



One step closer to CAFTA

U.S. textile, sugar interests continue fight as congressional vote nears

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If Congress approves the Central America Free Trade Agreement between the U.S. and five smaller neighbors to the south, the floodgates of commerce are not exactly going to be choked with a glut of products. But the agreement will benefit numerous sectors of the U.S. economy, including agriculture. Other sectors, such as domestic sugar growers and textiles, are forecasting job losses and financial ruin.

There're winners and losers," said John Hyatt, secretary of the board of directors of the National Customs Brokers and Forwarders Association of America and a vice president of Irwin Brown Co. in New Orleans.

The agreement was signed May 28 by U.S. Trade Representative Robert B. Zoellick and counterparts from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The Dominican Republic is expected to sign the agreement later.

Once signed, the bill can be sent to Congress for approval. The Bush administration has not announced when it will send the proposed pact to Capitol Hill.

The signing caps two years of work. Bush announced his intention to negotiate CAFTA in January 2002. An initial agreement was announced in December, followed in January by an announcement that Costa Rica had agreed to join. Negotiations with the Dominican Republic concluded in March.

Although the administration is pleased with the conclusion of the trade talks, the pact represents a relatively small amount of trade.

Together, the Central American countries are the 13th-largest export market for the U.S. In 2003, the U.S. exported \$11 billion in goods to the five nations of CAFTA.

The combined gross domestic product of the five countries, excluding the Dominican Republic, is \$142 billion, or about 1.4 percent of the U.S. economy. "One should not exaggerate the economic impact one way or another," said Richard E. Feinberg, a professor of international political economics at the University of California at San Diego.

At the outset, U.S. exporters will see the biggest benefit. The CAFTA countries and many other developing nations can already send a majority of their exports to the U.S. duty-free. In contrast, they charge high tariffs, especially on agricultural goods. "As you expand and open markets, you create more opportunities for exports," said Barry S. Featherman, president of the Inter-American Economic Council in Washington. "The important thing is to create predictability."

According to the U.S. Trade Representative's Office, the average allowed tariff on agricultural goods is 60 percent in Nicaragua, 49 percent in Guatemala, 42 percent in Costa Rica, 41 percent in El Salvador and 35 percent in Honduras. Under the agreement, most agricultural tariffs will be phased out over varying periods, from five years on some products to 20 years for chicken leg quarters, rice and dairy products.

The phase-out period also varies slightly by country and product. For example, the 26 percent out-of-quota tariff on beef imports into the U.S. will be phased out over 15 years, the same schedule for eliminating all Central American tariffs on U.S. beef.

The U.S. is already the region's single-largest agricultural supplier, exporting about \$1 billion in goods in 2002. U.S. agricultural goods were the single-largest import to the region in 2001, accounting for 41 percent of imports by value.

Textiles and sugar are probably the two most contentious products covered by CAFTA. For the Central American partners, textiles are the big issue. Clothes made in Central America will be allowed to enter the U.S. duty-free, as long as they meet certain rules. All clothes must be made of fabric that is primarily manufactured in the participating countries, Mexico or Canada, although there are exceptions for clothes made of material that are in "short supply" in those nations.

The U.S. textile and sugar industries vehemently oppose the agreements covering their sectors. The National Council of Textile Organizations says CAFTA's textile provisions are full of loopholes that the association estimates will cost the domestic textile industry between \$1 billion and \$1.8 billion a year. "When the U.S. negotiators agreed to these loopholes, all chances for significant U.S. textile support for CAFTA vanished," Robert DuPree, vice president of the council, told a hearing before the U.S. International Trade Commission. "Indeed, every textile association in the country opposes this agreement."

The agreement should not allow material made in other nations to be used in the apparel sent to the U.S. duty-free, DuPree said. "This is nothing but a gift to foreign textile producers from countries not party to the agreement at our expense."

The textile agreement should be considered within the context of the final phase of the global 10-year quota elimination, some trade experts said. Central America has predominantly been a "cut-and-sew" center, making apparel of fabrics and yarn imported from other countries. Through CAFTA, Central America should be able to establish vertically integrated operations because companies will have access to better business finance options, Hyatt said.

That should help Central American companies provide complete apparel to the U.S. market, as their Asian competitors already do. Central America's location is already an advantage over Asian producers, Hyatt said. "They're going to have to vertically integrate and provide the whole package to the U.S.," he said.

The potential damage to the domestic textile industry is being overstated, Featherman said. "If one examines the text of the agreement, I don't think one is going to see a flight of textile jobs from the U.S.," he said.

Like the domestic textile industry, U.S. sugar growers are unanimously opposed to CAFTA. The

agreement would allow the Central American participants to export a total of 99,000 metric tons of sugar into the U.S., or about 1 percent of U.S. production. U.S. tariffs on sugar would remain at well over 100 percent, the USTR said.

The American Sugar Alliance told the International Trade Commission last month that the proposed sugar provisions would inflict "unacceptable" damage on the domestic industry. "Each additional ton of sugar imported will come at the expense of U.S. sugar producers," the alliance said.

But the USTR said in January that "approval of CAFTA would not have a destabilizing effect on the U.S. sugar program."

U.S. exports to the region in general will increase if CAFTA is approved. Not only will they become more prevalent, they will become more affordable, if the recently enacted free-trade agreement with Chile is an indication. Zoellick, citing statistics from the American Chamber of Commerce in Santiago, Chile, said auto imports to Chile in the first two months of the free-trade agreement increased by 90 percent over previous levels.

"There is more good news," Zoellick told the Council of the Americas in May. "The AMCHAM also reports double-digit growth in exports of trucks, auto parts, turbojets, turboprops and turbines, as well as self-propelled machinery and mining equipment. Fertilizer sales jumped from \$100,000 to \$3.2 million."

Some of the benefits of the proposed CAFTA are not industry-specific, experts said. For example, approval of the agreement could help the struggling Free Trade Area of the Americas gain momentum. "It can stand on its own, or it can be used as a building block. Much of that depends on the political will of Brazil and the U.S.," Feinberg said.

The proposal also would help generate U.S. investment in Central American countries because participating nations will have to agree to improve enforcement of business laws. "It creates a better environment for U.S. companies interested in making investments in the area. The USTR has really helped level the playing field for U.S. companies interested in doing business in the region," Featherman said.

"This is a chance for Central America to integrate itself into the global economy. Globalism is where it's at," Hyatt said.

Congressional approval is not a certainty. The sugar and textile industries have been lobbying members to oppose the pact since its completion was announced. In addition, labor groups are concerned about the agreements' provisions that call for participating nations to enforce their own labor laws. "It's not a done deal at this point," Hyatt conceded.

Feinberg, noting the generally small size of the participating nations, said the agreement has a significant chance for congressional approval. "It is part of the relentless march of democratic capitalism. It sort of has an inevitability to it," he said.

"I don't think the administration has made a big deal of it; the opponents have made a big deal out of it. They think they can halt the march of globalization in the Central American jungle."