DR-CAFTA Year Two: Trends & Impacts

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The Stop CAFTA Coalition

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Introduction

A report by the Stop CAFTA Coalition – www.stopcafta.org

Members of the Stop CAFTA Coalition have coordinated this report with allies in Central America and the Dominican Republic to report on the trends and initial impacts of the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA). While it is still early into the implementation process of DR-CAFTA, there are some noticeable trends emerging in labor, textiles, agricultural policy, investment patterns, and services, among other sectors. Most notably, patterns of growing inequality and ongoing poverty within the signing countries have taken an upward tick, in spite of predictions to the contrary prior to the agreement's passage. This report presents some of the primary concerns and patterns from each of the DR-CAFTA countries. The report is the second in a series of reports by the Stop CAFTA Coalition about the facts of CAFTA; the first was published in September 2006 and can be found at www.stopcafta.org.

Background

The U.S.-Central America Free Trade Agreement (CAFTA) was initiated by the Bush administration in January of 2002 in an effort to revitalize faltering talks for a Free Trade Area of the Americas. After a year of preliminary discussions, "negotiations" began in February of 2003 and were completed in December of the same year between the United States, El Salvador, Guatemala, Nicaragua, and Honduras. Costa Rica joined the accord in January of 2004, and all six countries formally signed the agreement in May of 2004.

In August of 2004, the Dominican Republic was added to the core agreement, thereby creating the U.S.-Dominican Republic-Central America Free Trade Agreement (DR-CAFTA).

DR-CAFTA was adopted first by El Salvador in December of 2004; by Honduras and Guatemala in March of 2005; by a two-vote margin in the U.S. House of the Representatives in July of 2005; and by Nicaragua and the Dominican Republic in September of 2005. As this report goes to press, Costa Rica is approaching an official referendum on October 7, 2007 which will decide whether Costa Rica will implement the agreement.

DR-CAFTA was initially intended for implementation on January 1, 2006. In mid-December 2005, however, the United States Trade Representative (USTR) announced that, in its estimation, signatory countries had failed to enact laws necessary to bring their legal systems into compliance with changes mandated by the agreement. Consequently, the USTR adopted a process of rolling implementation, whereby the USTR would certify countries as ready to implement DR-CAFTA on a case-by-case basis. As a result, DR- CAFTA was implemented first by the United States and El Salvador on March 1, 2006; then by Nicaragua and Honduras on April 1, 2006; next by Guatemala on June 1, 2006; and finally by the

Dominican Republic on March 1, 2007. Implementation of the agreement in Costa Rica will depend upon the results of the upcoming referendum.

Findings of "CAFTA in Year One" Report

In September of 2006, the Stop CAFTA Coalition produced its initial report on the implementation process in the region, "CAFTA in Year One," along with information on some preliminary trends.

The report focused in on the process of rolling implementation that has had negative consequences on workers and consumers by creating confusion around rules of origin for textiles, resulting in job loss in the U.S. and parts of Central America. Instead of creating a regional textile complex to offset competition from China, the ad hoc approach contributed to a trend, already in place, of Central Americans losing market share to Asian competitors. (For more information, see "CAFTA in Year One" report at www.stopcafta.org.)

The report also highlighted examples of stress to other sectors of the national economies, in particular the agricultural sector. Continued disruptions to key sectors such as agriculture were anticipated to lead to continued, if not expanded, migration flows. Meanwhile, human rights standards failed to improve, and according to some analyses have in fact declined as neoliberal reforms such as DR-CAFTA have increased social conflict while national governments have responded with repressive measures, and in some cases, violence.

Findings of 2007 Report

Contrary to the promises made prior to DR-CAFTA's passage and implementation, our 2007 report indicates that the agreement is not leading to increased prosperity among the region's poor and middle classes, that levels of foreign investment and job creation have been disappointing, and that migration continues to serve as a primary escape valve from poverty.

Over a year into the implementation of the agreement, the promises of increased exports to the U.S. appear to be misguided. In fact, exports to the U.S. have fallen while imports from the U.S. have risen since DR-CAFTA's implementation; in short, the parties to the agreement are experiencing an overall worsened trade balance with the U.S.

Imports of U.S. agricultural products to the region have outpaced exports. Central American and Dominican producers fail to compete against subsidized U.S. agricultural goods. As noted in the chapter from El Salvador, import levels for staple goods such as red meat, processed chicken, grains and rice have increased by rates in the double and triple digits. These sectors are linked to hundreds of thousands of small and medium-sized producers who cannot compete with U.S. prices. A similar trend is emerging in Honduras. In Nicaragua, producers of some specialty products unavailable in the U.S. are exporting more, but in quantities insufficient to improve the overall trade balance. In Guatemala, where agricultural exports have grown, increases are due to trade with countries other than the U.S., and those exports that are sent to the U.S. are realized by only a handful of companies.

Over the past decade, Central American farmers have unsuccessfully struggled to compete against U.S. grain prices. DR-CAFTA appears to be a final link in the implementation of the economic reforms that have opened the gates to cheap U.S. grains and thereby cemented the failure of local producers. The region is losing its ability to produce basic grains to feed itself and is growing increasingly dependent on agricultural imports from the U.S. The region's food security is at risk.

Meanwhile, the emergence of biofuels presents a new challenge. The popularity of and necessity for alternative fuels has increased interest in Central American grains for the production of biofuels. As a result, prices for corn on the international market have increased, further complicating the lives of Central Americans and Dominicans who depend on corn as a staple of their diet. As local producers have been forced to scale back grain production with the implementation of DR-CAFTA, and as large-scale producers sell their products for biofuel production, Central Americans and Dominicans are increasingly finding corn prices out of their reach.

DR-CAFTA is seriously impacting levels of inequality in the region. The report's figures indicate that DR-CAFTA is benefiting only a small number of interests in the region while the traditionally poor receive few benefits and face increasing costs. Where exports have increased, such as in the fruit sector in Guatemala, large-scale commercial farmers make up the majority of the beneficiaries, in whose interest it is in to expand land holdings. Land re-concentration is a worrisome trend, one that was intended to be combated through land reform programs after the various civil conflicts of the 1980s and 1990s.

Furthermore, Central American and Dominican import and export businesses, controlled by a handful of interests, have benefited from DR-CAFTA by avoiding import taxes, a cost-savings that is not transferred to the consumer. Notably, across the region only a small number of businesses earn any export earnings at all, as businesses that have the capacity to engage in trade are limited. The result is that any benefits reaped from DR-CAFTA-induced trade increases the wealth of a few businesses, leaving the majority to compete for scarce remaining resources.

Under DR-CAFTA, prices and inflation have increased, while unemployment has remained persistent. If not for ongoing migration flows within and out of the region, unemployment levels would, in fact, be significantly higher. DR-CAFTA proponents argued that increased employment opportunities would result from the development of export businesses and the entrance of foreign investment. Since imported goods would enter the region free of tariffs, competition would increase and prices would drop. Instead, price increases, which in some parts of the region have doubled from the prior year, have benefited the large agricultural and other producers.

In the textile sector, earnings have been disappointing. The region continues to lose out to Asia, and to China in particular, as the Multi-Fiber Agreement (MFA), which regulated textile quotas and ensured that Central American countries could export to the U.S., expired in 2005. DR-CAFTA has failed to stem the tide of factory closures as across the region U.S. companies pull out and transfer contracts to China. While there has been some macroeconomic growth through textiles, it is doubtful that gains can continue given that the race to secure low wage labor will take businesses to Asia. It will be seen how labor unions will organize to survive as more jobs leave the region.

Women feel the impact of the trade agreement disproportionately. Since DR-CAFTA affects public services, the provision of basic services, the cost of food, and so forth, women find themselves confronting the agreement daily in order to provide and care for their families. Women resort to income-generation projects in the informal sector or work in the *maquila* or export industry factories to help make ends meet, but neither sector offers stability, fair pay, decent working conditions or opportunities for advancement.

As this report goes to press, Costa Rica is approaching a popular referendum on DR-CAFTA. On October 7, over 2.5 million Costa Ricans are expected to vote. As the only signatory country that has not ratified DR-CAFTA, and as a Central American country with a long history of democracy and freedom from armed conflict, Costa Rica has enjoyed greater economic security than its regional neighbors. Costa Ricans articulate an opposition to DR-CAFTA based on their concerns around intellectual property rights, the patenting and use of biodiversity and natural resources, competition with subsidized U.S. agricultural goods, privatization of functioning national industries such as telecommunications, deterioration of labor rights, and the loss of sovereignty under DR-CAFTA rules. It will be seen what the results of the referendum will be, but by all accounts the vote on DR-CAFTA in Costa Rica will have significant ramifications for the future of the trade model.

In summary, the promises of DR-CAFTA have not been realized in the first years of its implementation; rather, conditions for the poor majority in the implementing countries have worsened. DR-CAFTA has failed to strengthen the economies of Central America and the Dominican Republic, and unless there is a significant shift in the economic model in the region, employment opportunities will continue to be scarce, agricultural prices will continue to fall, the poor will remain poor, and immigration will continue or, more likely, increase.

The Stop CAFTA Coalition Monitoring Work

The task of monitoring DR-CAFTA impacts is an ongoing one. The goal of the Coalition is to continue to coordinate monitoring efforts and do periodic reporting on the impact of policies enacted to implement and execute the agreement. This second report on implementation is issued in the hope that the concerns it raises will be taken into account in future economic debates over the development of Central America, as well as in the Costa Rican referendum on DR-CAFTA. We also hope that it will inform Congressional debate over bilateral trade agreements between the U.S. and Peru, Colombia, South Korea and other countries.

DR-CAFTA Fact Sheet

Food

- El Salvador: The price of white corn increased by 81.6% between January and July of 2007.[1]
- Guatemala: The Consumer Price Index rose by 5.1% between June 2006 and April 2007. The price of corn rose 26%, rice by 9.3%, and bread by 9.5%. By comparison, in the same period the year before DR-CAFTA was enacted, the consumer price of corn rose by 2.4%, rice by 1.2%, and bread by 2.4%.[2]

Jobs

- 22 textile companies have left the region in the year since DR-CAFTA implementation.[3]
- Nearly 50 thousand textile jobs have been lost region-wide since the beginning of 2006.[4]
- Nicaragua: In the first half of 2007, seven new maquilas have opened, generating 1,993 jobs. Unfortunately, somewhere around 4,000 jobs have been lost as other factories have shut down or moved overseas, resulting in a net loss of about 2,000 jobs.

Trade Balance with U.S.

El Salvador, Honduras, and Guatemala have all experienced drastically negative trends in their trade balance with the U.S. since implementing DR-CAFTA. El Salvador saw a trade surplus of over $118 million turn into a *deficit* of over $286 million. In Honduras and Guatemala, the trade deficit with the U.S. ballooned by nearly 200% and 300%, respectively.

	Import Vol. from U.S.			**Export Vol. to U.S.**			**Vol. Balance**		
Country	Year Before CAFTA	1st year of CAFTA	Change	Year Before CAFTA	1st year of CAFTA	Change	Year Before CAFTA	1st year of CAFTA	Change
El Salvador	1912	2164	+13.2%	2030	1878	-7.5%	118	-286	-342.2%
Nicaragua	688	759	+10.3%	1300	1487	+14.4%	613	729	18.9%
Honduras	4982	5089	+2.2%	4734	4357	-8.0%	-247	-732	195.9%
Guatemala	3232	3685	+14.0%	3078	3073	-0.2%	-154	-612	297.4%
Rep. Dom.*	1839	1846	+0.4%	1320	1432	+8.5%	-519	-414	-20.3%

Trade volume is measured in U.S. dollars, adjusted for inflation to 2006. Figures calculated from U.S. Census Bureau Foreign Trade Statistics.

