



2004 USAID Summer Seminar Series

September 7: Trade Capacity Building in Central America

Organizer: William Brands, LAC

Synopsis

USAID has worked in coordination with other U.S. Government Free Trade Agreement (CAFTA) negotiations and to improve trade capacity in Central American countries. Central to the process was the CAFTA Trade Capacity Building (TCB) Working Group. The Working Group helped Central American countries mobilize donor, private sector, and nonprofit support to address priority TCB needs, to identify countries' national TCB strategies on preparing for trade negotiations, implementing trade agreements, and transitioning to free trade.

In this session, a panel will review this experience with an emphasis on the kinds of assistance mobilized during this process, especially with reference to improving the trade policy consultative process, addressing key capacity building needs in regulatory areas such as customs and sanitary measures, and fostering trade-led rural diversification and small business development.

Notes

William Brands, Political Economy Policy Analyst, LAC

William Brands, Team Leader for the Economic Growth Office in the Latin American Caribbean Bureau painted a picture of the structure and communication within the Trade Capacity Building Working Group. Carlos Torres, of the Carana Corporation and Chief of Party for USAID's Rapid Response Mechanism supporting the trade process in Central America, highlighted some important efforts surrounding civil society outreach during the Central American Free Trade Agreement (CAFTA) process. During the CAFTA negotiations, Aler Grubbs was essentially the Secretariat for USAID for the Central American countries in the negotiations and is currently the Desk Officer for Bolivia and Argentina. She covered examples of USAID trade capacity building assistance during the CAFTA negotiations.

The purpose of the seminar was to demonstrate the importance of trade and aid working together, as trade has oftentimes been looked upon more favorably for development than has aid.

Developing countries raised their voices at the Doha Round in 2001 desiring a more active role in the global economy. According to Brands, they identified the need for donors to help them improve their negotiating approaches and successfully implement trade agreements. They also recognized the need for transition within their economies to be better receptive to these agreements.

Tying assistance to trade negotiations presents new challenges for USAID. However, increasing trade and investment in the Western Hemisphere is the greatest priority for the Latin America and Caribbean Bureau, a priority that is echoed by the Administrator and Assistant Administrator. Brands also mentioned the Free Trade Area for the Americas (FTAA), a goal espoused by all of the leaders of the Western Hemisphere for the last 10 years. USAID's direct involvement in trade negotiations has

1. fostered relationships between USAID and other government agencies,
2. brought program agencies together with policy agencies, and
3. necessitated development agencies to craft mechanisms that are responsive to the trade process.

Integrating USAID and development goals into international trade negotiations has not happened without some struggle. For instance, USAID's long-term outlook had to be married with USTR's more short-term planning framework. In addition, though USAID sought to even out the trade playing field between developed and developing countries, they had to beware of potential conflicts that could be engendered by a U.S. agency—USAID—essentially rooting for the 'opposite team' by facilitating trade negotiations for developing countries against the U.S.

Bringing development goals into the international trade arena also increased the need for cooperation with intergovernmental organizations, like the Inter-American Development Bank, and augmented the need for information dissemination to and feedback from civil society.

In response to Doha, USAID worked with other agencies and multilateral organizations to develop a format for developing countries to plan their own national strategies for trade capacity building. There were three 'legs' to their strategies:

1. identify how donors could help them prepare for negotiations
2. identify how donors could help them implement trade agreements
3. help economies transition to a more liberalized, competitive economy.

These trade capacity building strategies formed the basis of countries' requests for assistance.

The Trade Capacity Building Working Group, including representatives of U.S. government, NGO's, and other organizations seeking to develop trade capacity, was established to work hand-in-hand with the other negotiating groups during the 2003 Central America Free Trade Agreement (CAFTA) negotiations. Throughout 2003 the U.S. held nine negotiating rounds with five Central American countries and three additional rounds in 2004 with the Dominican Republic. At each of the rounds, the Trade Capacity Building Working Group met and discussed the TCB needs of these countries.

