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Issue Analysis

CAFTA-DR

Can Free Trade Hold Up to Special Interest Siege?

by Frances B. Smith

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Executive Summary

Since its signing almost a year ago, the U.S.-Central American and Dominican Republic Free Trade Agreement (CAFTA-DR) has been under heavy attack by labor unions, the sugar and textile lobbies, and some environmental groups, which have been hitting the treaty for not going far enough to protect American jobs as well as workers and the environment in the Central American countries of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and the later-added Dominican Republic.

Some politicians, facing furor over the agreement, are asking: Is the game worth the candle? If policy makers look past the heated rhetoric and focus on the reality, they will conclude that the trade agreement has more positives than negatives for American producers, workers, and consumers and for the people in the CAFTA-DR countries.

American producers would gain significantly greater market access for their exports, including farm exports, to CAFTA-DR countries, because of widespread elimination and lowering of tariffs. Further, since those countries already export the majority of their goods to the U.S. duty-free, the trade agreement creates a better balance for the U.S.

The CAFTA-DR countries' commitments to open many of their markets to U.S. goods and services are not insignificant: Together, they already represent the 10th largest market for U.S. exports worldwide.

Freer trade will benefit consumers, households, and taxpayers in the U.S. and the CAFTA-DR countries by giving them greater access to goods and services, reducing prices, and providing significant welfare gains. More open trade with the U.S. would spur greater economic growth and improve incomes and employment opportunities in the CAFTA-DR countries.

CAFTA-DR would also establish stronger economic ties for the U.S. with not only close trading partners but also close neighbors whose continuing economic and social stability is critical in the Western hemisphere.

On the world stage, ratifying CAFTA-DR would help the United States regain its leadership—and credibility—in pursuing freer agricultural trade through the World Trade Organization, due to hold its next Ministerial Meeting at the end of this year.

However, there are some downsides to the agreement that undermine the goal of more open trade. For example, lengthy phase-outs of U.S. import quotas and tariffs on "sensitive products" protect too many U.S. special interests. The treaty also goes beyond

previous trade agreements in including detailed environmental and labor provisions that could retard economic growth in the CAFTA-DR countries. Such provisions show a lack of recognition that trade and resultant economic growth can be critical in improving both the environment and the lives of workers. Policy makers should be wary of using trade agreements as a big stick to pursue environmental and labor goals. The regulatory costs of imposing rich countries' standards on developing countries can act as non-tariff trade barriers that threaten the positive benefits of more open trade.

Trade expansion works when pursued through large multi-national agreements in which the rich and the poor countries get equal access to each other's markets. But much trade is incremental and consists of bilateral and regional agreements that often are flawed, as CAFTA-DR undoubtedly is.

However, to reject CAFTA-DR at this point would be to turn our backs on the benefits of more open trade and cede the political playing field to protectionist interests—whether those protectionists are the sugar and textile industries or pressure groups seeking to promote their agendas, such as labor and the environment, by restricting trade.

Introduction

Since its signing almost a year ago, the U.S.-Central American and Dominican Republic Free Trade Agreement (CAFTA-DR)[1] has been under heavy attack by labor unions, the sugar and textile lobbies, and some environmental groups, which have been hitting the treaty for not going far enough to protect American jobs as well as workers and the environment in the Central American countries of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and the later-added Dominican Republic.[2]

Some politicians, facing furor over the agreement, are asking: Is the game worth the candle? If policy makers look past the heated rhetoric and focus on the reality, they will conclude that the trade agreement has more positives than negatives for American producers, workers, and consumers and for the people in the CAFTA-DR countries.

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Besides those tangible economic gains, CAFTA-DR would establish even stronger economic ties for the U.S. with not only close trading partners but also close neighbors whose continuing economic and social stability is critical in the Western hemisphere.

On the world stage, ratifying CAFTA-DR would help the United States regain its leadership—and credibility—in pursuing freer agricultural trade through the World Trade Organization, due to hold its next Ministerial Meeting at the end of this year.

