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NAFTA AND CAFTA-DR: THE LATIN AMERICAN REALITY

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NAFTA and CAFTA-DR: The Latin American Reality

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Independent Studies Paper

"Donde haya un costarricense, este donde este, siempre habrá libertad" Julio M. Sanguinetti

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NAFTA and CAFTA-DR: The Latin American Reality

Introduction

Are the Preferential Trade Agreements (PTAs) a necessary tool for the economic growth of Central America, Dominican Republic, and Mexico? Or simply a way not to be left behind in the process of integrating the area?

A number of Latin American officials thought, that in contrast to the time-bound Caribbean Basin Initiative and other Bilateral Trade Agreements, PTAs provided a stable legal framework and legal certainty, particularly with regards to dispute settlement, as well as broader preferential access. Moreover, officials from countries that already benefited from both U.S. investment and market access also thought PTAs were a huge success, but did not improve substantially their economies. They also noted that some countries may have been “implicitly forced” to join the agreement in an effort to maintain their competitiveness vis-à-vis their peers.

This paper presents quantitative evidence of the economic and social impact of PTAs in Latin America—namely, NAFTA and CAFTA-DR. In addition, this paper discusses the PTAs’ impact from the individual country’s perspective. But does not answer the question on whether NAFTA and CAFTA-DR were effective as a tool for economic development or as a tool of political influence in Latin America.

One of the objectives of this research is to contrast and compare how the economies behaved before and after these PTAs came into effect. Specifically, this study examines the Mexican
economy’s “boom” following NAFTA and the CAFTA-DR countries’ desire for international
market access in an increasingly globalized world economy.

Furthermore, this study analyzes the capacity of NAFTA and CAFTA-DR to integrate the
different regional blocs and discusses and Central America’s integration as a stepping stone for
the continent’s economic integration and the legacy of these agreements.

**History. Regional Trade Agreements and the Tendency to Build Blocs.**

Many economists think that the proliferation of Preferential Trade Agreements opposes to the
general principles of the General Agreement on Tariffs and Trade (GATT), because it produces
preferential conditions to nations under these agreements instead of the general purpose of the
GATT that was the gradual liberalization of world trade, “[t]he General Agreement on Tariffs
and Trade (GATT) has a golden rule, set out in Article I, to “do unto others as you do to your
best trading partner”.¹ To be able to understand the beginning of world trade liberalization and
regional trade preferences it is necessary to comprehend what led to the creation of GATT/WTO
and the Bretton Woods institutions.

As Jerome Levinson explains in his book “Who Makes American Foreign Policy?”, during the
post war period many nations including United States of America and the United Kingdom
began protecting their economic interests and their sphere of influence through direct investment
and economic policies. The United Kingdom began secluding itself and its colonies into an
isolated bloc as well as other powerful nations at that time such as Japan and Germany and
American response was the passing of the Reciprocal Trade Agreements that enabled United
States to negotiate reductions in tariff barriers and reflected the conversion of the United States

¹ Jeffrey J Schott ET AL, Free Trade Agreements: U.S Strategies and Priorities 3 (Institute for
International Economics , 2004)
into a major industrial power, which led to what is known as *Pax Americana*. The United States’ economic policies were directed to oppose the United Kingdom and its colonies’ discrimination. These elements led to the creation of the Bretton Woods institutions and the later GATT contract. Some of these American policies were also used as a mechanism to prevent the expansion of communism and other extreme political tendencies. *American-European Relationship*: After the European economies were weakened and almost destroyed by the Second World War, there was a serious threat of the Soviet’s ‘claws’ to get a hold on them, and United States along with Western Europe were into the task to rebuild the world’s economy in a way never seen before. And this led to the Marshal Plan that eventually financed the reconstruction of Western Europe. But this plan was in need of three things: dollars to meet the needs and to replenish the capital stock, a new orientation not focusing on colonial markets and avoid economic nationalism and colonial preferences. Along with the answer to these needs, the Rome Treaty guaranteed American multinational companies to be treated equally with the European corporations, but there was another reason to support the economic unification of Western Europe, the security of the West against the Soviet Union. United States was going to try to achieve this at any cost, the American policy rested on the assumption that as Europe regained its strength trade discrimination against United State will stop and will join United States in the ‘fight’ against the Soviet regime. *American-Japanese Relationship*: This is considered the other pillar of modern economy and with it the integration of Japan militarily and economically in the American system. And United States ‘embarked on a journey’ to achieve this to avoid the attraction of markets controlled by the Soviets, parallel to this United States encouraged the break-up of European colonialism and tried to integrate these countries into a more global system of trade. Additionally United States encouraged Japan into the IMF, GATT and other
international organizations, and as a consequence of the growing relationship between the two countries there was a constant flux of technology among them, and to go even further for the sake of the American bloc, United States tolerated Japanese restrictions on American Direct Investment and barriers against American exports.\(^2\) This past paragraph shows us how there has always been a tendency among nations to form trading blocs, from the most primitive ones, a nation and its colonies; to a more advanced one, like antagonizing nations working together to reach a common goal, development.

Nowadays, “regionalism has changed dramatically involving more countries (especially the United States), linking developed and developing countries in reciprocal trading arrangements”.\(^3\) Furthermore there has been a new trend towards “superregional pacts”\(^4\) which seek to integrate the different trading blocs. Besides we live in a globalized society and the world proved to be smaller than we thought and the regional trade agreements are a “complement and supplement to liberalization under the multilateral trading system”\(^5\) that can help liberalize trade in a faster and more orderly fashioned way. Many authors differ from this theory, they believe that regional preferential trading will keep nations from pushing into a world trade liberation, Jagdish Bhagwati thinks that “the expansion of regionalism will undermine the multilateral system”\(^6\), but as this paper intends to show that there are gains, in some cases substantial and in some other not as significant but gains in the end, that will help harmonize regional economies which will lead to integration and balance among agreeing nation, making regional agreements a useful vehicle towards integrating Latin America and then the Americas as a whole.

