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Costa Rica's Protracted Process Exposes CAFTA's Many Problems

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Costa Rica's trajectory toward eventual ratification of the Central America Free Trade Agreement (CAFTA) passed another milestone on Dec. 12 when the legislature's foreign affairs committee passed it on with a 6-3 vote. That vote now opens the way for a debate in the full legislature, said Presidency Minister Rodrigo Arias.

This vote was no small achievement; debate was reported to have gone 272 hours in eight months on the highly polemical treaty. "In no other country in the world is there so much debate in committee before voting on it," commented Arias. The approval came at midnight, with four votes from the ruling Partido Liberacion Nacional (PLN), one from the Movimiento Libertario (ML), and one from the Partido de Unidad Social Cristiana (PUSC). The Partido Accion Ciudadana (PAC) delivered the three negative votes.

The PAC is led by Otton Solis, whom Oscar Arias defeated by the narrowest of margins in the presidential race (see NotiCen, 2006-05-11). Solis ran on a platform calling for renegotiation of CAFTA. He and his party still maintain that stance. A retrograde movement accompanies the progress, however.

As the Asamblea Legislative (AL) moves closer to supporting CAFTA, the general population moves farther away. Popular support for CAFTA has shrunk from 61% in October 2005 to 41% in August 2006, according to a CID-Gallup poll in La Republica, a national newspaper. The decline was reported as Nicaragua and El Salvador, countries in which CAFTA has been in effect for a while, began reporting disappointing results (see NotiCen, 2006-10-19 and 2006-12-14).

At this point, President Oscar Arias, whose presidency is being defined by his strong endorsement of CAFTA, is in retreat from touting future benefits of the treaty to just staying even in the eyes of the entrepreneurial classes with the rest of the countries of the isthmus, all of which have passed it. Several companies have threatened to leave Costa Rica to take advantage of the agreement's provisions if it does not pass in that country.

"Failure to ratify the treaty would place the country at a competitive disadvantage in global markets," said Shirley Saborio of the Union Costarricense de Camaras y Asociaciones Empresa Privada (UCCAEP). Saborio saw Costa Rica as having sunk into a "worst case scenario where every country except ours has ratified CAFTA." She was additionally concerned that eventually the US would cut off trade benefits under which Costa Rica now enjoys advantages. "The pressure to cut off unilateral benefits for a country that negotiated but did not ratify CAFTA will be tremendous," she warned.

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CAFTA opponents downplay the idea that the country would lose its edge with its major trading partner. Albino Vargas of the Asociacion Nacional de Empleados Publicos y Privados (ANEP), the largest union, typified the threat as specious. "They are taking advantage of the situation to cut costs. Not only will this free-trade agreement fail to generate employment, but we have shown in various studies that it actually threatens up to 200,000 service, agriculture, and manufacturing jobs."

The experience with CAFTA in Nicaragua and El Salvador lend weight to his argument. The real problem, said Vargas, is that Costa Rica's level of social development, minimum wage, employee benefits, and health care is much higher than that of its neighbors. He said that the unions do not object to expansion of trade with the US. They want "another kind of deal preferably bilateral that preserves these advantages to workers". Other analysts, representing other interests, see other real problems.

The international financial sector, from where much of the vaunted foreign investment is expected to come, is looking not only at CAFTA for its incentives but at several initiatives, all of which together make the individually marginal markets of the isthmus collectively important. Those other factors include the Panama Canal expansion, Plan Puebla-Panama (PPP), the Central American Electric Interconnection System (SIEPAC), and others. International financiers are not in agreement that the region is sufficiently well-integrated to make all these initiatives work together.

CAFTA will not change poverty dynamics

Where some of the other Central American countries have been floundering during the past few years and may in desperation be hitching their wagons to these regional schemes, Costa Rica's experience has been different. In the past 15 years, per capita GDP has grown 40%. Social spending declined with the economic crisis of the 1980s, but has since improved, at least to prerecession levels. The problem, as many in the country see it, is not so much that the country is poor as that the wealth that is accumulating is not reaching the poor.

Since 1986, the average income for the poorest households has decreased by 13.9%, while that of the richest has increased by 67.9%. Most in Costa Rica, if the recent polls are accurate, do not believe anything inherent in CAFTA would change these dynamics. Even some of the pact's most ardent supporters acknowledge this.

Minister of Housing and the Fight against Poverty Fernando Zumbado is one of these. "We have to truly change the development style," he said. In a chapter of the book Pobreza: Talon de Aquiles del desarrollo costarricense, he wrote that the most significant growth has come from the export and services sectors of the economy, while most Costa Ricans work in the internal consumption sector. It is these sectors, export and services, that have received most of the foreign investment, Zumbado told reporters. He explained that the Arias government is seeking to address this disparity by linking the small businesses of the internal economy with the major exporters through the use of tax incentives. Major firms that work with these small businesses would get tax breaks.

At the same time, the president wants to restructure the banking system so that the small players would have access to loans. Former officials, including presidents and finance ministers, say more

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tax, not less, is needed to attack the disparities that result in poverty. Presidents Miguel Angel Rodriguez (1998-2002) and Abel Pacheco (2002-2006) both tried to reform the tax structure to address this issue, and neither was successful. Arias has spoken of similar plans but has as yet presented no bills.

Foreign investment working against the poor

As the Arias administration battles for CAFTA passage as the major solution to poverty through foreign investment, the tourism industry stands as an example of this kind of investment working against the interests of the poor. As it is currently modeled, tourism has been shown to divert the sector's earnings to foreigners and the better-educated Costa Ricans. The nation's beaches are now awash with enormous foreign-owned resorts, chain hotels, and residential communities. Profits are soaring, but not for the locals.

