The North American Free Trade Agreement (NAFTA): Its Implications for the United States and Central America

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Author's Note

This special report on NAFTA is designed to provide readers with a general overview of the Agreement and its effects on the United States and Central America. It is not an in-depth, analytical report. Instead, it reviews the major issues regarding NAFTA which have been discussed in U.S. and Central American literature, as well as among government and business leaders. In addition to U.S.-based sources, the report includes a review of Central American sources to provide the Central American perspective on NAFTA. The report is not exhaustive in its examination of NAFTA provisions, nor does it examine the implications of NAFTA for Canada or Mexico. The purpose of the report is to generate interest and discussion of the North American Free Trade Agreement. For those who would like more information on NAFTA, a selected bibliography is provided at the end of the document.

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Introduction

The approval of the North American Free Trade Agreement (NAFTA) by the United States Congress in November 1993 marks the end of a long negotiating period between Canada, Mexico, and the United States. NAFTA generated much debate in the United States, as proponents and opponents of NAFTA disagreed about the benefits of increased trade with Mexico. The Agreement has also generated much interest in Latin America, especially Central America, since the United States is looking toward expanding the free trade zone to the rest of the hemisphere.

This report examines the effects of NAFTA on both the United States and Central America. The first section provides an overview of the major provisions of the agreement, and the second section briefly examines the pros and cons of NAFTA for the United States. The third part analyzes the implications of NAFTA for Central America, focusing specifically on the Central American perspective. While Central Americans have supported the Agreement, many government and business leaders have voiced concerns that NAFTA may negatively affect their economies. The report concludes that NAFTA presents opportunities for both the U.S. and Central America.

Overview of NAFTA

On August 12, 1992, Canada, Mexico, and the United States completed negotiations on the North American Free Trade Agreement. The Agreement was subject to domestic approval procedures in each country, and in the United States it faced the most opposition. The U.S. Congress passed NAFTA, however, and it went into effect on January 1, 1994. NAFTA establishes a free trade area between Canada, Mexico, and the United States, consistent with the General Agreement on Tariffs and Trade (GATT). The basic objectives of the Agreement are to eliminate barriers to trade; promote conditions of fair competition; increase investment opportunities; provide adequate protection for intellectual property rights; establish procedures for the implementation and application of the Agreement and for the resolution of disputes; and further trilateral, regional, and multilateral cooperation (Governments of Canada, the United Mexican States, and the United States, 1992:1). The following section, while not exhaustive, provides an overview of some of the areas covered under NAFTA.

One of the major provisions of the Agreement is the elimination of tariffs on goods originating in Canada, Mexico, and the United States over a transition period. For most goods, tariffs will be eliminated either immediately or phased out in five or ten years. For sensitive products, the time-frame is 15 years. In regard to textiles and apparel, the three countries will eliminate immediately or phase out over a maximum period of 10 years their customs duties on textile and apparel goods manufactured in North America that meet the NAFTA rules of origin. For most products, the rule of origin is "yarn forward." In other words, textile and apparel goods must be produced from the yarn made in a NAFTA country in order to benefit from NAFTA treatment (Governments of Canada et al., 1992:7). In addition, the United States will immediately eliminate import quotas on these goods produced in Mexico, and will gradually phase out import quotas on Mexican textile and apparel goods that do not meet such rules.

In the automotive sector, NAFTA will eliminate barriers to trade in North American automobiles, trucks, buses, and parts, as well as eliminate investment restrictions, over a 10-year transition period. Mexico will cut tariffs on autos by 50 percent over 10 years. However, certain rules of origin also apply to products in this sector, and automotive goods must contain a specified percentage of North American content (Governments of Canada et al., 1992:8). NAFTA also creates a special intergovernmental group to review and make recommendations on federal automotive standards in the three countries, including recommendations to "achieve greater compatibility in such standards" (Governments of Canada et al., 1992:10).

Energy and basic petrochemicals, another sector covered in NAFTA, includes crude oil, gas, refined products, basic petrochemicals, coal, electricity, and nuclear energy. Under NAFTA, a country may not impose minimum or maximum import or export price requirements. In addition, no country can impose a tax, duty, or charge on the export of energy or basic petrochemical goods unless the same tax, duty, or charge is applied to goods consumed domestically (Governments of Canada et al., 1992:11). In regard to investment, NAFTA opens up the Mexican energy sector to U.S. and Canadian firms. However, Mexico's state-owned oil company, Pemex, will continue to retain its monopoly on the exploration and sale of oil ("NAFTA," 1993:52A).