The group's participants included the Office of the U.S. Trade Representative (USTR), USAID Washington and overseas offices, U.S. Department of Agriculture, U.S. Trade and Development Agency, and Department of Commerce, as well as multilateral organizations such as the Inter-American Development Bank, the Organization of American States, the U.N. Economic Commission for Latin America and the Caribbean, and the Central American Bank for Economic Integration. Representatives worked with the Central American representatives and with other negotiating groups to discuss trade capacity needs and increase donor responsiveness to those needs.

The Trade Capacity Building Working Group worked to increase the involvement of higher-level officials of each respective country in trade capacity building discussions, and improved dialogue among U.S. and Central American agencies. Washington USAID offices and the regional Central America USAID mission focused resources more in the near and medium term needs around preparing for negotiations and implementing the CAFTA agreement; bilateral USAID missions focused resources more on the longer-term areas related to trade capacity, such as rural diversification.

CAFTA--Civil Society Outreach and Key Lessons Learned, Carlos Torres

Carlos Torres introduced the unprecedented Civil Society Outreach (CSO) program implemented during the CAFTA negotiations in 2003. It was the largest ever civil society outreach effort in Central America. The USAID program, through Carana's program, supported a great deal of this effort; additionally, the Central American governments themselves carried out a great deal of this effort with their own resources. The Program worked to ensure the legitimacy of the negotiation through the inclusion of NGOs, labor, environmental groups, and others in the negotiating process. It also sought to reinforce democratic values, by increasing transparency through dialogue with civil society, and to provide feedback for government negotiators.

The CSO Program's (supported by USAID) key strategies included placing and keeping the FTA on the public agenda, taking seriously the feedback from civil society, working to establish the positive country outcomes of FTA, and building alliances with FTA supporters to combat an active, organized opposition.

Torres pointed out several conditions on which the program's success depended including government and negotiating team credibility, a capable media, and early inclusion of the legislative body in the negotiating process. The program used two methodologies of implementation—first, information dissemination through an Internet site, publications, and a public liaison (with a 1-800 number that civil society could call and receive a response), and second, feedback mechanisms, such as a Civil Society Consultative Group and submission of position papers.

Each of the five Central American countries took part in the CAFTA–CSO efforts. A region-wide glance at program efforts shows that more than 1,350 seminars and forums were held, with more than 10,000 participants and strong media presence. Torres mentioned that during breaks in the negotiations, civil society was able to approach negotiators for discussion.

In addition, the CSO programs followed a comprehensive framework that entailed direct consultation meetings and discussions with productive sectors, NGOs, academics, and members of the Legislative Assembly. A 'CAFTA Civil Society Inventory' was established which consisted of hundreds of document meetings with key NGOs, business, and academics. The inventory gave proponents of FTA an opportunity to analyze criticisms and attempt to address them.

Torres presented evidence from a case study of Costa Rica's CSO program (CSOP) in 2003. The main attributes from this study are that (1) Costa Rica published its CSOP strategy early on, (2) Costa Rica held more than 450 meetings with civil society organizations, and (3) it involved COMEX (the Costa Rican Ministry of Commerce) and high level officials in meetings. The Costa Rican experience demonstrated that CSO programs must enjoy the direct support of high-level officials, that the dialogue must be objective, and that the trade negotiating team must be accessible to all parties.

Torres concluded by reminding potential CSO leaders that a CSO program requires many human and financial resources and that documentation is critical for maintaining transparency.

USAID Trade Capacity Building in the Central America Free Trade Agreement, Aler Grubbs

Aler Grubbs briefly described the three “legs” of the trade capacity building (TCB) stool: preparation for negotiations, implementation of trade commitments, and maximizing trade opportunities. Examples of USAID assistance for preparation for negotiations include training in trade topics, assistance with the organization, staffing and equipment of the government’s trade unit, and statistics on trade flows and products.

