Discussion FORUM

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Opportunities and Challenges Associated with the Implementation of NAFTA, CAFTA, and AGOA

Washington-area professionals gathered on October 20th for the twenty-fifth IRG Discussion Forum, "Opportunities and Challenges Associated with the Implementation of NAFTA, CAFTA, and AGOA." Regina Brown, Senior Manager, IRG's Environment and Natural Resources Division; Dr. Juan Carlos Méndez, IRG's Regional Director for Central American Programs, Environment and Natural Resources Division; and Stephen Lande, President of Manchester Trade Ltd., examined the past, present, and future of these trade agreements and their impact on developing countries.

Pictured, left to right: Regina Brown, Senior Manager, Environment and Natural Resources, IRG; Stephen Lande, President, Manchester Trade Ltd.; Dr. Juan Carlos Méndez, Regional Director for Central American Programs, Environment and Natural Resources, IRG; Doug Clark, Corporate Vice President and Managing Director, Environment and Natural Resources, IRG.

The North American Free Trade Agreement (NAFTA), the Central American - Dominican Republic Free Trade Agreement (CAFTA), and the African Growth and Opportunity Act (AGOA) share the common goal of reducing barriers to U.S. trade and encouraging economic and commercial reform and environmental protection. Their implementation poses both challenges and opportunities for the further strengthening of environmental and economic benefits to developing nations.

NAFTA was implemented on January 1, 1994 with the purpose of removing tariff barriers among Canada, the U.S., and Mexico. NAFTA eliminated duties on half of all U.S. goods shipped to Mexico, removing restrictions on motor vehicles, automotive parts, computers, textiles, and agriculture. The original treaty protected intellectual property rights, and provisions regarding worker and environmental protection were added in 1993.

Since October 2000, AGOA has significantly liberalized trade between the U.S. and 37 AGOA-eligible Sub-Saharan African countries. CAFTA, ratified on August 2, 2005, reduces or eliminates barriers to trade and investment among the U.S., Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.

Goals and Impact of AGOA

According to Ms. Brown, AGOA "institutionalizes a process for strengthening U.S. trade relations with African countries; provides

For More Information

http://www.agoa.gov/
http://www.usitc.gov
http://www.ustr.gov/
http://www.agoa.info
http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/Briefing_Book/Section_Index.html

incentives for their achievement of political and economic reforms and growth; offers duty-free access to the U.S. market for almost all products, including eligible apparel articles; and provides security for investors and traders by extending the U.S. Generalized System of Preferences to eligible nations through 2015." AGOA also established the U.S. – Sub-Saharan Africa Trade and Economic Cooperation Forum to facilitate regular, ministerial-level economic, trade, and investment policy discussions among the Sub-Saharan African countries and the U.S.

In order to remain eligible for the benefits of AGOA, Ms. Brown said, these nations "must exhibit continued progress toward the establishment of market-based economies and the rule of law; the elimination of barriers to U.S. trade and investment; the implementation of policies to reduce poverty; the protection of internationally-recognized labor rights; and the establishment of systems to combat corruption."

During the first two years of AGOA's enactment, U.S. imports from Sub-Saharan Africa increased by 61.5 percent. In 2004, imports to the U.S. totaled $26.6 billion, an increase of 88 percent over 2003. Over 95 percent of U.S. imports from AGOA countries entered duty-free in 2004. While petroleum products accounted for 87% of imports, AGOA has also helped Africa diversify the range of products it sends to the U.S. Non-oil imports, which include apparel, automobiles, and processed agricultural goods, have more than doubled since 2001, reaching $3.5 billion in 2004.

NAFTA, CAFTA, and AGOA share the common goal of reducing barriers to U.S. trade and encouraging economic and commercial reform and environmental protection.

Goals of CAFTA

The newest arrival on the international trade scene, CAFTA is designed to increase exports, attract new investment, generate labor opportunities and greater economic growth, and regulate commerce among the signatory nations. The importance of CAFTA to Guatemala, in particular, Mr. Méndez said, was that it "provides a commercial agreement with the world's largest economy that allows access to a potential market of 280 million consumers," and affords opportunities to "improve competitiveness and foreign investment, modernize labor and the overall economy, allow access to world markets, strengthen environmental control, and provide consumers with a broader supply of goods and services at better prices and improved quality."

These opportunities, however, do not come without associated challenges, Mr. Méndez cautioned. These challenges include "the possibility of displacing unskilled laborers and small and medium enterprises and of incurring economic

Summary of the Benefits of the CAFTA Treaty

- Partners to the world's largest economy.
- Stable and long-lasting access.
- Clear and permanent rules.
- Planning of future investment.
- Attract foreign investment.
- Competitiveness and modernization.
- Greater supply of goods & services.
- Better prices for the consumer.
- Regional scale economies.

sanctions for non-compliance with legal, labor, and/or environmental regulations" set by the treaty. Meeting these challenges will require "improving the country's internal conditions to attract foreign investment, reaching national consensus and developing a vision for economic development, and preparing the productive sector to meet foreign competition," he said.

Prospects for Growth

According to Ms. Brown, the elimination of global textile quotas at the end of 2004 now makes it more difficult for African countries to maintain and grow their market share in the face of increased global competition. "Although some U.S. retailers have committed to continue sourcing from Africa, AGOA nations will need to reduce production costs and accelerate the vertical integration of the cotton/yarn/ textile/apparel value chain in order to remain competitive. Another approach could be to diversify into high value-added areas such as horticulture, floriculture, tourism, agro-processing, forestry, fisheries, and light manufacturing," Ms. Brown said.