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\(^2\) Jerome I Levinson, Who Makes American Foreign Policy? 2-8 (Signature Book Printing, Inc. 2005)
\(^3\) Schott, supra note 1, at 5.
\(^4\) Id. at 6.
\(^5\) Robert Z Lawrence, Regionalism, Multilateralism, and Deeper Integration 3 (The Brookings Institution, 1996)
\(^6\) Id. at 2.
During the eighties Mexico experienced an economic transformation focused on two “fronts” the internal front and the external front, all with the aim of confronting the external debt and stabilizing the economy. Economic policies of such nature will try to access the economies where there is a major monetary growth, Mexico signs GATT in 1986 with the intention of offering access to its market in return of similar treatment by their trading partners. During these years Mexican trade and investment relations were as follows: Exports: North America 83%, Western Europe 7.6%, Latin America 6% and Asia 3.2%. Country wise it was: United States 80.8%, Spain 2.7%, Canada 2.2%, Japan 1.8%, France 1.2%, Germany 1.1%, Brazil 0.9% and Venezuela 0.4%. Imports: North America 72.9%, Western Europe 11.5%, Asia 9.3% and Latin America 3.9%. Country by country it was like this: United States 71.2%, Japan 4.9%, Germany 4%, France 2.1%, Brazil 1.8%, Canada 1.7%, Italy 1.6%, Spain 1.4% and Taiwan 0.9%. Foreign Investment: North America: 62.9%, Western Europe 26.6%, Latin America 7% and Asia 2.3%. The countries with the highest participation: United States 61%, France 5.7%, Switzerland 5.4%, England 4.9%, Germany 4.1%, Japan 2.2%, Netherlands 2.8% and Canada 1.9%. Considering the overwhelming difference of the commercial relation between Mexico and the United States, it was clear that the primary strategy was to reinforce the commercial relation among these two nations and take advantage of the geographical position between them. As we can compare in the charts below, based on the information exposed in this paragraph, there is an overwhelming

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7 Herminio Blanco Mendoza, Las Negociaciones Comerciales de Mexico con el Mundo 9 -11(Fondo de Cultura Economica , 1st ed. 1994)
difference between the trade relations of Mexico with United States than with another nation or groups of nation, therefore the need to access the American market at a preferential rate to be able to compete with other U.S commercial partners as China or the European Union.

8 Id. at 10.
To understand better the Mexican strategy in the search for economic growth and integration we have to divide its focus in two aspects, Internal Aspects and External Aspects.

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9 Id. at 11.
10 Blanco, supra note 8, at 10
Internal Aspects: 1) **Incapacity of the Import Substitution Model:** After the Great Depression of 1929 and the Second World War, Mexico based its development strategy in the Import Substitution Model, rising taxes, implementing quotas and even banning the importation of a wide variety of goods, with the purpose of helping the domestic production.\textsuperscript{11} This is a protectionist model, where the state invests mostly on the industrial sector to support the import substitution.\textsuperscript{12} Between 1958 and 1972 there was a big growth in Mexican economy that averaged 6.56\% and a low inflation rate that averaged 3.6\%.\textsuperscript{13} During this period there was a flux of resources from the rest of the country to urban areas, which shortened the tendency of agricultural growth and agricultural exports from the past.\textsuperscript{14} 2) **The Success of the Maquiladoras:** Not only did the Maquiladoras were an important part of the economic development of Mexico but also a transcendental part of the social development of the Mexican workers and of the demographic growth of suburban Mexico. Under the Maquiladora regime, maquiladoras were able to import duty free tools, machinery, parts, etc. to ensemble goods for exportation.\textsuperscript{15} Meanwhile, United States implemented a system where goods that have American products can be re-introduced in the country only paying taxes on the non-American added value.\textsuperscript{16} This model of production has given both countries a leverage to compete against other nations. 3) **The Effects of the First Stage of the Market Opening:** The biggest triumph of the market opening policies was the elimination of the “anti-exportation” that the import substitution model had imposed. Many things were gained in this stage, more jobs, the capacity to acquire commodities and goods at a better price that led to an increase in exportations. 4) **The Good Complement Between These Changes.**

\textsuperscript{11} Id. at 22.  
\textsuperscript{12} Id.  
\textsuperscript{13} Id. at 23.  
\textsuperscript{14} Id.  
\textsuperscript{15} Id. at 47.  
\textsuperscript{16} Id. at 48.
External Aspects: 1) Globalization and the Opportunity to Open the Mexican Market: This was one of the major decisions of the Mexican government towards opening the economy, the technology exchange and the new race for attracting foreign investment. 2) An Intense Competition to Attract Capital: Mexico was “forced” to modify its laws regarding investment to be able to provide a secure and certain environment for investors foreign. The numbers before NAFTA were fluctuating through the years, they grew some years and shrunk others, but there was a very certain pattern, Mexico had to abandon the dependency on the agriculture industry and try to develop an aggressive strategy in the manufactured goods industry. See charts below.