One of the most debated and sensitive areas of the Agreement is the agricultural sector. Separate "bilateral undertakings" were established within NAFTA on cross-border trade in agricultural products: one between Canada and Mexico, and the other between Mexico and the United States (Governments of Canada et al., 1992:12-14). Canada and Mexico will eliminate all tariff and non-tariff barriers to agricultural trade, with the exception of dairy, poultry, eggs, and sugar. The two countries will eliminate immediately or phase out within five years tariffs on many fruit and vegetable products, while tariffs on remaining fruit and vegetable products will be phased out over 10 years. Canada will also exempt Mexico from import restrictions on wheat, barley and their products, beef and veal, and margarine.

In regard to trade between Mexico and the United States, these two countries will immediately eliminate all non-tariff barriers to agricultural trade, converting these to either "tariff-rate quotas" (TRQ) or ordinary tariffs. Under the tariff-rate quota system, no tariffs will be imposed on imports within the quota amount, and the over-quota duty will be progressively reduced over 10 to 15 years. Also, Mexico and the U.S. will immediately eliminate tariffs on a broad range of agricultural products. All tariff barriers between them will be eliminated no later than 10 years after the Agreement takes effect, with the exception of some sensitive products, including corn and dry beans for Mexico, and orange juice and sugar for the U.S. Tariffs will be phased out on these products after five more years. In regard to sugar, Mexico and the U.S. will gradually eliminate restrictions on bilateral trade over a 15 year period. Both countries will also apply equal tariff rate quotas on sugar from third countries by the sixth year. In addition, there is a special safeguard feature in the agricultural sector which allows a NAFTA country to impose duties (at the pre-NAFTA level) when imports of products from the other country reach "trigger" levels set out in the Agreement. This provision applies to certain products in the bilateral undertakings (Governments of Canada et al., 1992:13).

NAFTA covers trade in services as well, and an important component of the Agreement is the establishment of a national treatment rule, which is normally applied to goods. Under this rule, each NAFTA country must treat service providers of the other NAFTA countries no less favorably then it treats its own service providers (Governments of Canada et al., 1992:24). And beginning two years after implementation of the agreement, a NAFTA country must remove any citizenship or permanent residency requirement for the licensing and certification of professional service providers in its territory. This provision will promote greater cross-border sales of services ("Major Provisions," 1993:7). There are exceptions to trade in services, however. These rules do not apply to a number of areas, including government procurement, subsidies, financial services, and energy-related services. Also exempt are most air services, basic telecommunications, social services provided by the government, and the maritime industry. In regard to financial services, NAFTA provides national treatment to banking, insurance, and securities operations, as well as other types of financial services. Mexico will permit financial firms of another NAFTA country to establish financial institutions in Mexico, subject to limits on market shares. These restrictions must be lifted by the year 2000 (Governments of Canada et al., 1992:34). After that, temporary safeguard provisions may apply to the banking and securities sectors. The U.S. will not significantly change its current regulations for foreign banks and financial firms ("NAFTA," 1993:42A).

NAFTA sets out provisions allowing for the movement of business persons across NAFTA borders. The Agreement does not, however, create a common market for the free movement of labor (Governments of Canada et al., 1992:38). Each country still has the right to implement its own immigration policies and to protect the security of its borders. Under NAFTA, each country will grant temporary entry to the following four categories of business persons: 1) business visitors, 2) traders and investors, 3) intra-company transferees, and 4) certain categories of professionals (Governments of Canada et al., 1992:38).

NAFTA also eliminates many barriers to investment (Governments of Canada et al., 1992:30). According to the Agreement, Canada, Mexico, and the United States must guarantee national treatment for NAFTA investors; in other words, each country must treat NAFTA investors no less favorably than its own investors. The Agreement also prohibits NAFTA countries from imposing "performance requirements" on investments, such as requiring specified export levels or minimum domestic content. The investment provisions also include commitments and exceptions on a country-specific basis. For example, some exceptions take into account the fact that the Mexican constitution reserves certain activities to the Mexican State (Governments of Canada et al., 1992:31).

Intellectual property rights are protected under NAFTA, including copyrights, patents, trademarks, plant breeders' rights, industrial designs, trade secrets, integrated circuits, and geographical indications (Governments of Canada et al., 1992:36). Under copyrights, the Agreement covers the protection of computer programs, databases, and sound recordings. The Agreement provides for the enforcement of intellectual property rights and contains provisions regarding damages, injunctive relief, and general due process issues. It also allows for the enforcement of intellectual property rights at the border, including safeguards to prevent abuse (Governments of Canada et al., 1992:37).

