CAFTA: ITS ORIGINS AND ITS PROVISIONS

By Paulette L. Stenzel

Executive Briefing: The Dominican Republic–Central American Free Trade Agreement (DR-CAFTA, commonly known as CAFTA) took effect on January 1, 2006, for all but one signatory. CAFTA's purpose is to "eliminate tariffs and trade barriers and expand regional opportunities." Paralleled to NAFTA, CAFTA is based on a paradigm that promotes growth of corporations.

The Dominican Republic–Central American Free Trade Agreement (DR-CAFTA, commonly known as CAFTA) has seven members: Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and USA. It took effect on January 1, 2006, for all signatories except Costa Rica, which did not approve it until October 2007. CAFTA's purpose is to "eliminate tariffs and trade barriers and expand regional opportunities for the workers, manufacturers, consumers, farmers, ranchers and service providers of all the countries." This article introduces the trade agreements leading to CAFTA and summarizes CAFTA's provisions.

DR-CAFTA includes seven countries:

- Costa Rica
- Dominican Republic
- El Salvador
- Guatemala
- Honduras
- Nicaragua
- USA

In 1989, the United States and Canada entered the Canada–United States Free Trade Agreement. It was followed with the North American Free Trade Agreement (NAFTA), a free trade agreement including the United States, Canada, and Mexico, that took effect on January 1, 1994. NAFTA is notable because the United States and Canada joined forces with Mexico, a far less developed country. Since then, the United States has promoted its trade policies in the Western Hemisphere through a series of bilateral and multilateral trade agreements. In general, the agreements are based on a paradigm that promotes growth of corporations by reducing barriers to trade; it is based on the assumption that growth of business will provide benefits that trickle down to our less developed partners.

DR-CAFTA's primary objectives are to:

- Expand and diversify trade;
- Eliminate trade barriers;
- Promote fair competition;
- Increase investment opportunities;
- Protect and enforce intellectual property rights; and
- Establish a framework for further bilateral, regional, and multilateral cooperation to lead to a FTAA.

When NAFTA took effect in 1994, the members announced plans to extend the model throughout the Western Hemisphere (with the exception of Cuba) through a Free Trade Area of the Americas (FTAA). Although it was planned to take effect by 2005, plans stalled as a result of the 9/11 events and changing economic conditions. Since then, the U.S. has been focusing on a variety of bilateral and multilateral agreements that can build a framework for FTAA. CAFTA is among them.

Many U.S. government leaders support CAFTA. In May 2004, then-U.S. Trade Representative Robert Zoellick commented, "CAFTA will do much to create the new economic opportunity that will bolster the democratic commonwealth in the hemisphere. It will eliminate tariffs, open markets, promote transparency, and establish state-of-the-art rules for 21st century commerce." U.S. government leaders say that citizens of all CAFTA countries will live better at a later date if businesses grow and profit first. Additionally, U.S. government officials argue that each member of CAFTA can participate in regional markets by relying on its comparative advantage. That means that it can concentrate on contributing those goods or services that it can produce or provide most efficiently and inexpensively.

In addition, U.S.-based companies operating in CAFTA countries can ship goods to the United States without paying stiff value-added taxes. Moreover, as compared to previous trade regulation, CAFTA eliminates the quotas for specified goods being imported and exported between the United States and other CAFTA members. In some cases, such as in the textile industry, quotas continue, but they allow greater amounts of specified goods to be exported and imported between the countries as compared to pre-CAFTA agreements.

Government leaders and business people of Central American CAFTA countries draw similar conclusions regarding CAFTA. Marco Vinicio Ruíz, Costa Rica's Minister of Commerce, views CAFTA as a positive force for his country. Ruíz predicts that exports of electronics, agribusiness, and food products from Costa Rica will grow. Costa Rica will take in about $1.50 billion U.S. in foreign direct

investment from 2006 to 2010, which he says is 70% of the total coming to Central America."

CAFTA is opposed by various groups, however. Environmentalists argue that CAFTA should require U.S. companies operating in other CAFTA countries to adhere to U.S. environmental laws, but CAFTA does not impose that requirement. Moreover, CAFTA's environmental provisions are merely symbolic gestures, as CAFTA does not require its member countries to maintain or enforce minimum environmental standards. Even in Costa Rica, which is hailed as Central America's leader in environmental protection, environmental mandates imposed on businesses are unclear and conflicting. Environmental degradation is certain to be exacerbated under CAFTA.

In addition, indigenous groups and human rights groups in Central America have spoken out in strong opposition to CAFTA because of their concerns for the environment. They also oppose continued use of people at low wages and natural resources to provide profits to major corporations and their shareholders.

Summary

The free trade agreement philosophy held by the United States and implemented through CAFTA is controversial. NAFTA, the agreement on which CAFTA is modeled, has been in effect since 1994 and has produced mixed results. The United States has lost millions of jobs. It has subjected millions to environmental degradation and harsh working conditions for low wages. And now, Mexico is losing jobs. CAFTA is likely to bring similar results to Central America and the Dominican Republic. Yet, U.S. businesses support CAFTA because it gives them access to low cost labor and lowers barriers to trade by reducing or eliminating tariffs. Reduced costs help U.S. companies meet the challenges posed by increased competition from China and Southeast Asia.

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About the Author

Paulette L. Stenzel is Professor of International Business Law in the Eli Broad College of Business at Michigan State University. She is grateful to Ms. Stephanie L. Mills and Mr. Stephen T. Johnson, her student assistants, for the research project on which this article is based. Dr. Stenzel can be reached at +1-517-353-3124 or stenzelp@bus.msu.edu.