A number of specific issues will need to be addressed to ensure that Guatemala realizes the most positive benefits from CAFTA, Mr. Méndez said. "Laws and regulations pertaining to environmental protection, forestry, biodiversity, and water need to be promulgated, or more efficiently applied and implemented. Institutions such as the Ministry of Environment, the National Forestry Institute, the Protected Areas Council, and municipal governments must be strengthened, and a new unit harmonizing the Ministries of Environment and Economy is being created to administer the agreement."

Trade and access to markets alone will not solve the economic problems of these nations. Structural assistance is also needed to allow meaningful access to the global market place.

Recommendations for the Future

"Behind all three of these

About the Speakers

Dr. Juan Carlos Méndez is a natural resources policy and management specialist with over 18 years of experience in Central America leading international cooperation, technical, and financial development programs and managing financial resources and personnel on a public/government level and for international cooperating agencies, including multinational financed programs. He is IRG's regional director for Central American programs and until recently was IRG's Chief of Party responsible for enforcing policies of USAID's environmental program in Guatemala. He holds a doctorate degree in Agrarian and Rural Economic Development from the Agriculture National Superior School in Montpellier, France, and a master's degree in Agriculture and Economic Resources from Oregon State University, Corvallis.

Regina Brown is a leading expert on AGOA and economic growth initiatives with 33 years of experience as a banker, diplomat, and business and financial management development expert in Africa. Currently Senior Manager, Environment and Natural Resources, IRG, she recently served as Chief of Party for USAID's East and Central Africa Global Competitiveness Hub in Nairobi, with the goal of increasing trade and investment in 18 countries in the region. Ms. Brown holds an MPA in Economic Development from Harvard, an MBA in Finance from Northeastern University, an MA in French and African Literature from Boston University, and an MS in Library Administration from Simmons College.

International trade expert **Stephen Lande** is President of Manchester Trade Ltd. and Adjunct Professor at Georgetown University School of Foreign Service. He has been involved with international trade issues since the 1960s, initially as a Foreign Service Officer to the Economic Bureau of the Department of State and then to American embassies in Athens and Luxembourg. He had a twelve-year career as a senior trade negotiator with the Office of the United States Trade Representative and is recognized by many as the "father" of both the U.S. Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI) and an early force in the creation of NAFTA. Recently, he has worked to advance the approval of AGOA, improve the CBI and spread bilateral Free Trade Agreements and the Free Trade Area of the Americas.

agreements," Mr. Lande summarized, "is the decision of the U.S. government not to rely exclusively on imports from the Far East, specifically China." Major U.S. textile producers have agreed to support the agreements, he added, with the expectation that they will allow the industry continued access to imports from other countries in Asia and Central and South America.

At present, most African nations participating in AGOA use fabric from third countries in their garment production because it is cheaper than local fabric or fabric from the U.S. Both Ms. Brown and Mr. Lande recommended continuing this benefit past the current 2007 cut off, while at the same time providing incentives for the development of local textile mills, in order to permit Africa to remain competitive.

However, Mr. Lande warned that "trade and access to markets alone will not solve the economic problems of these nations. Structural assistance, particularly in the areas of energy, transportation, and vocational and skills development, is also needed to allow these countries meaningful access to the global marketplace."

He also indicated that neither AGOA nor CAFTA "attack the problem of agricultural commodities. The issue of how to achieve meaningful reductions of subsidies to U.S. and European farmers remains on the table," he said. "However, even removal of these subsidies would do little to help African nations without associated structural assistance."

IRG Speaks Out

- **Asif Shaikh**, President, IRG, recently spoke at the Student Environmental Sustainability Workshop, which was part of the Washington, DC Millennium Development Goal Conference at Georgetown University.
- **Matthew Mendis**, Corporate Vice President and Managing Director, Energy and Environmental Management Division, was interviewed by the *International Environmental Reporter* regarding the growing interest in India and neighboring countries for CDM projects.
- **Dr. Charles Ebinger**, Senior Energy Advisor, Energy and Environmental Management Division, was among the panelists of the SAIS-South Asian Association for Regional Cooperation Ambassadors' Forum, "South Asian Energy Futures: Challenges and Opportunities," in late October.
- **Pradeep Tharakan**, Manager, Energy Division, recently published an article entitled "Energy Sector Assistance in Developing Countries: Current Trends and Policy Recommendations" in the journal *Energy Policy*.
- **John Acree,** Senior Manager, Relief and Reconstruction, spoke on IRG's OFDA experience in Iraq and more recently, its role in response to Hurricane Katrina for the Conflict Prevention and Reconstruction Network held at the USAID Operations Center.

About the IRG Discussion Forum

The IRG Discussion Forum, a monthly event, addresses issues affecting international development. Each session is informal, with guest speakers and attendees participating in a personal capacity. Currently, the Discussion Forum is on hiaitus until January 2006. Please continue to check the Website for updates. For comments, questions, or information on the Discussion Forum, contact discussionforum@irgltd.com or call IRG at 202-289-0100.

International Resources Group (IRG) is an international professional services firm that helps governments, the private sector, communities, and households manage critical resources to build a safer and more prosperous world. Since 1978, IRG has completed over 650 contracts in more than 135 countries, delivering high-quality, cost-effective services that promote positive economic growth, institutional and social change, and intelligent use of resources—human, physical, environmental, and financial. IRG's international development staff include world-renowned specialists who have pioneered many of the analytical techniques employed in their fields. IRG's ability to provide management, economic, and technical advice is further enhanced by the diversity, cross-cultural experience, foreign language skills, and management capabilities of staff based in the Washington, DC, headquarters, corporate offices in India and the Philippines, and 20 project-dedicated offices around the world.