There are certain safeguard features within NAFTA which allow a NAFTA country to take actions to protect industries which are negatively affected by an increase in imports. A NAFTA country may temporarily suspend the agreed duty elimination or re-establish the pre-NAFTA tariff if it feels that a domestic industry is threatened (Governments of Canada et al., 1992:19). However, a safeguard action can only be taken once, and for a maximum period of three years. A country may continue the safeguard action in a fourth year if the good is extremely sensitive. In addition, when a NAFTA country takes a safeguard action on a global or multilateral level, each NAFTA partner must be excluded unless its exports account for a "substantial share of total imports of the good" or contribute significantly to the injury (Governments of Canada et al., 1992:19).

NAFTA will be implemented by a Trade Commission consisting of ministers or cabinet-level officials of each country, and a Secretariat which serves the Commission. Among the responsibilities of the Commission is the settlement of disputes. If a dispute cannot be settled by the Commission, it will be heard by a NAFTA panel. The Agreement also makes provisions for any other country or group of countries to be admitted into NAFTA if the NAFTA countries agree, and accession is subject to domestic approval procedures in each NAFTA country. Amendments can be made to the Agreement, and any country may withdraw from the Agreement on six-months' notice.

When U.S. President Bill Clinton took office, supplemental agreements were negotiated in the following areas: environment, workers' rights, environmental infrastructure in the U.S-Mexican border area, import surges, and access to courts and due process. The environmental side agreement establishes a Commission for Environmental Cooperation which is responsible for promoting cooperation, exchange of information, and monitoring (Reeves, 1993:2). Each country has the right to establish its own environmental laws, and the countries also agreed to enforce them. An interesting component of the environmental agreement is that trade sanctions may be levied against a country for environmental reasons (Reeves, 1993:3). The labor agreement strengthens cooperation among the NAFTA parties in labor issues and obligates NAFTA parties to ensure the enforcement of domestic labor laws. In addition, a Commission is set up to implement the agreement (Governments of Canada et al., 1993c).

The agreement on import surges establishes a working group on emergency action, comprised of representatives from each country. The working group is responsible for helping to monitor any increase in imports which could threaten an industry, and reviewing how well NAFTA safeguard provisions are working (Governments of Canada et al., 1993a and 1993d). In regard to funding environmental infrastructure projects, the U.S. and Mexico agreed that there is a need to cooperate and fund these projects in the border area, as well as collaborate with state and local communities and governments, and non-governmental organizations, in developing solutions. The two countries recognized the need for substantial financial resources over the next decade from both public and private sources (Governments of the United Mexican States and the United States of America, 1993). The NAFTA countries also confirmed their commitment to providing their citizens with access to fair, transparent, and equitable court proceedings, and to enforcing their country's environmental and labor laws.

What is significant about these side agreements is that for the first time, an environmental and a labor agreement accompany and build on a trade agreement. As one author puts it, the side agreements represent a "major breakthrough in trade negotiations" (Reeves, 1993:5). These side agreements form part of the "NAFTA package" (Hudson and Prudencio, 1993:1) and went into effect, together with the basic NAFTA Agreement, on January 1, 1994.

Implications of NAFTA for the United States

The North American Free Trade Agreement breaks down barriers to trade and opens up investment opportunities for Canada, Mexico, and the United States. In the United States, opponents of NAFTA argued that U.S. jobs would be lost as a result of the Agreement, and supporters claimed that the benefits of NAFTA would outweigh the costs. This section briefly examines these and other arguments regarding the effects of NAFTA on the United States. The section relies heavily on a document entitled, *NAFTA Summit: Beyond Party Politics*. A conference was held on June 28 and 29, 1993 in Washington, D.C., which brought together academicians, including economists and experts on Mexican affairs, to discuss the implications of NAFTA. The papers produced at the conference provide an excellent framework for analysis of the effects of NAFTA because of the variety of opinions expressed.

The main argument against NAFTA is that U.S. jobs and wages are threatened, since Americans will be unable to compete with cheap labor in Mexico. Also, U.S. firms will move their operations across the border. Ross Perot, who has led the debate against NAFTA in the U.S., argued that NAFTA would cause a huge "sucking sound" as U.S. businesses moved their plants to Mexico. In addition, he claimed that wages would rise in Mexico as a result of NAFTA, but would fall in the U.S. (Reynolds, 1993:107). In the document from the NAFTA Summit Conference, one author argues that the benefits of NAFTA will mainly go to U.S. investors in Mexico and to some in the workforce with high incomes. Those threatened are people in low and medium-skilled jobs in such industries as automotive, electrical machinery, trucking, agriculture, apparel, food processing, furniture, glass and cement, toys, and sporting goods (Faux, 1993:29). He also points out that NAFTA will affect the long-term living standards of the majority of U.S. workers. Their real incomes will decrease because they will have to compete with the Mexican labor force "where wages are kept low by deliberate government policies" (Faux, 1993:29).

