

The Progressive Case for CAFTA

by Edward Gresser

The U.S. House of Representatives will soon debate the Central American Free Trade Agreement (CAFTA), joining the United States with the five Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—and the Dominican Republic. For the United States, CAFTA is a fairly small agreement, covering about \$32 billion in goods and services per year, or 1 percent of total U.S. trade. Public opinion seems favorable, with the most recent poll showing 50 percent of respondents supporting CAFTA and only 39 percent opposed.¹ But the debate promises to be exceptionally polarizing and emotional. Progressives in particular have been divided over CAFTA, with senior Democratic Party foreign policy spokespeople and Latin Americanists often supporting the agreement, while many organized constituency groups—and most congressional Democrats—oppose it. Division is understandable. However, on economic and security grounds, CAFTA is in the best interests of the United States and the six CAFTA countries, and ought to be approved.

Why is the debate so divisive? There are certainly grounds to argue that CAFTA could be better in various ways. But this is true of any trade agreement—or indeed any form of economic or foreign policy. To some extent, CAFTA is also carrying the emotional weight of much larger economic and political issues. Public anxiety is high, as China and India emerge as centers of manufacturing and services trade, U.S. trade imbalances rise, and questions grow about potential decline in America's competitive standing. Politics in contemporary Washington contributes, too. The always hyper-partisan, often-abusive approach of House Republican leaders and the White House to a long range of

issues is polarizing trade policy despite its historically bipartisan nature.

This should not obscure the fact, however, that CAFTA is in the best interests of the United States and the six partner countries. Oscar Arias, former president of Costa Rica and Nobel Peace Prize laureate for his work to end the civil wars of the 1980s in Nicaragua, El Salvador, and Guatemala, is convincing when he argues that approval would mean job creation and economic stability for the region, and that rejection would "send a chill through our hopes to achieve self-sustaining democracies."² In this spirit, the U.S. House should pass the agreement for three reasons:

“One person with a belief is a social power equal to ninety-nine who have only interests.”

—John Stuart Mill

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1. Economics: American exporters, struggling for the past five years, should see real, if modest, benefits. Central America and the Dominican Republic, fearing loss of exports and jobs after the 30-year-old U.S. textile quota system was abolished last winter, may find CAFTA essential as they weather the transition.

2. Social reform: The labor and environmental provisions in CAFTA are similar to previous trade agreements, especially now that they have been strengthened with the capacity-building and technical cooperation commitments won by Democratic supporters of the agreement.

3. Hemispheric strategy: The deliberation on CAFTA—as Congress’ principal Latin

American policy debate in this decade—will profoundly influence the attitude of Latin American peoples and governments toward the United States, and will therefore shape relations among the hemispheric democracies under the next U.S. president.

Trade Effects

First, the trade consequences of CAFTA for the United States, though small, will likely be positive. The six CAFTA partners are already strong U.S. export markets, buying \$15 billion worth of American goods and services last year, or about two cents on each dollar of total American exports. CAFTA countries also have an important niche role as buyers of one-quarter of America’s \$11 billion in textile exports.

Textile firms in the United States would probably be the main initial beneficiaries of successful CAFTA ratification as Central American tariffs drop. High-tech and services firms may also do well, since Latin America is among the few regions where information technology tariffs remain and services markets throughout the developing world are often closed.

Changes in America's import flows will be less noticeable. CAFTA countries export about \$18 billion worth of goods to the United States. About \$4 billion of these are permanently duty-

free. The agreements by the General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO) in the 1970s and 1990s eliminated U.S. tariffs on medical equipment, semiconductors, and other IT goods (which in the context of CAFTA are imported mainly from Costa Rica). Meanwhile, the coffee and bananas grown in El Salvador, Guatemala, and Honduras have been duty free since the 1930s. Another \$10 billion of CAFTA imports are clothes, often imported duty free under the Caribbean Basin Initiative (CBI). CAFTA will broaden and cement this duty-free privilege in clothing, but is more

Table: *Intra-CAFTA Trade, 2003*

	Gross Domestic Product	Exports to CAFTA Members	U.S./CAFTA-Partner Exports as % of GDP
United States	\$11,004 billion	\$15 billion	0.1%
Dominican Republic	\$54 billion	To US: \$4.1 billion Other CAFTA: \$.05 billion	8%
Costa Rica	\$34 billion	To US: \$3.3 billion Other CAFTA: \$.6 billion	4%
El Salvador	\$31 billion	To US: \$2.1 billion Other CAFTA: \$.8 billion	9%
Guatemala	\$48 billion	To US: \$2.9 billion Other CAFTA: \$.9 billion	8%
Honduras	\$17 billion	To US: \$3.1 billion Other CAFTA: \$.4 billion	21%
Nicaragua	\$13 billion	To US: \$0.2 billion Other CAFTA: \$.2 billion	3%

SOURCE: Bureau of Economic Analysis for US GDP, World Bank for Central American and Dominican Republic GDP, IMF for exports.

likely to help the region remain competitive with Asian rivals than to change U.S. importing habits in the aggregate.

