Fair Trade or Free Trade? Understanding CAFTA

CAFTA and the Rural Sector

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Agriculture continues to be central to the well-being of significant portions of the population in Central America. In Guatemala and Nicaragua, agriculture employs 60[1] and 44[2] percent of the economically active population, respectively. In Costa Rica, the only middle-income country in Central America, 21 percent of the population is employed in agriculture.[3] By comparison, only 2 percent of the U.S. workforce is engaged in the rural sector.

Poverty is concentrated in rural areas.

- Despite economic growth in Latin America, rural poverty has increased during two decades of trade liberalization. Sixty percent of Central America's poor live in rural areas.[5]

- The two poorest groups in Central America consist of indigenous people and women, many of whom reside in rural areas. One third of the rural poor in Latin America are indigenous, and eight to ten million rural households are headed by women.[6]

- Official support for the rural sector has declined significantly over the last two decades. International development assistance to rural areas has dwindled, and structural adjustment programs in the 1980s and 90s have also resulted in reduced investment in rural infrastructure, technology, financial services, and human capital in Central America. The productivity of Central American farms has suffered as a result.

What will CAFTA mean for Central American farmers?

- CAFTA will require Central America to open its agricultural markets to competition from the U.S., even as the U.S. maintains its own farm and export subsidies. Subsidies and other internal supports encourage overproduction in the U.S., and have helped to drive down the price of farm commodities worldwide. Proponents of U.S. farm policy have argued that lower prices are good for U.S. exports. However, only a small number of agro-export corporations have increased their profits, while small, family farms in the U.S. struggle to survive. The impact on developing world farmers has been devastating: large corporations "dump" commodities at well below the costs of production, undercutting producers in the less developed world.

- Under CAFTA, More than half of U.S. farm exports to Central America will become duty-free immediately. This means, without tariffs to inhibit their entry, cheaper (subsidized) U.S. products will quickly flood the Central American market, displacing Central American farmers. Tariffs on almost all other U.S. farm products will be phased out within 15 years. The biggest losses of income and employment in Central America are predicted among producers of basic grains, such as yellow corn, rice and beans, as well as among producers of poultry, pork and dairy products.

- In Mexico, under the North American Free Trade Agreement, the real price paid to farmers of corn fell by 45.2 percent between 1993 and 1999.[7] This drop is attributed in large part to the opening of Mexican grain markets to U.S. and Canadian corn, which is subsidized and sold at low cost. 1.5 million Mexican farmers and farm workers have been forced off their land under NAFTA.[8] Small and medium producers in Central America fear the same fate under CAFTA.

Three reasons why CAFTA will fail Central American farmers:

1) ***CAFTA does not represent fair trade***; the agreement does not take into account large asymmetries between the U.S. and Central American countries in terms of development and size of the economy.
2) ***CAFTA does not represent free trade***; while Central America will be required to open the majority of its markets to competition from the U.S., the U.S. continues to maintain farm and export subsidies at home, and to protect sensitive sectors such as sugar.
3) ***CAFTA does not represent--nor is it linked to--a commitment to sustainable, human development in Central America***. Commitment to--and funding for--development in Central America has declined drastically over the last two decades. The 'Commitment to Development Index,' which ranks 21 of the world's richest countries based on their dedication to policies that benefit people living in poorer nations, places the U.S. last (along with Japan) in the ranking of the effectiveness and amount (as a percentage of GDP) of development aid given.[9]

Toward a Fair Trade Agreement.

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

- ***Even the playing field.*** The U.S. should cease to push a "do as we say, not as we do" approach in Central America. As U.S. farmers and exporters continue to receive high levels of subsidies and internal support, Central American governments should not be required to eliminate mechanisms that protect their farmers and key agricultural sectors.

- ***Protect Food Sovereignty***. Trade agreements should recognize the need for policy flexibility, particularly with regard to food production and public health. Central American governments should 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 small and medium producers. Trade agreements should exclude sensitive, staple crops, such as corn, rice and beans. These products are essential to nutrition in the region and provide the lion's share of rural employment.

- ***Promote rural development.*** A trade agreement should contain mechanisms to support equitable development within a trading block, including policies and funds to promote rural development (including rural infrastructure, technology, financial services, land distribution, health and education). 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.

[1] World Bank, "Country at a Glance," http://www.worldbank.org.
[2] Centro Internacional de Agricultura Tropical, "Rural Sustainability Indicators: Outlook for Central America," August 2002.
[3] World Bank, op cit.
[4] International Fund for Agricultural Development, "Regional Strategy Paper: Latin America and the Caribbean," March 2002.
[5] Centro Internacional de Agricultura Tropical, op cit.
[6] International Fund for Agricultural Development, op cit.
[7] Public Citizen, "Down on the Farm: NAFTA's Seven Year War on Farmers and Ranchers in the U.S., Canada, and Mexico," June 2001.
[8] John Audley, et al, "*NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere*," Carnegie Endowment for International Peace, December 2003.
[9] "Ranking the Rich: the Commitment to Development Index," 2002, Center for Global Development, http://www.cgdev.org.