[1] Ministerio de Agricultura y Ganadería de El Salvador (2007). www.mag.gov.sv.
[2] Centro Internacional para Investigaciones en Derechos Humanos (CIIDH, 2007). *El Vice Ministerio de Seguridad Alimentaria: la asistencia alimentaria en perspectiva*.
[3] Homero Fuentes, representative from the Grupo Iniciativa Regional y Responsabilidad.
[4] Leonardo Valverde, representative from the Dominican Republic.

**Latest trade figures available are June 2007. Period of March 07 through June 07 is compared to the same period in 2006.*

CAFTA in Costa Rica Would Cause Deepening Inequality

By Maria Eugenia Trejos, Pensamiento Solidario. Translated by Tony Phillips.

In Costa Rica the Central American Free Trade Agreement (CAFTA) with the United States ran up against a huge opposition movement. The opposition stems from the fact that Costa Rica has developed extensive social services and the public knows that they have a lot to lose. Some of the nation's influential intellectuals have also dedicated themselves to study the agreement and share the analyses with the rest of the population. Finally, our somewhat effective democratic institutions have worked to delay the process in the Legislative Assembly, opening up more spaces for citizen involvement.

A popular referendum has been called for Oct. 7 to decide the future of the agreement. There are serious questions as to how it is being conducted, including doubts about the impartiality of the Electoral Tribunal, which instituted voting rules that do not guarantee fair participation in the vote. For example, there is no fiscal control of media outlets, most of which have expressed a clear bias in favor of the agreement’s approval; nor are there rules as to the use of the President’s and Ministers' time and resources in producing propaganda in favor of approval. Efforts have been made to silence opposition from the public universities but no mechanism has been created to give media access to those sectors opposed to the agreement.

Nevertheless, there is a large social movement opposing the agreement. Diverse in nature, it is composed of a wide range of organizations and has created many ways of disseminating opinions. The strong presence of the movement against ratification of CAFTA will not end with the approval or rejection of the agreement, but could well be the seed of broader social transformation.

The following paragraphs analyze what CAFTA would mean for Costa Rica.

Main Negative Effects of CAFTA

Put succinctly, CAFTA hands Costa Rica over to the multinational corporations. This is evident throughout the entire text of the agreement, but the following aspects illustrate the overall effect of the agreement:

- Biodiversity: Chapter 15 on Intellectual Property permits patenting the genes of living organisms, and Chapter 10 on investment prohibits, among other things, requiring knowledge transfer from multinational companies, thus making it possible for the multinationals to conduct research into our native species and maintain any knowledge they might acquire in secrecy. The benefits of these rules go to the huge pharmaceutical and the cosmetic industries and Costa Rica loses control over its own resources.

- Water and Natural Resources: Chapter 10 on investment, Chapter 17 on the environment and Chapter 20 on dispute resolution, taken together and in the best of interpretations, enable multinational corporations to sue the Government of Costa Rica should it take measures they might consider "equivalent to expropriation" or that "affect their earnings" (Article 10.7.1, appendix 20.2). With this, businesses' access to the water and natural resources, and their "right" to profits take precedence over any measure (whether human or social) that might be taken by the governmental or municipalities.

- Culture and Knowledge: Chapters 15 on Intellectual Property and 10 on investment also enable multinationals to take ownership of seeds and of traditional knowledge of plants and animals.

- The Markets: The first chapters of CAFTA allow the importation of subsidized products from the United States, without requiring import tariffs in Costa Rica. This will be the last straw for the already damaged food production industry, and along with it put an end to any hope of food sovereignty. Mexico is a good example of this, as two million agricultural jobs have already disappeared since Mexico signed NAFTA with the United States and Canada, replaced by food imported from the U.S.[5] Nevertheless, this has not guaranteed lower national food prices; in fact the price of essential foodstuffs has risen while ruining the livelihoods of rural workers[6].

- Current Public Investment: CAFTA would open up the Costa Rican telecommunications and insurance industries, as well as involvement in other public services, such as water, electricity and education. For the same reasons as with water and natural resources (above): in the least unfavorable interpretation, multinational companies maintain the right to sue the state for means which they may consider "equivalent to expropriation" or which "affect their profits"—restrictions or regulation in those areas thereby preventing the state from maintaining them under public dominion (see Annex II Non-Conformant Measures, Costa Rican list).

- Abundant and Cheap Labor Force: The right to work does not appear anywhere in CAFTA. To the contrary, the agreement negates any right to require minimal employment levels in transnational companies. Neither does CAFTA guarantee labor rights, except in five specific instances, the country is committed to prevent violations "if commerce is affected" (see Chapter 16 on Labor). That is to say, if it harms the transnational companies and not if it harms the workers.

- National Sovereignty and the application of legislation (use of law and regulations). The ability to legislate is handed over because CAFTA puts itself above all national laws so no new law can be approved—nor can those in place retain their vigilance—where they contradict CAFTA. The ability to apply laws is affected by the right of the transnational companies to take their demands before a court of arbitration. Judges in these tribunals, ignorant of Costa Rican laws, jurisprudence or legal interpretation, could modify both the decisions of internal courts and of state organisms at any level, taking into account only that which is stipulated in the agreement and not the Costa Rican Constitution.

The ability of the State to regulate the activities of multinational companies would be affected by the aforementioned stipulations when it comes to public services and natural resources.

The damage done by the whole agreement is the hand-over of the country to the multinationals. The essence of this is found in Article 9.14 (repeated in 10.9.3.c), which says that measures can be taken to protect health and life, *as long as they do not affect commerce.*

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5 Source INEGI, available at http://www.inegi.gob.mx/

6 Vargas, Oscar René. ¿Qué es el CAFTA? Un tratado entre desiguales Centroamérica-Estados Unidos, UPOLI, Managua, 2003

Impacts on the Poor

The impact of the above on the poor majority and on workers is evident. Nothing in CAFTA favors any sector of the economy except the multinational corporations. What is more, Costa Rica is the only Central American country that did not make any provisions to protect its most vulnerable sectors, i.e. small producers, impoverished women, native peoples, low-income sectors, etc.

Furthermore, given that women already constitute a disadvantaged sector, a treaty that does not protect its most vulnerable sectors particularly affects women. For example, female small farmers, who are responsible for the evolution of the genetic variety of foodstuffs and traditionally charged with feeding their communities, may now encounter obstacles in the continuation of their traditional practices, not only because the Intellectual Property stipulations in CAFTA enables the multinational companies to patent plants and animal species, but also because the treaty reinforces multinational property rights on their seeds. Rural women farmers would also be affected if CAFTA were approved because it would permit the entrance of subsidized farm products from the United States, without tariffs to compete with their production.

It is also clear that this is bad news for wage-earning women workers, since the treaty reduces work opportunities in general and closes doors to women in particular. Women already have a higher unemployment rate and a greater presence in the "informal" employment sector in Costa Rica.

We are told that CAFTA increases exports and increases Foreign Direct Investment (FDI) and that this will increase employment. Nevertheless, none of this reasoning is true. On the one hand, CAFTA does not guarantee an increase in exports nor in FDI. In fact, last year Guatemala, Honduras and El Salvador, with the agreement in place, actually saw their exports to the United States *decrease*[7].

No increase in foreign investment is guaranteed. Last year foreign investment in Costa Rica, without the treaty in place, was greater than that which was invested in all of the other Central American countries put together.[8] Also, an increase in exports and in FDI does not guarantee that employment rates will rise. Between 1994 and 2006 in Costa Rica FDI rose by 500%, exports by 300%, and nevertheless unemployment also rose. This is because FDI displaced national production, and in doing so sometimes generated more unemployment than employment[9]. This also was a result of an increased rate of displacement of national producers and employees. All such effects would be exaggerated if the agreement were to be approved.

Protection of labor rights are also not taken into account, as member countries only commit to support a few labor rights and even then only when *commerce is not affected* (see article 16.2.1.a). As with the right to health and life, not to mention labor rights, all are subordinate to commercial interests.

CAFTA would affect domestic workers and housewives in particular because of its negative impact on public services and on those dependent on basic foodstuffs. As far as public services go, in Costa Rica the telecommunications and insurance industries would be opened up, which will affect access to telephone services (which have clearly become more expensive when they pass out of state control into the hands

7 See http://www.census.gov/foreign-trade/statistics/country/index.html

8 CEPAL, Estimate based on official data available 24 April 2007.

9 COMEX based on numbers available in the BCCR and PROCOMER found at http://www.comex.go.cr/estadisticas/inversion/IED%202006.pdf; INEC: Home polling.

of multinational companies). Nor are these the only services; water, electricity and education will be subjected to its rules.

None of these three cases are exempt from the application of the norms of the treaty, either the service is subject to the agreement as is the case with electricity, or the supposed exclusion is conditional only for so called "social services" (see Annex II Non-Conformant Measures, Costa Rican list), not guaranteeing water nor education. In this way multinational companies could use CAFTA to prioritize foreign investments above national interests.

For example in the case of water, it might mean that priority is given to supplies to golf clubs or hotels rather than prioritizing community use. In education it might mean sharing the education budget as currently happens in Chile. Yes, health services are excluded from some general norms, but, neither health nor any other service is absolved from the right given to multinationals to sue the state, in a court of arbitration for "measures tantamount to expropriation" or "measures that affect profits."

Simply put, in all cases the ability of the state to regulate services for public interest is diminished, and the treaty encourages multinational control, therefore encouraging profit making rather than the provision of universal public services.

Greater multinational control of services is thereby encouraged, and international experience has shown that this control does little to improve the quality of services but does lead to an increase in prices. A recent local example can be seen in Nicaragua, where electricity was put in the hands of a Spanish multinational, which in turn has lead to blackouts.

As for basic consumption, by opening the national market in basic foodstuffs, leading to possible displacement of national production, the effects will extend not just to producers, but affect the consumer as well. The experience of Mexico, as we have said above, it that once local producers are displaced from the market, the prices to the consumer increase, and furthermore all profits remain in the hands of intermediaries or the companies exporting from the United States[10].

CAFTA and the Women of Costa Rica

Women in Costa Rica are mainly domestic workers. If we add in those who work in the "informal sector"[11], which is not a stable source of employment but really a last recourse for those who have little other choice, the resulting group encompasses more than 80% of all Costa Rican women over the age of 15[12].

As to those who work outside the home in more formal settings, the majority work in assembly plants (maquiladoras), largely in the clothing sector, while some work in education or as domestic servants. The clothing industry has awful labor conditions: entailing extremely intensive piecemeal work, the dangers of injury and shift-work, little protection and no freedom to form unions. On top of this, the

10 See footnote No.5

11 These are the domestic servants whose workers rights are most often violated, beginning with recognition of the minimum wage.

12 INEC 2006, main results Home polling, multiple choice 2003 en http://www.inec.go.cr and OIT: Labour panorama 2004 pages: 98-99, in http://www.oit.org.pe/portal/documentos/texto_completo_2004.pdf , revisado en noviembre de 2006.

way wages are set leads to more intensive work and an increase in the length of the workday while overtime goes unrecognized.

In education, workers in the public sector have full workers rights, although wages are low and the work intense.

We can predict negative impacts all-around in the sectors mentioned above if the trade agreement is approved. In the clothing industry, we can already see effects in the industrial sector with or without CAFTA, by the way in which the industry has been restructured on an international level. The multinationals control the chains of production and the sales and marketing. Countries such as Costa Rica only work the seams and finishing work, all of which is performed under the control of the multinationals. It really doesn't matter from the point of view of the multinationals if the production is done in Central America, India, China or Vietnam. They can move production plants or change contractors from one country to another.

With the 2005 global elimination of the import quotas approved at the World Trade Organization (WTO), competition from clothes originating from Asia has displaced Central American and Mexican production. CAFTA doesn't protect clothing made in these countries and it remains obvious that this pattern will continue. In fact, just this last year clothing exports into the U.S. fell from all countries in Central America except Nicaragua[13]. The same is true of Mexican clothing exports[14].