Another argument is that the Agreement as it stands is detrimental to workers and communities in the countries involved because it is not comprehensive enough (Blecker, 1993:10). An article included in the NAFTA Summit document states that the U.S. should not sign NAFTA, but should start again from scratch and enter into a new "process of negotiation with Mexico." This negotiation should include such issues as debt, migration, social infrastructure, law enforcement, political liberalization, corruption, labor standards, worker rights, environmental protection, and reducing trade and investment barriers (Blecker, 1993:10). In regard to environmental concerns, some have also opposed the agreement and claim that: 1) free trade will stimulate economic growth, thus causing environmental damage; 2) Mexico will become a haven for pollution because of the lack of adequate environmental regulations and lack of enforcement of those regulations; and 3) border pollution will increase (Anderson, 1993:1).

Proponents of NAFTA state that free trade will benefit the U.S. by creating jobs. One author argues that the benefits "dramatically" outweigh the costs, and that the "pact is skewed in America's favor" (Orme, 1993:11). Another claims that NAFTA will benefit the service sector because U.S. trade with Mexico in this sector is expected to increase (Kaufman, 1993:71). For example, Mexico's financial services sector will be open to foreign investment under NAFTA. The author also argues that NAFTA is expected to create many more jobs than it will cost, and in regard to job losses, these would hit unskilled workers the most (Kaufman, 1993:72). It is interesting to note the differences in opinion regarding the steps that the U.S. should take to deal with these losses. Ross Perot's camp argues for protectionist policies to safeguard workers. Others argue that the U.S. cannot set up trade barriers, but must face the reality of a global competitive economy. In other words, the U.S. should educate and re-train these workers so that they can move into the new jobs created by free trade, such as jobs in the service sector (Kaufman, 1993:73; Krueger, 1993:76; Lustig, 1993:89; Shapiro, 1993:125).

While many claim that NAFTA will benefit the U.S. economy, some argue that the Agreement will not have a significant impact, thus challenging the view that the U.S. will experience huge job losses (Brown, 1993:16; Lawrence, 1993:81; Lustig, 1993:91; Stern, 1993:141). Among the reasons cited is that U.S. trade with Mexico only represents a small percentage of total U.S. trade. In addition, Mexico is too small to affect the U.S. economy in a significant way. Another reason is that Mexico has already opened up its markets to the U.S., and NAFTA only represents a continuation of that trend. One author points out, for example, that the trade barriers between the NAFTA countries are already low. Trade will expand once the remaining tariffs and barriers are lifted, but the expansion due to NAFTA will be small compared to what has already occurred since the mid-1980s

(Stern, 1993:142). And a study by the U.S. Congressional Budget Office concludes that NAFTA would have a positive but small impact on jobs ("Report," 1993:118). It points out that jobs would grow in such sectors as industrial machinery and decrease in others, such as apparel.

Another argument in favor of NAFTA is that the Agreement will increase U.S. competitiveness vis-à-vis Asia and Europe. An important characteristic of NAFTA is that it represents the world's largest market in terms of number of people and annual production (Lewis, 1991:102). Some also claim that NAFTA could increase the international competitiveness of U.S. manufacturers. Apparel manufacturers, for example, can take advantage of low-wage, unskilled workers in Mexico and thus increase their productivity. This strategy would allow the U.S. to keep the higher-skilled tasks of garment assembly in the U.S., thereby helping U.S. firms survive and compete with other countries, such as Southeast Asia (Brown, 1993:16; Lawrence, 1993:84). In addition, a study published by the U.S. International Trade Commission points out that a free trade agreement with Mexico will benefit the U.S. economy by expanding trade opportunities, lowering prices, increasing competition, and allowing U.S. firms to take advantage of economies of scale (Lewis, 1991:103). According to the U.S. perspective, the Agreement is also significant because it involves reciprocity, and it is different from many past agreements between the U.S. and Latin America. The Caribbean Basin Initiative (CBI)[1], for example, is based on the principal that developing countries should receive preferential treatment from industrialized countries. In the NAFTA agreement, all parties must reduce barriers to trade.