USAID provided assistance with CAFTA implementation focusing on CAFTA chapters that dealt with customs, sanitary and phytosanitary measures (SPS), intellectual property rights (IPR), and technical barriers to trade (TBT). The final text on CAFTA is available on the USTR web site at http://www.ustr.gov/Trade_Agreements/Bilateral/DR-CAFTA/Section_Index.html. CAFTA brought forth the need for a new system of cooperation and coordination amongst USAID with the U.S. regulatory agencies and Central American governments.. In order to achieve adequate implementation of CAFTA agreements, U.S. and Central American governments had to coordinate efforts of pertinent regulatory agencies, such as USAID’s close coordination with USTR and USDA, and with the Central American ministry of trade and technical experts.

With respect to the CAFTA customs provisions, USAID worked with USTR to design an action plan to address the transition steps the Central Americans will take. This action plan also laid out areas where other donors, such as the Inter-American Development Bank, could coordinate assistance. To aid in the carrying out of SPS mandates in CAFTA, the CAFTA SPS Working Group and TCB Working Group worked closely to coordinate the assistance programs with the technical and regulatory experts. Finally, USAID works to maximize opportunities of trade through programs on small business development, competitiveness, and rural diversification.

Brands ended the Seminar with the following observations. The TCB working group was one part in the great efforts to come to a successful completion of the CAFTA negotiations. It increased dialogue in trade capacity building, supported a more focused approach to trade development assistance, and increased trade-related resources (both government and private). The CAFTA TCB experience furthered the efficient use of development assistance by providing frameworks for the effective integration of trade agreements, rules of the game, and more—all of which helps to improve important aspects, such as anti-corruption and transparency, in the democratic process anti-corruption.

Question and Answer Session

Now, with legislation still pending both in the U.S. and in Central America, are the trade agreements and negotiations beginning to bear fruit or are people waiting for the legislation to be enacted? If we don’t have legislation for awhile, what happens to this momentum?

Torres: We’re currently doing some work helping the government of El Salvador to strengthen their legislation. For example, we’ve been working with the Ministry of the Environment to help strengthen environmental legislation. With or without CAFTA, it’s beneficial because you’re helping the government implement laws. In other countries, USAID is already working on ‘the third leg’—taking advantage of free trade. If legislation is delayed, I don’t think that’s key issue at this point. They can still export to the U.S. under CDI. It does slow down the timetable for reducing U.S. tariffs from U.S. businesses. They can act now. Our job is to assist them in these programs so that they can take advantage.

I represent a USAID contracting firm called Development and Training Services. We have a great interest in the gender perspective when it comes to both going into trade agreements and their implementation. How were organizations of women included in the Civil Society Outreach program? What are some of the very specific things that are being done now to help them participate in the free trade round?

Torres: With respect to the CSO Program, Central American countries reached out to women’s organizations, including the Association of Housewives in Costa Rica. In Guatemala, there were very specific indigenous women’s groups that were educated on the trade process and their respective roles. There was an effort made to include all groups of civil society. In terms of how outreach programs are working with women, this is an ongoing thing. I’m aware of microfinance projects in which more than 80 percent of the borrowers are women. Much of the small business training in the region is specifically geared toward women. There was an empowerment survey done on the woman’s role in family, community, and how they perceived themselves. It showed that through some of the work that was being done, microfinance lending and business development services, how this had changed over a two-year period. The results were very positive.

Grubbs: With any context of USAID developing a new strategy, we carry out gender analyses to determine the ways in which our programs can best incorporate women’s development issues. For example, I mentioned the USAID/Guatemala program, AGEXPRONT. I was able to see the crafts that women’s cooperatives had produced. In Honduras, the microfinance program has a large percentage of women’s lenders. Whether it’s the CAFTA context or other development context, we’re always trying to mainstream how to bring core opportunities to women.

