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The Critical Role of CAFTA in a Freedom Agenda for the Americas

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The topic today, “A Freedom Agenda for the Americas,” could not be more timely. President George W. Bush has outlined a vision of a free and prosperous Western Hemisphere, and Secretary of State Condoleezza Rice is in the region this week to talk about how freedom and opportunity can be expanded and how the security of all the hemisphere’s citizens can be better achieved. Today, Secretary Rice is in Colombia, and tomorrow she stops in El Salvador, visiting two of our closest friends in Latin America.

Today, I will specifically address one key element of the Administration’s agenda to promote a freer, more prosperous hemisphere: the free trade agreement known as CAFTA, the agreement between the United States, the Dominican Republic, and the five countries of Central America—Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica.

Freedom, Economic Opportunity, and Prosperity

Freedom is fundamental to creating opportunity, especially the opportunity to prosper. This year’s edition of the *Index of Economic Freedom* highlights the link between economic opportunity and prosperity. Dr. Ed Feulner’s preface opens with something self-evident to many of us, but still struggling to emerge as a guiding principle in any number of countries. He notes, very simply, that “economic freedom is necessary for people to prosper.”

This philosophy is at the heart of U.S. trade philos-

Talking Points

- By helping to increase productivity and competitiveness, CAFTA will result in more jobs, promote long-term and self-sustaining growth, reduce the costs of doing business, and make Central American and Dominican firms more competitive globally.
- CAFTA will increase economic opportunities for the peoples of Central America and the Dominican Republic and make these opportunities available to people from all walks of life. By clearing away barriers to entry and leveling the playing field, CAFTA will create opportunities for new entrepreneurs and small businesses and help workers by creating new jobs.
- CAFTA’s impact will reach far beyond economics. For instance, by increasing transparency, it will improve governments’ ability to govern and to enforce laws. The disciplines, competition, and increased economic integration brought about by the agreement will challenge those economic actors that have grown complacent in captive, uncompetitive markets.

This paper, in its entirety, can be found at:
www.heritage.org/research/tradeandforeignaid/hl879.cfm

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ophy—and the President’s strategy for the Western Hemisphere.

The United States has important political, economic, and security interests in Central America and the Caribbean. It is very much in our interest that our neighbors be prosperous, stable, and free.

We have witnessed our partners in Central America struggle successfully to forge democracies and free market economies in the past few decades. Thanks to the resolve and vision of Ronald Reagan, and the outside voices like those of The Heritage Foundation, Central America overcame the effort of a Stalinist Left to replicate the failed Cuban experiment in that region.

Today, the countries of Central America and the Dominican Republic are democracies, with freely elected leaders and large pro-American publics. However, they are not without their challenges.

Creating an environment for greater economic opportunity is the most immediate challenge. Each of the CAFTA nations is pushing economic reform, fighting entrenched corruption, seeking to strengthen the rule of law, and battling crime, especially the growing violence of gangs in Central America, and they are supporting us in the war on terrorism.

Like Ronald Reagan and the first President Bush (“Bush 41”), this President believes that America should stand with those who stand for democracy and economic freedom. CAFTA is potentially one of the most potent means we have to reinforce these countries’ progress toward those goals.

I say “potentially” because it has to be approved and go into effect before we can see the full extent of its benefits—and I am convinced that it will produce benefits for all of us.

Promoting Secure and Prosperous Neighbors

Let me go through some of the ways in which CAFTA will help ensure that America has secure and prosperous neighbors.

First, it will help increase productivity and competitiveness in Central America and the Dominican Republic, resulting in more jobs and promoting

long-term and self-sustaining growth. CAFTA will reduce the costs of doing business, lowering the costs of capital goods and inputs and making Central American and Dominican firms more competitive globally. Economists tell us that this should translate directly into higher rates of economic growth.

Second, CAFTA will not only increase economic opportunities for the peoples of Central America and the Dominican Republic. It also will make these opportunities more broadly available to people from all walks of life. By clearing away barriers to entry and leveling the playing field, CAFTA will create opportunities for new entrepreneurs and small businesses and help workers by creating new jobs. This is profoundly important to the region’s democratic stability.

Third, the impact of CAFTA will reach far beyond economics. For instance, by increasing transparency, it will improve governments’ ability to govern and to enforce laws. The disciplines, competition, and increased economic integration brought about by the agreement will challenge those economic actors that have grown complacent in captive, uncompetitive markets.

