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CAFTA: What Could It Mean for Migration?

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A number of factors can influence the connection between free trade and migration, particularly between developed and less developed countries. Yet it is believed that more trade can lead to less international migration as the less-developed country increases its exports and its economy expands.

However, trade and economic opportunities in general do not automatically spur development in poor nations where migration can mean a search for well being driven by economics as well as deeply rooted cultural, social, and psychological causes.

Indeed, in the case of Central America, the reasons for high rates of emigration to the United States began with devastating civil wars in the late 1970s and early 1980s but have become more complex over time (see [Central America: Crossroads of the Americas](#)).

The Central America Free Trade Agreement (CAFTA) between the United States, five Central American countries, and the Dominican Republic may be the most important economic event in the region in 20 years. The agreements could allow some of the poorest Central American countries to combine their existing benefit from remittances (one of the "profits" of migration) with the job creation and investment opportunities free trade can offer.

CAFTA Basics

CAFTA, after a few years of discussion, took a leap forward in August 2004 when Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, and, later, the Dominican Republic, agreed to establish with the United States stable and permanent regulations, based on reciprocity, for trading both goods and services in areas such as telecommunications, finance, insurance, and consulting, among others.

The new rules also would make it easier for US companies and others from the rest of the world to invest in CAFTA countries, and CAFTA countries would see improvements in current tariff preferences, including the elimination of US quotas for all products except sugar.

The CAFTA process started when Costa Rica, which signed free-trade agreements with Mexico in 1995 and Canada in 2002, proposed bilateral trade negotiations with the United States. However, the United States was only willing to negotiate with a block of Central American countries.

CAFTA's implementation requires every country's legislature to ratify the agreement; only Costa Rica's legislature has not done so (the US Congress approved CAFTA in July 2005). However, CAFTA came into force for El Salvador on March 1, 2006, because the Office of the US Trade Representative (USTR) determined that El Salvador had taken sufficient steps to complete its commitments under the agreement, including adopting new laws and regulations where necessary.

The US government will put CAFTA into effect on a rolling basis for the remaining signatory countries — Costa Rica, the Dominican Republic, Guatemala, Honduras, and Nicaragua — as they meet the agreement's requirements, for which they have a maximum period of two years as of March 1, 2006.

Arguments for and Against CAFTA

With their high rates of poverty, CAFTA's Central American member countries — including leader-of-the-pack Costa Rica — are in need of foreign direct investment (see Table 1). The World Bank and others believe CAFTA would make it easier for Central America to obtain capital and that free trade would also modernize economies and societies as well as reduce poverty.

Table 1. Economic Indicators in Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua (2004)

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
GDP per capita (in US dollars)	9,606	4,781	4,184	2,665	3,262
Percent below national poverty line	22%	48.3%	56.2%	53%	47.9%
Human Development Index Ranking (from 1 to 177)	47	104	117	116	112

Source: UN Human Development Report, 2004

Also, CAFTA could strengthen an already solid trade relationship. No other market in the world is as important to Central America as the United States. In 2001, the value of trade between the United States and the six CAFTA countries totaled US\$32 billion, US\$15 billion in exports and US\$17 billion in imports — more than the trade between the United States and Russia, India, and Indonesia together. Over 15,000 US companies have operations in the region, and Central America, with over 40 million consumers, is the second-largest market in Latin America after Mexico.

Not surprisingly, the agreement has strong opponents. In Central America, some believe it would exacerbate poverty and hurt small farmers. Still others believe it would make medicines more expensive, cripple social security systems and impair public services like insurance and telecommunications for low-income consumers.

Central American Integration

Coordinated trade and integration measures date back to December 1960, when four countries — El Salvador, Nicaragua, Guatemala, and Honduras — established the Central American Common Market (CACM, *Mercado Común Centroamericano*) trade organization; Costa Rica joined two years later. CACM's aim was to set up a common market and customs union within five years. In the years leading up to CACM, a number of bilateral trade agreements between Central American countries had been signed.

The United States, interested in countering the threat of communist Cuba, was eager to see economic integration and development in Latin America. In early 1961, US President John F. Kennedy announced the Alliance for Progress, an ambitious, 10-year plan that sought to bring to all the people of the Americas homes, work, land, health, and schools.

