Experience does not bode well

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By and large, the debate surrounding the Central American Free Trade Agreement is being waged by both sides as if the "neoliberal" model on which it is based had no track record in the region. For proponents, it is easier to make predictions of more growth and less poverty in Central America than it is to face cold, hard truths. For opponents, the debate is mostly waged upon familiar grounds regarding the absence of labor and environmental protections.

Neither side has clearly set forth the one reality that supersedes all else: CAFTA is the "horse and buggy" model of the 21st century. It is based on a flawed theory that has unquestionably failed in some areas of development in Latin America, and in some cases has even led to disastrous results.

To be sure, there are fundamental problems in the economies of Central America. Unfortunately, the Washington-centered orthodoxy of liberalized trade has a poor record that shows it cannot be expected to resolve fundamental problems. In fact, it has shown that the model may indeed have a tendency to exacerbate them.

The most obvious failure of neoliberal reforms in Latin America over the last 25 years has been a drastic decline in the region's rate of economic growth.

Latin America once enjoyed a healthy growth rate, with per capita income rising by about 80 percent from 1960 to 1979. However, the post-1980 period, which includes the so-called lost decade, has yielded disappointingly low levels of growth -- about 12 percent in the last quarter-century. Mexico, for example, enjoyed growth rates in the pre-1980 era three times higher than those in the post-NAFTA period (since 1994).

One issue both sides agree on is that Latin America has the most unequal income distribution of any region in the world. Yet it is difficult to combat poverty and inequality when growth is stagnant.

Consider job creation and wage increases. While trade has increased in volume, the standard of living for most individuals in the region has declined. During the height of the neoliberal reform model (1980s and '90s), labor-intensive sectors lost ground to capital-intensive sectors and wages in manufacturing, for example, fell in most countries studied.

Mexican workers under NAFTA lost precipitously through the 1990s, despite the extravagant promises made by proponents of the model on which CAFTA is based.

That is not all. At least 1.5 million Mexican farmers have lost their livelihoods under NAFTA. According to a 2004 report by the Carnegie Endowment for International Peace, "Agricultural trade liberalization linked to NAFTA is the single most significant factor in the loss of agricultural jobs in Mexico." Thus far, limited employment growth in Mexico's manufacturing sector has failed to absorb displaced rural workers.

This does not bode well for the CAFTA countries. A 2004 U.S. International Trade Commission study on the potential impacts of CAFTA leads one to conclude that the agreement will displace many in the rural sector in Central America. Following a recent visit to Guatemala, United Nations Special Raporteur for Food Jean Ziegler determined that CAFTA will increase hunger and poverty once the agreement fully kicks in. A U.S. Agency for International Development study on the *maquila* sector in the Dominican Republic anticipates a 25 percent decrease in employment in this industry even under CAFTA, as the Multi-Fiber Agreement concludes. Thus, one is left to wonder where the displaced rural population of Central America will find employment.

With an ever-growing presence of Chinese goods in the U.S. market, coupled with an array of structural problems in Central America, the CAFTA countries will remain at a disadvantage vis-à-vis China, particularly in the textile and apparel sectors.

The great irony of CAFTA is that member countries are unlikely to gain much in terms of market access for exports. It is unlikely that Central America will experience significant export-led growth because CAFTA provides virtually no new market access in the United States beyond that already provided under the current Caribbean Basin Initiative.

Moreover, given the United States' unsustainable trade and current account deficits (now at about 6 percent of GDP), the decline of the dollar means a shrinking export market for goods from Central America and the Dominican Republic.

CAFTA countries are therefore being promised an economic utopia they will never see. It is time to develop an alternative trade model that will yield real benefits.

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