Citizens Trade Campaign

working **together** for **social** and **environmental justice** in **trade policy**

CAFTA: Not a development strategy

CAFTA promotes trade liberalization for Central America and the Dominican Republic supposedly as a development strategy for these regions. However, prospects for sustainable development are slim under the current agreement.

Trade Liberalization Has Already Taken Place

Significant liberalization has already occurred in both Central America and the Dominican Republic, without signs of sustained development. In the 1990s, tariff levels dropped dramatically and a wave of imports followed. Most textile and apparel products enter the United States duty-free under the Caribbean Basin Initiative (CBI) program; textiles are the sector responsible for a majority of exports in nearly all Central American countries.[1] Consider these indicators:

- **Export growth –** Exports more than doubled in the 1990s (from $5 to $15 billion), but imports rose even faster and the hoped for diversification never materialized. Over 45% of exports in Central America are uncompetitive primary products.[2] The prospect for sustained export growth to the U.S. under CAFTA looks especially grim given the ballooning U.S. trade and account deficits which project a coming strangle on the U.S. import market.[3]
- **Economic growth, poverty and income inequality –** Growth has been relatively stagnant in Central America, compared to the 1970's growth rate of 6%. In the "lost decade" of the 1980's growth averaged only 1%; in the 1990s growth rose to 4.1%, but has been flat since 1997 and well below the East Asian average of 7% for the last three decades. Trade liberalization so far has failed to lower poverty in the region.[4] Relative poverty in the region is 55%, and 2 of every 3 Central Americans in rural areas are poor. Trade liberalization has increased income inequality in the region, even in Costa Rica – in fact Central America has sustained one of the highest levels of income inequality in the world[5].

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[1] Public Citizen's Global Trade Watch, *Will CAFTA Save Central America from the January Textile Quota Expiration*, January 2005.
[2] InterAction, *Central American Development: Trade Liberalization in the 1990s*, June 2004.
[3] CEPR, *Fools Gold: Projections of the U.S. Import Market*, Jan. 8, 2004. Available at http://www.cepr.net/Import_Projections.htm.
[4] InterAction, *Central American Development: Trade Liberalization in the 1990s*, June 2004.
[5] Ibid.

Central American Workers, Maquilas and the MFA

CAFTA's labor provisions do not require Central American countries to revise their labor laws to meet international standards. Instead the labor chapter only requires that governments enforce a flawed set of laws already in place, and even that requirement is filled with loopholes.[6] Thus under CAFTA, Central American workers largely will not have recourse to collective bargaining to raise their severely depressed wages and t improve their economic situation.

Neither would CAFTA spare Central American garment workers the dislocation expected from the ending of the Multifiber Arrangement (MFA). The shift of apparel manufacturing jobs from Central America to China will be substantial whether or not CAFTA is in effect. CAFTA does not provide new tariff cuts for Central American goods (most goods enter duty free under CBI). The only difference CAFTA would make is to allow duty-free treatment for goods meeting a looser rule of origin – i.e. goods with less U.S. or Central American content[7]– but nothing in CAFTA provides new benefits that would provide financial incentive for manufacturers to keep apparel assembly jobs in Central America. [8]

Central American Farmers

CAFTA threatens the livelihoods of thousands of small farmers who already live in poverty. Sixty per cent of the impoverished population lives in rural areas and these small farmers would be devastated by the effects of trade liberalization and dumping allowed under the agreement.[9] While Central American countries will be forced to eliminate their import tariffs, the US will maintain generous supports that go mainly to agribusiness firms in this country.

- **Rice and the protection of basic grains –** The case of rice illustrates the danger in tariff reduction and dumping of basic grains on the Central American market. There are an estimated 80,000 rice producers in Central America and the Dominican Republic, and 1.5 million jobs depend on rice production. Rice is also part of the basic diet of Central Americans, along with corn and beans, and the vulnerability of the crop raises serious questions about food security in the region. Approximately 75% of rice producers are small-scale and do not generally have access to credit, technology, or irrigation. A large part of rice production is concentrated in the poorest and must vulnerable areas. The indigenous populations in these regions lack basic resources for producing and marketing rice. In sharp contrast, US rice producers (again largely agribusiness beneficiaries) enjoyed subsidies and supports worth $1.27bn in 2003. This is greater than Nicaragua's entire national budget for 2004.[10] Although the agreement foresees a transition period of 18-20 years for the complete liberalization of the sector, we can expect that rice imports will rapidly increase as they did under NAFTA. Beginning in the first year of the CAFTA's implementation, import quotas will be at 352,320 tons of paddy rice and

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[6] For more information see Citizens Trade Campaign, *CAFTA's Inadequate Labor Standards*, January 2005.
[7]Article 4.1a, 4.1b
[8] See Public Citizen's Global Trade Watch, *Will CAFTA Save Central America from the January Textile Quota Expiration*, January 2005.
[9] Oxfam International, *A Raw Deal for Rice Under DR-CAFTA*, November 2004.
[10] Oxfam International, A Raw Deal for Rice Under DR-CAFTA, November 2004.