However, there are some downsides to the agreement that undermine the goal of more open trade. For example, lengthy phase-outs of U.S. import quotas and tariffs on "sensitive products" protect too many U.S. special interests. The treaty also goes beyond previous trade agreements in including detailed environmental and labor provisions that could retard economic growth in the CAFTA-DR countries. Such provisions show a lack of recognition that trade and resultant economic growth can be critical in improving both the environment and the lives of workers. Policy makers should be wary of using trade agreements as a big stick to pursue environmental and labor goals. The regulatory costs of imposing rich countries' standards on developing countries can act as non-tariff trade barriers that threaten the positive benefits of more open trade.

CAFTA-DR's Economic Benefits

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- U.S. producers will gain significantly greater market access for their exports to the CAFTA-DR countries because of widespread elimination and lowering of tariffs. Tariffs will be eliminated immediately on more than 80 percent of U.S. exports of consumer and industrial products, and the remainder will be phased out over 10 years.[3]
- The agreement will expand U.S. farm export markets—over half of current U.S. farm exports to Central America will become duty-free immediately, and most other tariffs will be phased out within 15 years.[4]
- U.S. service providers and manufacturers would also benefit, especially in sectors such as telecommunications, insurance, banking, construction and other equipment, information technology products, paper products, and pharmaceuticals.[5]
- The CAFTA-DR countries are already important trading partners and represent the 10th largest export market for the U.S. worldwide. In Latin America, only Mexico is a bigger market for U.S. exports.[6]
- The new agreement would provide for greater reciprocity. The CAFTA-DR countries already enjoy significant duty-free access to U.S. markets because of several existing preferential agreements, such as the Caribbean Basin Initiative. Some 80 percent of their total exports to the U.S. already arrive duty-free. Currently, too, over 99 percent of their food and agricultural products exported to the U.S. face no tariffs.
- Most U.S. farmers and ranchers recognize the importance of the agreement to maintaining their competitive edge in the region. The American Farm Bureau Federation estimated that the trade

pact will result in almost $1.5 billion in agricultural exports to Central America and the Dominican Republic.[7] The U.S. wheat industry has urged passage of the agreement and pointed out that, "tariffs on wheat imports are immediately locked in at zero for all six countries."[8] America's cattle producers also support CAFTA-DR's passage, and note that the agreement "will provide immediate duty-free quota-free access for high-quality U.S. beef beginning on Day One of the agreement's implementation."[9]

However, increased exports are only one side of the picture—and a distorted picture at that. The debate over CAFTA-DR shows that mercantilism is alive and well in trade negotiations.

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Trade is not a zero-sum gain, with one party the winner and the other the loser. Trade works because it is a two-way street, with both sides standing to gain. Yet, rather than viewing trade as mutually beneficial, both sides of the debate either ignore or deride the benefits that imports bring to consumers. CAFTA-DR critics charge that increased imports would hurt U.S. industries, while supporters of the agreement focus only on the benefits to exporters.[10] Both opponents and supporters completely overlook the increased consumer benefits that more open trade can bring—greater choices and lower prices—for both Americans and Central Americans.

- Consumers and many producers, manufacturers, and retailers in all seven countries will benefit from increased trade through a greater variety of product choices, lower prices, and greater competition that can lead to innovation.
- Lower-income consumers bear the brunt of tariffs on lower-cost imported goods in the form of higher prices or reduced product availability. Those consumers benefit most from competition that can lower prices. As Federal Reserve Bank of Dallas President Richard W. Fisher recently wrote:

> *Since 1997, prices for many heavily traded goods have actually fallen: 86% for computers and peripherals, 68% for video equipment, 36% for toys, 20% for women's outerwear, 17% for men's shirts and sweaters. Prices of goods and services not subject to foreign competition have fared less well: college tuition and fees, up 53%; cable and satellite television, up 41%; dental services, up 38%; prescription drugs and medical supplies, up 37%.*[11]