In the education sector it is expected that CAFTA would lead to a growth in private education, where wages are lower and labor rights are not respected, among such rights is the right to organize, which might otherwise offer some protection.

Above all one finds Nicaraguan migrants working in the domestic service sector. The agreement stipulates that member countries do not further their commitments with respect to migrant workers (Art. 11.1.4.5), so their current lack of protection will no doubt continue.

Public Services and CAFTA

When it comes to public services, one of the principal policy aims of CAFTA is that there be an expansion of multinational activity in public services. This expansion changes the way Costa Rica has traditionally provided these services, moving from a philosophy of solidarity and concern for the people, to the profit motive and a lack of regard for human necessity. Services cease to be considered a means to attend to the needs of the population or a way to provide for human rights, and instead public services are treated like any other merchandise—they are provided only to those with the means to pay for them.

If this happens, more sectors of the population will find themselves excluded from access to such services. In this case, the women, domestic workers entrusted with the survival of their families and access to services, will be further burdened trying to find alternatives to that which, until now, has been provided—medical attention, public education, drinking water, electricity and telephones.

To sum up, CAFTA is a legal instrument that favors multinational expansion without limits, leaving the

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13 CEPAL (Comisión Económica para América Latina y el Caribe) 2007. **Istmo Centroamericano: evolución económica durante 2006 y perspectivas para 2007**, 16/04/2007.
14 INEGI 2005: **Industria maquiladora de exportación**. Economic Statistics, September, p. 25

most underprivileged sectors of our population totally unprotected, among them women and the poor.

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DR-CAFTA's Impact on the Guatemalan Agricultural and Food Sector

By Susana Gauster, CONGCOOP Institute of Agricultural and Rural Studies in Guatemala, Guatemala
Translated by the Guatemala Human Rights Commission/USA

Despite the tendency to downplay the role of agriculture, Guatemala remains a country where the agricultural sector plays a fundamental role in its economy. At the macroeconomic level, 39% of the Economically Active Population is employed in the agricultural sector, producing 24% of the GDP. Together with remittances, agriculture is the main source of generating currency. At the microeconomic level, the agricultural sector is responsible for creating jobs and food supplies.

Among the 830,684 farmers recorded by the 2003 Agricultural Census, 92% are subsistence farmers, cultivating less than 10 *manzanas* (7 hectares). A little more than six percent are farmers cultivating between 10 to 64 *manzanas* (7 - 44 hectares). Only 1.9% of agricultural producers harvest more than 1 *caballería* (44 hectares).

Among the farmers, 39% produce *maíz blanco* (white corn), and 12% harvest other basic grains, which demonstrates how important the production of basic grains is for the country.

Corporate globalization, which came about as a result of Structural Adjustment policies promoted in the mid 1980s, has left its footprints on the country. In particular, corporate globalization has affected the production of basic grains. Moving from a self sufficient producer of basic grains (i.e. rice, *maíz*, and beans) until the 1980s, Guatemala, once known as the "granary" of Central America, has become highly dependent on imports, resulting in serious consequences for malnutrition and hunger levels. The final link in the implementation of the economic reforms has been to put in place the Free Trade Agreement (or DR-CAFTA) in the Central American countries, the Dominican Republic, and the United States.

There are a number of institutions and investigators, particularly those in defense of the incorrectly named "free trade" model, who assert that the importation of cheap agricultural goods benefits the net consumers[15] of food products, which constitutes the majority of the population in every country. They claim that the only losers are the net producers of the products in play. This leads them to conclude that the benefits outweigh the damages; however, this analysis is flawed since there is empirical evidence that cheap imports do not necessarily reach the consumer. Rather, the concentration of basic product imports in the hands of a few import oligopolies causes the benefits to remain exclusively among the dominant actors of the "free" market.

Within this framework, we will analyze the initial results of DR-CAFTA on the agricultural and food sector, the agricultural trade balance, the effect on basic grains, the exportation of non-traditional crops, and the suitability of the model that is being deepened by DR-CAFTA.

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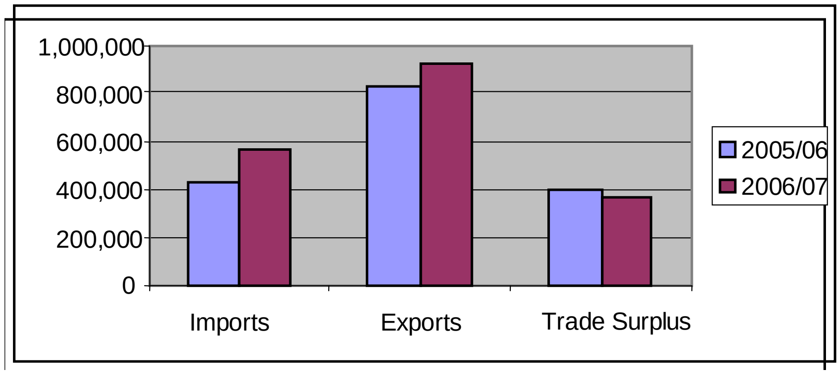
[15] Mason, Andrew D., *Policy Approaches to managing the Economic Transition: Ensuring that the Poor can benefit from DR-CAFTA*, Banco Mundial, Washington D.C., 2006; Pörtner, Claus, *Expected impacts of CAFTA in Guatemala*, Department of Economics, University of Washington, 2003

AGRICULTURAL TRADE BALANCE

In the first eleven months of DR-CAFTA in Guatemala (July 2006 to May 2007), agricultural sector imports have increased more than exports. This has resulted in a reduction in the trade surplus when compared to the same time period the year before.

Graph 1: Agricultural Exports and Imports, 11 months of DR-CAFTA. (In thousands of US Dollars)



Source: Own creation with data from the USDA

BASIC GRAINS

The imports of U.S. grains have increased considerably, with the exception of white corn. This is despite the high increase in the price of corn, rice, and wheat on the international market due to the increased U.S. production of ethanol.

Table 1: Imports from the U.S., 11 months of DR-CAFTA. (Measured in tons)

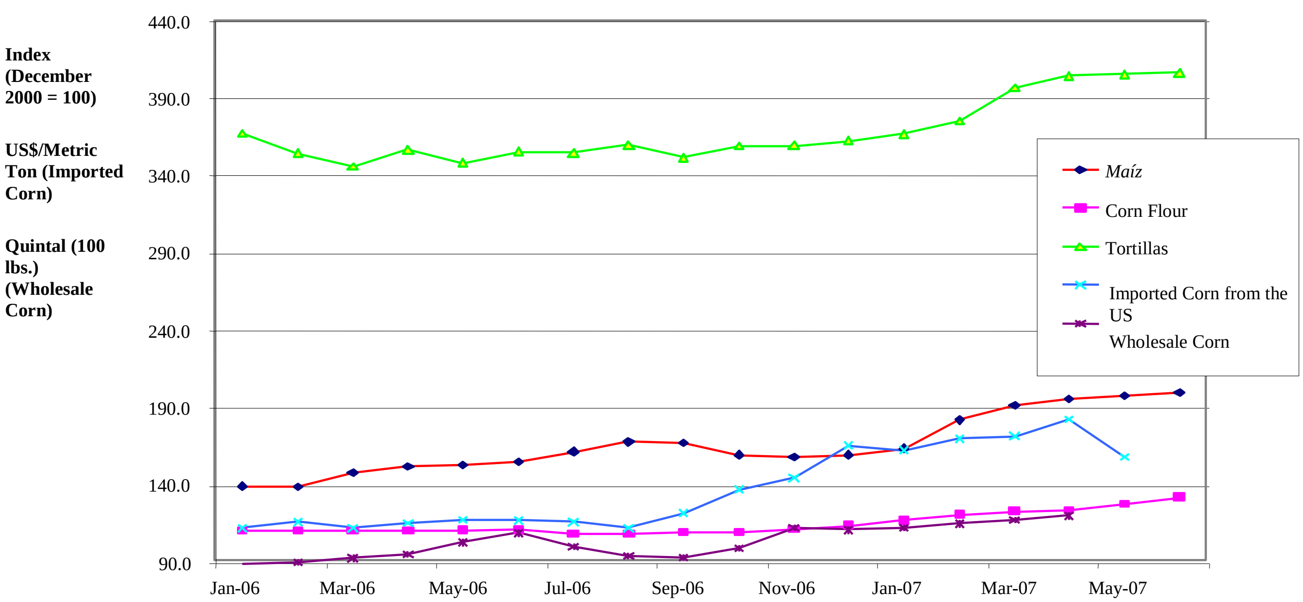
	2005/06	2006/07	Increase
Maíz Amarillo (Yellow Corn)	575,725.3	638,058.30	10.82%
Maíz Blanco (White Corn)	62,196	62,179	----
Rice	56,393.50	79,852.20	41.6%
Wheat	438,422	574,400	31%
Black Bean	3,161.7	3,196.7	1.1%

Potato	416.8	1,031.1	247%

Source: Own creation with data from the USDA

This considerable increase in the price of grains made the predictions of DR-CAFTA advocates contradictory. The forecast that increased imports would lead to more competition and thus better prices for consumers was inaccurate. The price increase, which in some parts of the country has doubled from the prior year, has benefited the larger agricultural producers. On the flip side, the increased prices have drastically affected impoverished households, increasing concerns about famine occurring in some high-risk zones throughout the country.

- **Graph 2: Evolution of Corn Prices**



Source: Own creation with data from INE, SIECA y UPIE-MAGA

Table 2: Increase in the prices of maíz and derivatives (IPC), June 2006 to June 2007

CCBA	Maíz	Corn Flour	Tortillas	Imported Corn from U.S.*
4.56%	28.94%	18.95%	14.31%	55.89%

Source: Own creation with data from INE
* Until April 2007

Although the increase in prices in itself cannot be attributed to DR-CAFTA, one can see the logic embodied in the agreement: the enormous concentration of imports in the hands of monopolies and/or private oligopolies, and their subsequent control of national markets.

EXPORT CROPS

Before DR-CAFTA went into effect in Guatemala, one of the principal opportunities advertised to small farmers was the exportation of non-traditional crops.[16] However, the DR-CAFTA advocates assumed that small farmers produced all those crops. Consequently, it is necessary to differentiate between the non-traditional crops. Among the most successful crops on the foreign market are fruits,[17] African palm,[18] rubber, and sesame. Nevertheless, these crops are concentrated in the hands of medium size to large-scale farmers, those that cultivate more than 10 *manzanas* (7 hectares). Other products such as flowers or ornamental plants are produced by factories, where women are employed with low salaries and poor labor conditions. In real terms, small farmers only have a significant portion of the vegetable and legume market.[19] Nonetheless, these small farmers are not the ones exporting the goods since intermediary businesses take advantage of the conditions.

Upon reviewing the evolution of exports to the United States in the areas where small farmers had the highest participation, exports to the U.S. actually decreased or only increased an insignificant amount compared to previous years:

[16] The non-traditional export crops are, in the case of Guatemala, banana, coffee, cardamom, and sugar cane.
[17] 95.35% of the melon surplus, 68.46% of the mango surplus, and 59.28% of the pineapple surplus are in the hands of large-scale farmers (INE, Agricultural Census 2003). The export of these crops is still more concentrated since the quality standards for export are very high and require large investments to be able to meet those standards.
[18] 99.85% of the surplus is in the hands of large-scale farmers (INE, Agricultural Census 2003)
[19] Only 2.15% of the Chinese pea and 11% of the broccoli surplus harvested are from large-scale or commercial farmers (INE, Agricultural Census 2003).

Table 3: Tons of the most successfully exported vegetables, January to May of each year.

