Memo
To: The President of The National Economic Council
Re: The Central American Free Trade Agreement (CAFTA)
From:

Introduction and Overview of the Agreement

On May 28, 2004, at the Organization of American States (OAS) headquarters in Washington, the United States and trade ministers from, El Salvador, Guatemala, Honduras, and Nicaragua signed the Central American Free Trade Agreement (CAFTA). The CAFTA is currently in the ratification process in all involved countries. The White House and the United States Trade Representative (USTR) are calling the CAFTA a significant step closer to a pan-American free trade zone and "an important milestone on the country's journey toward hemispheric free trade."[1]

In this paper I will provide and overview of the CAFTA and its primary features. Then I will assess the implications for the United States if the agreement is ratified by the US Congress as written today. Third, I will discuss what groups in the United States may stand to gain or lose under the agreement. Next, I will address what the implications are for the developing countries involved. Finally, I will discuss possible policy that the US could implement and identify the preferable course of action for the United States.

Negotiations for the CAFTA began in January of 2003 and after nine rounds, agreement was reached with El Salvador, Guatemala, Honduras, and Nicaragua on December 17, 2003. Agreement was reached with Costa Rica on January 25th, 2004 after its delegates briefly dropped out of negotiations because of objections to US demands that they open insurance and telecommunications sectors. There are ongoing discussions to include the Dominican Republic in the CAFTA. The CAFTA would liberalize bilateral trade between the

[1] Robert Zoellnick, The Office of the United States Trade Representative, *Trade Advisory Groups Report on US-Central America FTA* http://www.ustr.gov/Document_Library/Press_Releases/2004/March

United States and the region and would also further efforts to integrate the countries of Central America by removing barriers to trade and investment.

The 2,400 page document contains nine main features. Current tariff rates are much higher in Central American Countries and in the United States. The agreement requires that tariffs on 80 percent of US exports of consumer and industrial goods would become duty-free immediately and remaining tariffs would be phased out over 10 years. Half of US farm exports would be duty-free and tariffs on most remaining goods would be phased out within 15 years. Textiles and apparel would be duty-free immediately if they are in accordance with the Rules of Origin clause.[2] Central American countries have agreed to allow greater market access for US companies to compete with local providers in a variety of service sectors.[3] The agreement provides legalization of protection for property rights although enforcement is seen as a barrier in many locations. The agreement includes a three-part strategy for workers rights that requires enforcement of local labor laws. It also provides an environmental protections chapter which would create a public submission process. The agreement establishes a secure, legal framework for US investors in Central America. Finally, the CAFTA requires that participating governments undertake anti-corruption measures and ensure transparency in all governmental purchases of goods and services.

The CAFTA also outlines requirements for participating countries to undertake reform in the following areas: customs administration; protection of intellectual property rights; market access and protection for services, investment, and financial services; government procurements; sanitary and phytosanitary (SPS) barriers; other non-tariff

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[2] The agreement also includes a provision that would give duty-free benefits to some Central American apparel if it contains certain fabrics from NAFTA partners, Mexico and Canada. This provision is thought to encourage hemispheric integration of textile industries to better compete in the post-Multi-Fiber Agreement world.

[3] Services include, but are not limited to: telecommunications, express delivery, computer and related services, tourism, energy, transport, construction and engineering, financial services, insurance, audio/visual and entertainment, professional, and environmental services.

barriers; and other areas. The CAFTA also includes provisions for rules of origin, trade facilitation, technical barriers to trade, trade remedies, and dispute settlement procedures.

Support for the agreement is mixed both in the United States and in Central American countries. Proponents of the agreement in the US predict that the passage of the CAFTA would increase market access to Central America for many sectors of the US economy. Opponents in the US worry that in some sectors where Central American countries have comparative advantage (particularly textiles, apparel and agriculture) US firms would in fact be hurt by the agreement. Other opponents including many Democrats believe that the agreement's labor strategy is weak and demand that it not be ratified until it upholds international labor norms. Still others feel that ratification unlikely because of strong opposition from sugar and textile lobbies.