\[\text{id. at 64.}\]
After we have a clear picture of the socio-economic circumstances surrounding NAFTA, there are more things to take into consideration such as the willing of integrating a region where there is an intense flux of goods and capital to each side of the border. On August 8, 1990, in Washington DC, on the frame of the VIII Meeting of the US-Mexico Binational Commission, both Commerce authorities recommended negotiations for a Free Trade Agreement that should began to help launch the growth and expansion of both economies. Soon after Canada showed interest. On February 5, 1991, authorities from the three countries decided to begin the negotiations and gave instructions to their commercial authorities to begin with the process. What came out of those preliminary meetings was an agreement that reduced tariff, protected foreign investment and establish a Dispute Settlement system. On February 12, 1991 the negotiations began in Toronto, Canada. They were over on August 12, 1992 and the final document was signed December 17th. The Mexican Senate approved it on November 22, 1993.

\[18 \text{ Id. at 70-71.}\]
The NAFTA Years and the Mexican “Miracle”

The agreement has 22 chapters, on the preamble countries commit to help the development of the region, expand commerce and investment, sustainable development and enforce labor rights among others. Chapter I has the “objectives”, which are the elimination of tariffs, protect Intellectual Property rights and support trilateral integration, dispute settlement and others. Chapter II has a series of definitions. The next series of chapters are the substance of the agreement such as A) The Reduction of Tariffs: By 1991 the highest tariff rate of 20% and 13.2% average rate were reduced gradually to the import from United States and Canada. On the other of the spectrum, Mexican exports already had a MFN tariff or under the Generalized System of Preferences that industrialized countries apply to developing countries.19 Starting in 1991 there is a system of reducing tariff that goes from the immediate reduction to a period of 15 years, for Mexico the reductions period are longer than to United States and Canada. See chart below.

B) Non-tariff Barriers: Regarding this subject the agreement complies with GATT but in some products like auto parts, energy, etc. the agreement has an import-export licensing system. Also in this area the agreement prohibits the use of “official prices” for exports and imports. The agreement also bans any Technical Barrier to Trade, but each country reserves the right to establish and enforce its technical regulations and standards, and have to be according the National Treatment principle to avoid discrimination.\textsuperscript{21} C) Foreign Direct Investment: NAFTA will have an integrating effect in North America, which can be translated in more Foreign Direct Investment, and with this the specialization and modernization of labor in Mexico, that will help improve socio-economic status of workers and will help mitigate migration and poverty problems. The Mexican government has eliminated certain direct controls to the economic activities and now relies on indirect controls, more specific commercial liberalization.\textsuperscript{22}

\textsuperscript{20} \textit{Id.} at 8.
\textsuperscript{21} \textit{Id.} at 10.
\textsuperscript{22} \textit{Id.} at 63.
Before NAFTA North American FDI in Mexico was stable but did not have an upward slope, clearly after the agreement was signed and implemented the numbers show a steep growth of FDI coming from its North American neighbors. See charts above.

D) The Impact on the Mexican Agro: The agreement provided Mexico with a platform that helped boosting the agriculture products to the United States market. The basis for these was the elimination of tariffs over a period of 15 years and the elimination of quotas, added to high levels productivity of Mexican agro-industry. Between 1993 and 1999 Mexican agricultural exports grew 79%, and United States’ grew 56%. See chart below.

![Agricultural Trade Mexico-US in Billions of Dollars](chart)

The agriculture side of the agreement was very successful because it enhanced the “comparative advantage in the production of fruits and vegetables, and NAFTA facilitated access for these

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25 Id. at 18.
26 Id.
products to the United States and Canadian market”\(^{27}\) and promoted “better access to agro-
industrial machinery”\(^{28}\) to help Mexico increase its productivity. Internal goals were achieved:
subsidies for exporting goods, market access, technical regulations, sanitary and phytosanitary
standards, and internal support for the agriculture industry. By internal support, the agreement
establishes support programs for agriculture, clearly complying with the rules of the agreement
and GATT/WTO rule, to prevent trade distortion. Regarding exports subsidies, the signatories
have agreed on eliminating them, with certain exceptions such as if one of the signatories
imports subsidized products from a third country outside the agreement and the second
exception, when the importing country allows them. As for market access the agreement
(Mexican-U.S trade relation, in function of the Mexican biggest trading partner) will reduce
tariffs to zero% in a 15 year period, United States will immediately reduce tariffs to 61% of the
of the amount of exports from Mexico\(^{29}\) in return Mexico will reduce 36% of the amount of
exports from United States. On the first 5 years United States will reduce another 6% and
Mexico another 3%. During the next 10 years United States will reduce 28% and the remaining
5% before the 15 years mark, on the Mexican side, they will reduce 42% in the next 10 years and
the remaining 18% in before the 15 year mark. See chart below. The reasoning behind of the
percentages is based on the size and the industries, as the two economies have to level among
them without harming the weaker side of the trade relation, which in this case is Mexico. As we
can see, U.S’s tariffs will be lowered at a higher percentage inside the 5, 10 and 15 year period
mark than Mexican to avoid putting Mexican markets in risk of an unsustainable imports surplus
and to give the Mexican markets time to accommodate to the current and future situation.

\(^{27}\) Id.
\(^{28}\) Id.
\(^{29}\) Casanueva, supra note 19, at 81.
The “stumbling block” in the agreement was with sugar, there was agreed a special treatment for trade in sugar, Mexico and United States will liberalize gradually the bilateral trade of sugar. During the transition period the maximum access will be determined by the net surplus produced in each country with a “roof” of 25 thousand tons the first 6 years, an additional 150 thousand tons the next year and from the 8th year until the 15 year mark a 10% increase annually until it reaches free access.\(^{31}\)

The growth in the agricultural trade after the agreement, especially in the two smallest economies of the agreement (Canada and Mexico) was pretty substantial compared to other agriculture partners. See chart below.

