



CAFTA Facts

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Meeting the Needs of the Region's Rural Poor ***CAFTA Recognizes Sensitivities and Expands New Opportunities***

- **CAFTA alleviates poverty through engagement not isolation.** Central America and the Dominican Republic are adapting to compete in today's global economy, while working to meet the needs of the region's rural poor. CAFTA will help with this challenge.
- *"The DR-Central America Free Trade Agreement (DR-CAFTA) offers opportunities for increasing trade and investment that will **boost long-term growth and reduce poverty** in Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua,"* said **World Bank President James D. Wolfensohn**.
 - A forthcoming World Bank report concludes that CAFTA is "likely to improve growth levels for the participating countries... due to the expected positive effects on trade and investment levels." The analysis "shows that **the vast majority of the population in Central America is likely to experience welfare gains from the implementation of CAFTA**, even in the short run."
 - The World Bank urges that Central American economies pursue a complementary policy agenda in areas like infrastructure improvement, institutional and regulatory reforms, and innovation and education.
- **Gradual liberalization takes into account agricultural import sensitivities** of the poorest in Central America and the Dominican Republic. Under CAFTA our partners can take precautions to shield the most sensitive agricultural products for the region's subsistence farmers.
 - **Protective tariffs will remain in place for the most sensitive crops:** potatoes and onions in Costa Rica and white corn in the other Central American countries – staple crops of the local diet.
 - **Tariffs are phased out over extended periods**, as long as 15 to 20 years, on other sensitive agricultural products, such as cheese, butter, milk powder and other dairy products, and rice, pork, beef, and chicken.
- **Adjustment initiatives help poor farmers** move from subsistence farming to higher value production. Working together, governments of the region, supported by the United States and international institutions, are promoting economic growth and reducing poverty.
- **CAFTA's Trade Capacity Building programs can assist domestic efforts** to diversify into new crops, introduce cost-effective irrigation systems, get crops to market, meet overseas quality controls, and reform land titling. Programs underway include USAID's market-led agribusiness initiatives in Nicaragua that link producers with suppliers of supermarkets, training small producers to meet quality, safety and logistics standards. In Guatemala, USAID's "green growth" program advances environmentally sustainable growth, utilizing Guatemala's comparative advantages in agriculture, forest products, and environmental and cultural tourism, to help SMEs to improve product quality and management ability.
- **Central American, Dominican and U.S. farmers all stand to benefit** from increased trade. In fact, much of agricultural production is complementary not competitive. For example, in the case of corn, Central America produces primarily white corn for direct human consumption. The United States grows yellow corn for animal feed, processing and ethanol.

- Central American farmers will also gain from greater access to lower cost U.S. feed grains, enhancing the competitiveness of their meat and poultry production.
- The mutual benefits of increased trade and complementary agricultural production with Mexico are clear.
 - Mexican farm production increased 50 percent from 1993 to 2001.
 - While the number of corn farmers in Mexico has declined, the area harvested for corn has expanded. Productivity has risen, as Mexico moves toward more competitive and efficient agriculture. New opportunities in the growing tradable goods sector have offered alternatives to subsistence farmers.
 - Mexico now has a stronger agriculture sector, expanded exports, more foreign investment and higher wages for Mexican workers.
 - One of every five people in Mexico is employed in export-oriented jobs, and fully half of the 3.5 million new jobs generated in Mexico in 1995-2000 were a result of NAFTA and exports.
 - Employment in Mexico's export sector pays 37 percent more than jobs in the rest of the Mexican manufacturing sector.

- CAFTA will help Central America and the Dominican Republic hold onto, and attract more of, the best paying and most sought-after jobs in export-related industries.
- For example, in the current highly competitive global textiles and apparel market, manufacturers around the world are looking to guarantee the best access into the U.S. market on the most preferential terms. Locking in duty-free trade, CAFTA guarantees trade preferences for Central American and Dominican exports to the United States, providing the certainty that investors seek.

Meeting the challenge to help the rural poor

- *Alleviating poverty through economic growth*
- *Gradual transitions for sensitive crops*
- *Complementary trade*
- *Moving farmers from subsistence to higher-value production*
- *Focusing technical and adjustment assistance*
- *Greater integration and access to US market*
- *Investment and well-paying jobs*
- *Expanded opportunities*

- Trade and investment liberalization under CAFTA, and the accompanying broader economic reforms in Central America and the Dominican Republic, will help fight poverty and promote economic development as productivity, economic growth rates, and incomes rise.
- The cost of basic necessities will decrease, with lower tariffs for food and consumer products, and standards of living will increase, as people have greater access to a wider array of goods and services at more competitive prices.
- The poor will have increased access to life-saving drugs as better intellectual property protection encourages the introduction of new products in the local market. For example, over 40 new, innovative products have been launched in Jordan since the U.S.-Jordan FTA. And nothing in CAFTA prevents governments from taking measures necessary to protect public health.
- With CAFTA, Central America and the Dominican Republic have chosen a path that can break the cycle of poverty that has entrapped the rural poor. It's a course that moves beyond the past of economic isolation and closed markets, allowing a gradual transition that safeguards the poor today, while facilitating the adjustment to a more advanced future of greater productivity and integration.