



CAFTA Facts

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CAFTA Policy Brief – February 2005

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The Case for CAFTA *Growth, Opportunity, and Democracy in Our Neighborhood*

1. Small Countries, BIG Markets

Central America and the Dominican Republic make up the 2nd-largest U.S. export market in Latin America, behind only Mexico. The U.S. exports more than \$15 billion annually to the region, making it America's 10th-largest export market worldwide*; CAFTA-DR is a larger U.S. export market than Russia, India and Indonesia combined. The American Farm Bureau Federation estimates CAFTA could expand U.S. farm exports by \$1.5 billion a year. Manufacturers would also benefit, especially in sectors like information technology products, agricultural and construction equipment, paper products, pharmaceuticals, and medical and scientific equipment.

2. CAFTA Levels the Playing Field for U.S. Workers and Farmers

Today, nearly 80% of products from Central America and the Dominican Republic already enter the U.S. duty-free, partly because of unilateral preference programs such as the Caribbean Basin Initiative (CBI) and the Generalized System of Preferences (GSP). America's market is already open. CAFTA opens the region's markets to goods, services, and farm products from the United States.

3. Strengthening Freedom and Democracy

In the 1980s, Central America was characterized by civil war, chaos, dictators, and Communist insurgencies. Today, Central America is a region of fragile democracies that need U.S. support. Elected leaders in the region are embracing freedom and economic reform, fighting corruption, strengthening the rule of law and battling crime, and supporting America in the war on terrorism. But anti-reform forces in the region have not gone away. CAFTA is a way for America to support freedom, democracy and economic reform in our own neighborhood.

“Open trade and investment bring healthy, growing economies, and can serve the cause of democratic reform. [With CAFTA] our purpose is to strengthen the economic ties we already have with these nations... to reinforce their progress toward economic, political and social reform.”

President George W. Bush

4. Textiles: Uniting to Compete With Asia

Garment factories in Central America and the Dominican Republic purchase large amounts of fabric and yarn from the United States: the region is the 2nd-largest world market for U.S. textile fabrics and yarns. Garments made in the region will be duty-free and quota-free under the Agreement only if they use U.S. or regional fabric and yarn, thereby supporting U.S. exports and jobs. But with the expiration of global quotas on textiles/apparel at the end of 2004, regional producers face a new competitive challenge from Asian imports. CAFTA would provide regional garment-makers – and their U.S. or regional suppliers of fabric and yarn – a critical advantage in competing with Asia.

* Assumes EU is one market

5. Strong Protections for Labor and the Environment

A study by the International Labor Organization (ILO) demonstrated that labor laws on the books in Central America and the Dominican Republic are generally in line with ILO core labor standards. Indeed, labor protections in the region are broadly similar to labor laws in Morocco, and in some areas (child labor) are stronger. Congress gave broad bipartisan support to an FTA with Morocco in 2003.

But the *enforcement* of labor laws in the region needs more attention and resources. CAFTA is specifically designed to respond, improve enforcement and expand resources:

1. The agreement requires that countries effectively enforce their labor and environmental laws. An innovative dispute settlement system uses monetary fines, as well as potential loss of trade benefits, to promote enforcement. Monetary fines would be used to fix the problems identified.
2. Countries in the region have already taken numerous, concrete steps to improve labor law enforcement. And a cooperative effort of Labor Ministries and the Inter-American Development Bank (IDB) is identifying additional specific recommendations to improve labor law enforcement.
3. Congress appropriated \$20 million for FY05 for "labor cooperation, capacity building on fundamental labor rights and the elimination of child labor, and improvement in labor administration." The Administration will work with the IDB and others to target these funds toward the areas of greatest need.

The CAFTA contains also ground-breaking environmental provisions, including a first-ever citizen participation process designed to identify and correct trade-related environmental problems. Ten environmental NGOs from the region have endorsed CAFTA.

6. Sugar: "A Spoonful a Week"

Sugar was handled with great care in the CAFTA. In fact, increased sugar imports under the agreement equal little more than one day's U.S. production. To put sugar imports under CAFTA into perspective, many Americans consume 10-20 teaspoons of sugar per day. By comparison, increased imports in the first year under CAFTA amount to about a teaspoon and half per week per American.

There are no provisions in CAFTA for changing very high over-quota U.S. tariffs on sugar. CAFTA will not have a destabilizing effect on the U.S. sugar program, because even with a modest increase under CAFTA, U.S. imports will still fall comfortably below levels set for sugar imports in the Farm Bill. And there is no "one size fits all" precedent: sugar has been handled differently in different trade agreements according to economic circumstances.