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Costa Rica and CAFTA: Chavista Rhetoric Threatens Trade Deal's Benefits

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On Sunday, October 7, voters in Costa Rica will decide whether to join the United States–Dominican Republic–Central American Free Trade Agreement (CAFTA). CAFTA would bring tremendous benefits to Costa Rica, as it has already to Costa Rica's Central American neighbors. This bright future is being jeopardized, however, by an alliance of protectionist anti-free traders in the U.S. Congress and Venezuelan president Hugo Chávez. In order to make an informed choice about joining CAFTA, voters in Costa Rica need to learn the truth behind the rhetoric.

Misinformation Campaign. The massive campaign against CAFTA is captured in the lead sentence of a *New York Times* story about the upcoming referendum: “More than 100,000 Costa Ricans, some dressed as skeletons, protested a United States trade pact on Sunday that they said would flood their country with cheap farm goods and cause job losses.”¹ The *Times* article, like many others, overlooks Hugo Chávez's role in orchestrating and financing the anti-CAFTA movement. The campaign is a part of his broader effort to harm the United States and increase his own political power in the region, via his “ALBA” socialist trade scheme, a Latin American echo of the Soviet-era Council for Mutual Economic Assistance (COMECON) that the Soviet Union used to control its Eastern European satellites.²

Fortunately, other journalists have uncovered this story. Mary Anastasia O'Grady in *The Wall Street Journal* correctly linked the anti-CAFTA campaign that “has been marked by violence and intim-

idation” to its true intellectual authors: Fidel Castro and Hugo Chávez. If CAFTA is defeated on Sunday, “it will be a victory for...Chávez, who is trying to drive a wedge between Latin America and the U.S. and help Iran put down roots in America's backyard.”³ Chávez's authoritarian friends, notably the Chinese, would also love to see the trade agreement fail in the upcoming referendum.⁴

The opposition of Chavistas is to be expected, but the active undermining of CAFTA by leading Democrats in the U.S. Congress is surprising and disturbing. As O'Grady notes, Senator Harry Reid (D–NV) and Representatives Nancy Pelosi (D–CA), Charles Rangel (D–NY), and Sander Levin (D–MI) have all taken actions in the last few weeks that undercut CAFTA's chances with Costa Rican voters.⁵ Worse, Senator Bernie Sanders (I–VT) and Representative Mike Michaud (D–ME) traveled to Costa Rica last month to meet with local CAFTA opponents who are trying to manufacture a scandal out of a leaked memo written for pro-CAFTA Costa Rican President Oscar Arias that noted Chávez's support for the anti-CAFTA campaign.⁶ The real scandal, of course, is Chávez's anti-CAFTA rabble-rousing. Official Venezuelan government Web sites and other leftist Web sites

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connected with the Chávez regime brim with articles opposing the agreement.⁷

Costa Ricans Will Benefit from CAFTA. Of all the CAFTA signatories, Costa Rica is the only country that has not yet implemented it.⁸ Costa Rica has one of the more robust economies in the region, which may explain why many Costa Ricans are complacent and think that freer trade with the U.S. and other CAFTA partners is not so important to the country's longer-term economic success. Nothing could be further from the truth.

Lower tariffs and improved market access for both exports and imports under CAFTA will promote Costa Rica's competitiveness. Lower tariffs give exporters a price advantage that will help them sell more to other CAFTA members and enable importers to buy more cheaply, lowering the cost of doing business.

CAFTA promotes investment and opens inefficient service-sector monopolies to the rigors of competition. Greater investment and competition help promote productivity growth, more efficient resource use, and long-term economic growth. Other benefits of the agreement include greater regulatory transparency, the elimination of excessive red tape, better enforcement of property rights, curbs on corrupt practices, protection for labor rights, and stronger

environmental protections. Altogether, these will advance economic prosperity in Costa Rica.⁹

If Costa Ricans opt out of CAFTA, their country will forgo these benefits and face stiffer competition in global markets for goods, services, and capital from neighboring countries that have signed on. Moreover, Costa Rica may eventually lose its current preferential access to U.S. markets, via the Caribbean Basin Initiative, if its voters turn down CAFTA.

