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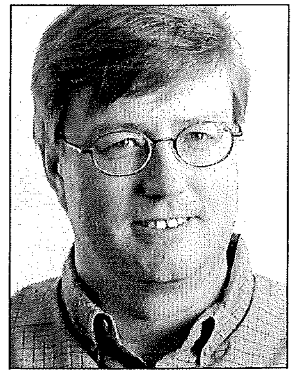
CAFTA-NAFTA: Don't Be Fooled Again

By R. Dennis Olson

Lately, we've heard a lot of talk from the Bush Administration about how the Central America Free Trade Agreement (CAFTA) is going to benefit our economy, particularly farmers. We all heard the same promises over 10 years ago before the North American Free Trade Agreement (NAFTA) came into effect. This time around, CAFTA supporters are having a tougher time convincing farmers that this flawed trade model will work for them.



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The Bush Administration has negotiated CAFTA with the Dominican Republic, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. CAFTA is modeled directly on NAFTA. Remember when supporters of NAFTA's deregulation of national borders promised that farmers would "export their way to prosperity"? At the time, the president of the American Farm Bureau said, "This new accord will bring ever-increasing benefits to agriculture and will strengthen the U.S. economy." But just like Enron's promises of lower energy prices through market deregulation, the myth of export-oriented agriculture has been exposed.

Now the American Farm Bureau, despite the objections of several state Farm Bureau chapters, is at it again promising that CAFTA will generate $1.5 billion in new agricultural exports. This remarkably rosy projection is over *five times* the $276 million net increase projected by the Bush Administration's own International Trade Commission.

The reality is that after 11 years of NAFTA, both U.S. net exports and crop prices for major commodities actually have declined. Agricultural imports have increased twice as fast as exports—rising from $32 billion in 1996 to $46 billion in 2003, according to the USDA.

For half a century, the U.S. had been the breadbasket of the world. Our agricultural productivity steadily increased, allowing the U.S. to run strong agricultural surpluses that have served as a bulwark for our overall balance of trade. But thanks to market deregulation through NAFTA and other trade agreements, the U.S. is actually projected to become a *net importer* of agricultural products for the first time since 1959. It's no coincidence that this worrisome trend in agriculture has coincided with a soaring U.S. trade deficit that threatens to undermine our economic security.

A good example of how CAFTA will hit the U.S. agriculture economy hard is in sugar. The Bush Administration says the sugar industry is exaggerating its concerns about CAFTA, noting that the U.S. sugar market will be opened up to less than a 2 percent increase in sugar imports. But this oversimplifies the delicate balance of supply and demand that has made the sugar program so successful and neglects to place the agreement in context. CAFTA does not exist in a vacuum. NAFTA will provide Mexico with unlimited access to the U.S. sugar market in 2008. Additionally, CAFTA sets a bad precedent for all future regional trade agreements. Of particular concern to sugar growers and workers is the Free Trade Area of the Americas (FTAA), which would include the world's lowest cost sugar exporter: Brazil.

CAFTA sugar imports, combined with Mexico's increased NAFTA exports, would inevitably cause the suspension the inventory management system for sugar that has effectively matched supply with demand, avoided costly overproduction, and guaranteed fair prices for farmers at no cost to taxpayers. Suspending the government's sugar program would likely result in the release of over 500,000 tons of sugar reserves onto the market, causing a sharp decrease in U.S. sugar prices.

A 2003 North Dakota State University study projects "that domestic supply would decrease 25 percent for sugar beets and 15 percent for sugar cane for every 10 percent decrease in price." If sugar imports exceed 2 million tons, the study concludes that U.S. sugar beet production would shutdown completely, and the remaining cane producers would be left with less than 20 percent of current U.S. production. Despite the reassurances, passage of CAFTA does represent a real threat to the 146,000 mostly union jobs in the sugar industry, and its $10 billion contribution to the U.S. economy.

These are just a few reasons why more and more people from all sides of the political spectrum are now questioning the expansion of this failed NAFTA deregulation model through the passage of CAFTA. More of the same—that's about the only believable promise the trade deregulation proponents will be able to keep this time. ▣

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About the author

R. Dennis Olson is the director of the Trade Program at the Institute for Agriculture and Trade Policy and author of Sweet or Sour: The U.S. Sugar Program and the Threats Posed by the Dominican Republic-Central America Free Trade Agreement, *which can be accessed at iatp.org.*

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