Central American proponents believe that increased access to the huge US market will lead to economic development and quality of life improvements for workers. Opponents feel that the CAFTA would be devastating for the rural poor in Central America and would not create fair trade if US farmers and manufacturers continue to receive government supports. US government subsidies to certain sectors would limit Central America's comparative advantage in key sectors such as textiles, apparel and agriculture.

Opponents in both regions feel that transparency measures were not carried-out during the agreement negotiations. The Office of the United States Trade Representative gathered reports from 32 trade advisory committees, comprised of 750 practitioners "representing diverse interests and views"[4] regarding the agreement. However committees were comprised of business and agriculture interests and did not include other interests groups. Some criticize the way the negotiations were conducted because "civil society groups

[4] The Office of the United States Trade Representative, *Trade Advisory Groups Report on US-Central America FTA* http://www.ustr.gov/Document_Library/Press_Releases/2004/March

in both the US and in Central America were denied their rights to participate in shaping the agreement."[5]

While political issues may interfere with the agreement's ratification process, it is necessary to first examine the economic effects of the CAFTA separately from their potential political repercussions.

What are the implications for the United States of the implementation of the CAFTA?

Free trade agreements (FTAs) by definition are agreement that allows each country's should accrue benefits because not all countries are the same in their production capabilities and one country may have comparative advantage over the other in a certain sector. The other country would then benefit from lower prices.

With free-trade, each country should tend to concentrate on what it can produce best. One way to illustrate how countries with different factor endowments will be affected by trade is with a Heckscher-Ohlin (factor proportions) model where the two factors are skilled and unskilled labor. The US is skilled labor abundant and Central American countries are unskilled labor abundant. To examine this model we will assume that there are two goods produced in the economy, agriculture and private services, where agriculture uses unskilled labor intensively and private services uses skilled labor intensively. We also assume that: the economy maintains full employment, wages are constant in both countries, the price of agriculture relative to private services are equal, access to technology is equal in the two countries, and that their relative demands for agriculture and private services are identical when faced with the same relative price for the two goods. The only difference in this model between the US and Central American countries is in their endowment of resources of skilled and unskilled labor.

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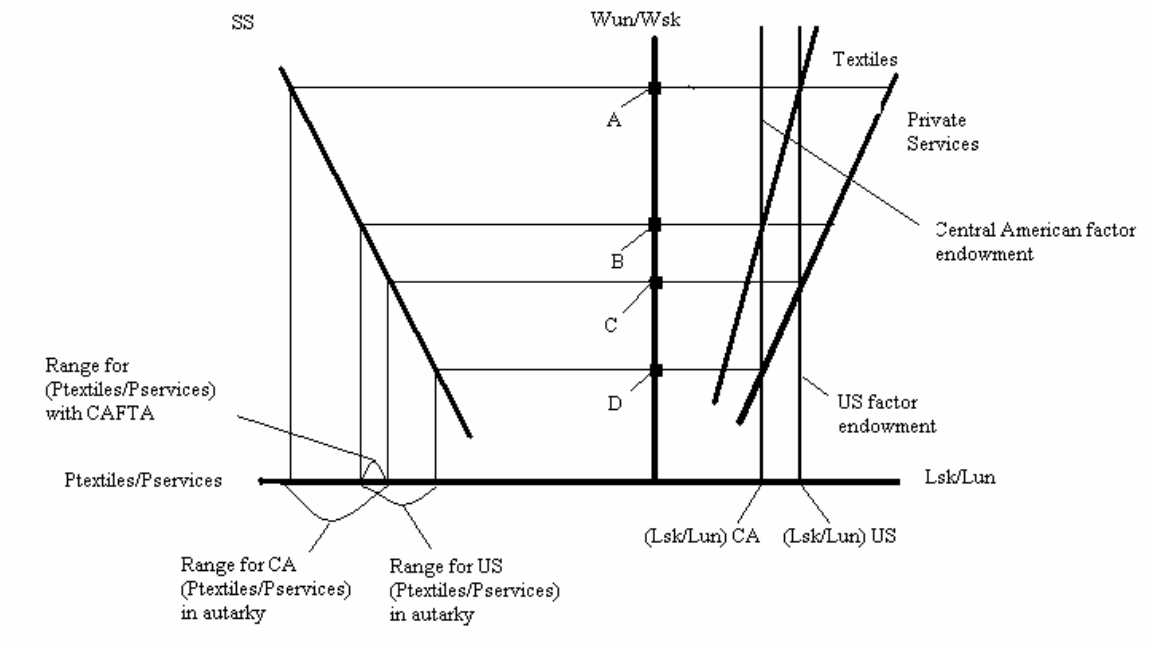
[5] Vicki Gass, Senior Associate for Economic Issues. Washington Office on Latin America http://www.wola.org/economic/econ_trade.htm