We believe CAFTA will stimulate not just growth, but also positive structural change in Central America and the Dominican Republic. We see it as strengthening the political transformation already underway—from a region plagued by civil wars and dominated by military governments to a region with thriving democratic institutions and market-based, growing economies.

Such political and economic reform is a critical part of the President’s agenda for Latin America and the Caribbean.

Obviously, sound economic policies and good governance are crucial for the citizens of the region. However, to the extent that our trade partners respect democratic procedures, tackle inflation, crack down on corruption, privatize inefficient state-run enterprises, strengthen the rule of law, and improve health and education services, they will magnify the benefits that free trade can bring them.

CAFTA allows for the creation of a virtuous cycle: The region’s progress towards democracy

and free markets has now allowed its leaders to seek to consolidate those reforms and push them even further by contracting a new relationship with the United States.

Benefits for the United States

What about the benefits for us? Is CAFTA only about what we can provide to our friends in Central America and the Dominican Republic?

The President made clear from the beginning that CAFTA is to be a “win-win” agreement; that any relationship must result in benefits for all the parties, for Central America and the Dominican Republic as well as for us.

Let me first note one reality that is often lost in the CAFTA discussion: that is, the U.S. economy is already intertwined with those of Central America and the Dominican Republic. For instance, when a new plant opens or expands in the Caribbean Basin, the machinery and equipment are most likely imported from the United States.

Our two-way merchandise trade with our CAFTA partners amounted to \$33 billion last year, making them our tenth largest trading partner worldwide. We already export more to Central America and the Dominican Republic than we export to Brazil, or to Australia, or to Russia, India, and Indonesia combined.

We expect to see substantial increases in our mutual trade in response to new opportunities opened up by CAFTA. It will establish the second largest free trade zone in Latin America for U.S. exports.

Our neighbors in Central America and the Dominican Republic have trade barriers that are considerably higher than ours. Nearly 80 percent of the exports from Central America and the Dominican Republic to the United States already enter duty-free. For the countries of the region, CAFTA will lock in these benefits and expand them, gradually leading to fully free trade on virtually all products over a phase-in period of up to 15 years.

CAFTA as “Win-Win” Agreement

Having noted that, let’s also be very clear about what CAFTA is not: It is *not* an act of altruism on

our part. There are altruistic intentions in our wanting this agreement; I spoke of those earlier. But I also spoke of a “win-win” relationship, and CAFTA provides that result.

It will level the playing field for American businesses, farmers, and workers. More than 80 percent of U.S. exports of consumer and industrial goods to the CAFTA countries will become duty-free when the agreement comes into force, with the remaining tariffs phased out over 10 years.

In agriculture alone, more than half of current U.S. farm exports will become duty-free, with tariffs on virtually all remaining U.S. farm products phased out within 15 years.

Textiles are another area where CAFTA is a “win-win” arrangement. With the end of the worldwide textile quotas in January 2005, there is already evidence of some shifting of production out of both the United States and Central America to the People’s Republic of China. By permitting apparel made in Central America and the Dominican Republic but containing U.S. fabrics to enter the U.S. duty-free, CAFTA will boost the competitiveness of both our textile industries.

CAFTA is not a zero-sum game; one side does *not* gain in correlation to another’s loss. These are win-win transactions, expanding opportunities for all. But all this does not happen automatically.

The first step is for all seven signatory countries to approve the agreement. This has already happened in El Salvador, Guatemala, and Honduras, and we are working closely with our friends in Congress to make the agreement a reality for the United States as well.

Conclusion

We recognize that we face challenges. This Administration is working to create the climate in which CAFTA can be approved by our Congress. From my own experience working in the Congress and at Heritage before I came to the State Department, I know that most of the U.S. Congress—indeed, most of the U.S. public—understands that we cannot live in economic isolation and that well-constructed trade agreements are indeed beneficial for all.

In the final analysis, CAFTA is about trade that is fair as well as free, where the benefits are shared by workers and small enterprises as well as big business, and where no country is surrendering its sovereignty.

CAFTA is good for America; it is good for Central America and the Dominican Republic. I hope you

will agree with me that CAFTA is an agreement that serves all of our interests.

—Daniel W. Fisk is Deputy Assistant Secretary of State for Western Hemisphere Affairs. These remarks were delivered at a meeting of the Heritage Foundation Resource Bank held in Miami, Florida, on April 28–29, 2005.