	2007	2006	2005	2004	between 2006/07	between 2005/07
Peas	12,798.90	11,961.80	11,169.60	9,921.40	7.00%	14.6%
Okra	3,658.70	5,108.30	5,757.10	3,758.70	-28.38%	- 36.5%
Broccoli	8,091.60	7,765.40	9,966.10	13,482.80	4.20%	-18.81%

Source: Own creation with data from USDA

On the other hand, one can observe that exports have increased more to other parts of the world than to the United States. Vegetable exports to the U.S. in relation to total vegetable export decreased from 9.41% in 2005, to 9.01% in 2006, to 7.65% en 2007.[20]

Those that have had good results from DR-CAFTA are the large-scale farmers of fruit that have seen an increase in exports to the U.S. to some extent.

Table 4: Tons of most successfully exported fruit, January to May of each year.

	2004	2005	2006	2007	2006-07
Banana	427,116.20	459,660.60	337,875.60	468,610.20	38.69%
Melon	142,314.30	136,051.10	166,142.40	182,152.00	9.64%
Mango	8,736.50	9,238.80	9,047.70	12,489.60	38.04%
Watermelon	7,088.00	10,483.10	12,287.30	15,714.90	27.90%
Pineapple	5,095.50	12,509.80	14,349.80	14,614.00	1.84%

Source: Own creation with data from USDA

[20] We are including data from January to May of each year because we only have data for January to May for the current year. Data from the Bank of Guatemala.

However, this growth has once again cost small farmers. Guatemala is witnessing a worrisome process of re-concentration of the land used for successful crops into fewer hands. Consequently, Guatemala, already known worldwide as a country with an unequal distribution of land, is further concentrating the land. This reality has forced many families to lose the agricultural production that sustained them. The following table shows that the production of a few crops has increased, while at the same time the numbers of farms that produce those crops have drastically decreased.

Table 5: Process of Land Re-concentration

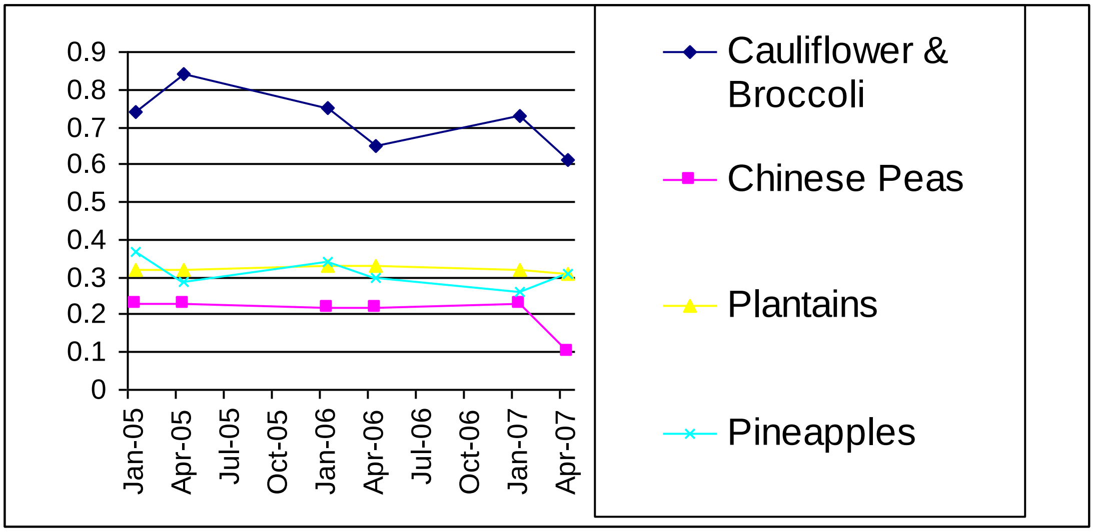
	MANGO		**PINEAPPLE**		**BANANA**		**SUGAR CANE**	
	No. Farms	Produce	No. Farms	Produce	No. Farms	Produce	No. Farms	Produce
2002/03	42,426	1,726,950	7,560	1,244,188	68,948	14,097,103	14,092	360,221,625
2005/06	9,816	3,787,467	3,809	11,057,770	35,449	36,359,463	10,716	412,621,531

Source: Own creation with data from INE 2003 and ENA 2006

In the case of fruit, although exports have not decreased to the U.S. compared to total exports under DR-CAFTA, there has not been an increase in fruit exports. That is to say, under DR-CAFTA the same percentage of fruit continues to be exported as before. There has been no change under DR-CAFTA.

It is fundamental to emphasize the evolution of the prices obtained for vegetables and fruits. In analyzing two vegetables and two fruits from January 2005 to April 2007, the prices for those crops decreased. The price for plantains decreased by a slim margin, while the price for Chinese peas drastically decreased. This demonstrates that there has been a definitive decrease in the price of the four crops, a trend contrary to the rising prices for the basic grains.

Graphic 3: Evolution of Prices for four non-traditional export crops, January 2005 to April 2007



Source: Own creation with data from USDA

CONCLUSIONS

Despite DR-CAFTA having been in effect in Guatemala for only one year, there are several emerging tendencies:

1. The agricultural balance has been negative. While there have been considerable increases in imports, the exports – although they have grown – have increased more to other parts of the world than to the United States.

2. DR-CAFTA is a model that:

   - Prioritizes commercial exchange over basic human rights (i.e. right to food). That is to say that DR-CAFTA promotes exportations at uncertain prices designed to decrease (for example, the exportation of non-traditional crops), while at the same time DR-CAFTA facilitates unnecessary imports of crops, which maintain a stable price on the international market and that are designed to increase (for example, basic grains). This is a disadvantage for the country in terms of exchange,[21] along with major effects on sovereignty and food security. Food security should be a priority in Guatemala, a country with a good climate for agricultural production, but that is currently facing a drastic situation of malnutrition and famine.

[21] Data confirmed by RUTA- World Bank, *Motores de crecimiento rural sostenible y reducción de la pobreza en Centroamérica*, Washington D.C., 2004.

- Only benefits a small number of import and export businesses, those that are the richest in the nation or are taken over by transnational companies and capital:
    - The import businesses are earning a direct fiscal advantage by not having to pay the import tax (tariffs), an advantage that is not being transferred on to the consumer. Businesses without reprisal act as monopolies or oligopolies, dominating the import sector and controlling the markets. They act as regulators of the national market, when, as is done in many other countries, a public entity regulates the market. The current reality is affecting the right to food for the Guatemalan small producers and consumers.
    - In the areas where success has been seen in exports, large-scale, commercial farmers make up the majority of participants. Through the same model, they are stimulated to expand their plan, displacing subsistence farmers and re-concentrating land in the hands of a few. This has resulted in practically the worst distribution of land in the entire world.

RECOMMENDATIONS

Keeping in mind the situation described above, and in addition to reiterating rejection of DR-CAFTA given its negative impact on the rights of the majority, we consider the following to be fundamental:

1. As part of the commitment to basic grains produced at the national level by small farmers, an Integrated Agrarian Reform that not only guarantees access to land for those farmers without sufficient land, but also pushes forward complementary measures to assist small farmers in producing viable products (i.e. through technical support, accessible credit, the exchange of sustainable technology, social and productive infrastructure, etc.) should be implemented.

2. Akin to the first recommendation, mechanisms that allow the public sector to regulate the basic grain market at a national and regional level should be implemented. That is to say that a public entity should intervene in those markets that are increasingly distorted and currently exclusively in the hands of a few large-scale agri-businesses. This would guarantee just and stable prices for the producers and predict prices for the impoverished consumers. In addition, it would build real competition among large-scale monopolies and oligopolies that control the rural market.

3. At the Central American regional level, there should be an efficient and real effort to regulate the market since only a few domestic, regional, and transnational corporations have gained control. The regulations should democratize the process of accessing a portion of the contingents, should review mergers, and should guarantee that the benefits garnered by producers are passed on to the consumers.

El Salvador: A Year Plus Under DR-CAFTA

By Augusto Seción Villalona, Economist from Equipo Maíz, El Salvador

Translated by the SHARE Foundation: Building a New El Salvador Today

The free trade agreement between El Salvador and the U.S., the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA), entered into force on March 1, 2006. The time has been too short to analyze all the implications of the agreement; nevertheless, there are four variables whose evolution makes it possible to predict future developments: trade, investment, employment and prices.

Since the "negotiation" of the free trade agreement, the government was compelled to argue that there would be four significant advantages for El Salvador:

1. A rise in exports to the United States, above all of ethnic and agricultural goods, which would be desired by the Salvadoran community living in the U.S.
2. An increase of investment from U.S. businessmen and women who would be attracted to El Salvador by the multiple advantages the trade agreement offers: national treatment for its businesses, lower performance requirements (local use of commodities, transfer of technology, etc.), participation in the purchases of the public sector and so forth.
3. The generation of employment resulting from the development of export businesses and the massive entrance of foreign investment.
4. A reduction in the prices of imported goods which would enter El Salvador free of tariffs.

We will examine the results through December of 2006.[22]

Trade

According to El Salvador's Central Reserve Bank, in 2006 Salvadoran exports to the United States decreased by 2.5% and imports from the United States increased by 5.3%. The trade deficit with U.S. increased by 24%, from US$872 million dollars to US$1.1 million; that is to say, overall trade relations with the U.S. worsened.

In the case of agricultural trade, the situation is even worse. Data from the United States Department of Agriculture (USDA) demonstrates that Salvadoran exports to the United States in 2005 (before DR-CAFTA) grew by 49% in 2005. In 2006 (the year DR-CAFTA was implemented), the USDA recorded a drop of 3.7%. Of the 40 areas in which the exports are grouped, 14 registered a drop in exports. The

[22] See Central Reserve Bank (BCR): "Monthly Statistical Bulletin, December of 2006," and "Quarterly Magazine July-September 2006."

remainder remained stagnant or grew due to better prices, not because of DR-CAFTA.[23] This was precisely what happened with the exports of coffee which increased by 26%.

According to the U.S. Department of Agriculture, imports to El Salvador from the United States in the year 2005 fell by 3.3%, but in 2006 they registered an increase of 16.7%, the biggest increase since 1970. Specific products whose import levels increased dramatically include red meat and processed chicken (378%), dairy (37%), grains (28%) and rice (18%).[24]. These areas are linked to hundreds of thousands of small and medium-sized Salvadoran producers. In 12 of the 47 areas in which the imports are grouped, the increases have been the greatest since 1970.

The following chart highlights interesting data. The findings indicate that in El Salvador and Honduras, where DR-CAFTA has been implemented, agricultural exports to the United States have decreased and imports have increased to a level higher than that of 1970. In Guatemala, which also has implemented DR-CAFTA, exports were stagnated and imports grew more than they had since 1970. In contrast, Costa Rica, where DR-CAFTA is not in force, exports significantly outpaced imports.

In the case of Nicaragua, which has also implemented DR-CAFTA, the agricultural sector did not plummet. It is important to note that in the last 15 years, both imports and exports grew.

Chart 1: Agricultural Trade: Central American with the United States (2006)

Countries	% Increase In Exports	% Increase in Imports
El Salvador	-3.7	16.67 (*)
Honduras	-2.6	30.63 (*)
Guatemala	0.57	20.37 (*)
Nicaragua	22.26 (*)	10.83 (*)
Costa Rica	24.17 (*)	7.78 (*)

Source: United States Department of Agriculture
Note (*) The highest percentage rise since 1970

[23] http://www.fas.usda.gov/scriptsw/bico/bico.asp?Entry=lout&doc=1102
[24] http://www.fas.usda.gov/scriptsw/bico/bico.asp?Entry=lout&doc=442

Investment

In its "Preliminary Balance of the Economies of Latin America and the Caribbean 2006," the Economic Commission for Latin America and the Caribbean (CEPAL) indicates that foreign investment in El Salvador added up to US$222 million dollars in 2006, a drop of 26% with respect to 2005 when investment reached US$300 million.

Chart 2 demonstrates that the other countries have increased levels of investment, above all in Guatemala, Nicaragua and Costa Rica, which surpassed the total in El Salvador by seven times. Costa Rica, which has not implemented DR-CAFTA, attracts more foreign investment than the other four countries together.[25]

In the case of U.S. investment in El Salvador, September 2006 data from the Central Reserve Bank indicates an increase of 0.8%, which in actuality represents real stagnation: the level of investment reached in 2006 is lower than in the years 2003 and 2004.