Figure 1 Heckscher-Ohlin Model of Trade



Where: Lsk=skilled labor, Lun=unskilled labor, Wsk=wage for skilled labor, Wun=wage for unskilled labor, P=price, point A=Wun/Wsk if US specializes in textiles, point B = Wun/Wsk if Central America specializes in textiles, point C=Wun/Wsk if US specializes in private services, point D=Wun/Wsk if Central America specializes in private services. The distance from point A to Point C represents the wage ratio in the US in autarky and the distance from point B to point D represents the wage ratio in Central America in autarky. The distance from B to C is where the wage ratio will fall under free-trade without complete specialization.

As demonstrated in Figure 1, before free trade (we will call it autarky here for simplicity's sake), the US and Central American countries would each have produced both goods. With free trade, they would reallocate resources more efficiently and produce more of the good in which they have relative advantage. If the countries' endowments are different enough, they will each specialize in the good that uses more of the factor that they are abundant in. Relative prices will converge and purchasing power of each good will increase. In the short-term, unskilled labor in the US and skilled labor in Central America would be worse off because of lower relative wages. But, over time, free-trade should lead to increased income in both countries, particularly developing countries.

According to the Heckscher-Ohlin Model, since the US is abundant in high-skilled labor, with free trade the US should specialize in goods that require skilled labor, or services. Overtime, low-skilled workers in the US would be brought into the new market. What it implies for the short term is that some low-skilled workers may see their wages fall because the ratio of skilled-labor wages to unskilled labor wages will increase with free trade. However, it is unclear that trade is responsible for long-term wage inequalities between sectors. Additionally, if the US does keep in place many of its subsidies to protect sectors that would be affected by free-trade, we would not expect to see this trend.

This model is obviously not perfect because in the real world many of the assumptions of the Heckscher –Ohlin model do not hold. First, not all countries have access to the same technology. The technological divide is particularly great between the US and Central American countries. And we know that wages across countries are not equal and that labor is not fully employed. Similarly, we know that prices for goods are not usually constant across borders. But, while the Heckscher – Ohiln model may not be the best model for predicting patterns of trade, it is important for illustrating the effects of trade, particularly the effects on income distribution.

Another implication for the US with the implementation of the CAFTA is that it is expected to increase market access in Central America for US producers because of eliminated or reduced import tariffs. Robert Zoellnick of the USTR stated that, “For the US, the economic gains will be significant for these small countries are very big markets.”

