CAFTA from a Nicaraguan Perspective

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In February 2004, I spent two weeks in Nicaragua doing field research on trade, agriculture and development. In this process, I met with Non-Governmental Organizations (NGOs), labor and agriculture associations, and a couple of farmers' cooperatives. As I began my conversations, I realized that it was impossible to talk about trade and development in Nicaragua without talking about CAFTA - the Central American Free Trade Agreement.

A few weeks earlier the Central American countries had finalized talks with the United States on CAFTA after just one year of negotiations. Similar to other free trade agreements, CAFTA is based on the assumption that promoting free trade will produce economic growth and development. CAFTA is in many ways modeled after the North American Free Trade Agreement (NAFTA) and critics fear therefore that the many negative effects of NAFTA will be repeated in CAFTA. In Mexico NAFTA put many small and medium producers out of business, it increased unemployment in the manufacturing sector, and caused environmental degradation as farmers increased the use of pesticides and fertilizers to better compete with US products. Some claim that CAFTA will have even worse effects in the Central American countries as these are less industrialized and skill levels are significantly lower than in Mexico.

Divide and Conquer

CAFTA can be understood in the context of a US strategy to divide opposition in negotiations for other larger trade agreements. After difficulties in furthering negotiations of the Free Trade Area of the Americas (FTAA) and in the World Trade Organization (WTO), the US embarked on a strategy of "divide and conquer," pursuing bilateral trade agreements to prevent poor states from forming alliances, such as the G20+ that formed in the WTO negotiations in Cancún in September 2003. (The Cancún negotiations collapsed after a group of more than 20 poor states refused to accept
further trade liberalization without concessions from the rich countries on their agricultural subsidies.)

The huge power imbalance with the US leaves the Central American countries with little bargaining clout over CAFTA. The combined Gross Domestic Product (GDP) of Central America is 0.5% of the US GDP, and Central America heavily depends on aid and access to the US market. CAFTA goes much further in liberalizing trade than the WTO and the FTAA. For example, in the WTO a country earning less than US$ 1000 per capita (which Nicaragua does), receive some form of special and differential treatment. Therefore, if CAFTA is ratified, the Central American states will have little incentive to join any future alliance in WTO or FTAA negotiations.

Unequal Trade Agreement
CAFTA is the first sub-regional agreement negotiated between such unequal trading partners. While agriculture contributes only 2% to the GDP of the US, it contributes 17% to the GDP of Central America on average, and in Nicaragua it represents 32%. Moreover 36% of the labor force in Central America is employed in agricultural activities, whereas the agricultural sector in the US employs only 2% of the labor force. Finally the US is Central America's most important trading partner, about 40-50% of Central American exports go to the US. Meanwhile, Central America accounts for only about 1% of total US trade. Due to these asymmetries CAFTA will have much deeper and wide-reaching effects in Central America than it will have in the US.

CAFTA and the Nicaraguan Society
The people and organizations that I met with were very concerned with how CAFTA would affect the Nicaraguan society. They feared that CAFTA would lead to a flood of agricultural imports from the US, damaging the livelihood of millions of small farmers and threatening food security in the country. As one of Latin America’s poorest countries, Nicaragua’s small and medium farmers already face many difficulties making a living on their production. Poverty and unemployment are widespread. The informal sector sustains a large part of the population. In Managua, the streets are filled with street vendors, car washers, shoe shiners and others "employed" by the informal sector. Many people try to flee from poverty by migrating to Costa Rica or the US. Already 10-15% of the Nicaraguan population has immigrated to Costa Rica.

Iniciativa CID
Three of the organizations I met with, Centro Humboldt-Friends of the Earth Nicaragua, FENACOOP (National Federation of Agrarian and Agro industrial Cooperatives) and CST (Workers' Trade Union Confederation - Jose Benito Escobar), were actively involved in a regional initiative, Iniciativa CID (Mesoamerican Initiative of Trade, Integration and Sustainable Development). Comprised of cooperatives, NGOs and social movements in El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica, the CID initiative seeks to influence public policies on trade and integration. While other organizations and groups immediately opposed the idea of a free trade agreement with the US, the CID initiative
set out instead to vigorously engage in the process and develop broad-based grassroots proposals on CAFTA.

Meanwhile, the CAFTA negotiations themselves allowed for very limited participation opportunities for civil society groups. Negotiations took place in closed sessions and the governments only made the agreement public one month after it was completed, when no more changes to the agreement could be made. Both Centro Humboldt and FENACOOP emphasized that in Nicaragua, the process was somewhat more open than in the other Central American states.