There has been no suggestion in the ongoing probes, analysis, and discussions that CAFTA would ameliorate this situation. Mauricio Cespedes is executive director of the Guanacaste Tourism Chamber. Guanacaste's Gold Coast is the scene of most of this imported extravagance. Cespedes has said that the gap between rich and poor in the province is growing because local residents lack the education needed to participate in commerce on this scale. "First of all," he said, "the average Guanacasteco isn't prepared for a management post or a job in a chain. There is a basic-education problem that must be fixed. It can't be that, in schools here, kids aren't taking English, not even in many high schools." The result is that the foreign owners "are importing people from other countries or from the metropolitan area." The locals are forced into the lower-paying jobs at the same time that the cost of living is skyrocketing in Guanacaste along with real estate prices. "A social breach is opening ever wider between the average Guanacasteco and the people who come from San Jose," he said. Even in circumstances where a hotel is locally owned, tourists who lodge there spend less than they would at the giant facilities.

Moreover, the foreign-owned operations repatriate profits and tend to buy supplies abroad, retarding any beneficial ripple effect in the local economy. CAFTA does not fix that either. Tourism Minister Carlos Benevides denies these dynamics. "In no way does it seem to me that [foreign investment] could broaden the gap between the rich and poor," he told The Tico Times. "I think the generation of jobs contributes to improving the quality of life of Costa Ricans." Zumbado agreed, however, that most Costa Ricans are not prepared to take the jobs that growth in these sectors has created. He blamed the economic crisis of the 1980s for this, pointing out that, by 1990, the country was spending just 3.8% of GDP on education. But now, that spending is projected to rise to 6%.

Much of this information might never have come to light, nor these analysis been made, were it not for the protracted debates, demonstrations, and consultations. While Costa Ricans in opposition complain that consultation has been insufficient, there has been far more of it in Costa Rica than in any of the other countries. As the process lurches on, it will continue to illuminate the effects the agreement has had throughout the region on democratic procedure and on constitutional matters.

Still unsettled, for instance, is how many votes would be needed for the full legislature to ratify CAFTA. Supporters contend that a simple majority is all that is needed, 29 of the total of 57. But

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opponents argue, as does the Departmento de Servicios Tecnicos de la Asamblea, that a super-majority of 38 is required. A decision in favor of a simple majority would guarantee passage; the PLN alone has 25 votes. But vote counters have said that, if a super-majority were needed, CAFTA would be in trouble. If the PAC, with 17, the Frente Amplio, with one, the Partido Accesibilidad sin Exclusion (PASE) with one, all vote against, CAFTA is dead. Those parties have indicated they would vote that way.

Deputy Jose Manuel Echandi of the Partido Union Nacional (PUN) represents an interesting swing vote. He has said repeatedly he would vote for passage on the condition that a "complimentary agenda" were passed to compensate the losers. "I have proposed that we all work on the implementation of a true development agenda that covers the holes in the official proposal. I have proposed constitutional reform to guarantee the right to health, a reform of the health law, and the transparency law, but none of these proposals has been taken up by the executive," he said. Without these reforms, Echandi said he would vote against passage.

A recent trip to Chile, which has any number of trade agreements in force, informs his position. "In my recent trip to Chile, I could confirm that, despite being an economically vigorous nation, very serious wealth-distribution problems persist and, in particular, in health care. Their social security regime does not even cover a third of what the Caja Costarricense del Seguro Social covers. Costa Ricans would lose a great deal if we did not protect these accomplishments."

The vote appears tight, if the super-majority position is adopted, but, as a practical matter, the opposition has at its disposal a number of options that improve its chances. To meet the US criteria for entry into the trade pact, Costa Rica would have to pass 13 separate laws, some of which remain highly polemical. Their provisions call their constitutionality into question. One is a law that would restructure the Instituto Costarricense de Electricidad (ICE) to allow competition in what has for years been a monopoly in telecommunications. Another, which creates a development bank, eliminates the requirement that private banks reserve a portion of profits to subsidize credit to small businesses and other less-creditworthy classes of people.

When the PLN and the other pro-CAFTA parties moved to accelerate the passage of these laws on the floor, opponents including the PAC left the chamber, depriving the Asamblea of a quorum. There then existed questions regarding the legality of the vote that took place. Said the PAC's chief of delegation Elizabeth Fonseca, "The motion was presented behind the backs of three chiefs of delegation, and of the Costa Rican people, running over legislative procedures to force the openings in energy and telecommunications."

In another procedural feint, the PAC will offer 87 motions against the text of the agreement. One of these will be in support of educators and the academic community, who oppose the privatization of education and the elimination of scholarships to poor secondary and university students. Further efforts to stop the agreement's progress involve a move by employees of the Imprenta Nacional to stall the printing of the 4,500-page text. The government had planned for the publication, which is legally necessary, to be finished by mid-January, but that will be put off to a later date.

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In a counter move, CAFTA proponents were able, with the surprising cooperation of Echandi, to garner 38 votes on a motion to amend Article 41 of the Reglamento del Congreso that prevents the body from fixing a time limit for voting on international treaties. The measure amounts to an expedited, or fast-track, trajectory for the trade-agreement legislative process. The PAC immediately claimed the procedure was illegal and said it would take the matter to the nation's highest court, Sala IV of the Corte Suprema de Justicia (CSJ).

In the streets, there were indications that Echandi would pay a price for his vote. A placard went up in his neighborhood threatening, "Echandi, we know where you live." The legislator told the media, "Echandi is not afraid that they know where he lives. I have had death threats before when I was public defender from unions of Limon."

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