In addition to the trade benefits of NAFTA, the Agreement is also important in that it strengthens U.S. relations with Mexico, and may lead to closer economic and political cooperation between the U.S. and Latin America. A participant at the NAFTA Summit Conference, for example, views NAFTA as an important tool for building effective cooperation between the U.S. and Latin America. He describes NAFTA as a "crucial test of the United States interest in forging long-term, constructive ties with Latin America" (Hakim, 1993:53). He also points out that NAFTA is just the first step toward "broader hemispheric economic integration." Others argue that NAFTA has important implications for U.S. foreign policy (Baer, 1993:5; Dornbusch, 1993:21; Fishlow, 1993:39; Krugman, 1993:19). For instance, it will facilitate U.S. cooperation with Mexico on issues other than trade, such as the environment, immigration, and drugs (Lawrence, 1993:81). In short, some view NAFTA in these broader terms and look beyond the specifics of how much exactly the United States will gain or lose economically.

Implications of NAFTA for Central America

The signing of the North American Free Trade Agreement presents opportunities for Central America, but many government and business leaders in the region have stated that the free trade zone in North America may negatively affect the Central American and Caribbean economies. The opinion of the Costa Rican Minister of Foreign Trade, Roberto Rojas, sums up this perspective. Rojas supports NAFTA and feels that it represents "an historic landmark in trade relations," and that it would "enhance the living conditions of the people of the United States, Mexico, and Canada." However, he is concerned about its "impact over Costa Rica and the whole CBI region, particularly because of investment and trade diversion potential in certain areas where we have become most competitive" (U.S. Congress, June 7, 1993:70). The following section examines how NAFTA will affect the Central American economies, and how Central America can respond to NAFTA.

Many have argued that NAFTA will threaten the economies of Central America and the Caribbean for basically two reasons. First, Mexico will gain greater access to U.S. markets under NAFTA at the expense of the Caribbean. Exports from Central America and the Caribbean will be at a disadvantage, specifically textiles and clothing. Second, more investment will be channeled to Mexico as a result of NAFTA. A document by the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) entitled, *Preliminary Observations of the Effect of the North American Free Trade Agreement on Central America*, elaborates on these points. According to the document, Central American exports of agricultural products, as well as textiles and clothing, may be negatively affected by NAFTA (Secretaría Permanente del Tratado General de Integración Económica Centroamericana [SIECA], 1992:9-14). In the case of sugar, for example, Central America may lose competitiveness in the medium term because it will have to compete with Mexico in the North American market. Another problem is that Central American exports of sugar may face greater restrictions in the Mexican market because of Mexico's promise to bring its protection to U.S. levels (SIECA, 1992:11).

The textile and clothing sector, which represents a quarter of the region's exports to the United States, is also at risk, according to the SIECA document (SIECA, 1992:12-14). NAFTA would reduce tariffs for Mexico in this sector, thus threatening the competitiveness of Caribbean and Central American exports. Another problem is that Central America may lose investment in this sector since Mexico will attract more investment under NAFTA (SIECA, 1992:14). Furthermore, a study by the United States International Trade Commission on the effects of NAFTA on apparel investment in Caribbean countries concludes that the elimination of duties and quotas on imports from Mexico will "improve the relative cost competitiveness of Mexican producers compared with their counterparts in the Caribbean and Central America — particularly in those products with a large foreign assembly cost component" (United States International Trade Commission [USITC], July 1992:69). The report goes on to state that NAFTA "will introduce incentives that will tend to favor apparel investment shifts" from Caribbean countries to Mexico (USITC, July 1992:69).

In regard to agricultural products, the Inter-American Institute for Agricultural Cooperation (IICA) published a study on the effects of NAFTA on Central American agricultural exports to the United States (Pérez, 1992). Through quantitative analysis, the study shows that 82 percent of Central American agricultural exports to the United States in 1991 correspond to products for which Mexico currently does not face U.S. tariffs. Therefore, more than four-fifths of Central American exports will continue to compete in the same conditions with Mexican products even after NAFTA (Pérez, 1992:92). IICA also looks at eight categories of products that represent 95 percent of Central American agricultural exports to the United States and concludes that in three cases – cucumbers, pineapples, and cantaloupe melons – there is a risk that in the short term, Central American exports will be displaced by Mexican exports as a result of NAFTA (Pérez, 1992:3). And for many products for which Mexico obtained significant tariff concessions under NAFTA, and which Central America has the potential to produce, the Central American countries currently do not export (Pérez, 1992:4).