**Agriculture**

Agricultural subsidies in the US allow farmers to sell goods to prices up to 60% below production costs in Central America. However the US refused any negotiation of the subsidies in CAFTA. Sinforiano Cáceres, President of FENACOOP, which represents 915 cooperatives in Nicaragua, explained that the CID initiative demanded that the treaty should take into consideration these asymmetries between the US and the Central American agricultural sectors. The initiative, together with other groups and organizations, such as UNAG (National Union of Farmers and Cattle Raisers), demanded among other things that sensitive products such as corn, rice and beans should be excluded from the treaty. UNAG, which is the largest farmer organization in Nicaragua, represents 70,000 farmers and cattle raisers who mostly produce for local needs rather than for export. Iváro Fiallos, Director of UNAG argued that millions of farmers make their living out of producing these goods and including the goods would make the region dependent on US imports and seriously threaten both employment and food security. The US refused and instead offered a gradual, rather than immediate, elimination of tariffs on some sensitive products. Bianca Mangas, trade policy expert at Centro Humboldt explained that gradual elimination of tariffs would not protect the agricultural sector from subsiding under US competition; at best it could put off the misery for a few years. It is far from realistic that Central America's small and medium farmers will advance their production to the degree that they will be able to successfully compete with subsidized and high technology farming goods from the US within a few years.

**Environment and Labor Protection**

The CID Initiative demanded that CAFTA should provide for basic labor and environmental standards and should secure investment in social security. Their demands were not incorporated in the final treaty, which merely upholds already existing laws on labor and environmental protection. The current labor and environmental laws in the Central American states are however insufficient and count on weak enforcement mechanisms.

Another major setback in this area concerns the rules for investment. Without certain rules and demands on investors, foreign direct investment (FDI) does not necessarily lead to economic development. CAFTA does not place any such demands on investors;
it even forbids states to place certain demands on investors. Similar to NAFTA, the Central American treaty provides for dispute-resolution mechanisms that give corporations the right to sue governments for regulations that prevent or decrease future or actual profits. So rather than penalizing Transnational Corporations (TNCs) for violating basic labor and environment standards, CAFTA provides for sanctions against governments for respecting such standards.

**Export Processing Zones**

Central America's competitive advantage with the US is cheap labor. Trade unions and labor organizations consequently fear that CAFTA will worsen labor conditions, decrease wages and increase the number of people employed in the Export Processing Zones (EPZ), as the Central American states try to attract investments.

CST represents 25,000 workers across a range of economic sectors in Nicaragua and works particularly on issues related to EPZs and in my meeting with representatives of the organization, we discussed the effects CAFTA would have on these zones. An EPZ refers to an industrial zone, commonly a delimited geographical area, where companies locate factories and assembly plants to receive preferential treatment such as exemption from national taxes and regulations. Outside of any regulatory system, the companies often provide for low wages and miserable working conditions.

Approximately 60,000 Nicaraguans work in the export processing zones. The average age of workers is 16-24, and an average work day is between 18-20 hours. Companies in these zones often violate the right to form and join trade unions. Moreover, many companies expose workers to health and safety risks, such as toxic materials and insufficient ventilation. About 65 TNCs have factories in the free trade zones in Nicaragua, most are US, Taiwanese and South Korean companies in textile and technology such as Sears, Gap, and Ford.

Luis A. Barbosa Chavarria, Secretary General, and Miguel A. Ruiz Estrada, International Relations Secretary of CST argued that the Nicaraguan government allows these companies to locate factories in free trade zones as they make for lower unemployment statistics. Arguing that the Nicaraguan government must be primarily responsible for introducing labor and social protection laws, CST claimed that if CAFTA is implemented, the government will have a harder time providing such laws. In its work on CAFTA, CST formed alliances with US trade unions and congregations, as better working conditions in the free trade zones also means less outsourcing and unemployment and immigration to the US.

**Fair Trade**

To get a more in-depth view of the lives of farmers in Nicaragua, I met with two farmers' cooperatives, both involved in fair trade. Through fair trade, consumers in rich countries can use their purchasing power to ensure that producers in poor countries get a "fair" deal, including a fair price for their goods to cover production cost and
guarantee a living wage. Fair trade also includes organic and sustainable cultivation methods to conserve natural resources.

