WASHINGTON OFFICE ON LATIN AMERICA

Celebrating 30 years of promoting democracy, human rights and social justice in Latin America.

Testimony
Vicki Gass
Washington Office on Latin America (WOLA)
House Committee on Ways and Means
Hearing on U.S. Trade Agenda
February 28, 2007

Introduction

My name is Vicki Gass and I am WOLA's Senior Associate on Rights and Development, a program that focuses on trade agreements and labor rights, and promoting a sustainable rural development where the fulfillment of human rights is at the center. I have two Masters Degrees from the University of New Mexico in Latin American Studies and Community and Regional Planning, with a focus on economic development, poverty and gender. I have also worked on Latin American issues since 1984. The Washington Office on Latin America (WOLA) is a 33 year-old human rights and advocacy organization that has worked to advance U.S. policies in Latin America that promote human rights, democracy and social justice.

The United States trade agenda promotes U.S. business abroad. They are also justified as benefiting our trade partners along with the U.S. businesses. I want to focus on the second point of whether U.S. trade programs are effective in promoting growth and economic development, particularly in the rural sectors of developing countries in Latin America. I argue that because the trade agreements as negotiated or proposed prohibit governments' ability to implement economic policies and strategies used by developed countries in their own processes of development, economic development has been hampered. I will also focus specifically on the negative impact of trade on the agricultural and rural sectors, finishing with a series of suggestions.

Poverty and Rural Poverty in Latin America

Over 55% of all Latin Americans live in poverty or in extreme poverty, with women and indigenous populations impacted the most. Latin America also has the world's most unequal distribution of wealth, where the richest 10% earn 48% of total income while the poorest earn just 1.6%. In our view, the market liberalization policies promoted by the U.S. Government and the International Financial Institutions have exacerbated these inequalities while undermining democratic institutions.[1]

[1]Key features of the Structural Adjustment Polices implemented in the 1980s and 1990s in order for developing countries to receive debt restructuring and developed countries to gain greater market access were

According to a 2002 World Bank Conference held in Pachuca, Mexico, rural poverty represents over 50% of total poverty in half the countries in the Western Hemisphere, particularly in Guatemala (72%), El Salvador (67%). Costa Rica (59%, Paraguay (56%), Panama (55%), Honduras (54%), Nicaragua 53%, and Bolivia (51%). IFAD's 2004 report stated that the number of Latin Americans living in poverty had reached 226 million with roughly 63% of the region's rural population poor. Except for Brazil, Chile and Mexico, the total number of rural poor has increased in every other country since the 1970s. One important factor was due to an urban bias in development policies. In addition, the market liberalization that occurred in most countries under the structural adjustment policies did not improve the economic development or the well being of the rural poor. The lack of employment opportunities or access to productive resources in rural areas is a major push factor for out-migration to the U.S. or neighboring countries. Rural poverty remains a huge social problem which trade agreements and globalization are not addressing. I will return to this point later in my testimony.

Trade, Growth and Economic Development

The theory behind globalization and trade is that it is a win-win situation for all involved. Developing countries will win from globalization because of increased job opportunities in making low-cost products for developed countries. In turn, developed countries will gain because they are able to buy inexpensive imports while exporting products to other countries. In practice, however, there are clear indicators that Free Trade Agreements haven't been a win-win situation for everyone. There has been a consistent downward pressure on wages for unskilled workers in both the United States and Latin America, and dwindling job opportunities. Even economic leaders in the 2007 World Economic Forum recognized that there is popular disenchantment with globalization in developing countries due to stagnating wages and rising job insecurity. According to Morgan Stanley's Chief Economist, the winners are only those who own capital.[2] Laura Tyson, dean of London Business Schools, stated in the same article that even in the U.S. an ever-larger share of national income is going to company profits while the share that flows to workers is diminishing. The results of recent presidential elections in the Western Hemisphere are clear manifestations of the disenchantment with these policies and that the citizens want a change.

The U.S. should pursue trade deals with countries in the Western Hemisphere but it must do so in a way that recognizes the asymmetries in trade liberalization as well as in the development in the region. Trade critics have focused on weak labor and environmental clauses, there are two other significant flaws in the trade agreements as they are currently negotiated that harm development in the region. The first is the restrictions placed on governments in using trade as a development tool due to trade rules. The second is the disregard of the rural sectors' significance as a means of employment, and culturally, and

---

cutting import tariffs and quotas, eliminating domestic subsidies, and privatizing state services and enterprises.

