WHY CAFTA FACES OPPOSITION

FROM CITIZENS OF CENTRAL AMERICA AND THE DOMINICAN REPUBLIC

By Paulette L. Stenzel

Executive Briefing: CAFTA was signed in 2004 in spite of substantial opposition to it in the Dominican Republic and Central America. Supporters say CAFTA will encourage each member to find and rely on its comparative advantage. However, critics use historical evidence to illustrate that CAFTA's provisions are harmful, both financially and environmentally, to citizens of Central America and the Dominican Republic.

The Dominican Republic–Central American Free Trade Agreement (DR-CAFTA – commonly known as CAFTA) was signed in 2004 by Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and USA. Businesses in each of the signatories supported the agreement and argued that the agreement allows each member to take advantage of its comparative advantage.

Nevertheless, there is substantial opposition to CAFTA among Central American citizens. For example, even though Costa Rica is one of the United States' oldest trading partners in the Central American area, many Costa Rican citizens view the agreement as lopsided, favoring U.S. interests. CAFTA provides substantial protection for U.S. sugar producers, in spite of the fact that sugar is one of the few industries in which Costa Rica has a comparative advantage over the United States. Costa Rica did not ratify CAFTA until October 7, 2007, and only 52% of voters favored it.

DR-CAFTA includes seven countries:

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

CAFTA's critics cite historical evidence of the harm brought to citizens as a result of trade agreements on which CAFTA is based. For example, the North American Free Trade Agreement (NAFTA) has hurt Mexicans in many ways. U.S. corn and rice, both of which are also subsidized by the U.S. government, flooded Mexican markets under NAFTA, and prices dropped below costs of production for Mexican farmers. As a result, NAFTA has displaced at least one million Mexican farm workers.

Events in Honduras also can be used to predict similar results for CAFTA countries. Honduras reduced tariffs for rice in 1991. This resulted in the *arrozazo*, or rice scandal. Before 1991, there were 25,000 rice producers that employed about 150,000 people directly and indirectly. After the tariff reduction, the country's market was flooded with imported subsidized rice. Rice prices dropped, and producers went bankrupt. By 2002, Honduran rice production had dropped to 14% of its 1991 level, with fewer than 2,000 producers in the country. As of 2007, 95% of the rice consumed in Honduras is imported. In an already poor country in which rice is a staple of the local diet, these imports increase the Honduran trade deficit.

Reduction of tariffs on staple products means that Central Americans will pay higher prices for food. This will be a major hardship for people living on extremely low incomes. In Nicaragua, for example, 80% of the population lives on $2 U.S. or less per day, and 50% of the population lives on $1 U.S. or less per day.

NAFTA's proponents argued that it would create jobs in the United States. This is partially true: some have been created. Yet millions of U.S. jobs have been lost as a result of labor arbitrage, the process through which a business benefits from wage differences between two countries. Critics of free trade agreements say that "multinational companies are making a fortune closing down plants in the [United States] and moving production to countries where the labor is cheap and government regulation is nonexistent." Under NAFTA, the United States lost jobs to Mexico, and now Mexico is losing jobs to Central America, Southeast Asia, and China, where wages are even lower. CAFTA will accelerate that process in Central America. But the new jobs will not prove the assertion that free trade "lifts all boats." New jobs at meager wages provide subsistence at best, not a higher standard of living. For example, in Nicaragua, the minimum wage is $0.39 U.S. per hour and, because of the acute need for jobs, that is exactly the wage being paid in factories (*maquilas*) there. The wages are not sufficient to enable those workers to purchase the products they are making. In fact, those wages are barely sufficient to buy *gallo pinto,* a rice and bean dish that is the mainstay of most Nicaraguan diets.

It is difficult to blame Nicaragua's leaders for inviting *maquilas* to locate there even with the extremely low wages they pay. Government leaders have few options as they try to deal with extreme poverty, unemployment, and underemployment. And even the promise of low wages does not make it easy to attract investors.

Nicaragua lacks adequate electricity and water supplies, and its few highways are in extremely poor condition. Conditions are similar in other CAFTA countries.

Labor organizers, environmentalists, and human rights workers in Nicaragua oppose reliance on jobs in *maquilas* for several reasons. First, workers in Managua, Nicaragua's largest city, endure grueling living conditions. Many live in *asentamientos*, areas in which workers are essentially "squatters" on land for which title is unclear. They live in makeshift housing ranging from tarps with poles to shacks built wall by wall. This is a problem in the Dominican Republic and other Central American countries too.

Second, opponents of CAFTA argue that companies operating facilities in the Dominican Republic and Central America take advantage of "a weak regulatory environment that condones violations of labor rights." Labor rights are routinely ignored in Mexico, and Mexico's environment has suffered significant degradation under NAFTA. Similar results are expected under CAFTA because protections in CAFTA countries are similar to or even weaker than those in Mexico.

Summary

CAFTA is not likely to improve the lives of the poor in Central America and the Dominican Republic. U.S. government and business leaders assert that CAFTA will improve the economies of the other CAFTA members. On the other hand, new jobs brought to CAFTA countries will be at extremely low wages. In addition, U.S. farm subsidies for staples, such as rice and corn, may lead to low prices that cause Central American farmers to go out of business. Moreover, it is likely that U.S. companies will take advantage of weak labor and environmental laws (and limited enforcement of those laws) to save production costs. CAFTA's provisions simply do not provide for livable wages, fair labor practices, and necessary environmental protection. At this point in history, only voluntary action by companies operating in the CAFTA countries will lead to fair labor practices, liveable wages, and sound environmental practices.

Sources

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