Carlos mentioned the success of using education and public dissemination of information to build support for the free trade agenda and cited example of Costa Rica, which has a general lack of political consensus around the trade agenda. What are some of the factors that contribute to what, despite what is an apparent rising public support, looks like a very dubious situation for its approval? CAFTA was negotiated on a short-time line, was there time to build the necessary support? Despite good analysis that was done in information dissemination, a lot of the opposition is coming from sectors, especially the agricultural sector, that still feel vulnerable. How are the governments failing to communicate

what protections are in place for those sectors? Why do you think it is that there is still a lot of vocal concerns for the impact?

Torres: The lively debate, I think, is very positive. It has stimulated the democratic process. There is a lot of concern throughout the region. I think the 12 month process was good and Costa Rica was satisfied. What you see in Costa Rica is a lot of debate going beyond CAFTA and has to do with the privatization of state monopolies. Costa Rica has done relatively little privatization and this became a debate about privatization and opening up the state monopolies. Through the surveys that I mentioned before, we know that the population has shifted. The majority of the population has begun to think that maybe liberalization is good. Much of the oppositions are lead by unions against the privatization process. There is a need to modernize resources whereby the government focuses on things it does best while allowing the private sector to do what it does best.

Whenever you introduce free trade, you have both companies and employees that are both winners and losers and employees that are displaced. What are some of the mechanisms to help cushion the adjustment period for these parties?

Torres: Much aid is being targeted toward those caught in the transition. I would like to point out that these kinds of transitions are not a new thing. Tariff barriers have been coming down, from 100 to 25 percent, in the last twenty years. This is an ongoing process, and there have been lively debates. The protective industries have lobbied heavily. Consumer groups feel that they can have better products at a lower cost. Companies are working on improving. USAID is providing technical assistance. For example, USAID currently has a pilot program in Nicaragua that works in furniture exportation. Many companies have come to terms with transition and are making changes that will promote their survival.

Grubbs: Beyond the USAID programs in these countries, some of the multilateral donors, like the Inter-American Development Bank, opened up programs for transitioning different productive sectors. In addition to that, Honduras and Nicaragua are Millennium Challenge Corporation (MCC)-eligible countries. It will be interesting to see what kinds of proposals they put forth to the MCC. USAID has been really active with the World Bank and IDB to deal with issues of rural diversification. We're trying to discuss maximizing the benefits of trade agreements to rural societies.

I work for a company that provides business development services. We currently have programs with USAID in some Central American countries. We believe that there is significant potential for us to contribute to trade capacity building efforts in the region—especially in terms of the ‘third leg’ (maximizing trade benefits and opportunities). Is there a mechanism for creating a partnership with USAID related to that ‘third leg’?

Brands: In short, yes. Most of USAID's resources are in the field. We've worked with the field during the trade negotiations to provide them with definitions and strategies—the three legs of the stool. The field controls their money and develops their own strategies. However, the strategies that the field is developing run mostly parallel to the ‘three legs’ strategy. Quite frankly, the last leg of the stool, maximizing trade benefits and opportunities, is the most important. The crux of the funding is and will continue to be through the third leg of the stool.

How did you manage any staffing insufficiencies that may have come up in governments and negotiating teams of developing countries?

Grubbs: We can't fund a government worker for another government that we are negotiating with. In Honduras, we helped the government in setting up their trade unit. We don't provide salary assistance, but we do provide technical assistance. You're point is well-taken in that we tried to help these governments as much as we could without actually funding them.

Torres: In the mid-1990s, Costa Rica, under the Ministry of Foreign Commerce, organized a semi-autonomous institution which brought in the Free Zone Corporation (which is the government entity that licenses free zones) and the Export Processing Centers (which processes all import permits). These entities were originally set up in the 1980's actually make money from the revenue of export and import permits, as well as free zone permits (which adds up to millions per year). Through the revenues generated by these fees, the government has resources that they can apply to negotiations. For example, that's how Costa Rica paid for the CAFTA negotiations. Governments should engage in mechanisms like this one to increase their resources for trade negotiations.