54,650 tons of milled rice. These quantities are equivalent to one quarter of regional consumption, and their effect on prices may be significant. The agreed quotas will make it possible to import rice at about 20% less than its current price in the region. Small rice producers in the region will not be able to compete with large agribusiness firms who enjoy subsidies and dump on the market.[11]

- **Meat, dairy and white corn producers –** Small-scale bean, milk and meat producers face an uncertain future in light of the imminent flood of unfair imports.[12] Even in the case of white corn, which was excluded from tariff reductions, the outlook is not good. The substitution of white corn in the basic diet by yellow corn or imported wheat threatens the livelihoods of hundreds of thousands of small-scale family corn farmers in the region.[13]

Access to Medicines

Very few people in Central America have access to medicines. Poverty prevents most from obtaining medication, nor can governments afford the cost of covering medications. In all the CAFTA countries except Costa Rica, less than 5% of HIV patients currently receive antiretroviral treatment through their governments' public health systems. Under CAFTA, governments and individuals will be forced to buy higher priced medicines for longer periods of time – thus increasing the overall cost burden on the public health system.[14]

- **CAFTA extends patent monopolies –** The WTO's TRIPs agreement mandates a 20 year period of patent protection for pharmaceutical products. The argument goes that this period of time is needed to help producers recoup research and development costs. CAFTA extends patent protection beyond 20 years to compensate for procedural delays either in granting patents[15], or in securing marketing approval for pharmaceuticals.[16] A longer period of patent protection means a longer period without competition, and therefore, higher prices.
- **CAFTA restricts test data –** CAFTA introduces a new category of intellectual property rights: pharmaceutical test data, and provides 5 years of "market exclusivity" for the data by ensuring that generic producers cannot compete in that time period. In addition, CAFTA permits products that are not eligible for patents, and even some whose patents have expired, to enjoy monopolies for 5 years. In addition, CAFTA requires a member country to grant this same 5 years of data protection even if the product in question has not been registered in its territory, which could mean that medicines on the market in the U.S. would be barred from generic manufacturing for 5 years in Central America whether the medicine was introduced in the region or not.
- **CAFTA Undermines WTO Doha Declaration –** The WTO's Doha Declaration establishes safeguards for countries in the developing world to enforce patent protections while maintaining autonomy over public health systems in times of extreme urgency.

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[11] Ibid.
[12] Ibid.
[13] Ibid.
[14] See fact sheet by Angelina Godoy, University of Washington, *CAFTA and access to medicines*,
[15] Article 15.9.6a
[16] Article 15.9.6b

Specific CAFTA rules make it more difficult for countries to utilize such WTO mechanisms. Compulsory licensing is a process established in the Doha Declaration whereby governments can circumvent patent rules in case of a health emergency. Under CAFTA however, governments would have to overcome the test data protections rules in addition to patent protection, facing another roadblock to addressing a potential emergency. Though CAFTA does allow exceptions to the test data rules "where necessary to protect the public", [17] the burden of proof in these cases falls to the government arguing that the exception should be applied. And, due to Chapter 10 provisions allowing corporations to sue governments for "unfair barriers to trade", the threat of a lawsuit is an inherent deterrent to invoking public health safeguards.

Services Rules

CAFTA will significantly impact the service sectors – including public services – in Central America and the Dominican Republic. As sectors are opened up to liberalization and eventual privatization, essential public services (like water) could be compromised. Affordable public services are essential for any developing nation, as they provide basic necessities to impoverished populations. Under CAFTA, all service sectors are open (negative list), unless exemptions to coverage of specific service sectors for specific rules are listed in CAFTA's annexes and schedules.[18] While the United States has exempted coverage of all sectors not already liberalized under the WTO's General Agreement on Trade in Services, The various Central American nations and the Dominican Republic have exempted only very small portions of their service sectors.

Development Funding

CAFTA provides no funding to cushion the challenges that Central American economies faces as developing nations opening markets to rapid liberalization.

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[17] Article 15.10.1d

[18] See briefing memo prepared by Mary Bottari of Public Citizen, *U.S. Services Commitments in the CAFTA linked to WTO GATS*, January 2005.