[2] Marcus Walker, Wall Street Journal article, January 25, 2007.

the negative impact of trade on this sector. Trade can benefit U.S. businesses if it recognizes the unique needs of the developing countries.

Trade and Government Policy Making in Development

The WTO preamble agreement emphasizes that trade is useful only to the extent that it serves broader social and development goals along with the interests of international traders. Towards this end, governments of developing countries need the flexibility to follow diverse development strategies that developed countries may no longer require but used in their own development.[3] For example, recent trade agreements negotiated by the USTR include non-trade provisions which limit governments' ability to shape policy that contributes to development of areas, sectors or regions. The procurement chapters of CAFTA and the proposed Peru and Colombia FTAs, for instance, restrict the ability of the countries to set domestic policy priorities especially on development because national treatment provisions in the trade agreements stipulate that foreign investors be treated at least as well as domestic investors. Governments will no longer be able to favor domestic industries that are in the process of developing. The United States, as a signatory to these deals, is also affected.[4] Similarly, the trade agreements determine the rules for Foreign Direct Investment and access to domestic service markets, which both play a critical role in protecting emerging industries and developing strategic sectors. Yet current agreements treat all the countries as identical.

Latin American countries vary tremendously in levels of development, wealth, industrialization and trade capacity. Each country has unique development needs with its own development plans and priorities. A "one size fits all" approach to trade does not work because it applies identical rules to unequal conditions between Latin American countries and with the U.S. Current, trade agreements puts developing countries into a straight jacket that inhibits their ability to implement country-specific development strategies that can reduce poverty and inequality. Equal rules among unequal players will only exacerbate the existing social and economic inequalities, with poorer and less developed countries significantly disadvantaged.

In their domestic policy-making, governments must have the autonomy to determine how to effectively use trade to support long-term development goals. Chile has long been lauded as the example of a country that has successfully implemented free trade, market liberalization policies. Yet, Professor Joseph Stiglitz has demonstrated that even Chile did not follow key elements of the Washington Consensus during its most successful years.

---

[3] For example, in the process of their own development, developed countries used foreign investment regulations strategically in order to protect their economies and strategic sectors. They imposed strict regulations on foreign investment including prohibiting entry to particular sectors, establishing ceilings on foreign ownership, setting performance requirements, guaranteeing skills transfers to local citizens and stipulating the terms of technology transfers.

[4] Concerns on procurement issues in the U.S. were also highlighted in a January 18, 2007 letter to the chairmen of the House Committee on Ways and Means. The letter was signed by seven Members of Congress.

Rather, the country imposed capital controls,[5] and only privatized a portion of its copper mines, using the profits of the nationalized mines for social and development purposes. For development purposes, especially those designed to reduce poverty, governments must be able to implement non-tariff barriers such as import quotas, local content requirements, production subsidies and price supports (in order to make local products more competitive) among others.

Trade, Agriculture and the Rural Sector

The agricultural and rural sectors in Latin America have been losers in the trade deals. As a country with the longest-standing trade agreement, Mexico is the starkest example of the negative impact trade has had on this sector. When NAFTA was put into effect, Mexicans were told it would end outward immigration because it would generate a lot of employment and make the economy stronger. Further, that the asymmetries in terms of wealth and development between the United States and Mexico would decrease.

From the time NAFTA went into force until 2001, there was economic growth. Direct foreign investment rose from U.S. $42 billion to U.S. $ 167 billion and export earning increased from U.S. $ 11 billion in 1994 to U.S. $ 21.8 billion in 2001. However, poverty also grew in this period, especially in the rural sector. Economic growth did not translate into improved living conditions and the promises of NAFTA were not realized.

Since 1994, an estimated 1.5 million peasants and small farmers have lost their livelihoods. The International Network on Migration and Development states that during 2000 to 2005, 900,000 jobs in the country-side disappeared and 700,000 in the industrial sector.[6] Sandra Polaski, the Director of the Trade, Equity and Development Project at the Carnegie Endowment for International Peace, substantiated the Network's claim. In her testimony for the Senate Subcommittee on International Trade of the Finance Committee, she testified that NAFTA has produced a "disappointingly small net gain in jobs in Mexico" in both the agriculture and manufacturing sectors. And, that "Mexican agriculture has been a net loser in trade with the United States" where more "farmers lost than gained from NAFTA-induced changes." [7] Finally, she reported that real wages for many Mexicans today are lower than when NAFTA took effect, largely due to productivity growth not translating into wage growth.[8] So rather than having a convergence between Mexican and U.S. wages as promised, there has been a marked divergence.

