

Global Affairs Commentary

U.S.–Central American Free Trade Agreement: Leaping Without Looking?

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The potential benefits of trade can be an important engine for economic growth and poverty reduction. However, only when trade is built upon solid institutional foundations are these benefits typically realized. There is a widely shared frustration by many working in Central America that these conditions may be lacking. The region remains critically vulnerable to recurrent economic and ecological shocks. After a decade of post-civil war and economic reforms that have already lowered trade barriers, eliminated state subsidies for many producers in the region, and increased trade, broad-based development in the region remains elusive. Poverty has not been reduced, and income inequality has increased—as have unemployment and underemployment—and the World Food Program reports that 8.6 million Central Americans (1 in 4) continue to suffer from hunger or food insecurity. Meanwhile, social violence has reached epidemic proportions, now approximating the worst political violence of the civil wars years in El Salvador, Guatemala, and Honduras. In desperation, more Central Americans set out every day to attempt the dangerous entry into the United States.

Moreover, the fragile process of democratization in Central America is threatened by the lack of any perceived economic payoff after nearly a decade of reforms, including a significant lowering of trade barriers. Latinbarometer regional surveys of Central America report deterioration in support for recent political and economic reforms that trend in the negative direction:

- 58% of Central Americans are unsatisfied with the performance of their market economies.
- 68% say that privatization has been a bad idea.
- 80% believe that corruption has increased.
- 50% say that democracy does not function in the region.
- 85% have little or no confidence in their political parties.

Given this panorama, one wonders at the rush by U.S. and Central American negotiators to conclude a U.S.–Central American Free Trade Agreement (CAFTA) in just twelve short months—especially given the lack of any empirical assessment of the potential social, economic, or environmental impacts that the agreement would have in the region.

The U.S. trade agenda should be grounded by more intensive investigation of the links between trade liberalization and sustainable-equitable development. Research on trade liberalization has failed to persuasively demonstrate that countries that trade more also achieve lower levels of poverty and inequality. The evidence is mixed. The case of Mexico is particularly instructive. Export volume has tripled under the North American Free Trade Agreement (NAFTA) and economic growth averaged a robust 6% from 1996-2000. But research by the Inter-American Development Bank (IDB) has shown that the top 20% of the income strata captured the investment benefits of NAFTA,

while over 60% of Mexicans remain trapped in poverty. Additionally, many of the competitiveness and productivity gains that NAFTA promised for Mexico have been slow in coming. Clearly the trade-development relationship depends upon other factors (good government, low inequality, adequate human & physical capital investment, substantive adjustment assistance). To date, little is known about the possible impact of CAFTA. Impact assessments on the employment and poverty effects of the proposed agreement are necessary to clearly identify the winners and losers from trade liberalization in Central America.

Further analysis is especially needed to stimulate informed debate about the more objectionable aspects of hemispheric trade pacts. Among observers following the course of integration in the Americas, there is a convergence of concern related to a number of key issues: investor-to-state dispute procedures that weaken local regulatory authority; rules on trade in services that view public provision of health, education, water, and energy as barriers to trade; agricultural rules that fail to address U.S. subsidies or genetically modified organism (GMO) foods; the relatively unsuccessful treatment of labor- and environment-related trade disputes through side agreements; and the absence of trade rules addressing obstacles to labor mobility or migration. These are all issues that require further study as additional regional and bilateral trade pacts are forged.

The involvement of civil society in helping to chart out a course for development in Central America is also necessary. Such participation is the bedrock of political legitimacy that many observers say is lacking with respect to economic policy in Central America. In order to make informed decisions about the potential risks and opportunities involved in the proposed CAFTA, all parties

involved should have as much information about—and input into—the negotiating process as possible. Impact assessments should be made available to civil society groups in order to provide for their informed input into the negotiation process. Public hearings sponsored by a joint United States Trade Representative (USTR)-government team should be held regularly, not only in Washington but in each of the five Central American countries, prior to the beginning of negotiations and as a periodic mechanism to disclose information relevant to the negotiation process.

So far, unfortunately, reliable and transparent mechanisms of information disclosure are missing in the CAFTA process as well as in other trade negotiations. Emblematic of this problem were the recent refusal by the USTR to accept Senator Baucus's petition to have a Congressional Oversight Group attend the U.S.-Chile free trade negotiations and the USTR's failure to provide access to the negotiating text. Of course, seven years expired before the USTR finally shared the FTAA negotiating text with civil society.

Clearly, the timely exchange of information between governments and legislative or civil society monitors of the negotiation process must be improved. Central American civil society groups are particularly interested in learning which agricultural products the U.S. has identified as trade-sensitive under CAFTA, and which of them are the subjects of impact analyses by the U.S. International Trade Commission.

Beyond these bedrock essentials, firm commitments to create a fair trade system aimed at reducing poverty in the region are necessary. It is widely recognized that Central American countries enter into CAFTA at a tremendous disadvantage regarding trade capacity in the areas of negotia-

tion participation and compliance (implementation), as well as competitiveness and adjustment mechanisms. The recent scaling up of trade capacity building assistance (TCBA) by the U.S. government and other institutions is an important step toward diminishing this gap. Still, trade capacity building assistance addresses only a small part of Central America's development needs and should not be seen as a panacea. Hopefully the increase in TCBA will not effectively crowd out comprehensive development programs that prioritize increased investment in education, health, credit and technology transfer, particularly in rural areas.

Finally, there are serious concerns with the time frame that has been established for CAFTA negotiations—five rounds of talks set to occur over just a 12-month period. This compressed schedule provides very little time either to achieve significant improvements in the trade negotiation capacity of the Central American advisers or to allow constructive civil society participation. Moreover, the rush to sign a binding trade agreement reduces the chances of trade capacity building assistance having a major impact on the outcome of the negotiations. And when viewed in light of the lack of solid analysis of the potential impact of CAFTA, the need for more space for civil society participation, and the investment that will be required to assist those who will be most negatively affected by the agreement, twelve months seems even more inadequate.

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