Chart 2: Foreign Investment in Central America

Countries	2005 (US$ million)	2006 (US$million)	% Increase
El Salvador	300	222	-26
Honduras	272	279	3
Guatemala	208	325	56
Nicaragua	241	290	20
Costa Rica	904	1,611	78

Source: CEPAL: "Preliminary Balance of the Economies of Latin America and the Caribbean 2006," December 2006.

[4]BCR. http://www.bcr.gob.sv/estadisticas/se_inversion.htm
[5]BCR. http://www.bcr.gob.sv/estadisticas/sr_precios.html

Employment and Prices

The Economic Commission for Latin America and the Caribbean document mentioned earlier notes that, "in spite of the economic growth, the unemployment rate increased." If not for the annual emigration of 185,000 Salvadorans, unemployment would be much greater. In spite of the migration and of the jobs that DR-CAFTA was supposedly meant to generate, in 2006 the Salvadoran population without work increased.

Inflation in 2006 (4.9%) was higher than that of 2005 (4.3%). The rise in prices is the second highest in the last 10 years.[26]

Conclusions after a year of DR-CAFTA

1. Salvadoran exports to the United States have fallen and imports from the United Sates have risen. The deterioration of agricultural trade has worsened.
2. U.S. investment has remained stagnant.
3. Unemployment and prices have increased.

The Ambiguous Effects of DR-CAFTA in Nicaragua

Witness for Peace Nicaragua Team

After more than 16 months since the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) officially went into effect in Nicaragua, the country's business community maintains that DR-CAFTA has been and will continue to be a benefit for Nicaragua, while civil society groups remain unconvinced. Throw into the mix a new Sandinista government and the truth is that no one knows for sure what the long-term effects of the free trade agreement with the United States will be for the country.

On April 1, 2006, the Dominican Republic-Central American Free Trade Agreement went into effect in Nicaragua. Long time supporters of the agreement, such as then-President Enrique Bolaños and his administration, as well as the country's business community, saw the event as a victory for Nicaragua, especially for the 65% of un-and-underemployed Nicaraguans who would benefit from potential jobs as a result of the increased trade with the U.S. predicted under the agreement.[27] The theory behind DR-CAFTA holds that increasing foreign investment by breaking down barriers to trade and beefing up exports will boost the economy by promoting new sources of income and more jobs, which will eventually benefit the entire population of the participating country.

The theory, however, has its skeptics. The passage of DR-CAFTA in Nicaragua left clear divisions within the country about who would actually benefit from the agreement's provisions. Under DR-CAFTA, the United States maintains subsidies on certain agricultural crops while demanding that Nicaragua break down protections on its own sensitive products. In addition, the agreement imposes timelines by which signatory countries must eliminate all types of tariffs that pose a barrier to trade, in order to achieve the ultimate goal of DR-CAFTA: an open market for free, uninterrupted and undeterred trade. It remains to be seen whether DR-CAFTA will bring opportunity to those Nicaraguans who most need it, or whether it will cause them further harm.

Many groups saw the potential for significant change after 16 years of neoliberal administrations supportive of U.S. interests when the Sandinistas took power under President Daniel Ortega in January of this year. Ortega's decision to sign on to the Bolivarian Alternative for the Americas (ALBA) along with Cuba, Bolivia and Venezuela was seen as a potential first step in shifting Nicaragua away from its commitments made under DR-CAFTA. However, the Ortega Administration stated early on that it would continue to respect and comply with the DR-CAFTA and has said little else about the issue.

Imports & Exports under DR-CAFTA

At first glance, it may seem like the theory behind the DR-CAFTA is proving to be true.

[27] INEC, 2004

From January to June 2006, Nicaragua exported US$628.3 million worth of products.[28] In 2007, exports for the same period totaled US$752.4 million, an increase of 19.75%.[29] However, a negative balance of trade continues to be an issue for Nicaragua; Nicaragua imports much more than the amount it exports annually, purchasing US$3.42 billion worth of goods and services in 2006 compared to a mere US$1.97 billion income from exports that same year.[30] As long as Nicaragua's imports continue to outweigh the country's exports substantially the benefits of the DR-CAFTA will remain theoretical.

But who is benefiting from the increased exports? Data gathered by CETREX, the Nicaraguan National Center for the Tracking of Exports, shows that 70% of Nicaragua's export earnings go to 50 businesses.[31] Unfortunately, Nicaragua's main export crops are controlled by the few large producers that can produce enough of the product to export and can afford to invest in facilities that will enable them to comply with strict U.S. phyto-sanitary regulations necessary to securing authorization to export. For example, only three beef processing plants are authorized for export to the United States: Industrial Comercial San Martin, Nuevo Carric and Macesa.[32] This means that 100% of the earnings from the export of beef to the United States are going to only these three companies.

On the other hand, even these large producers do not always produce enough to fill the quotas achieved for their products under DR-CAFTA. For example, Nicaragua's quota for fresh milk was not used in 2006 or 2007. This is due to the fact that, although production exists, most producers cannot fulfill DR-CAFTA's phyto-sanitary requirements, making it impossible for them to take advantage of the export quotas in the agreement. The result is that any benefits reaped from DR-CAFTA-induced trade are merely increasing the wealth of a few already wealthy businesses, leaving the 80% of Nicaraguan producers categorized as small and medium to compete solely in the local market.[33]

When faced with criticism about DR-CAFTA, Dean Foster at the Ministry of Industry, Development and Trade (MIFIC) quickly pointed out that DR-CAFTA is the tool that has enabled Nicaragua to expand the list of products it exports. By providing export opportunities for some of Nicaragua's specialty products, such as sesame, jams and tropical fruits, Foster claimed that DR-CAFTA is benefiting many small and medium producers: "We ended 2006 with a 30% increase in exports to the U.S., and because we have new products entering the market produced by small and medium farmers, they will benefit."

William Rodríguez at Managua's Center for International Studies, on the other hand, emphasized that exports of these Nicaraguan specialty products are only permitted to enter the U.S. because they pose no threat to U.S. agribusinesses, such as Cargill.

"Cargill is not going to allow corn and rice to enter the U.S. from other countries in large amounts or at cheaper prices than they sell their crops for in the U.S. They put up barriers to this kind of trade. But what doesn't Cargill produce? Pitahaya, cacao, peanuts, sesame, tropical fruits."

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[28] Central Bank of Nicaragua (BCN). <http://www.bcn.gob.ni/estadisticas/indicadores>
[29] Ibid.
[30] Ibid.
[31] CETREX. <http://www.cetrex.com.ni/website/servicios/princexp07.jsp>
[32] CETREX & FIDEG. <http://www.elobservadoreconomico.com/articulo/214>
[33] National Agricultural Census III of the National Statistics and Census Institute (INEC), 2001

According to Rodríguez, Nicaragua depends on seven products to move the country's export economy—coffee, beef, sugar, dairy products, shellfish, rum, and corn—and that other products, especially niche products, are exported in virtually insignificant quantities. "Regardless of DR-CAFTA," Rodríguez said, "the U.S. is not going to permit trade that would endanger its producers."

Easing the way for a few *campesinos* to export their *rosquillas*, artisan crafts, pitahaya and pineapple may not solve Nicaragua's macroeconomic woes, but at least a few small and medium producers will be better off—if they understand the rules of the game. As Matilde Rocha of the Federation of Agricultural Cooperatives of Women Producers in the Countryside (FEMUPROCAN) explains, in reality, the exportation of these new products is almost always done through an intermediary. "Often the producers of these specialty products are too small to export individually and they lack knowledge about the rules of the market and the trade regulations; they end up selling their product to an intermediary and that is the person who benefits," said Rocha.

Rocha went on to say that under DR-CAFTA, "one sector—the popular sector—is sacrificed to benefit another—the private sector." Rodríguez agreed, saying, "The money is not circulating within the population; it's circulating among businesses."

The *Maquila* Sector

DR-CAFTA offers an opportunity for businesses—foreign and national—to take advantage of Nicaragua's abundant, cheap labor by encouraging investment in Free Trade Zones, or the *maquila* sector. Increased investment in the *maquila* sector would, in theory, bring more money and more factories into the country, creating thousands of new jobs for Nicaragua's un- and under-employed citizens.

Since DR-CAFTA has been implemented, the *maquila* sector in Nicaragua has benefited. The American Chamber of Commerce reports that US$200 million in new investments have been announced in the textile and apparel sectors since Nicaragua ratified DR-CAFTA in October 2005.[34] However, Rodríguez points out that investment in the Nicaraguan *maquila* sector does not promote Nicaragua's social well-being except through the miserable salaries paid to employees. "The factory owners reap the benefit of these investments, not Nicaraguans or the Nicaraguan government [because the owners pay no taxes]." According to Rodríguez, *maquilas* "are the tools that prop up Nicaragua's GDP and skew macroeconomic statistics."

For many factory owners, however, *maquilas* are a tool used to export a cheaper, more competitive product via the exploitation of their workers. Nicaraguan *maquila* workers are among the lowest paid of the world's garment workers, receiving an average of just US$.70/hour (including benefits) for their work.[35] In addition, the infamous worker abuses in the *maquila* sector continue under DR-CAFTA. *Maquila* workers put in long hours, often 10-12 hours a day in hot, airless facilities with few breaks and little choice about how many hours they work. "The supervisors control how much time we spend in

[34] American Chamber of Commerce (AmCham) Nicaragua handout. 2007

[35] ProNicaragua, 2004.

the bathroom—once my supervisor followed me to the bathroom and waited for me outside so he could escort me back to my station," one *maquila* worker said of the situation in her factory.

Another worker said her supervisor throws the bundles of cloth waiting to be sewn at her. "For other workers who aren't part of the union, the supervisor places the work on their stations, but she throws it at me. I've been hit on my arms, my legs, even in the face with these bundles." Factory managers and supervisors who see the unions as a threat to their business persecute union workers at many factories in Nicaragua. Workers routinely complain of supervisors shouting obscenities at them, calling workers "whores" and "pigs." There are also several allegations of supervisors pushing or hitting workers. Recently, several workers in one particular factory received death threats as a result of union affiliation.

A couple of years ago, voices in both the U.S. and Nicaraguan governments promised that DR-CAFTA would bring relief. While critics argued that a projected influx of U.S.-subsidized crops would displace hundreds of thousands of farmers, DR-CAFTA proponents assured the public that any job loss in small-scale agriculture would be outweighed by a surge in *maquila* investments. DR-CAFTA would grant Nicaragua a unique Trade Preference Level (TPL), through which textile *maquilas* operating in the country could source up to 100 million square meters of fabric from cheaper countries that were off-limits prior to DR-CAFTA. DR-CAFTA proponents argued that by exclusively allowing Nicaraguan *maquilas* to use cheaper fabric, the agreement would spawn a wave of new *maquilas*, and subsequently, jobs.

Many critics responded that the weak language of DR-CAFTA's labor chapter meant that new *maquilas* would continue to disregard Nicaraguan labor law and violate workers' rights. Yet, if we embrace the motto that a bad job is better than no job at all, then the success of DR-CAFTA can in part be measured on how many jobs, albeit bad, the agreement creates. Given that DR-CAFTA took effect in Nicaragua over a year ago (April 1, 2006), preliminary assessments are now possible.