- When fully implemented, CAFTA-DR will give U.S. consumers, households, and taxpayers greater access to foods, goods, and services—some not produced in the U.S.—lower prices, resulting in an overall increase in welfare from $135.31 million to $248.17 million, according to U.S. International Trade Commission estimates.[12]
- More open trade increases competition not only in prices but also in quality, which provides consumers with more and better product and service choices.
- Reducing tariffs on imports from CAFTA-DR countries would in effect act as tax cuts for U.S. consumers. Consumers are worse off when they must pay more for goods because of duties imposed to protect special interests. As Federal Reserve Board Chairman Alan Greenspan said in a 2003 speech:

> *For the most part, we as a nation have not engaged in significant and widespread protectionism for more than five decades. The consequences of moving in that direction in today's far more globalized financial world could be unexpectedly destabilizing. A likely fall in wage incomes and profits could lead, ironically, to a fall in jobs and job security in the shorter term. So, yes, we can shut out part or all foreign competition, but we would pay a price for doing so—perhaps a rather large price.*[13]

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Sugar and Textiles

Support for CAFTA-DR in Congress is shaky. The Senate Finance Committee hearings on April 13, 2005 echoed what is becoming a worrisome trend in the Untied States—widespread attacks on more open trade based on outdated mercantilist views. The misperception that only exports are good and imports are bad is being hammered home by special interests seeking to keep protectionist policies in place.

Sadly, some policy makers are swayed by the specious arguments—and sometimes the deep pockets—of the sugar and textile lobbies. In addition to the money they spread to political campaigns of both parties, those industries have formidable lobby and media shops that have been able to diffuse the opposition. Because of these industries' lobbying power, even many Congressional supporters of CAFTA-DR are wary about taking a public stand on the agreement.

Towering among the CAFTA-DR opponents is the sugar industry—the cane sugar producers in politically important Southern states such as Florida and Louisiana and the sugar beet growers in 12 Midwestern and Western states, including Minnesota, North Dakota, Idaho, and Michigan.[14]

Despite the sugar industry's outcry, under CAFTA-DR, the U.S. would continue to provide substantial protection to domestic sugar producers. The pact provides only a very small increase in the amount of sugar imports allowed into the U.S. duty-free.

Underlying the sugar industry's assault on CAFTA-DR is fear that its long-time status as a specially protected industry may be eroding. As a witness at a recent Senate hearing on the trade agreement noted, this protection is costly for U.S. consumers: "According to U.S. submissions to the WTO, the tax transfers a trade-distorting subsidy of over $1 billion annually to U.S. sugar growers. This is money that comes directly out of consumers' pockets."[15]

While CAFTA-DR's sugar provisions represent only a minuscule step toward greater market access, the industry is riding high in the wake of its successful lobbying to keep sugar from being considered at all in the U.S.-Australia trade agreement completed last year. The sugar exception—on which U.S. envoys were adamant—nearly derailed the negotiations with one of the U.S.'s closest trading partners and allies.

The industry would like to maintain sugar's special exemption status in CAFTA-DR and other trade agreements being negotiated. As an American Sugar Alliance witness stated at recent Senate hearings,

> *In the longer term, the CAFTA is the tip of the FTA iceberg. Behind the CAFTA countries, 21 other sugar-exporting countries are lined up, like planes on a tarmac, waiting to do their deal with the U.S. and, no doubt, expecting no less access than already granted to the CAFTA countries.*[16]

Despite the sugar industry's outcry, under CAFTA-DR, the U.S. would continue to provide substantial protection to domestic sugar producers. The pact provides only a very small increase in the amount of sugar imports allowed into the U.S. duty-free. In the U.S. more than 7 million metric tons of sugar are produced per year. Under CAFTA-DR, the increased quota amounts to slightly above 100,000 metric tons.[17] The expansion of sugar imports will initially amount to 1.2 percent of U.S. consumption, rising after 15 years to about 1.7 percent. Any imports above that quota will still be subject to steep tariffs.

