

Central America-US Free Trade Agreement Advances

The much talked about and maligned (by leftists and South Americans who see it as an end run) Central America-US Free Trade Agreement (CAFTA) was officially launched on January 8 in San José, Costa Rica by USTR Robert Zoellick and trade ministers from the five Central American countries (Panama and Belize are not included). Ambassador Zoellick declared, "This FTA will reinforce free-market reforms in the region. The growth stimulated by trade and the openness of an agreement will help deepen democracy, the rule of law, and sustainable development.....and complement our vital work on the Free Trade Area of the Americas." At the same time, the US announced funding for 50 projects to strengthen science-based food safety inspection systems, programs to promote cleaner production, and other initiatives. The president's 2003 budget request includes \$47 million in US trade capacity-building assistance for Central America.

The parties agreed to form five negotiating groups: market access; investment and services; government procurement and intellectual property; labor and environment; and institutional issues, including dispute settlement. Special groups were established to deal separately with trade capacity-building and sanitary and phytosanitary issues.

The first of nine planned negotiating sessions was held from January 27 to 31. At that meeting, the US side could not provide copies of the Chile FTA, as it was still being kept from the public view while Congress had a chance to review it. However, general provisions from the Chile and Singapore FTAs were presented. The meeting helped clear up some initial misunderstandings. The US had made it known before the meeting that no sectors or parts of sectors would be excluded from the negotiation, as apparently some Central Americans wanted, thus making it clear that this is a two-way negotiation and everything is on the table. All in all, the talks went well and it is hoped that each side will present texts at the next meeting, on February 24-28. There were only minor anti-FTA demonstrations in San José during the meeting.

The US and Central American economies are already complementary in many respects and the Caribbean Basin Initiative of the 1980s, reinvigorated in the late 1990s, increased trade and investment. Zoellick pointed out that Central American exports to the US total \$11 billion, and that the region imports \$9 billion worth of goods from the US-equal to combined trade with India, Indonesia and Russia. Agricultural products will be one of the most important areas of contention. Sugar exports are particularly important to the Central Americans, and phytosanitary regulations (for pork and poultry exports) are sensitive for the US. Central American farm organizations fear having their producers put out of business by US agricultural imports whose producers benefit from large subsidies (which the US appears to consider non-negotiable). Greater access for Central American textiles and apparel will also be a key issue.

In the US Congress, Democratic Representatives Rangel and Levin supported the FTA negotiation but criticized the Bush administration for not offering to include Caribbean countries that want to join, especially the Dominican Republic. They urged the inclusion of labor rights and enforcement of core labor values as a part of the FTA, with a labor working group to monitor progress in the Central American countries.

The recently concluded FTA between the US and Chile will serve as a guide for the negotiations with Central America. The Chile FTA was innovative in its incorporation of core labor standards, environmental standards and comprehensiveness (fines for not enforcing labor or environmental laws), transparency (rules-based system, customs procedures, etc.), and technological issues (electronic commerce, copyright protection). It was also perhaps controversial, with the inclusion of capital controls in the agreement.

In Central America, the usual voices from the left oppose the CAFTA but there is also opposition, or at least wariness, on the part of small farmers, small business organizations and indigenous organizations, as well as some trade union organizations and environmental groups. As one activist said in an interview with IPS, "The US position on the question of the environment is disturbing, as Washington has not supported the major international treaties on the environment." Rodrigo Carazo, former President of Costa Rica and now a civil society spokesman, criticized the negotiations for not being open enough. Some groups have requested a copy of the FTA negotiating document and have asked to be incorporated into the negotiating process, but so far they have not been satisfied with the response of the Central American governments.

Observations

Although US government spokespersons have stated that the US-Chile FTA is only a guide for the negotiation of the CAFTA, it seems unlikely that the administration and Congress will take a step backward and exclude innovations such as enforcement of labor and environmental laws, intellectual property protection, competition in the service sector and openness in government procurement. The size and level of development of the Central American economies are likely to be taken into account in terms of phasing in of tariff reductions, market access, and competition and openness measures.

Regarding the FTAA, the US credibly asserts that it is not trying to undercut the hemispheric agreement, but rather spur it on by paving the way with an earlier agreement with the Central Americans. However, if the FTAA were to stall over difficult negotiations with the South Americans, the US will have achieved part of its hemispheric trade goals by having successfully concluded an FTA with Central America, in addition to Chile and Mexico.

Criticism of the FTA process may be dealt with by increased participation and

information sharing. Even so, the political intent of some groups is to oppose the process no matter what the approach or outcome. The activist's comments quoted above are curious in that the US seeks to include environmental considerations in the FTA whereas most Central American governments oppose their inclusion.

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