into the US market. Our industries are too fragmented, and we will need to work together to become more competitive and increase our profits," said Maribel Espinoza, CEO of Chinantlan wines. Espinoza attended seminars on the benefits of CAFTA during the campaigning.

Try as Espinoza might to become competitive, Rodriguez remains convinced that nothing will change for people in her situation or the country as a whole. "The principal beneficiaries are the big businesses and the classic families who own them, like the Pellas group," he said. He emphasized that MIFAC's figures "aren't real, because about 40% of these products were already in the US market prior to CAFTA and were already positioned in the market."

Small producers also complain that the government is not paying attention to the treaty provisions for sensitive products. Corn growers, for instance, are already losing out to cornmeal imports. Other producers still await promised benefits of technology transfers. The US, however, continues to promote the treaty.

US Ambassador to the Organization of American States (OAS) John Maisto said Nicaragua has benefited most of all the Central American countries from the pact. "Since CAFTA was implemented, 13 US companies have decided to invest in Nicaragua. This is expected to result in US \$240 million in capital, and 13,350 new jobs for the country," he said.

In El Salvador, the first country to do business under CAFTA, the dynamic is much the same, disappointment for small producers, a windfall for the entrenched big-business community, but here it is the importers who are reaping profits. Moreno called CAFTA "the final blow to agriculture in El Salvador, and some types of farming, like rice production, are going to disappear by the time the treaty is one year old."

Losing rather than gaining jobs

Rather than experiencing the 40,000 new jobs Saca promised, the agriculture sector is losing jobs. "Our cooperatives have cut back 20% of their employees," Miguel Aleman of the Confederacion de Federaciones de la Reforma Agraria told IPS. And it can only get worse. "CAFTA, as we predicted, means death for several sectors, for example, some 400,000 producers of basic cereals who are being hit hard," he said.

Decline for the sector predates the trade agreement. According to the Economic Commission for Latin America and the Caribbean (ECLAC), El Salvador underperformed the isthmus agriculturally even in 2005. Aleman said the situation will contribute to the ever-rising tide of Salvadorans abandoning their country. "Many people are going off to the United States because of the impact of CAFTA, which has resulted in 133,000 hectares of land lying idle," he said. "We get no lines of credit and the cost of production is high. Added to that, US products now enter El Salvador tariff free, making the situation even more complicated for our national producers."

Aleman spelled out the problem. He said that last year a sack of fertilizer cost US\$18. This year, it is US\$23. Last year they were selling a hundredweight of corn for US\$11 or US\$12. This year, it's US\$8.50. "Under CAFTA, US maize sells for US\$6.40. So who's going to buy from us? Last year I cultivated just under a hectare of maize for my family's own consumption, but I'm not going to do that any more because it's not cost effective," he said. And it is designed to become less so as time goes on.

This year, the first, the US can send El Salvador 35,000 tons of white corn, 350,000 tons of yellow corn, and 65,000 tons of rice duty free. These amounts will increase by 10% in each of the next 20 years, under the treaty terms. The situation is paradoxical for the US, where November interim elections have triggered a national hysteria over immigration and building walls along the Mexican border to keep the people out who were flushed there by US trade policy. Estimates are that El Salvador contributes 700 people a day to this tide. Those who manage to surmount the obstacles and

make it to the US become far more valuable to their home country in dollar terms than they ever could be as farmers. The remittances they send to families left behind sustain the country.

Help on the way, but most for the least needy

As these early results filter out on the trade agreement's effects, Robert Mosbacher Jr., president and CEO of the Overseas Private Investment Corporation (OPIC), announced from the US Embassy in Guatemala that the US would be providing US\$156 million to give a boost to those CAFTA leaves in the dust, in the form of microloans. It is a microportion of a Latin America-wide mortgage- and energy-investment package. "The new financing includes US\$149 million to go to investments from three new investment funds backed by OPIC, two of which are concentrated in the housing sector and one in energy projects that concentrates on renewable energy," read a Mosbacher statement.

There will also be US\$7.5 million for aid to small businesses. OPIC's own press release, however, explained this is part of a much bigger financial investment package. The countries where CAFTA is in effect, Nicaragua, El Salvador, Honduras, and Guatemala, would get: a minimum of US\$98 million from a private equity-investment fund that will invest in mid-sized independent electrical general projects in Latin America managed by Conduit Capital Partners, LLC. The fund is capitalized at US\$393 million, of which US\$60 million is in financing from OPIC. CAFTA countries would get a minimum of US\$34.6 million of a fund managed by Paladin Realty Partners, LLC, that would provide mortgage financing for affordable housing in Latin America. This is a US\$105 million fund with US\$35 million in OPIC financing. CAFTA countries get a minimum of US\$16 million from Paladin Realty Latin America Investors II, a US\$200 million low- and middle-income housing-development project with US\$35 million of OPIC financing.

In addition, Bancentro SA of Nicaragua would get a US\$10 million loan to finance low- and middle-income mortgages. This is expected to amount to 500 loans for houses in the US\$10,000 to US\$30,000 range. An additional US\$20 million will go to Bancentro to originate mortgage loans for its traditional customer base. A similar package will go to Banco Lafise SA of Honduras. OPIC will provide a US\$4.7 million loan to a US\$7.5 million microfinance fund for Global Partnerships, a Seattle-based nonprofit organization. This fund will make loans to microfinance institutions (MFIs) in the CAFTA countries and also in Peru and Mexico. The MFIs would make loans averaging less than US\$1,000 to individual entrepreneurs.

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