Further, language in the agreement allows exceptions so that taxpayers and consumers, not producers, will pay the bill, including a special "Sugar Compensation Mechanism" that allows the U.S. to compensate a Central American sugar exporter instead of allowing

U.S. Trade Representative nominee, Rep. Rob Portman (R-OH) expressed his willingness to go to Congress to consider compensating the CAFTA-DR countries for not exporting any duty-free sugar to the U.S. Of course, taxpayers would be the ones paying for that "compensation."

importation of some duty-free sugar goods. In other words, the U.S. government, when it chooses to, can pay CAFTA countries not to export to the U.S. to protect the sugar industry at home.

Indeed, the U.S. Trade Representative nominee, Rep. Rob Portman (R-OH),[18] in the face of the sugar industry's stonewalling, at his confirmation hearing on April 21, 2005, expressed his willingness to go to Congress to consider compensating the CAFTA-DR countries for not exporting *any* duty-free sugar to the U.S.[19] Of course, taxpayers would be the ones paying for that "compensation."

The sugar industry's political influence is formidable and concentrated, its huge political contributions disproportionate to its size. According to the Center for Responsive Politics, in the 2004 election cycle, sugar gave $3,206,221 to political candidates, and three of the top 10 agribusiness contributors to federal campaigns and candidates were from the sugar industry.[20, 21] Yet, as the U.S. Trade Representative's Office has noted: "Farms growing sugar account for less than one-half of one percent of all U.S. farms."[22]

Another powerful special interest, the U.S. textile industry,[23] also gets very special protection in CAFTA-DR. Under the agreement, duty-free benefits will apply only to apparel that uses U.S. fabric or yarn, with minor exceptions. While the Central American countries will be hard-pressed to compete with Asian countries in the manufacture of textiles and apparel, the agreement stipulates that 90 percent of all apparel made in the CAFTA-DR countries use fabric and yarn made in the U.S. The "rule of origin" even covers thread and "narrow elastic fabrics."[24]

The textile industry objects to the agreement allowing some apparel made from fabrics produced in NAFTA countries—Mexico and Canada—to qualify for duty-free treatment. It also opposes the tariff preference levels allowing a limited quantity of apparel to be made from yarns and fabrics in other, non-NAFTA countries. However, that exception does not apply to the major apparel-exporting Central America countries—El Salvador, Costa Rica, Honduras, and Guatemala—which account for 94 percent of that region's apparel exports. And the exception for Nicaragua phases out in 10 years.[25]

CAFTA-DR also protects the industry from "damage" occurring from import surges in apparel. Under this special "textile safeguard," the U.S. can reimpose tariffs on apparel.

Such mandates may "protect" the textile industry in the short-term, but it does nothing to ensure its longer-term competitive position, particularly vis-à-vis Asian countries, such as China. Some industry observers suggest that the textile industry may be using CAFTA-DR as a bargaining chip to gain support for more restrictions and safeguards against Chinese imports.[26]

Environment and Labor Provisions

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Environmental groups and labor activists are attacking the agreement, CAFTA-DR, even though it includes extensive labor and environmental provisions that go far beyond the requirements specified in the Trade Promotion Authority Act of 2002 (TPA).[27] As a political trade-off for giving the President the right to have trade agreements voted up or down in Congress without amendments, TPA mandated the inclusion of provisions directing that trading partners shall not fail to effectively enforce their laws governing labor and environment.

What TPA really did is require that negotiations on trade include negotiations on labor and environmental standards, despite the fact that an international labor agreement and numerous multilateral environment agreements are already in effect to deal with those issues directly.

The opposition to CAFTA-DR of some labor and environmental groups that fought to include those provisions in TPA appears hypocritical, since the agreement includes all of those provisions plus. Perhaps they object to TPA's recognition that the U.S. doesn't have the right to dictate to other countries how it reaches those goals. TPA clearly acknowledges that countries must be able to make their own decisions regarding laws and regulations according to their own economic circumstances and assessment of the resources available.[28]

TPA was designed to expedite trade agreements by not allowing amendments, but some environmental and labor pressure groups and their allies in Congress seek to manipulate TPA in order to use trade as a big stick to enforce U.S. labor and environmental standards on poorer countries that may have other urgent needs. Yet there are real environmental and labor risks in these provisions. By reducing the wealth-enhancing values of trade agreements, the gains in these important values will almost certainly be less possible.