At this time, there was minimal migration from Central America to the United States with the exception of Honduran migration to New Orleans. This migration flow began with the close trading relationship between New Orleans-based Standard Fruit Company and banana growers in Honduras. By mid century, the relationship had led to the settlement of many Hondurans of all socioeconomic backgrounds. In 1970, Hondurans represented 12.8 percent of Louisiana's foreign-born population.

Although Central American countries saw improvement in some economic indicators during the 1960s, by the early 1970s both CACM and the Alliance for Progress, for various reasons, had fallen short of their long-term goals of creating greater economic and political cooperation (CACM) and in bringing Latin America out of poverty and establishing democratic governments (Alliance for Progress).

CACM collapsed in 1969 because of war between Honduras and El Salvador but was reestablished in 1991, once the region had become more peaceful. The Organization of American States (OAS), a regional agency whose members include all countries in the Western Hemisphere, dismantled its permanent committee on the Alliance for Progress in the 1970s.

By the 1980s, Central American countries had begun a process to open trade with the rest of the world, dismantling unilaterally the high tariffs crafted for CACM 20 years earlier.

In 1983, 24 countries around the Caribbean basin, including five in Central America and some in South America, signed the Caribbean Basin Initiative (CBI) with the United States. CBI allowed these countries to export commodities, including fresh produce, fresh and frozen seafood, specialty foods, medical and surgical supplies, and other goods to the United States without paying tariffs. The program also included US government assistance for economic development.

CBI was expanded in 2000 to include the US-Caribbean Basin Trade Partnership Act (CBTPA), which allows "import sensitive" articles such as apparel and footwear to enter the United States free of quota and duty. Because, in 1994, the North America Free Trade Agreement (NAFTA) gave advantages to Mexico in areas such as apparel, CBI countries experienced some disinvestment and slower growth of their exports. CBTPA is meant to level the playing field with Mexico and also to help countries devastated by Hurricanes Mitch and Georges in 1998.

CBI and the CBTPA provisions have been very successful in promoting new and more Central American exports to the US market, which in turn has created many local jobs in the apparel industry and nontraditional agriculture and promoted the modernization needed in any development process, particularly in agricultural and rural areas. For example, small entrepreneurs in the region have been able to abandon subsistence agriculture because they face few hurdles in sending new products to the United States.

Table 2. Exports to the United States from Central American Countries with CBI Designation, 2004

	Total Exports to the United States	CBI Exports	Percent of CBI exports receiving CBTPA preference
Honduras	\$3.6 billion	\$2.3 billion	92 percent
Costa Rica	\$3.3 billion	\$1.1 billion	35 percent
Guatemala	\$3.1 billion	\$1.2 billion	76 percent
El Salvador	\$2.1 billion	\$1.1 billion	97 percent
Nicaragua	\$990.5 million	\$330.4 million	59 percent
Panama	\$316.1 million	\$32.8 million	1 percent
Belize	\$107.1 million	\$44.5 million	33 percent

Note: All countries listed here also export goods to the United States under other tariff-preference categories, not just CBI/CBTPA.

Source: Office of the US Trade Representative, Sixth Annual Report to Congress on the Operation of the Caribbean Basic Economic and Recovery Act (December 2005). [Available online](#).

At the same time, CBI and CBTPA also have limitations that have hindered development. As a unilateral instrument of the United States, the US president has the authority to "withdraw, suspend, or limit benefits if he determines that the country is not meeting designation criteria." Consequently, such uncertainties have made businesses more cautious.

From CBI to CAFTA

CBTPA is set to operate until September 30, 2008, unless the United States signs another trade agreement with any of the beneficiary countries. While most analysts believe the

Free Trade Area of the Americas (FTAA), in discussion since the mid 1990s, could replace CBI/CBTPA, CAFTA's implementation will also affect CAFTA countries that belong to CBI. As of March 1, El Salvador became ineligible for duty-free treatment under CBTPA, but some temporary adjustments will have to be made prior to others countries receiving full CAFTA status.

In the long-term, once all the CAFTA-signatory countries that belong to CBI become full-fledged CAFTA countries, the process of modernization and change could be accelerated. Unlike CBTPA, CAFTA implies a set of permanent and lasting rules. Businesses that were previously hesitant to invest in Central America because of the threat of unilateral suspension could become more willing to make economic commitments.