Table 1

Country	US Exports to Country in Billions of Dollars	US Imports from Country in Billions of Dollars	US Exports to Country as Percentage of Total US Exports	US Imports from Country as a Percentage of Total US Imports
Costa Rica	2.9	3.1	0.5	0.3

Dominican Republic	4.1	4.2	0.7	0.4
El Salvador	1.6	2.0	0.3	0.2
Guatemala	2.0	2.8	0.3	0.2
Honduras	2.5	3.3	0.4	0.3
Nicaragua	0.4	0.7	<0.1	<0.1
Total	13.5	16	2.2	1.2

As shown in Table 1, US exports to CAFTA countries totaled $13.5 billion dollars while imports totaled $16 billion. Exports to CAFTA countries represented only 2.2 percent of total US exports and a mere 1.2 percent of total imports. The Congressional Budget Office (CBO) is not as enthusiastic as Zoellnick about the potential gain for US producers. The CBO finds that "new free-trade agreements (like CAFTA) should have a net beneficial effect on the US …but in most cases their effects – good and bad – should be extremely small."[6]

The CBO report uses the NAFTA experience to estimate potential affects of current free-trade agreements. In the first eight years of NAFTA, US exports to Mexico had increased by only 11.3 percent and US imports from Mexico by only 7.7 percent. They point out that opposed to CAFTA countries, US-Mexico trade accounts for a much larger share of total US trade. Furthermore, CAFTA countries do not share a border with the US so transportation costs will be higher. The CBO predicts that because of transportation barriers, CAFTA countries will have a difficult time creating production-sharing relationship with the US as Mexico has.[7] Because of the small amount of total US trade represented by CAFTA countries and the experience of NAFTA, the net effect in the US due to the CAFTA should be expected to be very small.

[6] The Pros and Cons of Pursuing Free-Trade Agreements A Series of Issue Summaries from the Congressional Budget Office. July 31, 2003 p. 1
[7] Ibid, p. 6

A recent study[8] uses the Michigan Model of World Production and Trade[9] to measure the economic effects of the CAFTA. The total improvement in US economic welfare is calculated to be $17.3 billion, or 0.17 percent of US GNP. Gross output is increased in all sectors and there is increased employment in all but two sectors, textiles and leather and footwear. US exports to CAFTA countries increases by $8.1 billion and US imports increase by $9.8 billion. This model does not account for potential increases in foreign direct investment in CAFTA countries which leads the authors to conclude that, "our modeling results may thus constitute a lower bound to the welfare changes due to the CAFTA bilateral liberalization. But it remains unclear how significant the non-trade and growth effects of the CAFTA may be, and there may still remain issues of trade diversion."[10]

There may be numerous non-economic implications for the US of the CAFTA. One popular argument for trade does not focus as much on monetary gains from free-trade agreements, but rather the establishment of rules in legal terms and making them international law. Still others see free-trade agreements as political tools of foreign policy. It may be that CAFTA (and other FTAs) is a way for "the US to help various countries for foreign policy reasons while having little effect on the US."[11] CAFTA may increase informational and technological exchange between members and can be seen as a mechanism to promote democracy in the region. This final rationale is one of the most publicly proclaimed sentiments for conservative politicians wishing to be seen as free-market

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[8] Drusilla K. Brown, Kozo Kiyota and Robert M. Stern Computational Analysis of the US FTAs with Central America, Australia, and Morocco *Research Seminar in International Economic.* School of Public Policy, The University of Michigan, Ann Arbor, MI. May 6, 2004.

[9] This is a general computability model of the global trading system that covers 18 economic sectors. The model incorporates monopolistic competition in the manufacturing and services sectors. The modeling focus is on the effects of the bilateral removal of tariffs on agricultural, manufacturing and service barriers. Rules of origin and non-trade aspects of the FTAs are not taken into account because of data constraints. This model may underestimate the amount of trade diversion resulting from FTAs because it does include rules of origin or other restrictive measures that may be included in the agreement.

[10] Brown, et al. 2004

[11] CBO. The Pros and Cons of Pursuing Free-Trade Agreements p. 1

supporters but not wanting to interfere with the US economy too much. On the day the CAFTA was announced Zoellnick stated, "CAFTA will promote U.S. exports to a large and important market, even as it supports continued openness and democracy in Central America."