That is certainly the case in CAFTA-DR, which, by including such provisions, fails to recognize that open trade itself can be a crucial contributor to environmental and labor improvements, because it allows for more efficient use of resources and economic opportunities. Countries benefit from open trade and foreign investment, which lead to faster economic growth and higher incomes. As wealth increases beyond the subsistence level, people expand their knowledge as well as their demand for higher labor and environmental standards—and the resources to meet them. That can be true for the CAFTA-DR countries.

The agreement's heavy emphasis on achieving environmental goals similar to those in the U.S. assumes that the Central American countries have the resources available for environmental programs and projects without consideration of the more urgent needs of their poorer populations.

Instead, CAFTA-DR sets out procedures for the countries to enforce their environmental laws. It even specifies how the public is to be made aware of its environmental laws and compliance with them. Yet democracies, by their very nature, are different from one another and use various approaches to procure input from their citizens—some countries may hold national referenda (e.g., Switzerland); others may have series of town meetings; still others (such as France in 1998 in the case of genetically modified organisms) may have a nationwide "Citizens Conference" to reach out to the public. *How* the government relates to its citizens and *how* its citizens can participate in ensuring their environmental laws are complied with and enforced is not the proper purview of any trade agreement.

CAFTA-DR includes a binding Environmental Cooperation Agreement, which was signed by the Parties on February 18, 2005.[29] Some of its provisions could undermine the "free trade" aspects of the agreement, particularly those setting up environmental tribunals, an Environmental Affairs Council, and an Environmental Cooperation Commission responsible for developing, and periodically revising and updating, a program of work that reflects "national" priorities for cooperative programs, projects, and activities.

Central Americans and Dominicans are to initiate those programs with the advice and help of, among others, environmental groups that are already lining up for expected large government grants to "build capacity"—in other words, to produce clones of U.S. activist groups in the CAFTA-DR countries. For example, even before the trade agreement was signed, USAID provided a $500,000 grant to the Humane Society of America for such projects as helping a Salvadoran homemaker build her business of producing organic pet care products, such as natural shampoos and soaps,[30] in a country where the average per capita income is $2,258 a year.[31]

Such projects, while perhaps attractive in the U.S., may not reflect El Salvador's own priorities in critical areas, such as expanding sanitation and water systems. CAFTA-DR does not seem to recognize that important trade-offs are necessary, especially for poorer countries to achieve environmental goals, or that countries need a high level of discretion to evaluate those trade-offs and to make decisions.

The agreement's heavy emphasis on achieving environmental goals similar to those in the U.S. assumes that the Central American countries have the resources available for environmental programs and projects without consideration of the more urgent needs of their poorer populations. For example, in Guatemala, the United Nations

Food and Agriculture Organization notes: "Access to potable water constitutes one of more important basic necessities. Only 67% of the homes at national level have water available by pipes. The prevalence of infectious diseases continues to be very high, mainly among the most vulnerable populations."[32] In addition, access to health services and schooling is limited among much of the population.

These basic issues are huge problems among poorer populations in the CAFTA-DR countries. The countries themselves and their people should be the ones who decide on priorities and use of their resources.

The environmental agreement contains other problematic provisions. It details a cumbersome bureaucratic process for an environmental "secretariat" or tribunal that listens to concerns from anyone in any of the countries that a trading partner is not effectively enforcing its environmental laws. Every single charge submitted is to receive a public response and a possible referral to an arbitration panel. This heavy-handed process is done in the name of transparency and public participation, but it could readily be captured by special interests seeking to disrupt trade liberalization.

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The agreement's specific mandates for the CAFTA-DR countries to meet standards similar to those in the U.S. could be seen as a form of "export protectionism," as defined by the noted economist Jagdish Bhagwati—that is, such requirements will raise the costs of production in those countries and accomplish the same result as high tariffs. Imposing the same standards, according to Bhagwati, "disrupts the trade process, which is a powerful engine for spreading prosperity."[33]

Moreover, the people who will bear the burdens of these non-trade related mandates will be the poorest people in the CAFTA-DR nations. Environmental goals should be pursued directly, not via restrictions to trade expansion. It is the people who bear the consequences. This is particularly true for the CAFTA-DR countries, many of which face very limited resources and economic alternatives.

