



WASHINGTON OFFICE ON LATIN AMERICA

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

Thursday, January 22, 2004.
The Capitol Building, Washington, DC

The following is the text of Vicki Gass' presentation on the impact of CAFTA on the Central American Rural Sector.

Vicki Gass is Senior Associate for Rights and Development at WOLA.

Thank you. Again, my name is Vicki Gass and I work for the Washington Office on Latin America, WOLA. As many of you know, WOLA is a 30 year-old non-profit policy, research and advocacy organization that works to advance democracy, human rights and social justice in Latin America, and to foster an U.S. foreign policy that contributes to the achievement of those goals. Since 1974, we have played a leading role in Washington policy debates about Latin America, monitoring the impact of policies and programs of governments, and facilitating dialogue between governmental and non-governmental actors throughout the Americas.

The purpose of today's briefing is to discuss how CAFTA, the Central American Free Trade Agreement, will impact Central America. My focus is on the impact the trade agreement will have on the rural sector, drawing on what we know of the agreement and the lessons we have learned from NAFTA.

In order to appreciate the potential impact, it's important to understand the significance of the rural sector in Central America, as well as the vulnerability of this sector. In Guatemala, Honduras and Nicaragua agriculture remains the largest source of employment, engaging 52.5, 43.9 and 43.2 percent of the economically active population respectively. In the U.S., only 2% of the labor force is employed in the rural sector. Central Americans depend on food staples such as corn, beans, rice and dairy products. In addition, Central America is dependent on a few, key export crops, which are highly vulnerable to the volatility of international markets. The greatest example of this is the world crisis in coffee production that, according to the World Bank, has directly contributed to the loss of upwards of 600,000 jobs region-wide. Finally, there are 5.5 million producers of basic grains in Central America who already face unfair competition due to U.S. subsidies that enable U.S. producers and agribusiness to export goods at prices below production cost.

In Central America, poverty is concentrated in the rural sector. Despite regional economic growth, rural poverty has increased during the last two decades of trade liberalization throughout Latin America. According to the International Fund for

Agricultural Development, 64% of Latin America's rural population lives in poverty, compared to 59.9 percent in 1980. In Central America, 60% of the poor live in rural



WASHINGTON OFFICE ON LATIN AMERICA

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

areas. In Nicaragua, where the average tariff dropped from 43.2% to 5% in less than a decade, 75% of the population lives below the poverty line. The 2002 World Food Program Report stated that 1 in 4 Central Americans continue to suffer from hunger or food insecurity. The two poorest groups in the region are indigenous people and women, many of whom reside in rural areas. One third of the rural poor in Latin America are indigenous, and women head eight to ten million rural households.

Moreover, official support for the rural sector has declined significantly over the last two decades, and structural adjustment programs in the 1980s and '90s have resulted in minimal investment in rural infrastructure, financial services and human capital in the region. Not only has productivity of Central American farms suffered as a result, but lack of overall employment opportunities has been the impetus of outward migration to the U.S., reaching a flow of more than 250,000 people per year.

Although the text of the agreement has still not been made public, we do know that the agricultural sector did not fair well under CAFTA, based on information from Central American organizations that participated in side-rooms during the negotiation process, statements by the USTR, and an extensive report on the CAFTA negotiations by InterAction.

In a “do as I say, not as I do” approach, the U.S. steadfastly refused to discuss the issue of subsidies to its own agricultural producers, preferring to discuss this issue at the level of the WTO. In response, the Central American negotiators and producer federations demanded that sensitive agricultural crops such as basic grains, dairy and pork be exempt from the negotiations until the U.S. eliminates its unfair agricultural subsidies. Once again, the U.S. refused any exemptions for these products. This forced the Central American governments to offer a weaker proposal for special and differential treatment; they called for increased market access for some products and the maintenance of high tariffs and longer liberalization periods for sensitive agricultural products. Again, the U.S. refused.

According to the Mesoamerican Initiative for Trade Integration (a coalition of Central American civil society organizations that has closely monitored the CAFTA negotiations), Central Americans conceded much more than they received in agriculture. By the end of the negotiations, the four remaining Central American countries received a small (and many would say marginal) amount of new market access for certain products such as sugar, and a 15 to 20 year liberalization period for several sensitive crops. Farmers, analysts and government negotiators alike recognize that these are very small gains, compared to the blows the agricultural sector will sustain under CAFTA. It is in part because of the U.S.’ limited offer in market access for Costa Rican agricultural goods, that the Costa Rican government walked away from the negotiating table in December. On December 31, 2003 the lead Guatemalan Negotiator Guido Rodas, stated, “Rice, pork, corn, beer, telecommunications and generic medicines are among the losers