In addition, the report points to some elements of NAFTA which may affect Central American exports to the United States (Pérez, 1992:22). First, NAFTA is more secure than the Caribbean Basin Initiative. Despite the fact that the CBI is indefinite, IICA argues that it is a unilateral concession granted to Central America by the U.S. and not a binding international agreement like NAFTA. Second, NAFTA is much more comprehensive than CBI because it deals with non-tariff barriers as well. And third, Mexico may attract more investment. One of the conclusions of the document is that Central America's chances of maintaining and strengthening its position in the U.S. market in agricultural products after NAFTA depends on its ability to attract investment to improve its exports (Pérez, 1992:4).

The Federation of Private Sector Entities of Central America and Panama (FEDEPRICAP), an organization representing Central American businesses, supports NAFTA, but claims that it will "produce strong investment and trade diversion effects: investment that would have come to the region, will go instead to Mexico . . ." (Federación de Entidades Privadas de Centroamérica y Panamá [FEDEPRICAP], 1992:39). FEDEPRICAP argues that the Caribbean Basin will be "heavily impacted" by NAFTA more than any other region or country in Latin America, due to its geographical proximity to North America and the importance of existing trade and investment links (FEDEPRICAP, 1992:39).

These arguments are also echoed in a well-written article entitled, *The North American Free Trade Agreement and its Impact on the Caribbean Basin Economies* (Lewis, 1991). In it the author outlines the ways in which the implementation of NAFTA would give added advantage to Mexico over the Caribbean Basin (Lewis, 1991:105). First, the Caribbean Basin countries would lose out because Mexico would be able to export duty-free to the U.S. market the same products as Caribbean Basin countries. Second, Mexico would gain access that is permanent under NAFTA. The Caribbean Basin Initiative, on the other hand, is a unilateral accord which the U.S. Congress can change at any time. And third, Mexico will gain gradual, duty-free reductions in products which are subject to tariffs under CBI, mainly apparel and footwear, and some leather goods. And this factor, according to the article, "would provide Mexico with an added advantage in the attraction of investment, an advantage which increases over time."

Given this situation, how can Central America respond to NAFTA, and what options exits for the region? Three options that Central Americans and others have put forth include the following: 1) gaining NAFTA parity; 2) making changes and improvements in national policies to facilitate the region's accession to NAFTA; and 3) negotiating as a region. While these are not the only options available, they are the major ones which have been discussed in both the literature and among government and business leaders.

In regard to NAFTA parity, concerns about the potential impact of NAFTA on the Central American economies led to the drafting of a U.S. bill granting Central American and Caribbean Basin countries parity with Mexico in regard to NAFTA treatment. U.S. Representative Sam Gibbons and U.S. Senator Bob Graham, both Democrats from Florida, sponsored the bill entitled, the Caribbean Basin Free Trade Agreements Act (U.S. Congress, March 18, 1993; U.S. Congress, June 24, 1993). The purpose of the legislation is to ensure that the Caribbean Basin Initiative is not "adversely affected by the implementation of the North American Free Trade Agreement," and to apply "fast track" approval procedures to free trade agreements entered into between the United States and certain Caribbean Basin countries (U.S. Congress, March 18, 1993).

The NAFTA parity legislation amends the Caribbean Basin Economic Recovery Act of 1990 to provide tariff and quota treatment on imports from CBI countries of articles which are currently excluded from duty-free treatment. These include the following: textiles and apparel subject to textile agreements; footwear; handbags, luggage, flat goods, work gloves, and leather wearing apparel; canned tuna; petroleum and petroleum products; and watches and watch parts (U.S. Congress, June 7, 1993:1). The parity bill grants the Caribbean Basin countries the same tariff treatment that Mexico receives for these products under NAFTA. CBI countries would also be subject to NAFTA provisions, including its rules of origin, customs procedures, and safeguard protections. In regard to sugar, the bill would require the U.S. President to monitor the effects of NAFTA on sugar exports from Caribbean Basin countries; if exports are threatened, the President can take actions to ameliorate the injury (U.S. Congress, March 18, 1993:14).

NAFTA parity would be granted to Caribbean Basin countries during a transition period of three years. According to the legislation, the United States Trade Representative "shall determine the desirability and feasibility of" Caribbean Basin countries acceding to NAFTA and its supplemental agreements, or entering into a bilateral or multilateral agreement with the United States as soon as possible (U.S. Congress, March 18, 1993:14-15). The bill also provides for "fast track" procedures in Congressional consideration of implementing legislation for Caribbean Basin free trade agreements. In short, the NAFTA parity legislation grants immediate benefits to the Caribbean Basin, but the Caribbean Basin countries do not have to make any changes or meet the requirements of NAFTA. The bill allows for a transition period during which time the Caribbean countries can meet such requirements and accede to the Agreement.