In dealing with environmental dispute decisions, CAFTA-DR even goes beyond what occurs in trade disputes. As the U.S. Trade Representative's (USTR) Office pointed out in an official statement: "Unlike standard commercial disputes, non-compliance with a decision in an environmental dispute cannot be offset by providing expanded market access in another area—the environmental problem must be resolved."[34]

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Trade agreements should focus on expanding trade's positive impacts, not seek to use trade policy as a blunt tool to force changes that might—or might not—actually advance some environmental and labor objectives. To hold economic and technological growth hostage to a rigid regulatory agenda would weaken the forces that have done so much to move the world toward greater wealth and well-being.

Closer Ties in the Western Hemisphere. CAFTA-DR on its face and on many of the facts should be a sure thing for Congress to support. The CAFTA-DR countries are close neighbors with strong reciprocal economic interests; large numbers of their populations are building more prosperous lives as U.S. citizens; all of the countries have freely elected democratic governments after earlier periods of civil wars, dictatorships, death squads, and widespread crime and corruption; and all are moving toward greater stability through the rule of law and respect for human rights.

The governments of Guatemala, Honduras, Costa Rica, El Salvador, Nicaragua, and the Dominican Republic all staunchly support the agreement that significantly tears down their trade barriers. They realize that freer trade can stimulate greater economic growth in that region, which can raise the standard of living for their citizens. Closer ties with their neighbors through closer economic integration can also reinforce the stability some of the countries have only recently attained, help to bolster their democracies, and forestall possible political spillovers from neighbors to the south currently facing serious civil disruptions.

If Congress rejects CAFTA-DR, it will be a slap in the face to those close and friendly neighbors, especially as the U.S. over the past several years has ratified bilateral trade agreements with Morocco, Chile, Australia, Singapore, and Jordan. In relation to trade, those countries would then probably turn their backs on their Northern neighbor and instead pursue trade agreements with other trading partners, particularly countries in Asia and Europe. The U.S. effectively would be locked out from more favorable trading terms with countries in its own backyard. Even worse, U.S. rejection of CAFTA-DR could provoke greater anti-Americanism in the region, which would provide political opportunities for regimes hostile to the U.S., such as those of Cuba and Venezuela.

Greater integration in the Western hemisphere through this agreement could also contribute to greater stability in Latin America.

The six countries that are parties to CAFTA-DR have emerged in recent times with democratically elected governments from earlier periods of turmoil caused by civil wars, repressive governments, military control and human rights abuses. Today, those countries are focusing on reforming their economies, strengthening the rule of law, and combating crime and corruption. As then-acting U.S. Trade Representative Peter Allgeier recently testified before the Senate Finance Committee, it is in U.S. political and diplomatic interests to establish even closer economic ties with its close neighbors. The "economic partnership," he said, would help reinforce those countries' democratic principles and progress toward free markets.[35]

Trade is an important tool to create wealth and promote more efficient use of resources. Thus, the most effective means of advancing labor and environmental improvements around the world is to move toward free trade.

The more stable Central American democracies are in contrast with some of their South American neighbors that are experiencing civil unrest or moving away from market-based economies.

Moreover, the greater wealth created by this expanded trade could make more resources available for urgent needs and environmental protection in the CAFTA-DR countries. Trade is an important tool to create wealth and promote more efficient use of resources. Thus, the most effective means of advancing labor and environmental improvements around the world is to move toward free trade.

