CAFTA and the Forced Migration Crisis

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I'd like to start with a quote from former Representative Tom Davis, from my home state of Virginia, when he was speaking on the House floor in favor of CAFTA on July 27, 2005. He said:

"…we need to understand that CAFTA is more than just a trade pact. It's a signal of U.S. commitment to democracy and prosperity for our neighbors. And it's the best immigration, anti-gang, and anti-drug policy at our disposal…Want to fight the ever-more-violent MS-13 gang activity originating in El Salvador but prospering in Northern Virginia? Pass CAFTA …Want to begin to ebb the growing flow of illegal immigrants from Central America? Pass CAFTA."

One day later, the House passed CAFTA, at midnight, by a single vote.

Nine years later, gang and drug-related violence in Central America has reached record highs and the "growing flow" of immigrants from Central America that Representative Davis referenced has surged.

At a minimum, CAFTA failed to stem violence and migration from Central America as Rep. Davis and other CAFTA proponents promised. But it's worse than that. The deal appears to have actually contributed to the economic instability feeding the region's increase in violence and forced migration.

I'm not going to argue that CAFTA is singularly responsible for the surge of Central American children trying to cross the southern border into the United States. The horrific violence in Honduras, El Salvador and Guatemala is the proximate cause of this crisis. But that violence has been fed by economic instability in those countries. And it makes sense to examine whether CAFTA has done more to mitigate or to exacerbate that instability.

The evidence, unfortunately points to the latter. Under CAFTA, family farmers in El Salvador, Guatemala and Honduras have not fared well, the economies have become dependent on short-lived apparel assembly jobs – many of which have vanished, and economic growth has actually slowed.

First, let's look at the situation for family farmers. A number of development groups unfortunately predicted during the CAFTA debate that the deal could lead to the displacement

of the family farmers that comprise significant portions of the region's workforce. Indeed, that should have been the expected result if NAFTA, the predecessor to CAFTA, offers any indication.

NAFTA removed Mexican tariffs on corn imports and eliminated Mexican supports for small farmers but did not discipline U.S. subsidies. The predictable result was an influx of cheap U.S. corn into Mexico, which caused the price paid to Mexican farmers for the corn that they grew to fall by 66 percent, forcing many to abandon farming. An estimated 1.1 million small-scale farmers and 1.4 million other Mexicans dependent on agriculture soon lost their livelihoods. Immigration to the United States soon soared. While the number of people immigrating to the United States from Mexico remained steady in the three years preceding NAFTA's implementation, the number of annual immigrants to the U.S. from Mexico more than doubled in NAFTA's first seven years.

Under CAFTA, family farmers in Honduras, El Salvador, and Guatemala have been similarly inundated with subsidized agricultural imports – mainly grains – from U.S. agribusinesses. Agricultural imports from the United States in those three CAFTA countries have risen 78 percent since the deal went into effect. While these exports represent a small fraction of the business of U.S. agricultural firms, they represent a big threat to the Central American family farmers who do not have the subsidies, technology, and land to compete with the influx of grain.

And despite promises to the contrary, most small-scale farmers in those countries have not seen a boost in exports of their products to the United States. The growth in agricultural exports from El Salvador to the U.S. under CAFTA has actually been lower than *global* growth in agricultural exports to the U.S. And Honduras's agricultural exports to the U.S. have been swamped by the surge in agricultural imports. Honduras went from being a net agricultural exporter to the United States in the six straight years before CAFTA to being a net agricultural importer from the United States in the six straight years after the deal took effect.

Some CAFTA proponents understood that Central America's small-scale farmers may not fare well under the deal, but promised that displaced workers could find new jobs in the garment assembly factories, or maquilas, producing clothing for export to the U.S. These factories are not only notorious for abusing workers' rights and paying low wages, but for leaving a country as soon as cheaper wages can be found in another low-wage country. Indeed, this race to the bottom was evident in Mexico under NAFTA. Maquila employment surged in NAFTA's first six years. But since 2001, hundreds of factories and hundreds of thousands of jobs in this sector have been displaced as China joined the WTO and Chinese sweatshop exports gained global market share.

Apparel production in Central America's factories has faced a similar fate. Apparel exports to the United States from each of the three countries in question – Honduras, El Salvador, and Guatemala – were lower last year than in the year before CAFTA took effect. In Honduras, apparel exports to the U.S. have fallen more than 20 percent in CAFTA's first 9 years.

Guatemala has seen a nearly 40% downfall. Jobs in the apparel factories of Central America would be expected to disappear even quicker if the controversial Trans-Pacific Partnership would take effect. The TPP contains Vietnam, where the average minimum wage is 52 cents an hour – a fraction of minimum wages in Central America, and even in China.

A final promise of CAFTA that I'll highlight is that the pact would boost Central American economic growth. This promise was also made for Mexico under NAFTA. But since NAFTA took effect, Mexico's average annual per capita growth rate has been just 1 percent, significantly lower than the pre-NAFTA rate. Indeed, Mexico had the third-lowest per capita growth rate in all of Latin America during the first 20 years of NAFTA.

The outcome has not been much better under CAFTA. The average annual GDP growth rates in El Salvador, Honduras and Guatemala have all been lower than the overall growth rate in Latin American developing countries in CAFTA's first 9 years. In fact, the average annual growth rates of El Salvador and Honduras have fallen since the deal took effect, while the growth rate of Guatemala went from being above the regional average before CAFTA to falling below it since CAFTA.

These aggregate numbers of course represent thousands of individual families who have found themselves facing increased economic instability and greater difficulty in making ends meet. Thousands of youth more susceptible to the influence of gangs and drugs. And thousands of children who have decided that a life threatening journey to the United States is better than an even more life-threatening existence at home.

In sum, representative Davis was clearly wrong, as were the other CAFTA proponents who promised the deal would bring "prosperity" to Central America, thereby diminishing gang and drug-related violence and stemming the need to migrate to the U.S.

While Rep. Davis is no longer in Congress, his arguments are still here. Some members of Congress and industry lobbyists are making very similar promises regarding the proposed Trans-Pacific Partnership – which would expand the NAFTA/CAFTA model across the Pacific. They have argued, essentially, that this time will be different. That this time, a more-of-the-same trade deal will actually spur prosperity among our trade partners.

Most members of Congress, thankfully, are not buying it. Most Democrats have opposed the effort to Fast Track the TPP through Congress, as has a sizeable bloc of Republicans. For those still on the fence, it would be prudent to consider the failed legacy of past agreements before committing us, and our trade partners, to a new one.