David and Goliath: Central America's Battle over Free Trade

Stop CAFTA Coalition, "Monitoring report: DR-CAFTA in Year One"

GRAIN

The USA has long dreamt of turning the whole of the Americas from Alaska in the north to Tierra del Fuego in the south into a giant Free Trade Area. Largely because of opposition from some of the larger countries in South America, particularly Brazil and Venezuela, the Bush administration realised in 2001 that it was not going to achieve this ambition by its target date of 2005. Undeterred, it opted for a piecemeal strategy, negotiating bilateral deals with some countries and regional deals with others.

A key element in the Bush administration's new tactic was the US–Central America Free Trade Agreement (CAFTA). In May 2004 five Central American nations (El Salvador, Guatemala, Nicaragua, Honduras and Costa Rica) signed a trade agreement with the United States. In August, a single Caribbean country – the Dominican Republic (DR) – joined the pact.

CAFTA was initially intended for implementation on 1 January 2006 but, just a fortnight before that date, the United States Trade Representative (USTR) decided that the countries had not enacted sufficient changes to make their legal systems compliant with CAFTA's requirements. The USTR decided on a process of rolling implementation by which each country would be accepted into CAFTA once it was deemed to be ready. This decision was greeted with consternation by some Central American organisations, which feared that this case-by-case approach would greatly increase the vulnerability of their small countries (which have, on average, an economic output worth 0.3 per cent of the USA's).

So how has the process been going? It is early days yet but, in what promises to be a fascinating series of monitoring reports, the Stop CAFTA Coalition has produced its first analysis. In one section the report looks at El Salvador, considered in February 2006 to have carried out enough reforms to be allowed into CAFTA.

It is no surprise that El Salvador was the first country to be admitted, as it is governed by the right-wing ARENA party, a staunch Bush ally. But, says the report, even here the process was fraught, with the government facing considerable opposition both inside and outside the legislative body. In 2004 the government managed to get CAFTA approved, in principle, by the National Assembly only by holding the vote at 3 a.m. with the building surrounded by riot police. And the subsequent reform process too, was difficult. Among other demands, the USTR insisted on far-reaching changes to the laws on public acquisitions and contracts, insurance, branding and intellectual property. ARENA managed to get its reform bill approved by the National Assembly only by introducing it very late in 2005 and by refusing to hold a proper debate; the main opposition party walked out in protest and abstained from the vote.

According to social movements, CAFTA is likely to unleash a new wave of privatisations in El Salvador: the first on the list is the public water utility, to be followed by health care. In the past Salvadoreans have fiercely resisted the privatisation of social services, and in 2003 they successfully blocked an attempt to privatise the health service by introducing a new law that protects the people's right to affordable social services. Under CAFTA, however, free trade agreements supersede national laws, so this law is now likely to be challenged in the courts. But opposition will be fierce, for many Salvadoreans are determined to cling on to their hard-won social advances.

The process is less advanced in the other countries. CAFTA was implemented by Nicaragua and Honduras on 1 April 2006 and by Guatemala on 1 June 2006. The Dominican Republic has yet to comply with the USTR's demands and Costa Rica has not yet even ratified the agreement.

The Stop CAFTA Coalition report has interesting sections on emerging economic and political trends and what to expect in the future. Particularly disturbing is the section on farming in Nicaragua. The neoliberal reforms that were imposed there after the defeat of the left-leaning Sandinista government in 1990 led to the dismantling of the state's support for the farm sector. "While Nicaragua's farmers receive no government assistance, US farmers are highly subsidised to grow crops that directly compete with crops in Central America, including corn, rice, sugar, cotton, meat and milk … Whereas the United States is ranked as number two in competitiveness in agriculture, Nicaragua is ranked as number 73 in a sample of 75 countries and the gap is growing."

CAFTA was negotiated without any recognition of the enormous asymmetries between the US and Nicaragua. "The United States negotiators did not allow the subject of its internal subsidies even to be discussed." Nicaragua's farmers are currently protected by tariffs which, according to the US Department of Agriculture, average 60 per cent. Once CAFTA is fully implemented, they will be reduced to zero for most products. This will have a devastating impact on the local population, many of whom make their living from farming.

Here too, however, the battle is far from over. Nicaragua holds presidential elections on 5 November 2006 and there is a real possibility that the FSLN candidate, Daniel Ortega, will win. Ortega headed the government from the time of the Sandinista revolution in 1979 to their unexpected electoral defeat in 1990. Although, if re-elected, Ortega is promising a far more moderate government this time, he is likely to create more political space for those social movements fighting CAFTA's damaging agenda.

Stop CAFTA Coalition, "Monitoring report: DR-CAFTA in Year One", 12 September 2006

Download from: www.stopcafta.org