Within the United States, who gains and who loses?

Within in the US different group stand to gain or lose more than others. The trade advisory committee reports prepared for the President and Congress "confirmed that the CAFTA will level the playing field and open new opportunities for American manufactured goods, farm products and services…and will do so in a manner not disrupting the US economy."[12] CAFTA has been endorsed by every national business association and virtually every farm association. Notably, representatives from the sugar industry do not support CAFTA because it includes provisions on sugar imports to Central America. One member for the state and local government committee (IGPAC) also opposed the CAFTA because of concerns about textiles and its effects on local communities. The labor advisory committee (LAC) was the strongest opponent of the treaty and urged Congress not to pass the agreement because of deficiencies in local labor laws.

Both producers and consumers are expected to benefit from the CAFTA even though net effects may be small. Removal of import tariffs are expected to result in gains for exporters of both goods and services. The largest gains are expected for US farmers and ranchers, textiles and apparel producers and service providers. The USTR predicts gains for manufacturers of information technology products, agricultural and construction equipment, paper products, chemicals, medical and scientific equipment, all of which will enjoy tariff free access to Central American markets. All fifty states export to CAFTA countries but the

[12] Press Release, The Office of the USTR, 03/22/2004

leading states are: Florida, North Carolina, Texas, Louisiana, California, Georgia, Alabama, Massachusetts, South Carolina and Pennsylvania.

Exported goods will have most tariffs removed immediately with the remaining tariffs eliminated within 15 years. Tariffs on more than half of current US farm exports to Central America will be removed at once, with most of the remaining tariffs phased out within 15 year period. The largest gains for producers are expected to be seen in the cattle, cotton, wheat, soybeans, key fruits and vegetables, processed food products and wine industries. Textiles and apparel will be duty free immediately if they meet the CAFTA rules of origin requirement which is expected to be beneficial to US fiber, yarn, fabric, and apparel manufacturing industries. Producers of textiles and apparel will also benefit because they are allowed limited amounts of third-country content to go into CAFTA apparel.

Service providers are also expected to gain because of virtually unlimited access to service sectors. The CAFTA removes most local residency requirements which had imposed significant barriers to US service providers in the past. Some of the more notable commitments apply to opening: financial services, telecommunication, energy, transport and tourism industries. CAFTA will also provide benefits to US investors by establishing protection a secure legal framework. US FDI in Central American countries was$30 billion in 2001.

According to the Michigan Model assessment of CAFTA, the largest percentage increases in US exports are seen in food, beverage and tobacco (+13.58%), textiles (+53.69%), wearing apparel (+69.66%), and leather products and footwear (+38.63%). The growth is exports is coupled with decreased employment in two of the four sectors, textiles (-0.55%) and leather products and footwear (-1.77%) and a slight increase in agriculture (+0.06%) and food, beverage and tobacco (+0.02%). While exports in textiles and apparel are expected to *increase*, unemployment simultaneously *declines* in both sectors (-5,133 and -

14,006 workers respectively). This model predicts that there will be increased employment in all other sectors in the US, but the absolute percent changes are very small. This leads them to conclude that, "the CAFTA will thus have a comparatively negligible effect on US sectoral output and employment."[13]

US Consumers will gain because they will face lower prices on good imported from Central American countries. Imports from Central American countries are expected to increase across the board. Imports increase from all sectors of Central American countries and sizeable increases are predicted in imports from textile, apparel, and leather products and footwear. These are sectors in which Central American countries are though to have comparative advantage. The CAFTA should lead to these good being produced for efficiently which should result in lower consumer prices.

Potential losers in the US are those producers and workers in sectors that Central America has comparative advantage in because "multilateral agreements (like CAFTA) are the only way to open agricultural markets and reduce or end subsidies in rich countries."[14] The sectors that could potentially face the most competition are agriculture, textiles and apparel. The US employs about 2 percent of its labor force in agriculture while in Central America the number is closer to 24 percent. But because of strong agricultural lobbies in Congress, it should be expected that many of the current subsidies would remain in effect and protect this sector from most of the potential losses from CAFTA.

