

CAFTA-DR: A Focus on the Regional Impact

*The following summary was prepared by Jennifer Maul, Junior Fellow
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This event is the first in a series of discussions hosted by the Carnegie Endowment focusing on the regional impact of the U.S. free trade agreement with five Central American countries and the Dominican Republic (CAFTA-DR). The series will include a variety of perspectives.

Upcoming events include a discussion with Carlos Felipe Jaramillo and Daniel Lederman, the co-authors of the forthcoming World Bank study, *Challenges and Opportunities of DR-CAFTA for Central America*.

Introductory Remarks by Viji Rangaswami, Carnegie Endowment for International Peace

The U.S. Congress has begun consideration of CAFTA-DR. The agreement faces tough opposition in the U.S. Congress from the U.S. textile and apparel industry, the sugar industry, and labor. To date, most of the debate has focused on the impact of the agreement on the United States. This focus is somewhat misplaced - according to the U.S. International Trade Commission, the agreement will have a minimal to negligible impact on the U.S. economy. In contrast, the FTA is expected to have a major impact on the countries in the region.

Rodrigo Carazo Odio, former President of Costa Rica (1978-1982)

(President Cardazo focused his remarks on the impact of the agreement on the five Central American countries.)

CAFTA will affect all aspects of life in Costa Rica (from the constitutional framework to investments to services), not just trade. People in Central America were left in the dark during the whole negotiating period, affecting the democratic nature of the whole process. The population only learned about the draft agreement after it was approved, and even the former president was only able to secure a copy after a direct order by the current president to make it available. The negotiations, and therefore the final agreement, did not include the interests of the people, but rather only served select special interests. As a result, the agreement will benefit a small number of multinational corporations that dominate Costa Rican exports, while leaving poor farmers at a disadvantage.

Costa Rica is involved in all types of different free trade agreements with various countries. Costa Rica is especially interested in an agreement with the United States (its largest market), but it needs to be an agreement that is more equitable and favorable in its terms. The Costa Rican people have been paying attention to what happened to Mexico under NAFTA. While large multinational corporations have been exporting more from Mexico since the implementation of NAFTA, the Mexican people are not better off, as evidenced by the increase in migration to the United States. Costa Rica does not want to duplicate Mexico's experience. Despite the general feeling in the United States that Central America is receiving a lot of money

and technical assistance under the agreement, such aid is not sustainable and does not cure the defects in the agreement.

CAFTA is not a pro-development agreement. The United States only sought more access to the Central American market. In fact, Costa Rica, as well as the rest of Central America, has already posted a negative balance of trade with the United States for a number of years. While these countries do not export large quantities of goods to the U.S., they are good customers for U.S.-made products. Costa Rica actually relies on tourism for foreign reserves.

The Costa Rican people cherish their quality of life and have been developing through their own efforts. As the stand-out economic performer in Central America, Costa Rica has invested its income in its people, providing plenty of money for school and public health. Partly as a result of this investment, while there are extremely high poverty rates in the rest of the region (rates topping 60%), Costa Rica has been able to lower poverty to only 20.3% of the population. Costa Rica does not want its standard of living harmonized with the rest of the region.

The agreement threatens a number of aspects of Costa Rican life. There is substantial concern that the intellectual property provisions of the agreement would negatively affect the importation of medicine and therefore public health. The agreement also touches the Costa Rican Social Security system, which although it needs improvement, is working. The agreement also opens the Costa Ricans communications and insurance system, which could raise service rates. Even the current president of Costa Rica has admitted that the agreement does not benefit poor people.

In addition to CAFTA, Costa Rica is currently involved in both the FTAA and WTO trade negotiations. This multitude of negotiations has led to the criticism that the country's diplomats are not negotiating, but rather just accepting other countries' proposed drafts of agreements. For example, CAFTA is very similar to the U.S. trade agreement with Singapore, even though the two regions are extremely different. And while supporters of CAFTA have claimed that the agreement is necessary for Central America to compete with China, Central America will never be able to successfully compete with China unless it lowers its standards and rates to Chinese levels which it is unwilling to do. CAFTA should be renegotiated to focus only on trade and to provide more benefits to the Central American countries. Costa Rica wants to maintain its friendship with the United States, but CAFTA, as it currently stands, is not in the best interest of Costa Rica and should therefore not be approved.