---

[5] Traditionally most governments have used various types of macroeconomic regulations and controls to regulate the flow of foreign investments, particularly short term speculative capital flows. Too much capital flowing in or out of a country at one time can have adverse effects on national economies. Many leading economist and the International Monetary Fund agree that capital controls are a policy tool that should be available for developing countries to ensure economic stability in order to avoid crises similar to the Asian currency crises of the late 1990s.

[6] Delgado, Raúl, International Network on Migration and Development quoted in Diego Ayala's article "NAFTA, the Cause of Migration," Excelsior, February 13, 2007.

[7] Polaski, Sandra. "The Employment Consequences of NAFTA," Testimony submitted to the Senate Sub-Committee on International Trade of the Committee on Finance, September 11, 2006, pages 1 and 8.

[8] Ibid, page 1.

Because Mexico opened its markets to U.S. exports, Mexican markets were flooded with U.S. corn. Oxfam international documented that U.S. corn exports more than quadrupled since NAFTA began, and are sold at low cost resulting in a 70% drop in the real prices paid to Mexican corn producers.[9] Unable to compete with the cheap, subsidized grain from the U.S., Mexican farmers lost their means of employment. NAFTA supporters argued that displaced farmers would be able to move to new industries with the jobs created in the export processing sectors. Yet jobs creation in this sector has eroded as industries move to new markets offering cheaper production costs as the reports from the International Network on Migration and Development, and the Carnegie Endowment for International Peace indicate.

Nor have Mexican consumers benefited from trade. The price of corn tortillas, a food staple, has risen by 50% in the Mexican capital and by even higher amounts in rural areas. While this is due to a confluence of factors, including an increased focus on biofuels, the point is that trade does not automatically translate into benefits for consumers.

Agriculture and rural areas are significant sectors in other Latin America countries as well. In Guatemala, Honduras and Nicaragua agriculture remains the largest source employment, engaging 52.5, 43.9 and 43.2 percent of the economically active population, respectively. In Peru and Colombia, 34% and over 20% of the population depend on agriculture for their livelihood.[10] In contrast, only 2% of the labor force is employed in the rural sector in the United States. Peasants in these countries will face futures similar to those of their Mexican counterparts because of the unfair competition due to U.S. subsides that enable U.S. agribusinesses to export goods at prices below production cost.

Liberalization of the agricultural sector harms agricultural and rural sectors in Latin America. Given the significance of these sectors culturally and as a source of employment, the U.S. Government should allow for special and differential treatment for agricultural products in Latin America tailored to each country.

Conclusion: Trade and Development

Trade can be an important poverty reduction tool but only when the rules of trade protect vulnerable sectors of the population and when linked to equitable, sustainable development strategies.

Trade can be a win-win situation, but trade agreements must recognize the need for governments to have flexibility in developing policy, particularly with regard to food production, and development strategies. Furthermore, Latin American governments must have the right to employ measures to protect local agriculture such as excluding key crops from trade negotiations, applying import controls, and providing internal support to emerging entrepreneurs and small and medium producers.

---

[9] Oxfam International, "Dumping without Borders", 2003.
[10] Patricia Amat, "Song of the Sirens," Oxfam America Briefing Paper, June 2006, at 8. "Field Listing – Labor Force by Occupation," CIA World Factbook, Dec. 19, 2006.

Latin Americans want trade but they want a trade structure that provides jobs, security and decent living conditions. The European Union, for example, provided support and allowed special and differential treatment for the less developed countries of Spain, Portugal and Ireland – allowing them to develop to a level where they were able to compete within the European market. The U.S. ought to take a similar approach to trade relationships in the Western Hemisphere. Specific recommendations include:

1. Trade agreements must guarantee governments' the policy flexibility and the autonomy they need to pursue their countries' development goals and to regulate in the public interest. This includes imposing capital controls and non-tariff barriers to protect emerging industries.
2. The U.S. Government should promote special and differential treatment for agricultural products in Latin America adapted to the needs of each country.
3. The U.S. Government should provide development assistance to diversify economies in the rural sector and provide rural populations access to productive resources.