What CAFTA Says About Migration

Unlike some of the other trade agreements the US has signed (notably NAFTA and Chile), CAFTA explicitly avoids linking trade provisions with temporary migration or visas. In fact, the agreement includes an understanding that states, "No provision of the Agreement shall be construed to impose any obligation on a Party regarding its immigration measures."

In the case of services provided across borders, chapter 11 of CAFTA says that workers providing those services will be subject to the laws of the host country. The Office of the US Trade Representative (USTR) gives the example of a Costa Rica musician who wants to bring his services to the United States. The musician would have to pursue a visa through existing US channels; he would not be eligible for any special consideration because of CAFTA.

At the same time, no CAFTA country would be allowed to limit the number of "natural persons" (individuals) that may be employed in any kind of cross-border service. In addition, all parties have agreed to work together to set standards for education and experience requirements in certain professions; all members would recognize these standards, eliminating the basis for discrimination.

NAFTA and Migration

To understand what CAFTA may mean for migration, it's instructive to look at the effects of NAFTA.

When the US Senate debated NAFTA in the mid 1990s, the argument of "more trade and less international migration" was used convincingly. Mexico also believed that NAFTA would create new jobs at home and decrease the pressure to migrate.

Ten years later, different evaluations support different results. According to USTR, migration flows from the areas in Mexico that received NAFTA-related investment have decreased. Yet, although the number of Mexican jobs in manufacturing increased, net job gains have been either modest or flat, depending on the measurement and its timing; wages in the United States and Mexico are not close to converging.

Most notably, Mexican immigration, particularly of unauthorized immigrants, increased sharply after NAFTA went into effect. As already noted, NAFTA allows for temporary migration but only of certain professionals under strict guidelines; no provisions were made for the temporary movement of low-skilled workers.

Some analysts have argued that NAFTA cannot be blamed for increased migration. Rather, Mexico's financial crises and restructuring efforts, the booming US economy, and strong migration networks, among other factors, have had more powerful effects on migration.

A reasonable conclusion could be that, although international trade can create some economic conditions that eventually reduce migration trends, migration does not depend only on trade-agreement provisions. Also, reducing poverty requires a comprehensive strategy that can include trade but cannot be built on trade alone.

CAFTA's Possible Effects on Migration

Today, approximately five million people from Central America — about 50 percent of them without legal status — live in the United States, according to estimates from the International Organization for Migration (IOM). While the first large wave arrived in the 1980s after fleeing civil war at home, others came after natural disasters, such as Hurricane Mitch in 1998.

Over the last 25 years, the United States has become the top destination of those seeking to escape persecution and those wanting a better life. At the same time, many Central American immigrants maintain close ties to their home countries, sending remittances and returning frequently to visit.

The effects of CAFTA on these migration patterns will depend on the intensity with which the agreement can induce economic growth in both marginal urban areas and rural areas. It will also depend on how economic growth affects social development. Studies by the University of Michigan and the World Bank indicate that the agreement could create more than 300,000 new jobs and could increase the region's GDP by US\$5.3 billion.

If the agreement does not succeed in reducing poverty, then it should not be expected to reduce migration. Additionally, if the US economy continues to grow and laws regarding legal, work-based migration are not changed, then the United States will likely continue attracting workers from Central America.

In other words, the sole existence of CAFTA, as with NAFTA, will not reverse established migration patterns.

Looking Ahead

CAFTA was a key issue in Costa Rica's hotly contested presidential elections in February 2006. Pro-CAFTA candidate (and former president and Nobel Peace Prize laureate) Oscar Arias was named the winner in March, and Costa Rica is expected to make the needed legal reforms to comply with CAFTA's terms of negotiations.

Except for El Salvador, the rest of the CAFTA countries still need to institute legal changes, including reforms on local intellectual property, labor, and services laws.

At this time, only Honduras' legislature has taken the necessary steps for compliance. Nicaragua, the Dominican Republic, and Guatemala will definitely take more time.

Considering the history of Central American economic integration, the established migration patterns between the region and the United States, and the slow roll out of CAFTA, no major changes, either in economics or migration, can be expected in the near future.

This article is based on Salomon Cohen's report for the IOM office in Guatemala entitled "The Effects of the Free Trade Agreement Between Central America, the United States and the Dominican Republic in Central American Migratory Processes." The report is available [here](#).

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