Located about one hour’s bumpy bus ride outside the city of Estelí, Miraflor is a nature reserve that includes about 15 smaller farmers’ cooperatives with at least 12 members in each. Each cooperative has a representative in the Union Cooperativa Agropecuaria (UCA) which administers the cooperatives, and provides different services including health clinics, education, small loans, and assistance related to the production and marketing of coffee. Coffee is the most important trade crop produced in Miraflor. Farmers produce both organic and non-organic coffee, but they only export organic coffee. No coffee is 100% organic though. It takes several years to get the pesticides out of the earth and an additional five years to get an organic coffee certificate. UCA Miraflor helps the farmers to do the legal and administrative work to obtain certificates. There is also a coffee laboratory in Miraflor, with workers trained in coffee tasting and quality assessment, who help the farmers improve the quality of their coffee.

Like many other cooperatives in Nicaragua, Miraflor was founded after the Sandinista revolution in 1979 when land was confiscated from wealthy landowners and farmers became the owners. Throughout the 1980s the Sandinista government supported cooperatives through various programs, e.g. the literacy program. But with the Liberal party coming to power in 1990, these supporting programs were withdrawn. As a result many cooperatives, including Miraflor, fell apart. At Miraflor, people began practicing individual farming and they started to cut down forest again. (In the 1970s farmers had slashed down forest and used plenty of pesticides for the potato cultivation. With the establishment of the cooperative in 1979/1980, farmers had begun growing less potato.) In the mid 1990s, as former land owners threatened to take back the land, farmers once more began to organize to protect themselves from that threat. In 1996 Miraflor became a nature reserve and UCA was reestablished to coordinate activities and to protect the forest and promote ecological farming.

The other cooperative that I met with, Del campo, has its administrative office in the city of León. This meeting was different in that I did not visit any of the farms, but met with farmers, financial administrators, women’s representatives and the directors of the cooperative at Del Campo’s head office. A much larger cooperative than Miraflor, Del campo supports around 3500 small and medium fair trade and organic farms, mostly in the region of León. Among other things, farmers produce sesame oil and soy beans.

The conversations with the local farmers and workers gave a more personal perspective on poverty and the lives of agricultural workers. Many had close relatives and friends who had migrated to Costa Rica as they were not able to support themselves as farmers. Farmers that stayed faced much hardship and effort to get by. Not surprisingly, they feared the effects CAFTA would have on their lives. The alternatives for a farmer unable to continue his/her farming work, include migration, working under miserable conditions in an EPZ or trying to make a living through the informal sector.
Fair trade offers producers actual opportunities to make a decent living out of their work. My experience in Nicaragua tells me that fair trade is a step in the right direction. It is common sense that producers should get a fair share of the price the consumers pay for their products. Nevertheless fair trade has some limitations. First of all, even when organized in cooperatives, farmers have limited resources to acquire fair trade certificates or contacts with fair trade importers. Neither Miraflor's nor Del campo's cooperatives would have survived without the help of international and foreign organizations. In Miraflor German, Swiss, and Swedish organizations helped with training in ecological farming, gender equality, eco-tourism and youth organization. Svalorna, a Swedish organization that helped me organize my visit to Miraflor, is particularly involved in youth organization at the cooperative.

Second, fair trade relies on consumers in rich countries to choose fair trade products. But not all consumers know about fair trade, have access to fair trade goods, or are willing to pay more for fair trade products. (Although fair trade goods are not always more expensive than non-fair trade goods as fair trade organizations bypass the middle people to work directly with producers).

Finally, fair trade focuses on goods that are traded internationally. Farmers that produce rice, beans, corn etc for local consumption are thus excluded from the fair trade movement. As Oxfam's Make Trade Fair campaign maintains, "Fair Trade alone can't address the crisis faced by the millions of small-scale farmers and producers whose livelihoods are threatened by low commodity prices and unfair competition from rich countries." The whole international trade system must be made fairer. Rich countries must radically lower their agricultural subsidies, governments and international organizations must regulate TNC activity and ensure world-wide respect for basic labor and environmental standards.

What's Next
On May 28, 2004 trade ministers of the US, El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica signed CAFTA. Before becoming law however, the US Congress and National Assemblies in the Central American countries must also ratify the treaty. Because of the presidential elections in the US in November 2004, it is still not certain when President Bush will present the treaty to the Congress for ratification. Many say it will not happen before the elections.

When I met with the organizations in February, they were in the midst of evaluating the final text, and deciding what new strategies to adopt after it had become clear that the treaty had not included their proposals. Some of the organizations mentioned that one alternative would be to lobby their government to adopt laws ensuring labor standards and investment in social security to counter the effects of the treaty. The CID initiative is now lobbying against CAFTA ratification by the US Congress and the Central American parliaments.