During the first half of this year, two new textile *maquilas* have decided to invest in Nicaragua, generating an estimated 176 new jobs.[36] During the same six months, Nicaragua has seen mass firings in at least seven textile *maquilas*, in addition to two complete factory closures, prompting the alarming loss of approximately 3,880-4,120 jobs.[37] In nearly every closing or personnel reduction, factory management has explained that they were obliged to fire workers when the U.S. brand names contracting with the factory decided to sharply curtail their orders. Various inside sources report that the recent rash of closings and firings are due to an overall 30-50% drop in business for Nicaragua's

[36] "Empresas Usuarias Aprobadas en el Año 2007." Comisión Nacional de Zonas Francas. 10 July 2007. Managua, Nicaragua. If counting all new maquila investments from January-June, 2007, rather than just those in the textile sector, the number of new maquilas is seven and the number of jobs generated is 1,993. This number still pales in comparison to the 3,880-4,120 textile jobs lost during this time period.

[37] Data compiled from multiple sources:
"Situación de Conflictos y Despidos en las Empresas del Sector Privado." Confederación Sindical de Trabajadores José Benito Escobar. 27 June 2007. Managua, Nicaragua.
Bobadilla, Harling, Roger Hernández, and Pedro Ortega. Mesa Laboral de Sindicatos de la Maquila. Personal Interview. 10 July 2007. Managua, Nicaragua.
Data was also obtained through communication with the Free Trade Zones Corporation and interviews with several former maquila workers.

maquilas.[38] How could this be true, though, if the very promise on which DR-CAFTA was sold was that Nicaraguan *maquilas*, through the TPL provision, would attract more business?

To answer this question, we should consider a little-discussed trade arrangement called the Multi-Fiber Agreement (MFA). Since 1974, this agreement had regulated the quotas of textiles that developing countries could export to the U.S. The agreement granted ample quotas to various small countries like Nicaragua while restricting U.S. market access to behemoths like China. Such favorable treatment for Nicaragua ended with the MFA's expiration on January 1, 2005.

About a month later, a factory owner was asked how the MFA expiration would affect his business. The owner flatly responded, "Listen, China can pay its workers less than what I'm legally required to pay these people. China could ship its jeans over to the U.S. in planes and still offer Sears a better deal than I can. I don't think I'll probably be here in a few years; I don't think these people will have jobs here." The owner had cause for concern. In January 2004, while under the MFA quota, China exported 941,000 cotton shirts to the U.S. In January 2005, that number soared to 18.2 million shirts. By the same comparison, Chinese exports of cotton trousers to the U.S. jumped by 1,332%.[39]

This drastic realignment of the global textile industry is likely tied to the recent drought in business for Nicaragua's *maquilas*. In mid-February 2007, a Taiwanese-owned factory closed down a few assembly lines, firing over one hundred workers. In a subsequent meeting, the factory's administration manager explained that from December 2006 through February 2007, the various brand names for which the factory produces cotton shirts all decided to scale back their contracts, prompting a 30% reduction in production. The manager further complained that the factory had no orders for production past July, a scarcity she had not seen in a decade of Central American *maquila* management. When asked the reasons for the brands' decision to reduce contracts, the factory manager pointed to an overall shift in the brands' contracting preferences—a shift away from Central America and towards the cheaper labor of China.

Incredibly, just 10 months earlier, DR-CAFTA had been passed with the TPL provision so that Nicaragua's *maquila* jobs would not just stay put, but multiply. When asked to explain this conundrum, the factory manager responded, "The TPL means nothing to the brands. They only care about the wages."

While a bad job may be preferable to no job, the DR-CAFTA model does not seem to be even offering Nicaragua this dismal choice. Instead of moving from no job to a bad job, many Nicaraguans are moving in the opposite direction. DR-CAFTA was packaged as a gift to Nicaragua, a gift that would enable the country to further exploit its comparative advantage in cheap labor and thus create jobs. Such a gift, beyond being inherently exploitative, is short-lived. As soon as free trade is redefined to include other, more desperate developing countries, the comparative advantage evaporates along with the jobs. This proven reality must be recognized in order for the DR-CAFTA model and its tired myth of job creation, to be finally discarded.

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[38] As cited by US Embassy personnel in Nicaragua.

[39] Barboza, David and Elizabeth Becker. "Free of Quota, Chinese Textiles Flood the U.S." *New York Times*. 10 March 2005. http://www.globalpolicy.org/socecon/trade/2005/0310freeofquota.htm

The Poor & Women: DR-CAFTA Targets

Most civil society groups agree that poor Nicaraguans stand to lose the most under DR-CAFTA. Currently, around 80% of Nicaraguans live on $2.00/day or less.[40] Poor Nicaraguans are the most vulnerable to changes in the country's trade practices. For example, in order to survive on their meager earnings, they buy the cheapest foods available in the Nicaraguan market. Unfortunately, traditional Nicaraguan foods have been replaced by cheaper, pre-packaged and processed foods. "DR-CAFTA is changing the culture of our diet," Rodríguez said, "because the more accessible food to Nicaragua's poor majority is unhealthy and often filled with GMOs: the people are poisoning themselves by buying artificial food like cookies and chips, food that causes them to lose strength and exposes them to health hazards."

Among this group of poor Nicaraguans, the impact on women is even worse. In general, women do riskier work in more dangerous conditions. Eighty percent of workers in the maquila sector—120,000 workers—are women. Women make up the majority of tobacco laborers—work that exposes them to dangerous chemicals, almost always handling tobacco without protective gloves or masks. In addition, 37% of Nicaraguan families are headed by single mothers.[41] Seventy-eight per cent of Nicaraguan women work in the informal sector.[42] These women are responsible for earning enough money to provide for their families' basic needs, in addition to attending to housework and childcare. As a result of this dire situation, women are becoming increasingly likely to consider migration abroad as a means of supporting their families. The result of this, as Rodríguez puts it, is "the separation of families and the disintegration of the family nucleus." DR-CAFTA encourages mass production of crops such as sugar for export. However, the production of these crops—and the production of cheap textiles—depends on a desperate workforce, comprised to a large degree of women, willing to work in exploitative conditions for miserable pay because they have no other options for supporting their families. Under DR-CAFTA, the poor, especially poor women, are the least protected.

Conclusions

For the average Nicaraguan, there have been few tangible changes since the implementation of DR-CAFTA. According to a survey of 1,600 Nicaraguan families conducted by Fundación Internacional por el Desafio Economico Global (International Fund for the Global Economic Challenge-FIDEG) in 2006, 43.1% of those surveyed had never even heard of the free trade agreement.[43] This lack of knowledge means that many Nicaraguans do not attribute slight changes in prices of staple products to DR-CAFTA; it also

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[40] UNDP, 2005
[41] "La Importancia de la Mujer en Nicaragua" El Observador Economico online. April 24, 2006. <http://www.elobservadoreconomico.com/articulo/99>
[42] Ibid.
[43] El Observador Economico. Edition 178. "Percepcion del CAFTA-DR en los cuentapropistas." Pp.19.

means that the lack of knowledge will most likely continue until imported products begin to penetrate local markets in Nicaragua, a point at which change or protest may be too late.

At this point, barely a year after the implementation of DR-CAFTA in Nicaragua, drawing conclusions as to the results or long-term effects of this trade agreement boils down to a battle of statistics and personal opinion. But this much is clear: DR-CAFTA is making Nicaragua more vulnerable and more dependent—on imports, on the international prices of the country's key export crops, on remittances, on maintaining low wages so as not to scare maquila sector investors away. While it may be true that Nicaragua's economy grew 3.7% in 2006, as long as 3/4 of the country lives on less than $2.00/day, the success of DR-CAFTA will be hard to argue.

Impact of CAFTA on Nicaraguan Agriculture after One Year[44]

[Excerpted from "Impacto de la importación de granos básicos en Nicaragua a un año de la entrada en vigencia del Tratado de Libre Comercio con Estados Unidos" by Magda Elia Lanuza – June 2007 Center for International Studies, Managua, Nicaragua. Translated by Katherine Hoyt, Nicaragua Network.]

Introduction

Nicaragua is an agricultural country. The production of basic grains, fruits and vegetables constitutes 21% of the Gross Domestic Product which in 2005 reached US$5 billion according to the calculations of the Central Bank of Nicaragua. Agriculture employs 38% of the economically active population which is two million people, according to the most recent census carried out by the Nicaraguan Institute of Statistics and Census, and represents more than 40% of the nation's exports. Forty-three percent of the population lives in rural areas.

The World Bank, however, sees things differently. A Bank study from 2006[45] stated that the concern about sensitive agricultural products expressed by Nicaragua and other countries about the impact of DR-CAFTA was not relevant given that the restrictions on imports into their countries would be lifted gradually. The document noted that 90% of the households in Nicaragua were net consumers of the basic basket of sensitive agricultural products (including rice, corn and beans). This percentage of the population, the report said, would be winners because, once the liberalization of the trade in these products occurred, prices would come down and there would be greater access to them. On the other hand, the report maintained, only the 9% of Nicaraguan households that are net producers of basic food products would be losers once prices dropped with the implementation of the CAFTA trade agreement. [Editor's note: Only a few seconds of thought are required to see the error here: Those families that are both producers and consumers of food products will certainly be losers as prices drop and the income they use to purchase needed products vanishes.]

The Case of Rice:

According to economist Adolfo Acevedo, a CAFTA specialist, the effect of the importing of rice is very clear. It costs a farmer in the United States US$9.40 to produce 100 pounds of rice[46]. In the Sébaco Valley of Nicaragua, it costs a farmer US$8.45 to produce the same 100 pounds of rice. This should mean that the rice

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[44] This study was done as part of the work of the Agriculture Group of the Continental Social Alliance with the support of Action Aid, Brazil.

[45] *Highlights from DR-CAFTA: Challenges and Opportunities for Central America*, World Bank Group, 2005, Washington D.C. http://lnweb18.worldbank.org/LAC/LAC.nsf/ECADocByUnid/4668F61591FA2AC38525702A0078354C?Opendocument

[46] Acevedo, Adolfo V, Impactos Potenciales del Tratado de Libre Comercio Centroamérica – Estados Unidos en el sector agrícola y la pobreza rural en Nicaragua, 2004, Nicaragua

produced in Nicaragua has a competitive advantage. However, due to the subsidies received by the U.S. farmer, these 100 pounds of rice enter Nicaragua with the lower price of US$7.65.

Until the 1990s, Nicaragua only imported enough rice to cover its deficit; the country was capable of producing most of the rice it consumed. Imports from the United States began to increase substantially after 2003 and in the year 2004 during the CAFTA negotiations. This panorama of imports from the United States will continue with the establishment of annual quotas that make it possible for more tons of rice, both hulled and unhulled, to enter tariff free each year.

Going back to 1996, the country imported 65,000 metric tons of rice which represented only 25.1% of domestic consumption while Nicaraguan farmers were capable of producing 259,000 metric tons. Ten years later and after the implementation of CAFTA, Nicaragua imported a total of 106,530 metric tons, which represents 45% of national production.

The big rice companies which own the processing plants [and are the real beneficiaries of CAFTA] should be expected to receive the unhulled rice which with difficulty about 17,000 small and medium scale farmers are able to produce.[47] However, many of these farmers are not able to get their rice into the processing plants because the administrators tell them that they are full to capacity with unhulled <u>imported</u> rice. Faced with that situation, many of them have had to sell their properties to the big companies.

The Case of Beans

The beans produced in Nicaragua go to supply the demand of the national market. Beginning in the 1990s, the commercialization of beans was defined by the oversupply at harvest time and a shortage of beans later in the year due to the loss of storage centers or silos. This meant that beans were exported during the months of high production and imported when the harvest had passed. This had a negative impact on farmers, since they were obliged to sell their crops at low prices often below the costs of production.

Beans are produced by around 27,000 small and medium scale farmers. According to the information compiled by the III National Agricultural Census (CENAGRO) those are farms smaller than 17 acres.[48] The bean consumed in Nicaragua is a small red bean of the Adzuki variety.[49] This is the bean that is produced and marketed the most and preferred by consumers in all regions of Nicaragua. The principal destinations for exportation of these beans are Costa Rica, El Salvador and Honduras, and to a lesser degree the United States.

