Fair Trade or Free Trade? Understanding CAFTA

What is CAFTA, and why is it important?

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The proposed U.S.-Central America Free Trade Agreement (CAFTA) promotes trade liberalization between the United States and five Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Modeled after the ten-year old North American Free Trade Agreement (NAFTA), CAFTA is widely considered to be a stepping stone to the larger Free Trade Area of the Americas (FTAA) that would encompass 34 economies. CAFTA must be approved by the U.S. Congress and by National Assemblies in the Central American countries before it becomes law.

Fast Track Negotiations

The Bush Administration aggressively pursued the CAFTA negotiations on a very short timeline; whereas NAFTA took more than seven years to negotiate and the FTAA has been negotiated for almost a decade, CAFTA was completed in one calendar year, with limited civil society or Congressional participation. Negotiations for CAFTA began in January 2003, shortly after the U.S. Congress approved a bill to confer Trade Promotion Authority (or "Fast Track") to the White House. Under "Fast Track," Congress is limited to an up or down vote and cannot amend a trade agreement.

An Asymmetric Agreement:

CAFTA is the first "sub-regional" agreement to be negotiated between such unequal trading partners, where the combined GDP of Central America is equal to 0.5 percent of U.S. GDP. CAFTA would require market liberalization for the majority of goods and services in Central America—including agriculture, manufacturing, public services and government procurement. In return, the U.S. has promised increased market access for certain sectors in Central America, including textiles and a limited increase in sugar quotas. Rigorous impact assessments of CAFTA have not been conducted in Central America. Rather, Central Americans are forced to judge the potential impact based upon the ten-year record of NAFTA. Analysts expect that--as occurred in Mexico--CAFTA will attract foreign direct investment and boost Central American exports in certain sectors, but will provide little benefit to the rural and urban poor of the region.

Opposition to CAFTA grows

While there are many reasons for concern within CAFTA, workers' rights, agriculture, and worries over U.S. job loss have galvanized opposition to the agreement. Labor unions, development organizations, religious groups, and private sector lobbies have spoken out against the agreement, both in the U.S. and Central America. Legislators in the U.S. Congress and Central American assemblies have also voiced their concern.

LABOR: CAFTA is a step backward for organized labor in Central America as, unlike earlier trade agreements, it does not require compliance with international labor standards. CAFTA only requires that participating countries enforce their domestic labor laws, which are grossly inadequate in Central America.

AGRICULTURE: Central American farmers are concerned that they will be unable to compete in the face of an influx of highly subsidized U.S. exports under CAFTA. Two-thirds of Central America's poor live in rural areas, and rely on agriculture for employment and food security.

U.S. JOBS: Free trade policies have become a topic of renewed debate in the U.S., as the country experiences jobless growth and the outsourcing of manufacturing jobs. Textile manufacturers and the sugar industry are actively lobbying Congress against CAFTA. Other industries and states that lost jobs or suffered under NAFTA have also expressed their skepticism about CAFTA.