Costa Rica Balks At Free-Trade Pact

Misgivings Could Weaken Support in U.S. Congress For Central America Deal
By John Lyons
Staff Reporter
The Wall Street Journal
May 3, 2005; Page A2

SAN JOSE, Costa Rica - With President Bush's plan to bind Central America and the U.S. in a free-trade pact already facing tough opposition in Congress, an obstacle has surfaced that further threatens the pact's chances of passage.

Costa Rica, the most-developed of the six nations that have signed the Central American Free Trade Agreement with the U.S., is balking at ratifying the accord. The country's parliament may not even vote on the pact until after the presidential election next February. The other Cafta nations are Nicaragua, Guatemala, El Salvador, Honduras and the Dominican Republic.

The reluctance of Central America's oldest democracy has surprised the White House and undermines one of its chief arguments for the pact: that Cafta represents an urgently sought benefit for the impoverished region. Costa Rica's ambivalence and the long delay before it votes may influence undecided votes in Congress. The ambivalence already has allowed the opposition to the trade pact in Costa Rica to gain momentum.

"If Cafta comes down to two or three votes [in the U.S. House of Representatives], which it very well might, people looking for an excuse not to vote for it might seize on the fact that Costa Rica is reluctant," says Rep. James Moran, a Virginia Democrat who supports the pact and flew to San Jose last week to lobby the government for Cafta.

Cafta carries a lot of political freight for the White House, which has been unable to complete either a world trade pact or one encompassing all of Latin America. A free-trade agreement of the Americas was a key part of the president's foreign-policy agenda when he first took office.

Washington has negotiated smaller trade pacts with more than a dozen nations in Latin America, the Middle East and Asia, as a way to pressure big developing nations like Brazil and India to sign onto the multilateral accords. The implicit threat: If they don't sign, the U.S. will cut sweetheart deals with their neighbors. A Cafta defeat in Congress, which is expected to vote by next month, would undermine the U.S. strategy.

Economically, the administration contends that Cafta will open new markets for U.S. manufacturers and service providers, and boost investment in the impoverished region. At a televised news conference last week, President Bush underscored Cafta's geopolitical significance, saying the accord would "help strengthen the neighborhood" by demonstrating U.S. interest. Next week he plans to meet in Washington with the leaders of the six Cafta nations, to give a boost to the administration's lobbying efforts in Congress.

U.S. exports to countries in the Cafta region were around $16 billion last year, nearly double from a decade ago. U.S. investment in Cafta countries was $4.3 billion in 2003, up 2% from the previous year.

But Cafta's U.S. critics contend that the accord would accelerate the shift overseas of apparel jobs and threaten the heavily protected U.S. sugar industry -- even though the pact allows for only a modest increase in sugar imports. A Cafta defeat would reinforce the doubts of Brazil, Ecuador, Argentina and other nations skeptical of U.S. motives in negotiating trade pacts. It would also strengthen free-trade opposition forces in Congress, who have battled every trade deal since the North American Free Trade Agreement with Mexico and Canada in 1994.

Many businesses in Central America are lobbying for the accord, figuring it would promote foreign investment in the region, as Nafta has helped Mexican business. The six Cafta nations signed the accord last year. El Salvador, Honduras and Guatemala were the first to ratify the pact, anxious to win protections that might buttress their apparel makers and other manufacturers against Chinese and Indian rivals.

But the accord has also spawned deep reservations, even in countries where Cafta has been approved. Sugar exporters haven't won much access to the U.S. market, largely eliminating an area that Central American producers had hoped to exploit. Central American clothing makers also made costly concessions under rules designed to compel them to buy U.S.-made fabrics rather than cheaper Asian-made ones. In Guatemala, anti-Cafta protests have included thousands of demonstrators; at least two of the protesters have been killed. May Day marches in Guatemala, Costa Rica, Honduras and El Salvador featured anti-Cafta signs and slogans.

Nicaragua and the Dominican Republic haven't yet signed the accord, but they are expected to do so shortly. Costa Rica, though, is holding out because of mounting opposition by trade unions, some farm groups and even some business leaders who say Cafta's intellectual-property clauses are too invasive.

The country's popular president, Abel Pacheco, is widely seen as trying to avoid ending his four-year presidency amid the strikes and protests that debating the accord might provoke. Although his government signed the pact last year, he now says he won't submit Cafta to Costa Rica's Congress until he is convinced that it doesn't threaten the poor; last week he said he would appoint a committee of leading Costa Ricans to review the accord.

Mr. Pacheco's backsliding on Cafta prompted senior members of the economic team that negotiated the deal to resign last year. "It was clear to me he was disengaging, and wasn't going to be pushing with the kind of leadership necessary, so I got fed up," said former trade minister Alberto Trejos.

Opponents of the pact have recently focused on provisions requiring the government to allow foreign investment in Costa Rica's state-owned telephone and insurance industries. Although telephone customers can wait a year to get a cellphone, privatization has become equated with corruption throughout Latin America.

Some Costa Ricans worry that Cafta may lead to the privatization of the country's free universal health-care system, which puts the poor country on par with industrialized nations in many important health indexes. Just 38% of Costa Ricans polled in February who had heard of the deal thought it would benefit the country, compared with 56% in January of last year, according to a study by the CID/Gallup polling firm.

Defenders of the deal say it will ensure longer-term stability by tethering the economy permanently to the U.S. Failure to ratify, they say, could leave the country on the sidelines of an important export-led transformation of the region's economies. Costa Rica's former president, Oscar Arias, a Nobel Prize winner who is leading polls to win next year's presidential election, has vowed to push for Cafta passage next year, if he wins. "If we don't have the agreement, no one is going to invest a penny here," he says.

Traditionally, the U.S. Congress waits until its trading partners ratify a pact because it wants to make sure it gets the last word, and that foreign governments don't try to change provisions. Although Congress votes up or down on a trade pact, it can effectively modify a deal by voting aid to affected industries or mandating how provisions be carried out. For instance, Congress approved an earlier world trade pact only after it legislated a procedure for the U.S. to exit the accord.

Rep. Moran, Republican Rep. Dan Burton of Indiana and other lawmakers last week tried to pressure Costa Rica by warning that Congress would eventually cut off existing trade preferences if Costa Rica's legislature didn't approve the Cafta. But senior U.S. trade official Peter Allgeier is eschewing threats. "I have no doubts about Costa Rica being there, in time,"
he says.

As long as the country holds out, however, it weakens the hand of Cafta backers in Congress. If Costa Rica decides "that it's not coming to the party, then Congress might start asking themselves: Why have a party at all?" says Gary Hufbauer, a trade expert at the Institute for International Economics, a Washington think tank that supports free trade.

---- *Greg Hitt in Washington contributed to this article.*