



CAFTA gets mixed reception

U.S. business groups are praising the Dominican Republic-Central America Free Trade Agreement, but some critics say the benefits may turn out to be less than promised.

"One would imagine there's going to be kind of incremental growth," said Larry Birns, director of the Council on Hemispheric Affairs and a critic of the pact. "I think the benefits are going to be rather negligible. A couple of ports, maybe Mobile (Alabama), will benefit. It's not going to be a bonanza."

Birns noted that the countries covered by the agreement collectively represent less than 5 percent of U.S. trade.

Trade groups brush aside such talk. The National Association of Manufacturers estimates that CAFTA will generate \$1 billion worth of additional exports of U.S.-manufactured goods. Sugar growers fiercely opposed the deal, because it would scale back the protection the industry's protection from imports, but some trade sources say it will produce \$1.5 billion in additional exports of farm products.

Critics say manufacturers, and U.S.-based shippers, will be hurt by the low-cost imports from Central America. But the NAM scoffs, saying the combined economy of the CAFTA countries is only the size of Sacramento, Calif.

"(NAM) worked very hard for a CAFTA win because a loss would have hurt American manufacturing and jobs here at home," said John Engler, the association's president. "We lobbied hard in Washington, but the efforts of large and small manufacturers around the country to explain to lawmakers that CAFTA was a vital part of our U.S. manufacturing agenda made the difference."

John Hyatt, vice president at Irwin Brown & Co., a New Orleans customs broker and freight forwarder, said the deal will produce quick benefits for companies already doing business in Central America.

The agreement will immediately eliminate import duties on some U.S. products that have been priced out of the market because of high tariffs. For example, U.S. poultry exporters, long stymied by duty rates as high as 164 percent in Central America, will see their rates drop to zero. "It will make U.S. poultry competitive," Hyatt said.

The agreement is expected to generate \$1 billion in additional exports of U.S. manufactured goods and \$1.5 billion in increased shipments of farm products.

Another major beneficiary, he predicted, will be U.S. automakers. Their exports to Central America, a region with no auto-assembly plants of its own, have been restricted as a result of local tariffs that range from 50 to 75 percent. Once those tariffs are eliminated, U.S. cars will be more competitive against Asian vehicles.

After CAFTA takes effect, most of the new investments will be in low-value-added apparel assembly because of the trade benefits for goods assembled there. U.S. exporters should benefit because of the prospects for exporting components that can be assembled into finished products in the low-cost countries of Central America and then shipped to the United States.

"Right now, we are most interested in apparel because it employs a lot of people," said Carlos Sequeira, Nicaragua's chief negotiator for CAFTA.

Nicaragua, the poorest country in Central America, offers the region's low-

est wages, along with proximity to the U.S. market. But Sequeira admits that Nicaraguan labor productivity is poor, as is much of the region's infrastructure. He said the average speed of a truck traveling on a major Costa Rica-Guatemala route is only 15 miles an hour.

CAFTA's benefits may not be enough to counter the overwhelming presence of China and other Asian countries in global markets, Hyatt said. "They will have to compete against China, India, Bangladesh and Indonesia, which are vertically integrated," he said.

Greg Mastel, chief international trade adviser at Miller & Chevalier, a Washington-based international law firm and a former chief economist for the Senate Finance Committee, agreed. "China has made such an impact, it will be hard for Central America to make a big dent," he said. "The numbers for China are pretty overwhelming."

The long-term impact of any major trade agreement is harder to predict than its supporters or opponents usually anticipate, Mastel said. "My experience from NAFTA (the North America Free Trade Agreement) is that it is not a light-switch phenomenon that goes on instantly with companies," he said. "Many companies that have benefited the most from NAFTA were not deeply focused on NAFTA when it was approved by the U.S. Congress" in 1993, Mastel said. "Many electronics companies that now benefit from cross-border plants in both the U.S. and Mexico only vaguely thought about NAFTA at the time, and did not have such plants in mind."

He said industries besides apparel that could emerge in the region include agricultural commodities, and assembly plants for electronics, automobiles, chemicals and other products. Another possible winner is the Central American tourist, which hopes to take advantage of relatively low prices, pristine rain forests and beaches, and proximity to the U.S. market. ☀