\(^{30}\) See supra id. at 82.
\(^{31}\) Id. at 81.
After looking at the numbers exposed in the past pages, the “booming” Mexican economy was launched by the NAFTA but also by the Mexican authorities resulting in ”an almost seamless transition from a closed development model to the vibrant market economy that is strengthening Mexico with daunting speed.” In 2001, Vicente Fox set out a six year plan to evolve form a “paternalistic” state to one that shares responsibilities with the public in general (this includes businesses). Both phenomena added to the change in the way Mexicans conduct their business made the agreement successful, the Mexicans began feeling a “first world approach to business” labor laws were more elaborated and improved and a series of new opportunities arose. Which Mexico-United States and Canada enhanced thanks to the success of the agreement and how well implemented it was in the 3 signing nations.

32 Mexico, a Global Partner for Trade, Investment, and Growth, supra note 24, at 18.
33 Louise E. V. Nevaer, NAFTA’s Second Decade: Assessing Opportunities in the Mexican and Canadian Markets 30 (South-Western ed., 2004)
34 Id. at 31.
35 Id. at 32.
Here are some facts taken from an information packet called “Mexico, a Global Partner for Trade, Investment and Growth” up to 1999:

1) Mexico became the second United States trading partner and export market. Reaching a record number of $215 billion in 1999.
2) Mexico is Canada’s major trading partner in Latin America with a record high of $9 billion in 1999.
3) Mexico has become the third largest recipient of FDI among emerging markets. Over $11.8 billion annually.
4) Since 1194 employment in export-oriented firms have grown to have 40% higher wages than non-exporting firms.
5) Foreign investment firms employed 2.1 million people by 1998
6) Mexico modified its export portfolio from 80% of exports in oil and raw materials in the 1980s to 85% of exports in manufactured goods, turning the country into a new “tiger” on the export scene.
7) Maquiladoras now pay more than four times the minimum wage.
8) FDI firms pay 50% more than the national average manufacturing wage.
9) Mexican investment in environment reached $1.9 billion by 1999.36

Even though the two “side” agreements, Labor and Environment, areas that were of major concern to the parties, were not perfect in every sense, some of the facts shown above express the success of them in notorious way, for example: the rise in the average salaries of exporting firms, which translates into better living conditions and achieved by better education standards which means more specialized labor and more programs to form technicians and general improvement of the location where the firms are located, generating income and development in those areas. As for the “maquiladora” phenomenon it was very helpful to the general process of

36 Mexico, a Global Partner for Trade, Investment, and Growth, supra note 24, at 1-2-3-6.
Mexico to shift from an agriculture country to a more industrialized country. Environmentally, Mexico improved significantly in its environmental investments. See charts below.

37 Id. at 6.
CAFTA-DR and the Process of Integrating Central America and the Caribbean

The ideas of negotiating a Free Trade Agreement with the Central American nations started in 2001, when these nations asked, the then President George W. Bush the possibility if negotiating an agreement. In January 2002 United States showed interest in beginning the negotiating process in the short term, by March that year the Central American presidents and Unites States president Bush got together and a series of workshops were done to study the viability of an agreement between Unites States and Central America. By August 2002, United States Congress approved “Fast Track Authority” to enable the Executive Branch of the United States government to negotiate in a more agile way the agreement. By January 2003 the beginning of

38 Id.
39 Mexico, a Global Partner for Trade, Investment, and Growth, supra note 24, at 7
the negotiations was official, making an agenda: closing date of negotiations, scope and structure and a timeline of the whole negotiating process. There were 9 rounds of negotiations during 2003 for the Central American countries except for Costa Rica that had an extension of a month; by the 25th of January 2004 negotiations were done. The agreement was signed on the Organization of American States (OAS) headquarters in Washington D.C on May 28 2004. Dominican Republic joined treaty on August 5th 2004 after negotiating the conditions of its participation. Every single signing nation ratified the treaty in its own schedule being El Salvador the first nation to ratify it and Costa Rica the last on January 2009.40

The agreement set a set of general objectives and specific objectives among the specific:

1) **Market Access:** the reduction of tariffs and other duties to the Central American exports and expand the benefits of the Caribbean Basin Initiative and Generalized System of Preference. It establishes mechanisms to adjust “free” trade in those areas that are sensitive to outside competition and considering the differences in size and development of Central American economies. Elimination of non-tariff barriers. Establishing an efficient procedure for the agile flux of goods through a set of rules regarding each nation’s borders, among others.

2) **Services:** promote the diversification in services.

3) **Investment:** Give an impulse to the growing flux on foreign investment, and set a dispute settlement mechanism between investor and state.

4) **Intellectual Property:** an adequate ruling and protection of Intellectual Property rights.

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5) **Labor:** establish a frame of rules to promote the protection of labor rights through the strict application of each nation’s laws

6) **Environment:** Set rules to protect the environment considering the sizes and level of developing of the signing nations without interfering with trade among the signing parties.\(^{41}\)

These are some of the specific objectives of the agreement, but it has also more general objectives, these are some of them:

1) Construction of a “Free” Trade area

2) Promote investment

3) Implement cooperation among signing parties to promote development projects.

