

Peace, Development and Competitiveness: The True Test of Our Progress

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Good evening. I am honored to receive the Award for Leadership in Global Trade from this diverse and truly global business association. Tonight, I would like to share with you some reflections on the advancing trade agenda in my own region, Central America, and its indispensable role in transforming the deep-rooted legacy of poverty and underdevelopment.

As promoters of international enterprise, you know first-hand the importance of establishing reciprocal agreements between trading partners, and have doubtless been keeping a close eye on the Free Trade Agreement between Central America, the Dominican Republic and the United States. Of course, Miami is likely to consolidate its position as a hub of regional trade, should CAFTA come into effect. This is due not only to the city's fortuitous geography, but also to the significant population of Central Americans living in the area, many of them anxious to strengthen economic ties with their homelands. A few days ago, I read that small producers are already planning new strategies to sell immigrants in the United States all sorts of native delicacies, from atól to tamales to frozen iguana meat.¹ So when we talk of the benefits of free trade, these refer not only to improvements in economic statistics, but also a very tasty improvement on our dinner menu!

Perhaps the most persuasive argument in favor of adopting CAFTA has to do with the expectation of an ever-expanding variety of opportunities. Opportunities for consumers to acquire better and cheaper goods; opportunities for small and medium businesses to expand and diversify; for greater private investment, access to new technologies, and educational opportunities for young people; for a qualitative and quantitative improvement in the job market; for higher economic growth, government revenue and expanded social spending. Above all, the Central American Free Trade Agreement represents an unparalleled opportunity to transform Central America into a dynamic economy deeply integrated with worldwide flows of trade and technology. We have not had a better shot at modernizing our institutions and boosting productivity since the creation of the Central American Common Market over four decades ago.

Clearly, it would be irresponsible to claim that free trade by itself is enough to cut through the Gordian knot of underdevelopment. What matters most is how society cooperates in rising to the opportunities and responsibilities of living in an open and often competitive world. At his second inaugural address, Franklin Roosevelt said, "The test of our progress is not whether we add to the abundance of those who have much; it is whether we provide for those who have too little." Similarly, CAFTA will serve as a sort of unfolding test of the region's young democracies, and their ability to translate economic growth into broader social progress.

Today, if you have the good fortune to visit Central America, you will meet people who are passionate about building secure and prosperous societies. Yet the hard work of democratic consolidation is endangered by the economic crisis in which over half of all Central Americans remain submerged. How much poverty can these fragile

relatively high education levels and political stability, all explain why Costa Rica claims more than half of Central America's annual foreign direct investment.⁶

The other Central American countries, meanwhile, have made significant strides in overcoming the legacy of conflict and militarization. Indeed, the entire region has embraced the principles of democratic governments and open markets. CAFTA will open new horizons in Central America's journey towards realizing these principles, not only by providing new opportunities for trade and investment, but also by serving as a catalyst for some important changes within our societies.

First, CAFTA will solidify the export-oriented strategy adopted in Central America over twenty years ago. When, during my administration, we began to unilaterally open Costa Rica's market, we were acutely aware of the need to ensure a reciprocal opening from our trading partners. The Caribbean Basin Initiative, which began in 1983,⁷ was instrumental in encouraging growth and greater diversity in export industries. However, it had the serious drawback of being a unilateral concession; today, over half of Central America's exports depend on what is basically a big favor from the US Congress. CAFTA, on the other hand, makes the trading relationship reciprocal. This is a vital change, not only because a more permanent relationship will boost investments and productivity, but also because it signals Central America's resolution to pursue the path of integration and open markets over the long term.

Second, CAFTA provides for the opening of important service sectors, a theme that is especially urgent in Costa Rica. If Central America aspires to compete on an international level, we must be able to offer world-class services: cell phones that do not black out, internet connections that do not freeze, insurance policies that do not devolve into a Kafkaian nightmare when it comes time to file a claim. In Costa Rica, the public insurance and telephone monopolies have played a commendable role in extending coverage to the entire country, but it is clear that they alone cannot fill today's demand for more advanced technologies.

Finally, CAFTA contains a set of rules dealing with government procurement, anticorruption and investment, which will help promote transparency and modernization in key state institutions. The chapters on environment and labor combine a program of capacity building and incentives to comply with domestic legislation, an unprecedented tool to improve workers' conditions and promote environmental sustainability. The chapter on labor, especially, displays an evolving sophistication in the balance of carrots and sticks. It is significant that penalty fines collected for not enforcing labor laws would be sent back to the offending country to fix the problem, rather than staying in the coffers of the US Treasury Department, as has been the case with previous agreements.⁸

Notwithstanding its significance, CAFTA is not enough to solve all the problems of Central America. There is a risk that the benefits of free trade could pass right through the region, if each nation does not reinforce its crumbling social and political structure. However, rather than despairing over a laundry list of deficiencies, we would be wise to choose a few key areas for special attention.

democracies endure? The question is not rhetorical. Every nation enjoys periodic and transparent elections but, at the same time, almost thirty percent of Central Americans do not have enough income to buy the most basic foodstuffs.² Despite the end of armed conflict, the majority of families are losing the struggle to get ahead in life.

