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ECONOMIC VIEWPOINT
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CAFTA: A Win-Win Case

The pact's failure could hinder trade initiatives beyond the region

President George W. Bush is pressing Congress to ratify the Central American-Dominican Republic Free Trade Agreement (CAFTA). The agreement between the U.S. and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua faces a skeptical Congress. But legislators should send CAFTA legislation to the President for his signature for a simple reason: It will improve economic conditions in Central America -- and in the U.S.

The economic case for CAFTA is compelling. First, the level playing field created by the pact would benefit U.S. consumers and businesses. Currently about 80% of Central American products enter the U.S. duty-free. CAFTA would provide some balance with reciprocal treatment for U.S. goods and agricultural exports, and all tariffs on U.S. goods would be eliminated over time. CAFTA would also require increased transparency in corporate governance, legal systems, and due process in the region, strengthening the local economies. For U.S. business, the newly expanded access to the region would benefit companies in financial services, telecommunications, entertainment, and computer services. CAFTA, moreover, would create jobs in Central America and make the region's economies more competitive with Asian nations.

Critics of CAFTA claim that the pact -- patterned after the North American Free Trade Agreement (NAFTA) -- will lead to losses of jobs and production in the U.S. But experience suggests otherwise as access to foreign markets allows U.S. producers to expand exports -- and hiring. Under NAFTA, for example, Mexico eliminated tariffs on light trucks. U.S. exports of motor vehicles to Mexico increased more than sixfold from the five years preceding NAFTA to the five years after NAFTA took effect. Some U.S. labor leaders have also voiced concern about working conditions in Central America. They can be improved. But enforcing the region's existing laws and opening markets, which can lead to higher wages, are the fastest route to improving workers' lots.

IT'S THE U.S. SUGAR INDUSTRY -- legendary for its brazenness in seeking government protections -- that has mounted the most vociferous attack on CAFTA. While U.S. agriculture relies increasingly on foreign markets, sugar suppliers distance themselves from overseas competition by leaning on a quota system that boosts sugar prices for U.S. consumers by about $2 billion annually, according to the Government Accountability Office. Apparently, even the 1%

increase in sugar imports from Central America to be allowed under CAFTA is too much for powerful U.S. sugar interests.

There are foreign policy reasons to favor the CAFTA accord. Since the 1970s, CAFTA nations have moved toward market economies and democracy, becoming commercial and political allies of the U.S. CAFTA's boost to economic growth and incomes in Central America would further bolster support for free markets and democratic institutions. Such logic has shaped U.S. policy for more than two decades, starting with President Ronald Reagan's 1983 Caribbean Basin Initiative, which was expanded in 2000 under President Bill Clinton. This commitment's credibility would be bolstered by the success of CAFTA. Conversely, failure to ratify CAFTA will undermine U.S. influence in the region.

A CAFTA failure also could slow the momentum of trade initiatives far beyond Central America. A broader Latin American trade deal incorporating Argentina, Brazil, and the region's other efficient food producers depends on CAFTA's passage. In a region in which public support for free-market policies is slipping and in which attention is being focused on Venezuelan President Hugo Chávez' leftist alternative model, the need to deepen trade ties to the U.S. is crucial economically -- and politically. Besides, if the U.S. can't conclude a trade agreement so strongly in its interest with six nations historically bound to the U.S. in its own hemisphere, what's the likelihood of completing the far more crucial Doha round at the World Trade Organization?

That's why U.S. business should stand united in support of CAFTA and free trade. Congress must address the tough competitive challenges facing American business and workers by tackling corporate tax, tort, and health-care reforms. But guaranteeing the benefits of CAFTA by swallowing an additional spoonful of imported Central American sugar per American per week should be an easy call.

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