CAFTA-DR became the “13\(^{th}\) largest trading partner and second largest export market in Latin America, behind only Mexico”\(^{42}\) furthermore there is no denial in the “foreign policy goals”\(^{43}\) that are going to be achieved in the region by the agreement. A region that has been struck with cruel civil wars, devastating natural disaster and a raging poverty that seems endless. Trade liberalization in Central America has already been successful literacy rates rose from 67% to 80% in the last 20 years, children labor dropped from 17.4% to 10% by 2002 and the countries understood that “[n]ations open to trade tend to grow faster and achieve higher incomes”\(^{44}\) than other developing nations. The agreement has also gave a sense of “brotherhood” to the signing countries including Dominican Republic, essential for the plan of integration and economic harmonization that the agreement was seeking in the region.

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\(^{41}\) *Id.* at 11-12-13.


\(^{43}\) *Id.*

\(^{44}\) *Id.* at 11.
CAFTA-DR as an Individual Reality

Costa Rica

Even though Costa Rica was the last country to ratify the agreement and it was ratified in the middle of an economic crisis in the United States, the country’s economy suffered a big development during the 2000s; the country’s economy grew around 6.7% average to a maximum of 8.8% in 2008, the poverty was reduced to 16.7% and the investor friendly policies of the country have been very productive. 45% of the GDP comes from exports, 50% of that GDP is from services. Here are some facts about Costa Rica:

1) World Economic Forum’s Global Competitiveness Index ranked Costa Rica’s education in the highest position among Latin American nations.45

2) World Economic Forum’s Global Competitiveness Index ranked Costa Rica’s number 4th in Human Development Index in Latin America behind Chile, Argentina and Panama.46

3) World Bank for Global Governance Indicators rank Costa Rica in the first place in Latin America for political stability.47

4) Has the oldest democracy in Latin America, with no army and with alternating governmental elections held every 4 years since 1949.

5) According to Yale University, it has the highest level of Environmental Performance in Latin America.

Now on the economic side, the Unites States exports increased 10% in 2010, recovering from 2009 17% decline, it reached a $5.2 billion. Unites States imports to Costa Rica increased 55% in 2010 reaching $ 8.7 billion (the only country out of the top 69 suppliers on 2009 to experience

46 Id.
an increase in U.S imports). Electronic integrated circuits and computer parts from Costa Rica now represents 61% of the total U.S imports from Costa Rica, this being an indirect benefit from the agreement since there was more certainty about the economic relation between United States and Costa Rica. But the agreement added some “seasoning” to the already existing trade relation between United States and Costa Rica a proof of that is that during the five years prior to CAFTA exports experienced an strong growth of 47% and the 5 years after CAFTA it grew 44%.

**Dominican Republic**

The Dominican Republic has been a “regional leader in attracting”\(^48\) Foreign Direct Investment, the investor-friendly reputation of the country and its investor-friendly legislation has helped to achieve this recognition.

Dominican Republic “entered” CAFTA-DR on 2004, before the agreement the main contributors to GDP were, manufacturing (food mostly) with 15.6%, commerce with 12.1% and agriculture with 11.6%. By 2005 the country was exporting goods in the sum of $5.8 billion mostly sugar, cocoa and coffee, more than half of them were directed to United States (51%). The year prior the ratification of CAFTA, FDI reached an impressive $645 million, 26% from tourism, 23% energy and 19% telecommunications.

Investor, especially American investors have found in Dominican Republic a “hub for expansion into the rest of the Caribbean”.\(^49\) See Chart Below.


\(^{49}\) ld. at 13
The Dominican government expected to pass the billion dollar mark after 2005, year when CAFTA was signed. Dominican Republic as Costa Rica, has experienced a growth in the “call centers” operating in the country, that means imports of services, that can be reflected in the country’s more prepared labor and English speaking labor, which boosts social mobility from a farmer state to a ore industrialized state and a big step towards industrialization. Tourism is also another big part of the service-oriented nature of the Dominican Republic pre and post CAFTA-DR policies, in 2005 the country received 4 million tourists and the “occupancy rate rose 4 % in the first five months of 2006 over the same time period in 2005.” As a result of CAFTA-DR, United States cut duties on 96.6% of all products coming from Dominican Republic and Dominican Republic cut them in 77% of their products, with a periodical cutting over the next 20 years.

50 Id.

51 Snapshot Caribbean: Benchmarking FDI Competitiveness in Caribbean Countries, supra note 44 , at 19
The Dominicans, as the rest of the CAFTA-DR countries, are susceptible to the behavior of the American economy and the global economy, they Dominican government recognizes the effect of the current economic crisis and the recession in the United States as a factor on the decline of the country’s economic growth. See Chart Below.

![Economic Growth Rate](image)

But the trade relation among CAFTA-DR has been stable; the total amount of trade has surpassed $ 31.935 million in 2003 to $41.169 million in 2007 at a growing rate of 28.9%\(^5\) being the Dominican Republic the biggest the main supplier of the CAFTA-DR countries.

Regarding FDI, it was analyzed how it showed an upward curve in the Dominican Republic before CAFTA-DR, the tendency remained in an upward curve after CAFTA-DR, perhaps the security to the American investor to feel backed up by an agreement like this one boosted the numbers and the years after CAFTA-DR before U.S authorities acknowledged the current


\(^{53}\) *Id.* at 13
recession) showed an improved growth, in 2005- $1.1227 billion; in 2006 1.4593 billion; in 2007 1.698 billion.\textsuperscript{54}

Find above charts showing the behavior of Foreign Direct Investment by sector and by country of “origin”. It is clearly seen that United States represent the biggest commercial partner of Dominican Republican and it is also show the industrialization process that the country is experiencing, the services market is growing fast and the nation has become very attractive to foreign investors, what was pursued by local authorities. The Dominican Republic showed before the agreement a national policy towards development and investment reception, which was accelerated by the CAFTA-DR agreement, perhaps not as substantial as in other nations but the certainty that the agreement gives to the exporters, importers and investor is invaluable and the biggest asset from the agreement to the Dominican Republic.

