



KEY POINTS:

“THE CASE FOR CAFTA: Consolidating Central America’s Freedom Revolution” by Dan Griswold and Dan Ikenson, Trade Briefing Paper no. 21, September 21, 2004 (<http://www.freetrade.org/pubs/briefs/tbp-021es.html>)

The Central American Free Trade Agreement (CAFTA) would eliminate almost all trade barriers between the United States, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. An agreement signed in August 2004 added the Dominican Republic to the package.

CAFTA marks a major step toward free trade, but it is not a perfect agreement. A better agreement would have liberalized virtually all trade immediately, especially those sectors that are the most protected now and most desperately need the kind of import competition that can deliver lower prices to consumers. The two glaring exceptions of sugar and textiles and apparel represent lost opportunities to bring more competition and lower prices to heavily protected markets. Unfortunately, it is precisely these industries in which our CAFTA partners operate with comparative advantage, and as a result the full benefits and potential of a real free trade agreement are not likely to be realized.

CAFTA opens the door for U.S. exporters. Upon implementation, 98 percent of imports from the CAFTA countries to the United States would enter duty free. For U.S. companies, CAFTA would offer guaranteed, reciprocal access for our most competitive exports, including agricultural products, presenting U.S. exporters greater sales opportunities, a dynamic that is likely to accelerate as Central Americans and Dominicans earn more foreign exchange, raise their own incomes and living standards, and ultimately purchase more U.S. products. On average 75 percent of the tariff product categories will be duty free for U.S. exports to the region upon enactment of the agreement. As an economy that employs most of its workers in the services sectors, the United States will benefit profoundly from historic liberalization of Central American and Dominican regulations and prohibitions affecting cross-border provision of professional services, telecommunications, financial services, electronic commerce, and investment.

CAFTA countries are a huge market for American exporters. In 2003, America’s two-way trade in goods with the CAFTA countries and the Dominican Republic totaled \$31.9 billion—an amount that would rank those countries together as our 13th largest trading partner, and our 2nd largest export market in Latin America. The total population of the six countries is 45 million and total GDP in 2003 at purchasing power parity was \$204 billion. In aggregate, America’s CAFTA partners purchased \$15.1 billion worth of U.S. exports in 2003, an increase of 11 percent from 2000.

CAFTA would enhance important U.S. foreign policy goals by promoting freedom and democracy in a region that has been troubled in the recent past by wars and political oppression. Today, all six CAFTA partners are democracies pursuing political, economic, and trade reforms. CAFTA would reward and consolidate those gains by encouraging private sector growth, creating a larger, more educated and politically aware middle class, which has traditionally formed the backbone of democratic systems. Expanding trade increases travel and contact with other people in free societies, and economic liberalization diminishes centralized control of the government over the economy, reducing the power of the government to dominate daily economic and political life.

The “race to the bottom” is a myth. In reality, there is no evidence that nations have been able to gain any advantage in attracting investment or expanding exports by systematically lowering their national labor and environmental standards. For multinational companies, the costs of complying with labor and environmental regulations are relatively small. Far more important are political stability, access to consumers, a skilled

workforce, modern infrastructure, rule of law, and freedom to trade and repatriate profits. That is why the large majority of outward U.S. foreign direct investment (FDI) migrates to other high-wage, high-standard countries. Nations with low labor and environmental standards attract far less FDI per capita than nations with high standards, while higher standards are generally associated with higher FDI inflows.

In fact, trade liberalization helps create a “race to the top.” Nations open to trade tend to grow faster and achieve higher incomes, and higher incomes promote higher labor and environmental standards. A free trade agreement with Central America and the Dominican Republic would in reality help to build the capacity of those countries to maintain and raise their domestic standards. It would reward and build upon the progress the region has already made in raising health standards, expanding literacy, reducing child labor, and enforcing internationally recognized labor rights.

Labor laws of the CAFTA countries meet the ILO’s standards. All six countries have adopted laws consistent with core labor standards as established through the International Labor Organization (ILO). According to a survey that the ILO published in October 2003, the constitutions and statutes of each of the five CAFTA countries—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—are consistent with “core” ILO conventions covering collective bargaining, forced labor, child labor, and workplace discrimination.