In the negotiation of the CAFTA agreement beans were included among the sensitive products. Beans have a period for removal of trade restrictions of 15 years with tariffs being reduced 2% annually but with no schedule laid out for the steadily increasing importation of beans from the United States as

[47] CIPRES, Soberanía Alimentaria y Desarrollo Agroindustrial, 2006, Nicaragua
[48] III Censo Nacional Agropecuario, Instituto Nicaragüense de Estadísticas y Censos, Gobierno de Nicaragua, 2002
[49] Cáceres, Sinforiano y Morales, Raúl, Análisis de los resultados del CAFTA para los cinco productos agropecuarios. Nicaragua 2004

there is for other products. A special safeguard automatically comes into play by which the product is protected from imports that could cause damage to local growers.[50]

However there are other ways to introduce the product. One case to study is the commercial strategy of Hortifruti which was acquired by the U.S. company Walmart. It is a distributor of fruit, vegetables and grains. In 2004 it brought into the country 1 billion tons of beans[51] claiming that there was a scarcity in the national market. These beans were distributed principally through the supermarket chains La Union and Pail, which are also owned by Walmart. Later these stores were accused by some farmers[52] of dumping since even in a period of high local production, they did not buy beans on the national market but rather imported beans without ever stipulating their country of origin.

The table below shows that the price received by farmers for their bean crop has declined during the year CAFTA has been in effect.

<u>Prices paid to the grower at the farm</u>

Córdobas (18 to the US dollar) per 100 lbs. of red beans

Epoca	**2005**	**2006**
1er Trimestre	478.4	372.8
2do Trimestre	549.2	413.8
3er Trimestre	440.4	422.5
Promedio	**493.9**	**403.7**

Source: Based on *Unidad de Precios/Dir. Estadísticas MAGFOR*

The Case of Corn:

Nicaragua is a net consumer of white corn which means that Nicaraguan farmers do not produce enough to satisfy national demand. Statistics indicate that the country produces 1billion lbs. of corn annually. Almost the entire amount is produced by 160,000 small farmers.[53]

Yellow corn is not produced in the country and the imports of yellow corn are used almost exclusively in the production of feed for cattle and poultry with a small amount used for the production of oil and other industrial uses. Nevertheless, what has happened is that the producers of animal feed are now

[50] Análisis del Sector Exportador Agrícola Nicaragüense. Ministerio de Industria, Fomento y Comercio, 2005
[51] La Prensa, Viernes 22 de octubre, 2004, Nicaragua
[52] Ibid
[53] Instituto de Estadísticas y Censos, Censo Agropecuario del año 2004

using imported yellow corn instead of the sorghum produced nationally. Sorghum growers blame the cheap imports from subsidized US farmers for the reduction and virtual disappearance of demand for their product.

In the case of white corn, which is considered a sensitive product, only 10 million lbs. will enter Nicaragua during first 15 years, less than 1% of national production. However, neither Honduras nor Costa Rica negotiated white corn as a sensitive product and up to 4 million lbs. of white corn could now be entering from Honduras. As long as Costa Rica does not give final approval to DR-CAFTA, Nicaraguan corn farmers are not in danger from that direction.

The rush in the United States to produce ethanol from corn could change all this. In January of 2007, Nicaragua was visited by US investors who said they were interested in purchasing Nicaragua corn to produce bio-fuel.[54] Poultry farmers have announced that, due to the sudden increase in the price of yellow corn and its bad quality, they are going to again purchase local sorghum. And, imports of both yellow and white corn have decreased with the quotas not being fully used. In May of 2007, the agriculture ministers of Central America declared their intention to increase corn production in the region in order to satisfy demand for the product.[55] Because recent governments had neglected the sector, the situation of corn production in Nicaragua was particularly serious. In 2005, only 938,000 acres of corn were harvested in contrast with 960,000 in 2003.[56]

The Case of Sorghum:

Among the countries of Central America, Nicaragua is the one with the most land devoted to sorghum cultivation (98,000 acres)[57] However, El Salvador, with higher yields, produced more sorghum than did Nicaragua. Sixty-one percent of Nicaragua's sorghum is planted alongside corn and is used by the small and medium-scale farmers themselves. (Sorghum forms a greater part of the local diet in Nicaragua than in the other countries of Central America.) Of the remainder, 80% is used for the industrial production of animal feed. As noted above, the importation of cheap yellow corn in recent years resulted in decreased production of sorghum for industrial use even before the entrance in force of DR-CAFTA. Much of this was due to the commercial practices of the Cargill Company which installed itself in Nicaragua in 2000. Besides buying one of the biggest poultry companies in the country, Cargill also acquired the poultry and cattle feed plant. It brought the raw material for the animal feed, yellow corn, from the United States. According to Francisco Vargas of the Nicaraguan Association of Sorghum Producers (ANPROSOR), the competition between the imported yellow corn and local sorghum sent thousands of ANPROSOR members into bankruptcy.[58]

However, with the recent increase in the price of imported corn, the scene is changing. The Association of Small and Medium Poultry Producers of Nicaragua (APEMEPAN), where big poultry farmers like CARGILL are

[54] http://www.elnuevodiario.com.ni/2007/01/19/economia/39204
[55] http://www.laprensa.com.ni/archivo/2007/mayo/03/noticias/campoyagro/
[56] CIPRES, Los Pequeños y Medianos Productores Agropecuarios, Pág. 76, Managua 2006
[57] Peterson y Clara, Sorgo y Producción de nuevos mercados, Nicaragua 2001
[58] Agricultura y Comercio, Boletín, Centro de Estudios Internacionales, año 2003, Nicaragua

not represented, is working to rescue for 2007[59] the production of sorghum to compensate for the high cost of imported yellow corn. To help in that effort, the government has announced efforts to increase the production of sorghum by 10%. Therefore, nationally produced sorghum could have a new opportunity in spite of DR-CAFTA and the amounts of yellow corn that would, under the agreement, be allowed to enter Nicaragua.

[59] http://www.elnuevodiario.com.ni/2007/04/04/economia/45557

Sixteen Months of DR-CAFTA in Honduras

Bloque Popular, Honduras

To try to determine a clear date on which the Free Trade Agreement with the United States (DR-CAFTA) entered into force in order to analyze the agreement's effects is impossible. Although DR-CAFTA was officially implemented in April 2006, the process of liberalization had begun before, during the 1990s, via the Economic Stabilization Program and Structural Adjustment Measures demanded by the International Monetary Fund (IMF). These programs started with the elimination of incentives for Honduran producers, the privatization of public services, and the liberalization of the market.

A free trade treaty became part of the neoliberal model assumed by the government of Honduras at the behest of the United States. The "negotiation" of this "agreement" was done in extreme secrecy. The people of Honduras saw their country in the midst of negotiations of the agreement without having an idea of the dimensions of the agreement or its effects on the life of the population.

Honduras ratified DR-CAFTA with the United States on March 3, 2005, with minimal discussion in the National Congress. The agreement was then approved by two votes in the US Congress on July 28, 2005, after some changes were made, in spite of the fact that the Congress of Honduras had already approved it. DR-CAFTA entered into force in Honduras on April 3, 2006.

What happened to the promises made by the Government of Honduras, the private sector--particularly the export industry group--the Embassy of the United States and its emissaries? These groups assured us that, via DR-CAFTA, Hondurans would have more opportunities for work. They did not tell us of the conditions of that work.

In 2001, 43.2% of Hondurans worked in the agricultural sector. Three years later, there were 8.3% fewer workers in this sector, at the same time that there was an increase of employment in the manufacturing industry of 1.1%. Although in 2004 DR-CAFTA had not yet been signed, already Honduras had more than a decade of experience opening its market to the world. DR-CAFTA has brought Honduras more of the same.

The employment that export processing factories has generated does not compensate for the unemployment lost due to the liberalization of the rural sector. Meanwhile, although the Honduran labor code has not been officially modified, labor flexibilization has deteriorated the working conditions for workers, leaving them in unstable situations with low wages, debilitating work schedules, and without social benefits. Although export processing factories have generated the largest source of new jobs, the factories offer the worst labor conditions in the country. Notably, the majority of Honduran women work in these factories.

The competition between the countries of Central America is designed to offer increasingly favorable conditions to the transnational export processing plants, particularly through low wages. In Honduras, the minimum wage for the southern zone of the country was approved after ensuring that it was 20 *lempiras* less than the minimum wage elsewhere. This "incentive" to investment in the one of the poorest zones of the country was established so that the transnational companies do not leave for cheaper Nicaragua.

The work to which Hondurans have access is of low productivity and low added value, with labor insecurity, instability and insufficiency. The percentage of Hondurans dealing with underemployment has increased since 2001, making work in the informal sector the most likely option for poor workers.

The advantageous and preferential conditions afforded to foreign investment make it impossible for domestic actors to participate in new national investment projects. An example of this is the small agriculturists who have been displaced by agro-industry.

In the market liberalization process, one of the most affected sectors is agriculture. Small farmers are losing their food sovereignty as the shift in export production trends prioritize the production of biofuels. Honduras has become the second-largest exporter of tilapia to the United States, yet it does not produce the basic grains that the population requires for its consumption. The policies of the government have been oriented to the competitiveness of exportable products and the production of monocultures for the generation of biofuels, thereby neglecting the country’s food sovereignty needs. Based on the necessities of big business, state policies are modified: when maize for the feeding of the population was cheap on the world market, the government did not deem it necessary to produce it in the country, but when prices rose, the government decided to produce ethanol, launching a program to stimulate maize production.

The government of Honduras, through the Secretariat of Agriculture, prohibited the use of transgenic seeds for some time; nevertheless, as the result of pressure from interested groups such as transnational companies which launched media campaigns to promote the safety of transgenic seeds for human health, now transgenic seeds are utilized throughout the country.

The privatization of public services is accomplished in several ways. Water is privatized through “municipalization” for which the water law was modified. This modification left open the option to sell the water services to a private actor. It is in this way that the National Service of Aqueducts and Sewers (SANAA) transferred the administration, projects and infrastructure to city hall. This process is already underway, and is expected to pass this fall in Tegucigalpa and other municipalities.

Telecommunications and electrical energy production and distribution are also being privatized. Laws have been created and modified at the behest of the domestic and international private sector to open the doors for unregulated investment which will destroy state companies. Through this process of privatization, they have destroyed state companies with claims of corruption and inefficient service in order to demonstrate incompetence, thereby facilitating the population's acceptance of privatization.

The Honduran government has opted to increase electrical energy under the Plan Puebla Panama framework through the construction of dams via concessions. This approach favors transnational companies and not the development of the country.

Migration is one of the ways the population deals with the conditions in Honduras. From 1990 to 2000, migration to the United States increased by 154%. In subsequent years, the number of migrants increased to more than 100,000 people per year. In the first six months of 2007, more than 20,000 Hondurans have been deported from the US. The number of women who migrate has likewise increased: one in three migrants is a woman.

The poor majority in Honduras require a state that responds to their interests. With free trade, the role of the state is transformed to respond to the necessities of capital and not of the population. Laws are modified so that more transnational companies than national companies are in decision-making roles. This seriously affects the rights of the population. In Honduras, it is becoming more difficult to have access to health, education, nutrition, a home, or dignified work: for this reason there are more poor people, more people working in the informal sector, more migrants, more apathy, more indifference and more of a loss of a sense of community.

THE NEGATIVE EFFECTS OF DR-CAFTA FOR THE DOMINICAN REPUBLIC

By Víctor Gerónimo, General Coordinator for the Collective of Popular Organizations

The principal negative effects of DR-CAFTA are: the destruction of the national productive apparatus, higher unemployment, more dependency on the import sector, the loss of food sovereignty and political-legislative sovereignty. These things have worsened since DR-CAFTA took effect in March 2007.