The broadened treatment of clothing, while unlikely to change America's total import levels, is very important for the CAFTA countries. As the table below illustrates, they rely on exports to the United States and other CAFTA partners for much of their Gross Domestic Product (GDP)—in the case of Honduras, perhaps 20 percent.

The clothing exports, produced in hundreds of garment factories and several dozen textile mills throughout the region, directly employ more than 500,00 Central American and Dominican workers. Joined with \$10 billion in annual remittances from emigrant families in the United States, the growth of U.S.-Central American trade since the 1980s has stabilized Central America's urban economies, created jobs, and reduced reliance on volatile commodities like bananas and coffee. In turn, this has helped create a healthier region, where democracy and reconciliation have had space to succeed after the devastating wars of the 1970s and 1980s.

Central America's hope now is to build on this progress through diversification into new industries. At minimum, though, the CAFTA countries need to prevent the economic momentum of the 1990s from stalling. Here, the central issue is the transition from the quota textile regime of 1974-2004, to a world of garment trade regulated only by tariffs.

With quotas abolished last January under the 1994 "Uruguay Round" agreement that created the WTO, big countries—especially India and China—can take full advantage of their size and economies of scale.³ This will help American families as consumers, but in doing so create a difficult challenge for smaller exporters to the United States.

Single Chinese and Indian provinces can easily have more people than all six CAFTA countries combined. Especially in the case of China, exporters also have lower costs, more

sophisticated infrastructure, and close relationships with major garment-industry investors from Hong Kong, Taiwan, and Korea. Turning CBI's limited and temporary duty-free treatment into CAFTA's permanent and broader agreement will help CAFTA members make the transition to the quota-free world, and thus in turn will help them preserve the progress of the 1990s.

Labor

The longer-term challenge, of course, is to help the CAFTA countries move beyond reliance on labor-intensive, high-tariff, light-industry products to more durable industries.

A full trade agreement such as CAFTA can do much more than the CBI program has in this regard. President Arias has highlighted its importance for modernizing services industries and promoting value-added, as opposed to subsistence, agriculture. He does point out, though, that such policy reforms will only achieve their full potential if accompanied by commitments to improved education, modern labor regimes, and similar policy upgrades beyond traditional trade and economic fields.

The principal argument of CAFTA's progressive opponents is that the agreement does not address labor issues strongly enough. More particularly, opponents believe that the argument should commit CAFTA partners to laws that fully implement the core standards of the International Labor Organization (ILO), and that it should provide the same enforcement measures, ultimately sanctions based, that apply to more traditional trade disputes.

Labor problems in Central American and Dominican export industries are well-publicized and real. But they are part of a larger, complex environment, in which export-oriented jobs are often already much better than the alternatives. Wages for Central American and Dominican garment workers, for example, appear to be considerably better than wages for similar jobs

in South America and East Asia.⁴ Working conditions and wages in CAFTA-member export industries (as elsewhere in the developing world) also receive far more international attention than maid service, seasonal rural labor, construction work, or the other occupations open to less-educated and less-skilled workers. For example, while the CAFTA debate has focused closely on the work environment in export industries, Arias points out that fully 70 percent of Guatemalan workers are in the informal sector.

Solutions to the problems in export industries need to be designed carefully if they are to have humane rather than harmful effects. The progressive challenge, therefore, is threefold:

- ❑ To encourage adoption of higher labor standards for CAFTA export industries, but also in the CAFTA economies more generally;
- ❑ To simultaneously encourage investment in the CAFTA countries, which sustains growth and provides better-paying jobs; and
- ❑ To avoid measures that force export workers out of their jobs or make it harder for low-income workers in informal and rural industries to find better-paying jobs.

Simply rejecting the agreement on labor policy grounds will not meet the challenge. Over time, it could result in some reforms to legal regimes, although this is not at all certain. The more immediate risk is that of destabilizing CAFTA economies, making it harder for rural and informal workers to find better jobs, and pushing workers out of relatively prized export-industry jobs into lower-paying jobs.

Neither is the case for rejecting the agreement on more legalistic grounds totally certain. It is true that CAFTA does not require adoption of ILO labor standards. But reviews by

the ILO of CAFTA-member laws do, however, find them generally of high quality, though often with weaknesses in enforcement. This is a difficult standard for any U.S. trade agreement to meet, since the United States itself would not qualify. (The United States has failed to ratify six of the eight core ILO conventions, and retains many state child labor laws that do not meet ILO standards.)

It is also true that CAFTA does not have a trade sanctions option to enforce judgments in potential disputes about labor, which was at least a theoretical possibility when the United States negotiated a free trade agreement with Jordan in 2000. Yet, in practice this means relatively little. Neither the United States nor any of its eight Free Trade Agreement partners has ever used sanctions in any dispute—whether on tariffs, agricultural policy, trade remedies, intellectual property, or other issues—arising under one of the FTAs. The United States has also not withdrawn benefits from a CAFTA partner through the CBI or the Generalized System of Preferences, though this option is theoretically available for labor, intellectual property, and other purposes.