\textsuperscript{54} \textit{Id.} at 16
\textsuperscript{55} \textit{Id.}
FDI per Sector
2002-2007

FDI by countries
2002-2007

56 DR-CAFTA: Un Año Despues Resultados y Perspectivas, supra note 52, at 17.
57 Id.
**El Salvador**

The case for El Salvador was a little bit different than for Costa Rica and Dominican Republic, actually the scenario was more similar to the other remaining countries of the agreement. Since the negotiation of the agreement a big sector of the Salvadorian population was optimistic about the new margin for exports of domestic products that will help boost the Salvadorian economy and that will be a vehicle for foreign companies to establish operations in the country opening the labor market for better paid workers and creating more jobs for less prepared workers. The Salvadorian authorities saw in the agreement a platform for investors to produce manufactured goods and export it to the biggest market in the world, the American market, also they were expectant of the technology transfer and the change in the role of traditional products. The Salvadorian population had a challenge implied in the agreement, “the challenge to excel in producing high quality goods to increase the competitiveness and the added valued to the products manufactured.”

The Salvadorian government reasoned in a similar way as Mexico and the rest of the CAFTA-DR countries when negotiating the agreement, even though El Salvador had other agreement that let their products access the American market in a low tariff o zero tariff rate, the unilaterally character of those agreements limit the benefit of them because:

1- The concessions made in those agreements depend on the current commercial policies of the United States; this means the concessions can be taken away unilaterally.

2- FDI or domestic investment has the certainty to access those concessions more permanently and with a fairer framework.

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58 Ministerio de Economía, Preludio, Documento Explicativo de las Negociaciones del Tratado de Libre Comercio entre Centroamerica, Republica Dominicana y Estados Unidos, (2005)
3- The amount of goods in those agreements is limited and do not reach the full Salvadorian interest.\textsuperscript{59}

CAFTA-DR will transform El Salvador-U.S.A commercial partnership into a more permanent reciprocity relation. \textsuperscript{60} 89\% of the agriculture products of El Salvador will have zero tariffs with agreement, this represents 95.15\% of the total trade among U.S.A-El Salvador, considering that Salvadorian residents in United States purchase around $450 million in Salvadorian products sold in America\textsuperscript{60} CAFTA-DR will provide with a great opportunity for Salvadorian products to supply that market with better tariff benefits.

Sugar, that was a problematic product during the negotiations, achieved to double the “quota” allowed into U.S.A, and the sugar market counts with an special “economic compensation” consisting in a compensation from the United States to the sugar exporter if, during a certain year United States bans the importation of Salvadorian sugar.\textsuperscript{61} Regarding manufactured goods, the agreement allows the access to 99.73\% of manufactured goods into Unites States\textsuperscript{62} and with apparel, all products will enter the American market with zero tariff rates from the moment of ratification of the agreement, a sensitive sector in El Salvador, this advantages will grant the Salvadorian apparel industry an impulse towards improving their assembly lines and technology, investing in the sector and more employment opportunities. One important achievement in this area of CAFTA-DR was that the fabric coming from Mexico or Canada will be considered as original from the agreement parties and will have the agreement’s benefits. The Salvadorian side focused in the agricultural and apparel side of the agreements, a little different than the Dominican and Costa Rican side that focused on the investment part of the agreement.

\textsuperscript{59} Id. at 1
\textsuperscript{60} Id. at 4
\textsuperscript{61} Id. at 5
\textsuperscript{62} Id. at 7
See Chart Below.

![Chart: Products]

Most of the manufactured goods in terms of revenues are apparel or apparel related products.

Overall the bilateral trade between El Salvador and United States has increase significantly over the last 17 years; it grew from 1.573 million dollars in 1993 to 5.092 million dollars in 2006 added to this positive numbers the agreement will allow El Salvador to export tariff and quota free 100% of their manufactures goods. This was one of the main purposes of the Salvadorian commercial strategy, to broaden geographical limitations since they are the smallest country in the area and heavily populated.

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63 Ministerio de Economia, Primer Aniversario CAFTA-DR, (2007)
Exports to U.S. Plastic Products
In Millions of Dollars

Exports to U.S. Metal Manufactured goods
In Millions of Dollars

66 Id.
67 Id.
We can see from the numbers presented above how the agreement was very beneficial for the Salvadorian products and the bilateral trade among United States and El Salvador in general.

We can see that export rose 68%, from 240 million dollars to 404 million dollars in the first year of the agreement, agro/food/beverages rose, 85%, from 160 million dollars to 297 million dollars in the same period of time. Plastic products went from 2 million dollars in 2005 to 3.1 million in 2006, increasing by 56%. Metal exports rose 38% from 8.5 million dollars in 2005 to 11.5 million dollars in 2006. And what I believe the most important of all these numbers, exporting companies in the country rose 50%, from 40 companies in 2005 to 60 in 2006.\(^6\)\(^9\)
Guatemala