Federal Reserve Board Chairman Alan Greenspan's cogent remarks about the benefits of economic growth in the U.S. over the past century make this very point:

> *During the past century, for example, economic growth created resources far in excess of those required to maintain subsistence. That surplus in democratic capitalist societies has been, in large measure, employed to improve the quality of life along many dimensions. To cite a short list: (1) greater longevity, owing first to the widespread development of clean, potable water and later to rapid advances in medical technology; (2) a universal system of education that enabled greatly increased social mobility; (3) vastly improved conditions of work; and (4) the ability to enhance our environment by setting aside natural resources rather than having to employ them to sustain a minimum level of subsistence. At a fundamental level, Americans have used the substantial increases in wealth generated by our market-driven economy to purchase what many would view as greater civility.*[36]

Finally, CAFTA-DR is also good for American consumers. According to a recent study by the U.S. International Trade Commission, CAFTA-DR's benefits—when fully implemented—to U.S. consumers and households as providers of labor, owners of capital, and taxpayers would be between $135.31 million to $248.17 million. Absent the trade agreement, overall U.S. welfare would be that much less.[37]

Conclusion. *Is* the game worth the candle? On balance and at this particular time, it is.

Trade expansion works when pursued through large multinational agreements in which the rich and the poor countries get equal access to each other's markets. But much trade is incremental and consists of bilateral and regional agreements that often are flawed, as CAFTA-DR undoubtedly is.

A defeat of CAFTA-DR would send a clear signal that the U.S. is mainly interested in protecting certain industries from increased competition. America's position as a world leader in trade liberalization would be severely damaged.

However, to reject CAFTA-DR at this point would be to turn our backs on the benefits of more open trade and cede the political playing field to protectionist interests—whether those protectionists are the sugar and textile industries or pressure groups seeking to promote their agendas, such as labor and the environment, by restricting trade.

With agricultural issues holding up progress on the Doha Round of the World Trade Organization, a defeat of CAFTA-DR would send a clear signal that the U.S. is mainly interested in protecting certain industries from increased competition. America's position as a world leader in trade liberalization would be severely damaged.

Voting down CAFTA-DR would also deal a blow to U.S. relationships with our Latin American neighbors—political as well as economic.

While CAFTA-DR has some market access shortcomings that should not serve as precedents for future agreements—lengthy phase-outs of certain import quotas and tariffs and pricey compensation mechanisms—it does make some important inroads.

A greater concern is the agreement's inclusion of detailed and specific environmental provisions that could have far-reaching negative consequences. Trade is too important in helping countries climb out of poverty toward economic growth that would allow their people to enjoy the improved working conditions and environment improvements that economic growth can bring. For those benefits to be subverted by special interests would be tragic.

