



MEMO

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WASHINGTON OFFICE ON LATIN AMERICA

Fall 2007 will be a definitive time for U.S.-Latin American trade policy largely thanks to one nation- and no, it's not Peru, Panama or Colombia. With a referendum on the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) scheduled for Oct 7, the small coastal nation of Costa Rica is poised to deliver a resounding judgment on prospects for the U.S. trade agenda in the region.

In 2006, U.S. merchandise trade with Costa Rica amounted to \$4.1 billion, an increase of 13.9% from 2005. Trade between the U.S. and Costa Rica has steadily increased since 1996, a clear affirmation that the absence of a trade agreement has not put the breaks or even able to slow U.S-Costa Rica commerce.¹

Compared to its regional neighbors Costa Rica's economy is far and away the region's shining star with a gross domestic product per capita growth rate of 6.0% in 2006, dwarfing that of Guatemala, 2.3% and El Salvador, 2.5%.² Costa Rica was also a magnet for foreign direct investment (FDI) in 2006, attracting more than the economies of El Salvador, Guatemala, Honduras and Nicaragua combined.³

As Central America's most prosperous nation and longest-standing democracy, Costa Ricans don't need a trade agreement with the U.S. in order to ensure their continued economic and social development. In addition to its track record of healthy economic indicators, Costa Rica has consistently maintained the longest life expectancy and lowest poverty rate of any Central American nation, ranking 48 on the United Nation's Human Development Report 2006, far above its closet-ranking DR-CAFTA signatory, the Dominican Republic at 94.⁴

In the face of these numbers, it's easy to understand why Costa Ricans are wary about entering into a free trade agreement with the U.S. that would require significant changes to the nation's decades-old social security system, state-run telecommunications industry and protections for intellectual property rights.

Though DR-CAFTA was a divisive issue from the onset of negotiations, it became a nation-wide debate during the 2006 Costa Rican presidential elections between now-President Óscar Arias and opposition candidate Ottón Solís of the Costa Rican Citizen's Action Party. Solís, who ran on an "anti-CAFTA" platform, came within a mere 3250 votes of the Presidency. Since then, the opposition to DR-CAFTA has remained strong, with a nation-wide coalition organizing frequent protests and marches in response to a flurry of legal decisions paving the way for the October 7 referendum.

[A leaked memo](#) to the president written by Costa Rica's second vice-president Kevin Casas and legislator Fernando Sánchez has added fuel to the fire, sparking widespread public outrage and resulting in Casas' resignation on September 22. The memo outlines dirty political tactics the Arias government plans to use to force a "Yes" vote in the upcoming referendum. The tactics include a fear campaign that threatens Costa Ricans with job loss, weakening of

democratic institutions government financial instability if the referendum fails. The memo also proposes politically and financially isolating municipal mayors if they are unable to secure a victory for CAFTA in their district. These hardball tactics will undoubtedly have an impact on the October 7 vote.

Fears about the negative impacts of the trade agreement on the Costa Rican economy and state-run institutions are credible. During a recent trip to Washington DC, opposition leader Solís said the provisions in the agreement would allow for an influx of U.S. agricultural commodities, spelling disaster for Costa Rica's small farmers who are unable to compete with their heavily subsidized U.S. counterparts. The agreement also nullifies the possibility of strengthening environmental regulations in the future. In addition, certain intellectual property provisions will force changes prohibiting the government from purchasing lower price generic medicines and limiting its ability to assure access to all citizens. Under the current system, Costa Ricans enjoy universal health care, but DR-CAFTA would take away these rights.

DR-CAFTA is structured much like its predecessor, the North American Free Trade Agreement (NAFTA) which has not brought the levels of economic growth and employment to Mexico that its champions claimed it would. Unfortunately, these terms of trade continue to be championed and applied to economies as diverse as those of Oman, Chile and Peru. In doing so, U.S. trade policy discounts asymmetries in trading partners' economies, stages in development and needs of their domestic industries. Without clear country-specific safeguards, support for such agreements will continue to cause the dislocation of sectors such as small farmers and lead to the concentration wealth for a limited sector.⁵ The current U.S. trade model is not a roadmap for poverty alleviation or sustainable development.

Costa Ricans' recognition of this fact is evidenced by their concern with DR-CAFTA and how it will affect their socio-economic well-being. The results of the referendum will be an important message from Central America's most prosperous economy. When Costa Ricans go to the polls and vote on October 7, they will be issuing a judgment not only on DR-CAFTA, but on the prevailing U.S. trade model.

The Washington Office on Latin America (WOLA) is a non-governmental organization located in Washington, DC, that promotes human rights, democracy, and social and economic development in Latin America and the Caribbean

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1. U.S. Census Bureau, Foreign Trade Division, Data Dissemination Branch. Washington DC, 2006.
 2. Economic Commission on Latin America and the Caribbean (ECLAC), "Economic Study of Latin America and the Caribbean 2006-2007", July 2007.
 3. ECLAC, July 2007.
 4. United Nations Human Development Report 2006, Human Development Indicators, p 283.
 5. As Sandra Polaski notes in "NAFTA's Promise and Reality," Carnegie Endowment for International Peace, Mexican agriculture was a net loser in trade with the U.S. under NAFTA resulting in the loss of approximately 1.3 million agriculture jobs.