Guatemala has the biggest GDP in Central America and many countries consider it the gateway to NAFTA, but they have struggled, as the rest of its Central American neighbors of years of military dictatorship and corruption, but the Guatemalan people have been fighting to overcome their past and boost their country into economic prosperity. The CAFTA-DR agreement introduce a new “duty universe” to Guatemala, giving preference to 90.88% of their products, of course the country has to improve in several areas to enhance the reach of the agreement such as infrastructure, SPS measure, etc. Guatemala has received over $650 million since the agreement was signed in trade-related help (education, SPS implementation, etc.) everything aiming to change the Guatemalan dependency on agriculture and begin changing its market towards a more manufactured oriented country. The Guatemalan economy has changed its dependence to American markets in the last half century, but still Unites States represents their biggest trading partner, by 1951, 89.5% of Guatemalan exports went to Unites States and the United States to Guatemala imports represented 67.2% whilst two years after the agreement was ratified export to United States represented 41.1% and imports from United States 35.5%. The bilateral commercial trade has increased though; it went from $ 5,947.4 million to $ 8,222.9. It is also important to notice the three years prior to the agreement bilateral trade grew 8.8% and the two years after the agreement was ratified it grew 26.5%. During pre-CAFTA-DR (2003-06),

71 Id.
72 Id.
73 Id.
74 Id.
coffee, banana and apparel represented 65.8% of the total exports, during the two pre-CAFTA-DR years (2006-08) the same products represented 63.4%\textsuperscript{75}.

The export curve has been increasing since the agreement was signed, or at least it has had a “positive behavior”. On the years 2004-05 increased by 11.7% compared to 2003-04, and after the first year of CAFTA-DR (2006-07) the exports increased in 19.1% with respect 2005-06. The behavior of exports on the second year of the agreement was pretty much the same as in the first year. Regarding imports from United States it grew 6.2% from June 2003 to July 2006, the balance between exports and imports is tilted towards the United States but just the possibility of accessing the same products that historically Guatemala had depended on in a preferential manner makes the agreement a huge success. Guatemala has a malnutrition problem, their diet is based on corn, and now they are importing 54% more corn from the U.S, we can see that the agreement involved social benefits intrinsic on it, and if you add the $ 650 million that United States is directing to Guatemalan society to educate them, and asses them make the agreement’s scope even larger. The Guatemalan economy reacted very well to this “trade balance”, they are products from United States, manufacturing them in Duty Free Zones and sending them back to the American market, which generates revenue but also generates jobs, creates opportunities for foreign investment, transfer of services and will continue the Guatemalan tendency towards changing from agriculture to manufactured goods, which in the meantime help with social disparity, crime, malnutrition and drug trafficking; four of the biggest challenges Guatemala has to face on the race for development. The charts below illustrate some of the numbers discussed above.

\textsuperscript{75} ld.
2004-05 were pre-CAFTA-DR periods and 2006-07 were post-CAFTA-DR periods.

**Honduras**

76 Id.
77 Id.
In the case of Honduras, as well as Nicaragua, the CAFTA-DR represented a huge deal in their process of aiding poverty. Nicaragua and Honduras, along with Haiti and Bolivia are the poorest countries in America, so the agreement received a very welcoming environment in both countries.

The Honduran government has seen the effect in the raise of Foreign Investment especially in the Maquila sector, where there are projections that there would be a “short-term increase in exports of 25% compared to the current levels. Nearly all gains would be in the apparel sector (99%).”

U.S.Aid estimated in 2000 that there were around 258 million non-agricultural MIPYMES (Micro, Small and Medium Enterprises) “that employed 760,000 people that represented 34% of the economically active population.”

“Approximately 66% of these firms are in commerce, restaurants, and hotels, and 25% are in manufacturing.” Most of these firms work a little informal and in the end they will be “indirect exporters”, supporting the activities of dynamic export-oriented firms in the formal sector.”

Also the agricultural agenda of CAFTA-DR will benefit a lot the Honduran economy; U.S.Aid launched some studies revealing that for “132 lines items that Honduras exports to the world only 75% are not successful exports to the U.S market.” To visualize better the effects of the agreement in the Honduran agricultural market see chart below.

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79 Id.
80 Id.
81 Id.
82 Id.
Coffee and banana represent the two major agricultural products in Honduras, the rise significantly from 2007 to 2009. Coffee went from $500.1 million to $515.8 million and banana went from $153.9 million to $180.4 million. These two products were some of the products that before CAFTA-DR Honduras was not being able to export to all its extent to United States, and the rise on the export of such products and the rise on the manufacture firms means a rise in the well-being of the general population, better jobs and better salaries and internal migration from poorer agricultural places to better “manufacture” cities and to better and more “industrialized” agriculture areas, that provide better services of the inhabitants of those areas.

As well as Guatemala, Honduran diet is based on corn, even though their famine problem and malnutrition is no as problematic as Guatemalan, there was an important import increase in the imports from U.S corn to fulfill national demand; it went from $49.7 million in 2007 to $90.5 million.

Nicaragua

In the case of Nicaragua, the country received a series of “benefits” and “special” treatment by the United States in response for the economic embargo during the 80s. In general the Nicaraguan exports to the United States increased in 71% from 2005 to 2010. Three industries that are the backbone of the Nicaraguan economy grew significantly, we are talking about textiles and apparel that went from $715.6 million in 2005, $879.4 million in 2006, $968.5 million in 2007, $934.9 million in 2008 decreased a little in 2009 to $893.6 million to reach an historic $1,018.5 million in 2010; wiring harnesses that increased from $121.1 million in 2005 to $126.6 million in 2006, $968.5 million in 2007, $934.9 million in 2008 and showed the same behavior as textiles and apparel in 2009 decreasing to $160.2 million just to come back up to $273.7 million in 2010 and fruit and vegetables that began 2005 with $23 million increasing to $28.8 million in 2006, $36.6 million 2007, $40.8 million in 2008, decreasing back to same