Similarly, the textile and apparel industries have enjoyed protection from the US government because low-wage nations have comparative advantage. These sectors would face challenges greater competition from the CAFTA, but would almost simultaneously

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[13] Drusilla Brown, et al. 2004 p. 17

[14] Regional Trade Pacts Must Create – Not Divert – Trade to Reduce Poverty: World Bank Report: Global Economic Prospects 2005 predicts Highest Growth in 30 Years for Developing Countries The World Bank Group Devine's Media Center, 2004

experience the expiration of the Multi-Fiber Arrangement in January of 2005. It is expected however, that the US will continue to protect the textile and apparel industries.

What are the implications for Central American countries of CAFTA?

Potential benefits for Central American economies from CAFTA include the transfer of technology from the US, wider access to the US market, and an increase in US direct investment in Central American countries. These, in turn, could promote export opportunities as well increase overall economic and social development. The government would lose revenue previously generated by tariff rates.

The CAFTA would provide the Central American countries with permanent, duty-free access to the U.S. market for virtually all of their goods, with the notable exception of sugar. The elimination of tariffs for Central American exports would increase overall welfare in the affected countries. Income would increase and consumers would face lower prices. Producers would benefit because of greater access to the US market. Producers would also benefit because of the technological and managerial diffusion that generally comes along with foreign direct investment. They would increase efficiency and productivity as they "learned by doing."

David de Ferranti, the InterAmerican Development Bank's Vice President for Latin America and the Caribbean stated that "studies have shown that the flow of ideas, greater exposure to trade, and foreign direct investment (FDI), are critical in spurring innovation and creating opportunities conducive to growth and reducing poverty...we are cautiously optimistic that free trade agreements such as CAFTA can benefit Central America, but development gains will also be dependent on how countries adopt policies to take advantage of those opportunities."[15]

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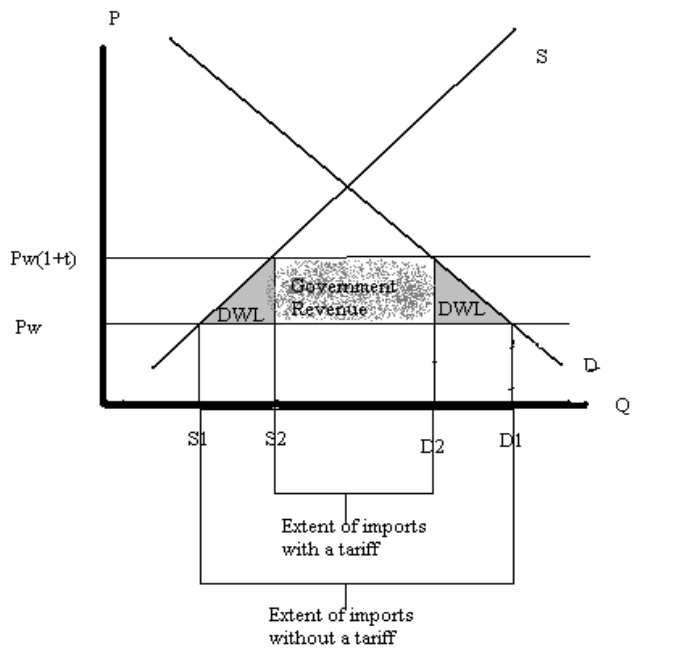
[15] World Bank News Release No: 2004/232/LCR Conference Draws Central American, Bank Officials To Discuss Opportunities of CAFTA. San Salvador, February 17, 2004.