WASHINGTON OFFICE ON LATIN AMERICA

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

who will pick up the tab of the CAFTA negotiation.”[1] Similarly, InterAction’s report commented that unless there is massive assistance “most agree that CAFTA will be the final nail in the coffin of subsistence farming in Central America.”[2]

Some proponents of CAFTA have argued that small-scale farming in Central America is a dying industry, and that subsistence farmers are becoming obsolete in the global economy. However, far from obsolescence, small and medium-scale agriculture plays multiple, important roles in Central America. Small and medium farms create significant rural employment, with backward and forward linkages in the rural economy. Local food production is also important for food security and nutrition. Small farmers play an important role as environmental stewards, caring for the land, just as agriculture plays an important cultural and historical role in the social fabric of Central America. Finally, rural development and opportunities in agriculture help to decrease migratory pressure on cities and the U.S.

It has been said that trade agreements create winners and losers; there are people who benefit from trade liberalization, and those who do not. NAFTA has demonstrated, as will CAFTA if it passes, that the biggest losers in these trade deals are in the agricultural sector, especially small and medium farmers and day laborers. The experience of NAFTA in the Mexican agricultural sector is illustrative:

v At least 1.5 million Mexican farmers have lost their livelihoods to NAFTA. According to a Carnegie Endowment for International Peace report published last month, approximately 8 million of Mexico’s active labor force worked in the agriculture sector in 1993; by 2003, it was roughly 6.5 million. The report states, “Agricultural trade liberalization linked to NAFTA is the signal most significant factor in the loss of agricultural jobs in Mexico.”[3] A year ago, Interpress Service reported that an estimated 600 Mexican farmers were forced off the land every day in 2002. Limited employment growth in the manufacturing sector has not been able to absorb unemployed rural workers.

v Proponents of NAFTA have argued that displaced farmers will move to new industries, but job creation—particularly in the export processing sector—is being eroded as jobs move to new markets (over 200,000 jobs left Mexico for Asia in the last two years). And while Mexican exports to the United States have grown since NAFTA, real wages and purchasing power in Mexico have fallen.

v In Mexico, the real price paid to farmers of Mexican corn fell by 45.2 percent between 1993 and 1997. Oxfam International’s briefing paper “Dumping without Borders”, reported that U.S. corn exports have 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.[4]



WASHINGTON OFFICE ON LATIN AMERICA

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

v Food security in Mexico has been threatened while dependence on imports has increased.

v Trade liberalization has not benefited the consumer in Mexico. The price of corn tortillas, a food staple, has risen by 50% in Mexico City and by even higher amounts in rural areas where poverty is greatest. This is due to a confluence of factors, but underscores the important fact that trade liberalization does not automatically translate into benefits for consumers.

v The crisis in Mexican agriculture is the result of approximately 30 years of trade liberalization policies and neglect of the rural sector by the Mexican government and international donors. However, NAFTA was the event that accelerated and codified the process of agricultural liberalization—with the most devastating effects.

Minimally, the provisions needed for trade to work to support rural livelihoods in Central America, ought to include:

v Ending double standards by eliminating trade distorting subsidies that enable large agribusiness to export U.S. goods below the costs of production.

v Exempting basic food security crops, such as corn, beans, rice and dairy products from trade liberalization.

v Permitting Central American governments to renegotiate tariffs for basic crops in order to protect small and medium producers.

v Increasing financial and technical support to rural farmers in order to increase market competitiveness with the U.S.

v Linking trade agreements to development strategies that invest in human capital, including health, education and adequate infrastructure. For example, the European Union 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.

Congress must view trade agreements and the impact of trade through the lens of poverty reduction, and measure the agreements by the extent to which people are able to exercise their economic and social rights. Trade is an important factor in any economy, but, as studies such as the Carnegie report demonstrate, agricultural liberalization is not good for developing countries that have huge trade asymmetries vis-à-vis their trading partners. Like their Mexican counterparts, Central American farmers will be unable to compete against highly subsidized production in the U.S. and elsewhere in the developed world. This will result in increased poverty, greater levels of rural unemployment and more



WASHINGTON OFFICE ON LATIN AMERICA

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

migration – further violating Central Americans economic and social rights. Simply put, CAFTA is not the development strategy that the region needs.

Thank you.

[1] La Prensa and Siglo XXI, December 31, 2003.

[2] Update on the U.S.-Central America Free Trade Agreement (CAFTA): Implications of the Negotiations. InterAction. January 2004.

[3] NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere. Carnegie Endowment for International Peace, December 2003.

[4] Make Trade Fair for Central America, Oxfam America, September 2003.