To date, however, the NAFTA parity bill has remained stalled in the U.S. Congress, and the prospects for its passage in the near future are not good.

The Subcommittee on Trade of the Committee on Ways and Means of the U.S. House of Representatives requested written comments on the NAFTA parity bill, and these were published in June of 1993 (U.S. Congress, June 7, 1993). The publication provides a good overview of the pros and cons of the legislation as seen through the eyes of U.S. businesses, as well as Central American and Caribbean business and government officials. Among those in favor of the legislation were the Ministers of Economy and Commerce of Central America, who prepared a written statement to support the bill at the Fifth Reunion of Economic Cabinets of the Central American Hemisphere, which was held in Costa Rica on April 24, 1993 (U.S. Congress, June 7, 1993:106-108).

The document by the Permanent Secretariat of the General Treaty on Central American Economic Integration outlining the effects of NAFTA on Central America also concludes that Caribbean Basin countries should work towards gaining parity with Mexico under NAFTA, especially in such sectors as textiles and clothing (SIECA, 1992:15). The document points out that while immediate relief should be granted, the Caribbean Basin countries need more time to adhere to provisions of the Agreement in such areas as intellectual property rights, trade liberalization, and foreign investment. The Federation of Private Sector Entities of Central America and Panama also advocates for NAFTA parity. In addition, FEDEPRICAP argues that the prospect for Caribbean Basin accession to NAFTA is not feasible in the short term for three reasons. First, negotiations will take too long, especially if the U.S., Canada, and Mexico decide to give NAFTA a "test period" before allowing other countries to join. In the meantime, the Caribbean Basin will suffer the effects of trade and investment diversion. Second, other countries are also interested in joining NAFTA, thus making the negotiating period even longer. And third, not all countries in the region are ready for a full NAFTA accession, which would require major economic reforms and structural adjustments (FEDEPRICAP, 1992:39). FEDEPRICAP, therefore, supports the idea of a CBI transition bill which would grant the Caribbean Basin NAFTA parity.

Another step that Central America can take to respond to NAFTA is to make improvements which would facilitate the region's accession to the Agreement, as well as make it more competitive in the world economy. These improvements are in such areas as economic policy, infrastructure, labor laws, intellectual property rights, and the environment. Many documents elaborate on this point. For example, the SIECA document analyzing the effects of NAFTA on Central America points out that the region faces a number of challenges. While these challenges are not new, they take on a renewed "urgency" as Central America attempts to incorporate into the North American trading block (SIECA, 1991:4-5). These challenges include technological modernization, infrastructure, productivity of the work force, and equitable distribution of the wealth.

In regard to infrastructure, Gerardo Zepeda, the Deputy Secretary General of SIECA, spoke about its importance in an interview with the Mexican newswire, NOTIMEX. He said that Central America needs to modernize its land, railroad, sea, air, and telecommunications infrastructure in order to incorporate into NAFTA (Castillejos, 1993:55). According to the Guatemalan Vice Minister for Foreign Relations, Salomón Cohen, the region will have to make certain changes in order to adhere to NAFTA. These changes include the elimination of tariff and non-tariff barriers, as well as respect for intellectual property rights ("Aprobación," 1993:3).

The Federation of Private Sector Entities of Central America and Panama, in a document on Caribbean Basin development and competitiveness, lists some key elements which form part of a Caribbean strategy to incorporate into the world economy. These include free trade and more open markets, regional integration efforts, improvement in the investment climate, and competitiveness (FEDEPRICAP, 1992:43). To become more competitive, FEDEPRICAP points out that Caribbean Basin countries need to implement major policy reforms and domestic structural adjustments. They also argue that the region needs to undertake a "major effort" to improve human resources training and education, and to develop and strengthen "science and technology infrastructure" (FEDEPRICAP, 1992:43). And in an article on NAFTA's impact on the Caribbean Basin, the author points out that the trend is toward eventual free trade throughout the Americas. For this reason, all the economies of the region must begin to adjust and restructure (Lewis, 1991:107).

A third option that exits for Central America in the post-NAFTA era is to unite and form a common front in negotiations. SIECA argues that in addition to acquiring NAFTA parity, Central America needs to negotiate as a region (SIECA, 1992:15). According to the Federation of Private Sector Entities of Central America and Panama, regional integration will help the Caribbean Basin to "insert" itself into the world economy (FEDEPRICAP, 1992:43). And in an article on NAFTA's impact on the Caribbean, the author argues that "only as an integrated region will the Caribbean Basin be able to provide an attractive environment for the investment, production, and world-class quality competitiveness needed in the 21st century" (Lewis, 1991:106).