The trade liberalization deriving from DR-CAFTA is aimed at, and implemented for, the destruction of the environment, competition over the basis of low salaries, the destruction of the productive apparatus in the Dominican Republic, and the institutionalization of inequality, among other things.[60]

According to the economist Pavel Isa-Contreras, "The trade agreement implies a radical change in the agricultural importation policy of the Dominican Republic and it compromises an important percentage of the production and the precarious state of food security and autonomy, without providing the necessary tools to defend itself from unloyal competition."[61] Ultimately, the Dominican market has been flooded with imported products without prices having been lowered.

THE NEGATIVE EFFECTS OF DR-CAFTA BY SECTOR

After almost six months of DR-CAFTA being in force, the country saw the creation of several administrative, financial, and tariff reforms, as well as auxiliary laws which impact the dynamic of national trade, public consumption, and all social and psychological issues in the short, medium, and long term.

A short-term evaluation, looking at a one-month period from March to April 2007, shows that DR-CAFTA leaves a negative trade balance in the amount of $123 million. The total of exports to the United States, Nicaragua, Guatemala and Honduras was $189 million, calculated by the value placed on the products at port, while imports rose to a total of $312 million. In the January-June 2007 semester, the behavior of the trade balance continued to be in deficit.

[60] Miguel Ceara-Hatton, discourse on "Free Trade Agreements in the History of the Dominican Republic," organized by the Academy of Science and the Dominican History Academy, March 17, 2007.
[61] Pavel Isa-Contreras. "Central America-United States Free Trade Agreement: The Results of Dominican Adhesion," Coordinator and Researcher of the Center for Economic Research for the Caribbean (CIECA), Santo Domingo, Dominican Republic.

Despite promising an enormous influx of cash into our economy, associated principally with direct foreign investment, the effect of the free trade agreement seems ineffectual and the trade flow with other DR-CAFTA members continues to run a deficit.[62]

FREE TRADE ZONES

According to Isa-Contreras, "the value added of the industries of the Free Trade Zones presented a fall of 11.3% because of the influence of the 17.2% contraction of the value-added industry of the manufacturing of textile products, which remains the most preponderant industry under this regime."[63]

This behavior is fundamentally explained by the shift of the demand for textile products, from the United States to the Asian countries, whose participation in the American market went from 43.8% to 49.4%, growing 5.6%, to the detriment of the Central American countries, among others. For example, exports from the Dominican Republic and Guatemala fell 25.7% and 8.5%, respectively.[64]

This reduction of textile exports means more unemployment for the country. Over 200,000 people have lost their jobs. This characterizes the Free Trade Zones of today.

The growing unemployment in the Free Trade Zones has resulted in increased growth in the informal sector, registered now at 56%. The growth of the informal sector has also been provoked by the deterioration of the small and medium businesses under the effects of the two fiscal reforms and a fiscal rectification after the implementation of DR-CAFTA.

Even though the Free Trade Zones are still an important employment niche for women it is basically concentrated in the textile sector" as it would operate with a low educational level.[65] 89% of the employees in the Free Trade Zones are at this level, and as such their behavior explains to a great degree the evolution of the total employment of the sector.[66] From January to June 2007 women were still in first place in the labor category in the Free Trade Zones.

EXPORTS AND IMPORTS

The export sector will not be able to be competitive in the international market because of its structure of limited internal production, which is neither updated nor technologically modern. Under this condition there will be no growth of national exports.

According to the Center on Exports and Investment, "Neither tourism nor the Free Trade Zones can fully compensate for the displacement of the labor force out of the vital and necessarily strategic national

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[62] Central Bank of the Dominican Republic. "Country Follows Through with Goals set by IMF," El Nacional, July 30, 2007.
[63] Central Bank of the Dominican Republic. "Preliminary Results of the Dominican Economy," January-June 2007
[64] Ibid
[65] UNDP. "National Human Development Report on the Dominican Republic" 2005.
[66] Ibid

agricultural sector. The national economy can hardly take qualitative and quantitative steps forward without a massive process of investment in the national agricultural sector."[67]

There is no agro-industrial platform in the country which could be the pivot point for national development as a broad and successful export platform. The cold data of the Central Bank illustrate the reality; for example, we see the 5.2% growth in the sales of sugar and sugar derivatives, which is associated with an improvement in the export prices of this product on the international market. The export values of coffee and tobacco and their derivatives, on the other hand, fell $5.6 million and $1.9 million, respectively."[68]

The exports from the Free Trade Zones maintained their downward trend and ended the semester (January-June) with a reduction of $188.5 million (8.4%). The lowest revenues were registered in the manufacturing of shoes and textiles, which decreased 18.3% and 15.1%, respectively, as a result of the displacement of the U.S. market for China, Vietnam, and Indonesia.[69]

A. BUSINESS AND INDUSTRIAL SECTOR

The principal productive sectors of the country have no support for the exportation of their national products. This sector employs more than 500,000 Dominicans and contributes 24% of the Gross National Product of the nation. In the country there exists no legal framework that contributes to the improvement of the quality of Dominican businesses, industrial reconversion, innovation and improvement. There is no incentive for the exportation of the Dominican industrial sectors. As such, they cannot compete in the commercial opening that results from DR-CAFTA.

B. SUGAR, AGRICULTURE AND RURAL SECTOR

Privatizations have affected the sugar sector. Agrarian reform and support for the rural areas was abandoned. The associations of small and medium producers are in ruins because of the entrance of imported products like rice, cooking oil, milk, and others. The agricultural sector is experiencing the same destruction.

Almost all the sugar mills have been privatized. Add all this to more unemployment, and you end up with thousands of out-of-work people taking fragile vessels to Puerto Rico and other countries. A recent Gallup poll found that over 57% of Dominicans would leave the country if they had the chance.

According to the rural leader Martín Nivar Piña, "Poverty is destroying the countryside and 78% of the rural population lacks drinking water, health care, electricity and education, and a large percentage of its

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[67] "Some Reflections on DR exports." Center on Exports and Investment of the Dominican Republic, August 13, 2007.
[68] Ibid
[69] Ibid

residents suffer from hunger and malnutrition."[70] In the rural areas of the country there is an abundance of communities without internal roads, making it difficult even to harvest the crops.

Other limitations on the rural sector include the fact that less than half of that population works in agriculture and women have lower levels of economic participation, according to the Dominican economist Isidoro Santana.

C. PHARMCEUTICAL SECTOR

Within six months of DR-CAFTA's implementation, imported medicines almost tripled their prices. Pharmacy owners say that there is a violation of "the principles of free business and the free trade agreements" and that popular pharmacies "are a monopoly subsidized by the state to the detriment of the significant investments of the private sector."

The manufacturers, importers, and owners of pharmacies oppose the fact that the primary care centers only prescribe generic medicines.

D. SMALL AND MEDIUM INDUSTRIES

None of these sectors have a chance at competitiveness without electrical energy. The projects of innovation of new internal technologies (problems involving patents and intellectual property) face major challenges with the legislative initiatives which strengthen their legal framework. Only 16% of small and medium businesses have the technological capability to complete in the globalized marketplace. The majority of business owners don't even have access to the Internet.

The sector of small and medium sized business has 400,000 businesses, generates more than 2.5 million jobs and contributes about 30% of the GNP. A study revealed that 30% of small and medium businesses that open in the country have to close their doors within two years, for the lack of elementary training in business, above all in the administrative and financial sphere.

E. IMPORTS

The growth of the economy (at 7.2%) during the first six months of the year translated into a greater demand for imported goods, such that total imports grew to $6.2 billion, for a growth rate of 18% in comparison with the same period in the previous year. Total imports grew $954 million compared with the previous semester in 2006. This increase was propelled basically by the performance of national imports which grew by 26.5%.[71]

The Dominican Republic imports more than we export and imported products, despite entering the country with absolutely no taxes, do not impact the country positively.

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[70] Third Forum on Human Development: New Reality in the Dominican Republic," November 2007 in the Technological Institute of Santo Domingo.
[71] Ibid

TARIFF-FREE PRODUCTS

There were 277 requests for preference for DR-CAFTA goods the first month of implementation. The sacrifice of the Dominican state for the entrance of these preferred goods is $11.6 million. This is only for the first month of implementation.

In the country there have been four fiscal reforms in less than eight years with grave consequences for the popular economy and the national productive apparatus, essentially benefitting the import sector, within the logic of the IMF. The goal is to compensate for the loss of tariffs in customs and to achieve a fiscal surplus which allows for the payment of interest with the multilateral bank, according to the demands of the IMF. The cutting would supposedly benefit the consumer with the entrance of imported goods. In reality, DR-CAFTA goods have not lowered their prices, and on the contrary, they have gone up.

THE IMPACT OF DR-CAFTA ON WORKING PEOPLE

A Gallup-Hoy poll from August 2007 registered that 78% view the employment policy of the Dominican government negatively. In addition, the unemployment rate is 16.5%, twice the rate in the U.S.[72]

The Associations of Chicken Farmers in the municipalities of Moca and Licey al Medio (APROAMOLI) reported that already 25% of the farmers have disappeared from the region. Thousands of unemployed people end up on the streets or in Puerto Rico or other countries.

A. IMPACT OF DR-CAFTA ON PUBLIC SERVICES

Within five months of the implementation of DR-CAFTA, the performance of public services has worsened. Privatization continues, along with high tariffs and legal regulation. New laws and norms are approved to make payment collection more effective, but the increase in payments is not directly proportional to the improvement of the services provided.

B. HEALTH SERVICES

Only 1.9% of the GNP is dedicated to health care, and of the 4.5 million people who belong to the Subsidized Regime of Family Health Insurance, barely one million are covered by the fragile coverage, which provides no child care centers where women can leave their children when they go to work. There is no indication that DR-CAFTA will change this situation for the better.

Almost all of the patients who died from dengue in the country came from the most impoverished neighborhoods of Santo Domingo, San Cristóbal, Baní, Santiago and San Pedro de Macorís. Pediatricians attribute this to overcrowded conditions, the parents' low levels of education, the levels of nutrition and

[72] Gallup-Hoy Poll, "Majority Unsatisfied with Leonel's Performance", August 2007.

the difference in the quality of the health care they receive. “Between 4 and 5% of the population of the shantytowns around sugar fields live with HIV-AIDS” while the national HIV-AIDS rate is 1%.

Many of the 90,000 Dominicans with the disease are unaware, constituting a danger for the healthy population, according to the Presidential Council on AIDS (COPRESIDA.) Meanwhile, the sewage system in 70% of the urban area is inadequate.

C. WATER

More than 1.5 million people don’t get potable water. But those who do receive it don’t trust its safety and still have to invest up to 35% of their budget to buy bottled water, which has risen in price. The situation of a lack of potable water has worsened since the implementation of DR-CAFTA. Entire towns go without potable water for weeks and months. The tourist sector doesn’t escape from this situation. The rivers are dry, protected areas are in danger, and the privatization of water is the government’s ultimate goal.

D. EDUCATION

There is a scarcity of teachers and a lack of materials, and the physical plants are in ruins, in total abandon. The scarcity of classrooms is rising. Investment in education hasn’t improved with the implementation of DR-CAFTA. The education law, which stipulates that 4% of the GNP and 16% of the national budget is spent on education, is continually violated.

The quality of education is not a priority. Qualified human resources are at a premium and the flight of trained professionals to other countries has risen. Thus it is not possible for us to be competitive.

E. ELECTRIC ENERGY

In terms of energy, blackouts occur for up to 14 consecutive hours and the operational costs are growing for emergency plants, with energy costs among the highest on the planet. The ‘price of energy’ has become the principal obstacle to achieve appreciable levels of competitiveness, before and after the implementation of DR-CAFTA. The energy sector has become a trap or a hardship, rather than a propelling factor for progress and development.

Stop CAFTA Coalition Members

Campaign for Labor Rights	www.clrlabor.org
CISPES	www.cispes.org
Guatemala Human Rights Commission/USA	www.ghrc-usa.org
Maryknoll Office of Global Concerns	www.maryknollogc.org
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