Figure 2 Effects of a Tariff in a Small Country



As illustrated by Figure 2, a small country, like those in Central America, face a dead-weight loss with tariffs in place. The two DWL triangles represent the DWL that will be borne by producers and consumers with tariffs in place. With tariffs in place, the country will only import the distance between S2 and D2. Consumers will face a higher price and domestic producers will sell at the world price plus the tariff but will not produce at as high a quantity. Governments will collect the shaded triangle in tariff revenue. Without tariffs, small countries will be better off if the amount of welfare gained by producers and consumers is greater than what the government looses in tariff revenues. In the case of CAFTA, it is expected that the welfare gain will be much greater than the loss or tariff revenues.

The Michigan Model estimates that the total improvement in Central American countries will be $5.3 billion or a 4.4 percent of combined GNP. What is particularly striking about this model's estimates is that there is a large percentage increase of exports in every

sector. They find sizable increases in Central American output, particularly in textiles, apparel and leather products and footwear which are sector that Central American countries are expected to have comparative advantage. Employment increases in these same sectors by +53,741(+28%), +230,663 (42%) and +9,518 (15%) workers, respectively. Brown, et al. note that there are employment declines in all other sectors which they attribute to the attraction of workers from the rest of the economy to the expanding labor-intensive industries. This is consistent with the estimates of the Heckscher-Ohlin model above (Figure 1). The gradual phasing out of some tariffs incorporated in CAFTA was a way to protect these sectors during the period of transition.

The governments could be potential losers because of the loss of tariff revenue. However, the gradual phase out period should give governments enough time to find other revenue generating sources. If a greater percent of the population is employed in more consistent jobs, the governments should work to devise effective income tax collection measures. Further, if governments and business are truly committed to the democracy building and anti-corruption measures of the CAFTA, less revenue will be siphoned away for personal indulgence or non-growth ventures. Central American government with the help of agreements like CAFTA can strengthen political institutions that better foster economic development.[16]

Others see that producers in certain sectors in Central America could be potential losers. If the US does in fact maintain protections for agriculture and textile industries in the US through subsidies, then producers in these sectors in Central America would continue to face unfair competition from the US. Twenty-four percent of the Central American work-

[16] Some scholars argue that this is a breech of national sovereignty. This is an important conversation to have. However, I will not address this issue here.

force is currently employed in the agricultural sector and if faced with US subsidies this groups would not see the expected gains from CAFTA.

More generally, Senator John Kerry and other Democrats have criticized the Bush administration for not including provisions that would require the five countries to change their labor laws to conform to the International Labor Organization's (ILO) core labor standards. They are concerned for two main reasons. First, because many US consumers demand that products they purchase are made under a certain labor standard. The countries involved do not all adhere to the ILO's standards and are not required to do so under CAFTA. From a moral stand point they feel that all laborers that are supplying the US with goods deserve to be at least minimally protected in the work place. Second, they are concerned because of lax labor laws abroad; US firms faced with new opportunities to invest in Central America will take advantage of less stringent labor laws and close plants in the US. Whether or not the Central American laborers would gain or lose welfare in this situation is a somewhat contentious point[17], but is important politically for the success of the agreement.

What policies should the US seek to implement?

The Central American Free Trade Agreement is politically more important for the United States than it is economically. The total increase in US economic welfare is only 0.17 percent of GNP. What CAFTA does do for the United States is send a signal that we support free-trade and we are willing to take steps in that direction.

However, the mere size of the agreement (2,400 pages) illustrates that the CAFTA represents anything but "free-trade." While the CAFTA awaits ratification by the US Congress, there are three possible policy options the government could consider.

[17] Some scholars argue that while labor standards in Central American countries are not at the same standard as those in the US, that being employed at all, versus being unemployed increases their welfare.

First, the Congress could ratify the CAFTA as it is currently written. As shown above, the net benefit to the US will be small but it can be heralded by the Bush administration as a success toward greater free-trade. If free-trade is truly the goal of implementing the CAFTA, then the US should begin phasing out subsidies awarded to domestic agricultural and textile producers. As production of these types of goods shifts to countries that are low-skilled labor abundant, the US needs to implement measures to cushion the fall for American producers and workers during the transitional period.