Notes

[1] For the complete text of the agreement, http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/CAFTA-DR_Final_Texts/Section_Index.html.
[2] The five Central American countries signed the agreement on May 28, 2004; the Dominican Republic joined with those countries for the signing of CAFTA-DR on August 5, 2004, http://www.ustr.gov/Document_Library/Press_Releases/2004/August/Dominican_Republic_Joins_Five_Central_American_Countries_in_Historic_FTA_with_U.S.html
[3] United States International Trade Commission, "U.S. Central America-Dominican Republic Free Trade Agreement: Potential Economywide and Selected Sectoral Effects," Investigation No. TA-2104-13, USITC Publication 3717, August 2004, p. 25.
[4] Statement of Ambassador Peter F. Allgeier, Acting United States Trade Representative before the
Committee on Finance, United States Senate, Washington, D.C., April 13, 2005.
[5] USITC, pp. xvii,xxi.
[6] "The Case for CAFTA," Office of the United States Trade Representative, CAFTA Policy Brief, February 2005.
[7] Press release, April 11, 2005, American Farm Bureau Federation.
[8] Press release, April 11, 2005, Wheat Export Trade Education Committee, National Association of Wheat Growers, and U.S. Wheat Associates.
[9] Press release, April 11, 2005, National Cattlemen's Beef Association.
[10] E.g., Opening Statement of Sen. Chuck Grassley, Senate Finance Committee Hearing on the U.S.-Central America-Dominican Republic Free Trade Agreement, April 13, 2005.
[11] Richard W. Fisher, "Protect Us From Protectionists," *The Wall Street Journal*, April 25, 2005, p. A14.
[12] USITC, p.xxii.
[13] Remarks by Federal Reserve Chairman Alan Greenspan, before the World Affairs Council of Greater Dallas, Dallas, Texas, December 11, 2003.
[14] U.S. Department of Agriculture, National Agricultural Statistics Service, "Crop Production-Annual Summary," January 12, 2005, http://usda.mannlib.cornell.edu/reports/nassr/field/pcp-bban/
[15] Testimony of Mark Berlind, Kraft Foods, Inc., before the U.S. Senate Hearing on U.S.-Central America-Dominican Republic Free Trade Agreement, April 13, 2005.
[16] Testimony of Jack Roney. Director of Economics and Policy Analysis, American Sugar Alliance, Senate Finance Committee Hearing on the Proposed U.S. Free Trade Agreement with the Dominican Republic and Central America (CAFTA), April 13, 2005.
[17]USTR CAFTA Briefing Book, Summary of the Agreement. http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/asset_upload_file128_7284.pdf and USTR, CAFTA Facts, "Sugar: A Spoonful a Week."
[18] Portman was subsequently confirmed by the Senate on April 28, 2005, http://thomas.loc.gov/cgi-bin/ntquery/z?nomis:109PN0041500:
[19] *National Journal's* CongressDailyPM, Thursday, April 21, 2005.
[20] http://www.opensecrets.org/industries/indus.asp?Ind=A1200 accessed April 14, 2005.
[21] Those three were American Crystal Sugar ($850,964), Flo-Sun Inc. ($573,700), and American Sugar Cane League ($407,750), http://www.opensecrets.org/industries/contrib.asp?ind=A&Format=Print
[22] USTR Fact Sheet on Sugar in CAFTA-DR, http://www.ustr.gov/Document_Library/Fact_Sheets/2004/Fact_Sheet_on_Sugar_in_CAFTA-DR.html .
[23] One U.S. textile trade association endorsed the trade agreement, on the promise by U.S. Trade Representative Portman that an amendment after ratification would protect

a segment of the industry—nonvisible pocketings and linings. Press release, National Council of Textile Organizations, May 9, 2005, "NCTO Board Votes to Support DR-CAFTA," http://www.ncto.org/newsroom/pr200518.asp

[24]http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/asset_upload_file358_7185.pdf.

[25]http://www.ustr.gov/assets/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/asset_upload_file994_7186.pdf.

[26] *The Business Journal of the Greater Triad Area*, April 12, 2005. http://bizjournals.com/industries/retailing_restaurants/retailing/2005/04/11/triad_daily9.html.

[27] 19 USC 3802, Trade Promotion Authority.

[28] TPA, Sec. 2102.

[29]See http://www.state.gov/g/oes/rls/or/42423.htm for the text of the agreement.

[30] Office of the U.S. Trade Representative, press release, October 2, 2003.

[31] U.S. Department of State, Background Note: El Salvador, April 2005. http://www.state.gov/r/pa/ei/bgn/2033.htm.

[32] http://www.fao.org/es/ESN/nutrition/gua-e.stm.

[33] Interview, Council on Foreign Relations, January 15, 2004, http://www.cfr.org/publication.php?id=6669.

[34] http://www.ustr.gov/Document_Library/Press_Releases/2005/February/U.S._CAFTA-DR_Countries_Sign_Two_Supplemental_Agreements_to_Facilitate_Implementing_the_FTAs_Environmental_Provisions.html.

[35] Statement of Ambassador Peter F. Allgeier, Acting United States Trade Representative, before the
Committee on Finance, United States Senate, Washington, D.C., April 13, 2005.

[36] Remarks by Federal Reserve Board Chairman Alan Greenspan Before the World Affairs Council of Greater Dallas, Dallas, Texas, December 11, 2003.

[37] USITC, p. xxii.

About the Author

Frances B. Smith is currently an Adjunct Fellow with the Competitive Enterprise Institute, where she focuses on trade and international issues affecting consumers. She is also the founder and coordinator of International Consumers for Civil Society, an umbrella group that has 24 non-profit organization members in 13 countries around the world and is an NGO with several international organizations.

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