More generally, the use of sanctions, or threats of sanctions, to respond to labor violations is a valid option in extreme circumstances, such as industries that use abusive child labor or forced labor. For more typical problems, however, it is an option that raises deep ethical questions. The most immediate effect of sanctions, of course, is to close factories and put people out of their jobs altogether. Again, if the remedy to poor labor conditions is to force workers out of export industries into lower-paying jobs—where the international community is uninterested in monitoring abuses—that risks making the problem worse rather than better.

Over time, the best way to raise labor standards, while also supporting CAFTA economies and avoiding unintended harm to workers, is to take a more patient approach. The

better alternative is to develop technical assistance programs that strengthen labor ministries and labor law enforcement in the region, to improve education for workers—in particular the young women who make up most of the region's export labor force—and to ensure that exporting businesses see high labor standards as a commercial asset (as has been done in Cambodia).

In each of those respects, CAFTA started out mediocre and has become greatly improved. Democratic supporters have won commitments of \$20 million to help strengthen labor ministries, train child labor enforcement personnel, and improve environmental regulation, plus \$200 million to help rural regions in Central America adjust to rising agricultural trade with larger and sometimes heavily subsidized U.S. industries. These will need to be watched carefully as they are implemented, since they do not have the teeth and emotional punch of sanctions-based enforcement. Over time, however, they can do more to help workers, and they will do so with lower risks of hurting the people progressives rightly hope to help.

Future Hemispheric Policy

The final and most important issue is that the CAFTA decision will have long-term implications for America's vital political and security interests in the Western Hemisphere.

Upon taking office in 2001, George W. Bush inherited an inter-American relationship that was in better shape than at any time since the era of President Franklin D. Roosevelt's Good Neighbor Policy. With the single exception of Cuba, all the hemisphere's republics had democratic governments. All these democracies were committed to a long-term vision of mutual interest, economic integration, and common destiny. And this vision was embodied in a

partially negotiated Free Trade Area of the Americas (FTAA).

Much of this inheritance is now gone. The Bush administration's Latin policy has focused intently on issues like the International Criminal Court, which are peripheral to the interests of Latin America, the Caribbean, and Canada, and often at odds with the policies of American allies. It has overseen large increases in farm subsidies and opportunistic trade protections, policies which have alienated South America and called the sincerity of the FTAA vision into question. The administration was indifferent at best toward the financial crisis of South America in 2001-2002—senior U.S. Treasury officials were at times actually flippant and dismissive—and has shown little interest since then as elected presidents have been forced from office in Ecuador and Bolivia.

In this environment, U.S. leadership has weakened, and Latin populations, news media, and governments are asking whether the larger 1990s vision of democratic integration remains valid. Thus the CAFTA debate takes on importance beyond Central America and the Dominican Republic. Congress' debate on it will be the main U.S. debate of this new century on Latin American policy. The result, therefore, will be Latin America's main guide toward U.S. attitudes.

Whatever criticisms one may make of Central American policies, all remain committed to electoral democracy, open markets, and peaceful political systems. An acceptance of partnership with them may help to rebuild the foundation of Latin American policy for the next president, while rejection of them could damage the foundation beyond repair. That is not a prospect that progressives—hoping, of course, to form the next administration—should wish to see. And it is why Congress, accepting that neither CAFTA nor any trade agreement will ever be a perfect one, should approve it.

Endnotes

¹ Kull, Steven, "Americans on CAFTA and US Trade Policy," Program on International Policy Attitudes/Knowledge Networks Poll, July 11, 2005, http://www.pipa.org/OnlineReports/CAFTA/Report07_11_05.pdf.

² Arias, Oscar, "Central America: 20 years on, new challenges for the future," speech to the Council of the Americas, National Press Club, Washington, D.C., June 7, 2005, <http://www.americas-society.org/coa/events/2005events/June/Oscararias/summaryOscar%20Arias%20Luncheon.pdf>.

³ Partial quotas have been re-imposed on China this year by the United States and Europe, under a special feature of the 1999 World Trade Organization accession agreement. The new quotas can remain in place until the end of 2008.

⁴ A 2002 survey by the International Trade Commission (ITC) seems to find that Central America's garment workers are well paid compared to their competitors. Garment workers earn, on average, about \$2.70 per hour in Costa Rica; \$1.50 per hour in the Dominican Republic, El Salvador, Guatemala, and Honduras; and \$0.92 per hour in Nicaragua. By comparison, the ITC found garment-worker wages to be roughly \$0.40 per hour in South Asia, Africa, and Indonesia; \$0.70 to \$0.90 cents in China; and about \$0.90 cents per hour in Southeast Asia. See: "Textiles and Apparel: Assessment of the Competitiveness of Certain Foreign Suppliers to the U.S. Market," U.S. International Trade Commission, January 2004, <http://hotdocs.usitc.gov/pub3671/main.html>.