

Financial Times
June 10, 2005

Cafta Countdown: Moderate Democrats Must Show Their Support for Free Trade

The clock is ticking on Cafta. In a few days' time committees in Congress will draw up legislation to implement the Central America Free Trade Agreement. George W. Bush, US president, wants Congress to approve the deal before the July 4 recess. But it is far from clear that he has the support he needs to bring it to a successful vote.

The majority of Republicans in both houses support the trade deal. But most Democrats in the House of Representatives look set to vote against it on populist protectionist grounds. They should think again. Cafta is manifestly in the US national interest.

The trade deal would give US exporters duty free access to countries that already enjoy duty free access to the US for 80 per cent of their products under pre-existing schemes. Globally competitive US producers in a wide range of industrial and agricultural sectors will benefit, as well as US consumers. Farm exports should rise by up to Dollars 1.5bn a year.

Even more importantly, Cafta would help to stabilise a fragile region in which the US has important strategic interests. Nicaragua, Honduras, Guatemala and El Salvador have made huge progress from the days of civil war, communist revolutionaries and rightwing death squads. But they remain poor and vulnerable.

The regional economy is enduring a severe economic shock as competition from China threatens its biggest industry: textiles, which employs about 400,000 people. Cafta is an imperfect response; it risks sustaining uncompetitive producers. But it will help Central America cope by locking in market access and regulatory reform, and spurring greater regional integration.

Passing Cafta would send a signal to the world that the US is still willing to make the tough choices needed to advance trade liberalisation. Failure would undermine US leadership in Doha round trade talks. If the US cannot ratify an agreement, why should others offer politically sensitive concessions at all?

Opponents of Cafta - an unholy alliance of sugar barons, clothing manufacturers and anti-free trade unions - have not produced a credible argument against it. Cafta will not destroy the US sugar subsidy system (more's the pity.) But a modest precedent for future liberalisation is great news for US consumers and food manufacturers.

The textile industry has little to fear. These countries have duty free access already. They compete with Mexico and China, not US producers. Any loss to clothing manufacturers should be offset by gains to US fabric producers.

On labour, the International Labour Organisation says the main problem is enforcing existing labour laws, not the laws themselves. Until very recently the Bush administration talked about enforcement, but offered very little money to build enforcement capacity. Now Robert Portman, the US trade representative, has acknowledged the funding issue. Centrist Democrats should strike a deal and back the vote.