numbers as 2007 in 2009 and slightly recovering in 2010 reaching $37.9 million\textsuperscript{85}. Donated goods and the import of textiles and apparel from the United States behave in the same way, a similar pattern, with the positive idea that the textiles and apparel imported was later manufactured in Nicaragua and sent back to the United States and other places, earning the Nicaraguan economy some added value for those products. If considering that Nicaragua has a 46.2% of poverty and 15% living in extreme poverty, the fact that they passed the billion dollar barrier in FOB exports on 2006 show that there is an overall success of CAFTA-DR in the country and complementary to this boost, the Foreign Direct Investment also grew and the confidence of foreign investors grew in the past decade, nowadays the country has a difficult political situation that has put some of these economic indicator in an idle state but the benefits of CAFTA-DR have been

\textsuperscript{85} http://funides.com/documentos/FUNIDES_Evolucion_Desarrollo_Terminos_Presidenciales_FINAL.pdf (last visited April 8, 2011)
The Legacy of the Regional Trade Agreements in a Continent that Urges Integration

The Preferential Trade Agreements (NAFTA and CAFTA-DR) signed by the Latin American nations and the United States of America have been successful so far. While these are not the solution to Latin America’s poverty, they can be a useful tool for economic integration and preferential access to the U.S. market. Latin America has thereby exploited its geographical and cultural proximity to the single largest consumer market, the U.S market, despite its disadvantages vis-à-vis other regions. Specifically, it does not have China’s cheap labor nor Eastern Europe’s specialized labor. Still, Latin America could further benefit from their PTAs by introducing legislation or economic reforms that would enable them to fully exploit the benefits of these agreements.

In the absence of a Free Trade Agreement of the Americas, PTAs have spurred multilateral economic integration. NAFTA succeeded in launching Mexico as the single biggest trading partner to the United States. CAFTA-DR countries have become the U.S.A.’s seventh largest trading partner and its second largest trading partner in the continent. CAFTA-DR region has also proven to be a significant market for individual states in the United States, “25 states recorded 2010 export shipments to the CAFTA-DR region valued in excess of $150 million.”

In Florida, “CAFTA-DR region, as an export destination, represented the third largest market for the state in 2010.”

In Texas, exports to the CAFTA-DR countries “grew the most of all states during the five year period under the agreement, increasing by $2.4 billion.” And intra-regional trade between Central American and Dominican Republic has “widened through 2008 to $6.1 billion, from $3.7 billion in 2007 and $1 billion in 2006”.

And “average foreign investment grew from 2006 to 2009 compared to 2000-2005, led by Costa Rica (up 179%) ending with Honduras (79%)”.

This was made possible given the willingness of individual countries to set aside their differences. Specifically, the Canadians as well as the Dominicans were reluctant to sign an agreement. The former did not want to abandon their preferential treatment by the United States. The latter were still displeased with their earlier experience with trade agreements with Central America. But both overcame their concerns and all nine countries sat at the negotiating table in pursuit of a common goal to liberalize trade amongst them.

But will the advantages provided by NAFTA and CAFTA-DR vanish after the Doha round is completed? Those that had opposed these agreements would think so. But, given the experience and lessons gained from NAFTA and CAFTA-DR will serve as solid basis for the authorities to
make the most of new markets and attract foreign investment and support trade in services. Moreover, as a result of narrowing economic and social differences from those agreements, Latin America will be better prepared to benefit from the forthcoming completion of the Doha round.

The legacy of the PTAs in Latin America has been positive economically, socially and politically even though not all have benefited to the same degree in these three dimensions. Also, the lessons and knowledge gained from the negotiations can contribute to get past historic grudges and negotiate as a group and will be invaluable to further economic integration of the Americas.

**Conclusion**

Preferential Trade Agreements in America have showed that these trade agreements and the resulting policies are useful to support economic development. While this, especially true for smaller countries, larger countries have seen these primarily as a way to increase their geopolitical influences. Changes have been more substantial in some countries than in others. But how can these changes and their importance be measured? Arguably, gauging these changes is imprecise at best. In Mexico, the economic growth it experienced following NAFTA would have been unimaginable without it. Likewise, the success of internal migration to villages that were to become economic engines powering development would have not been possible without the FDI underpinning the establishment of manufacturing plants in remote areas.

In Dominican Republic and Costa Rica, economic growth trends remained unchanged, but agreement-related changes were successful as the implementation agendas including those
pertaining to intellectual property and liberalizing telecommunications and insurance. In Nicaragua and the Northern Triangle (Guatemala, El Salvador and Honduras) the increase in their agricultural exports as well as in the Maquila industry—under the auspices of the PTAs—has been overwhelming. These experiences speak loudly to the rest of the Americas regarding the importance of working towards common goals.

Spurred by developing countries’ growth, in South America, South-South trade agreements are likely to emerge and thus North-South agreements would not lose their importance, is likely to give Latin American countries different options and different markets among its peers. South-South agreements may also serve to offset the potential economic difficulties that a possible lifting of the Cuban trade embargo would pose for Latin American economies. This is because the US would likely need to favor Cuba’s development over that of the rest of Latin America and thus, Latin America’s economic integration would be serving as an essential safeguard for their long-term economic prospects.

Still, the question of whether regional trading blocs, as argued by those opposing PTAs, could undermine the cohesion needed in the World Trade Organization. This fails to recognize, however, that it is but one interconnected world. Further refined PTAs can thus pave the road to achieve a global free trade environment.
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