It is understandable that Costa Rica's powerful public-sector unions oppose CAFTA; it might force them to work more efficiently. Anti-CAFTA activists have made misleading arguments that resonate with another important group in Costa Rica—small-scale rice and dairy farmers who produce mainly for the domestic market. The Chavistas have conjured up the spectacle of a tidal wave of “subsidized U.S. agricultural commodities” that will wipe out small farmers.¹⁰ CAFTA, they claim, will “expose the poor countries to competition from the United States but offer them little in return.”¹¹ A recent study by economists at the University of California at Davis, however, found just the opposite:

[I]n most cases, the trade agreement will actually *improve* the welfare of the rural poor in developing countries. The study finds that although rural incomes will likely decline as

1. Reuters, “U.S. Trade Pact Is Protested in Costa Rica,” *The New York Times*, October 1, 2007, at www.nytimes.com/2007/10/01/world/americas/01costarica.html.
2. Ben Goldby, “The rise and rise of Russian energy giant,” *Birmingham Post* (UK), May 2, 2006.
3. Mary Anastasia O’Grady, “Democrats vs. Central America,” *The Wall Street Journal*, October 1, 2007.
4. Forrest Laws, “U.S. Negotiator Says: China Would Like DR-CAFTA to Fail,” *Delta Farm Press*, June 10, 2005.
5. Mary Anastasia O’Grady, “Democrats vs. Central America.”
6. “Costa Rican Memo Prompts Investigation Into CAFTA Campaign,” *Inside U.S. Trade*, September 14, 2007.
7. See, e.g., Martha Lauer, “CAFTA’s October Referendum: A Death Sentence for Costa Rican Trade & Foreign Investment?” Council on Hemispheric Affairs, August 14, 2007, at www.coha.org/category/costa-rica.
8. The CAFTA partners include Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. The United States ratified the DR-CAFTA treaty on August 2, 2005; El Salvador on March 1, 2006; Honduras and Nicaragua on April 1, 2006; Guatemala on July 1, 2006; and the Dominican Republic on March 1, 2007.
9. The World Bank, “DR-CAFTA: Challenges and Opportunities for Central America: CAFTA Will Boost Trade and Investment, Helping Reduce Poverty in Central America,” June 28, 2005, at <http://lnweb18.worldbank.org/LAC/LAC.nsf/ECADochyUnid/EF19E9E2E78A00458525702D006D0E7E?>
10. Marla Dickerson, “Costa Rica Dealt Wild Card in Trade Pact Rift: Government Officials’ Letter Urging Dirty Tricks to Sway Voters to Vack an Agreement Could Vackfire,” *Los Angeles Times*, September 21, 2007, at www.latimes.com/business/printedition/la-fi-cafta21sep21,1,5655967.story?coll=la-headlines-pe-business.
11. *Ibid.*

protective tariffs are phased out over the next 20 years, food prices in those countries will drop enough to more than make up the difference. The typical rural household in CAFTA countries devotes a substantial chunk of its earnings to buying basic food items, and import tariffs (some as high as 154 percent) inflate their cost. As a result, the authors find, “lower food prices would mitigate and, in most cases, reverse the negative effect that lower incomes would have on rural welfare.”¹²

Conclusion. Costa Rica should implement economic policies that promote long-term growth and economic opportunity. CAFTA would improve Costa Rica’s living standards and bolster the region’s stand against the machinations of Hugo Chávez.

Bush Administration officials can help by stepping up their campaign to educate Costa Rican voters about the benefits CAFTA will bring to their country, benefits already enjoyed by their Central American neighbors. In addition, Members of Congress should rethink their opposition to job-creating free trade agreements like CAFTA that benefit U.S. citizens and the citizens of foreign allies alike and provide the best bulwark against would-be totalitarians and dictators like Hugo Chávez.

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12. J. Edward Taylor, Antonio Yunez Naude, and Nancy Jesurun-Clements, “Does Agricultural Liberalization Reduce Rural Welfare in Less Developed Countries? The Case of CAFTA,” Department of Agricultural and Resource Economics, University of California, Davis, January 2007, at www.agecon.ucdavis.edu/ARELibrary/WP/07-001.pdf.