Recent events indicate that Central America has responded to NAFTA with a common voice. At the recent summit of Central American presidents held in Guatemala in October 1993, during which time the presidents signed a new treaty on economic integration, they declared their support for NAFTA. The presidents stated that NAFTA represents an important step in trade liberalization and the opening up of markets, and they stated that they would like to join NAFTA. The presidents also asked the United States not to exclude the countries in the region from the benefits enjoyed under the Generalized System of Preferences [2] and the Caribbean Basin Initiative ("Mandatarios," 1993:2).

The Central American presidents also met with U.S. President Bill Clinton on November 30, 1993, to discuss NAFTA. Guatemalan President Ramiro de Leon Carpio, who served as spokesperson for the Central American leaders, stated that Central America would like to accede to NAFTA, as well as obtain a temporary parity in regard to NAFTA benefits. He added that Central America will establish a high-level commission to begin the process of NAFTA accession (Haskel, 1993:24). President Clinton mentioned that he had asked U.S. Trade Representative Mickey Kantor to begin a study in early 1994 to recommend how to proceed in the free trade process with the rest of Latin America. He also stated that his administration would make certain that NAFTA does not have the unintended effect of hurting Central American and Caribbean countries by shifting investment from that region to Mexico (Marcus, 1993:A6). However, President Clinton gave no formal promises regarding Central American accession to NAFTA (Haskel, 1993:24).

Conclusion

The North American Free Trade Agreement eliminates barriers to trade and opens up investment opportunities, and it marks a departure from previous trade agreements. First, it comprises the world's largest market in terms of number of people and annual production. Second, side agreements were negotiated which protect the environment and worker's rights, and this is the first time that such issues complement a trade agreement. And third, NAFTA involves reciprocity whereby a developing country, Mexico, makes concessions to the United States and Canada. The Agreement is also significant because it represents a strengthening of U.S. relations with Latin America, and the possibility of closer economic and political ties between the two regions.

In the United States, the Agreement faced the most domestic opposition. Opponents feared that NAFTA would mean job losses and a decrease in wages for U.S. citizens, while proponents argued that the benefits would outweigh the losses. These and other arguments were intensely debated among the population and in Congress, and the Clinton Administration worked until the very last minute to secure its support in the U.S. House of Representatives. NAFTA also generated much debate in Central America, as the region wondered how it would fare in the post-NAFTA era. Central America's response to NAFTA has been two-sided. While supporting the agreement and recognizing that the creation of a North American free trade block presents opportunities for Central America, many also warn of the negative consequences of NAFTA. Some claim that Central American and Caribbean countries will be at a trade disadvantage with Mexico, especially in some agricultural products and the textile and clothing sector. Another argument is that Mexico will attract more investment at the expense of Caribbean countries. In regard to Central America's options in a post-NAFTA era, the main ones discussed include gaining NAFTA parity; making changes and improvements in national policies to facilitate the region's accession to NAFTA; and negotiating as a region.

The signing of the free trade agreement provides opportunities not only for the U.S. and the other NAFTA parties, but for Central America as well. As one author puts it, the Caribbean should not focus so much on the threats and challenges "posed by free trade in general, and a NAFTA specifically," but the opportunities for the region to become more competitive internationally (Lewis, 1991:1009). Yet Central America is not ready for full participation in NAFTA at this point. To join NAFTA, countries must meet certain requirements in such areas as intellectual property rights, trade, investment, and the environment. The region will also have to prepare itself so that it can compete in the North American trading block; modernizing infrastructure and improving the productivity of the labor force are two examples. The proposed establishment of a Central American Commission on NAFTA, however, demonstrates that the region is taking steps to join the North American Free Trade Agreement.

Endnotes

[1] The Caribbean Basin Initiative (CBI), formally called the Caribbean Basin Economic Recovery Act, became effective on January 1, 1984. Under CBI, the Caribbean Basin countries are granted duty-free treatment for certain products, and tax benefits are provided to U.S. taxpayers to encourage investment in the Caribbean. CBI legislation was amended in 1990. CBI preferences were originally granted to the Caribbean for a period of 12 years, but under the new legislation the period is indefinite (USITC, September 1992:1).

[2] The Generalized System of Preferences (GSP) was negotiated under the United Nations Conference on Trade and Development (UNCTAD). Through the GSP, developed countries provide preferential tariff treatment to developing countries' exports of manufactured and semi-manufactured products. The United States began implementation of the Agreement under the Administration of U.S. President Gerald Ford in 1976.

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