Second, the Congress and the Administration could amend the CAFTA to include more stringent labor and environmental requirements, and incorporate human capital development programs in both the US and Central America to adequately prepare labor forces to be more productive. For US workers the government should strive to strengthen the manufacturing sector and ensure that U.S. workers have adequate skills in order to adopt new technologies and succeed in new job opportunities. "It is particularly important that workers can receive training so that they can adapt to structural shifts in the dynamic U.S. economy."[18]

If the US is concerned with the countries "in our backyard" as it often proclaims, that it should be concerned with the benefits to Central American countries as well. Researchers found that NAFTA benefits to Mexico could have been greater if the country had adopted policies to complement the agreement, such as investing more in education and in the quality of its institutions. "The Mexican experience, as well as our preliminary research findings for CAFTA, suggests that development gains from free trade agreements will largely depend on how successful countries are in adopting complementary policies to respond to the

[18] U.S. Manufacturing: Recent Challenges and Policy Recommendations Comments by Kristin Forbes Council of Economic Advisers Conference organized by the Federal Reserve Bank of Dallas "Framing the Future: Tomorrow's Border Economy" El Paso, Texas December 3, 2004

transformations in productivity,"[19] This could be avoided in the CAFTA if adequate measures were in place from the beginning. They could: one, invest more in education and innovation, hence raising work force skills, and enabling countries to attract new investment in dynamic sectors; two, improve institutions by fighting corruption, increasing efficiency and the quality of regulatory oversight, all of which would remove barriers to economic growth; and third, expand and improve infrastructure, whose present condition also inhibits growth.

Finally, the US Congress could do away with free-trade agreements completely and unilaterally reduce trade barriers. Brown, et al. finds that US adoption of unilateral free-trade would have a much greater effect on the US economy and the world economy as a whole than regional free-trade agreements. They find that compared to the $17.3 billion increase with CAFTA, unilateral free-trade would increase US economic by $320 billion. Increased unilateral free-trade would be more efficient and equitable because FTAs are extremely susceptible to business interests and strong lobbying groups. A study compiled by Robert Baldwin and Christopher Magee found that "contributions had a big impact on the vote totals for NAFTA's passage."[20] Unilateral free-trade would maximize economic benefits for the United States.

Recommendation

The third policy option presented above is at this time, not politically or economically feasible. I believe that the current administration would like to see the first option occur as quickly as possible. "We must now turn our attention to winning approval if the agreement from our respective legislatures" Zoellnick stated after signing the agreement. In order for this to occur CAFTA proponents must recognize the complaints of opposition from Congressional Democrats and other groups in civil society both in the US and in Central

[19] Guillermo Perry, the Bank's Chief Economist for Latin America and the Caribbean.

[20] Paul Krugman and Maurice Obstfeld.International Economics: Theory and Policy. 2003 p. 233

America. In order to generate greater public support and to increase CAFTA's chances for ratification, the administration and Congressional leaders should discuss the second option outlined above. "Anyone who believes the president has enough votes to approve the agreement is wrong," Rep. Charles Rangel of New York, the top Democrat on the influential House of Representatives Ways and Means Committee, told business leaders. To obtain the necessary votes, CAFTA must address and strengthen labor and environmental standards. Higher standards may be perceived by developing countries as increasing costs of production. However, ignoring higher standards are "usually associated with low-productivity, undermine the rule of law, and do not contribute to development in the long run."[21] Increased standard requirements would benefit producers and consumers in both the US and Central America in the long-run. It is my recommendation that the US attempt to ratify the CAFTA in a morally and globally responsible way, and I believe it has the adequate tools to do so.

[21] Kimberly Ann Elliot. Labor Standards, Development and CAFTA. International Economics Policy Brief. Institute for International Economics and Center for Global Development. March 2004.