Faced with this precarious social situation, many see no other way to lift their families out of poverty than by coming North. Over the past decade, remittances have done more to directly help Central Americans recover from war and natural disasters than either foreign aid or direct investment. Clearly, something is terribly wrong when millions of society's most energetic and productive members must resort to the dangerous and painful path of illegal migration.

Quite simply, we are failing to provide our talented young workers with real job opportunities. In Guatemala, over seventy percent of the population survives in the informal sector.³ A recent survey in Nicaragua found that three out of five households have a member who has tried and failed to find employment. Over sixty percent of adults in that country said they were willing to work in absolutely anything, as long as they could have a job.⁴ Costa Rica faces the distinct but no less serious challenge of providing opportunities for a growing number of young professionals who, despite their university educations, are unable to find stable work.

To create more and better-paying jobs, we must quicken the pace of private investment, which can only be achieved by deepening Central America's integration with the world economy. Job creation is one of the most important potential benefits of CAFTA, and it pains me that there are political leaders both in Central America and the United States who do not seem to understand this. Setting in motion the expanding cycle of open markets, private investment and job opportunities was one of the cornerstone policies of my presidency, and will be again if I am reelected next year.

Back in 1986, convinced of the need to integrate Costa Rica into world markets, my government initiated a unilateral opening of the national economy, a controversial decision for those who preferred to postpone a tariff cut until the signing of a bilateral agreement. However, as the late British economist Joan Robinson once remarked, "If your trading partner throws rocks into his harbor, that is no reason to throw rocks into your own."⁵ Responding to protectionism with more protectionism may seem like the fair thing to do, but it has extremely damaging boomerang effects. Maintaining high tariffs would have significantly slowed Costa Rica's recovery from the early-80's debt crisis. A closed economy would also have kept prices high for consumer goods, as well as for the raw materials and capital goods vital for business expansion. There is no doubt in my mind that had things remained the same, poverty rates would be substantially higher than today's actual levels.

The economic adjustment strategy of the 1980's was undertaken in a typically Costa Rican fashion—gradually, without extremism, always with the goal to preserve and, wherever possible, deepen our social policies. Was this a painless process? No, of course not—but it was a clear overall success and set the country down the right path. Today, Costa Rica's trading activity is equal to ninety five percent of the GDP, and in Latin America we are second only to Chile in exports per capita. Assertive government policies to develop alternative exports and attract high-tech investment, as well as

If Central America aspires to successfully compete in international markets for something more than her cheap labor force and abundant natural resources, then we must make a massive effort to improve public education. Education is necessary so that every Central American can creatively contribute to the progress of society. Education in human rights and civic responsibilities is imperative in preventing our people from becoming prey to the deceptive words of demagogues.

The national importance of strong investments in a highly-skilled workforce will only increase with the consolidation of the information era. In Costa Rica, we should raise public funding of education to at least eight percent of the GDP. We must drastically increase middle-school education, and improve access to intensive training in mathematics, computer science and English at all levels. In this way, we will maximize the number of Central Americans who are ready to take advantage of new opportunities.

At the same time, for CAFTA to fulfill its great promise, there are certain barriers that only the United States can demolish. Recently, I met with Congressman Dan Burton of Indiana, who asked me, "President Arias, what can the United States do to help Central America?" While he sat back in his chair as if preparing for a hail of proposals, I had only two words for him: *cut subsidies*.

Agriculture subsidies in rich countries hurt the poorest producers of the poorest countries, and undercut the promise of free trade as a motor of economic development. The fact is, farmers in the developing world could compete with their counterparts in industrialized countries, but they cannot compete with those countries' finance ministries. One of the more well-known examples of this tendency comes from the small corn farmers of Mexico. Though the poverty of these farmers pre-dates NAFTA, the influx of subsidized grains from the United States has overwhelmed their capacity to live off the land, provoking increased rural migration to the United States.⁹

In Central America, where about five and a half million small farmers make their living from traditional agriculture, many fear that CAFTA could cause a repeat of the rural dislocation that has occurred in Mexico.¹⁰ Certainly, the selective demands of the international market often exceed the capacity of impoverished producers. As the director of a tomato co-op in Guatemala put it, "The client buys from us not because poor people produce it, but because it is a good product."¹¹ But the claim that CAFTA will repeat Mexico's mistakes is misleading. We have a reprieve of 15 to 20 years to protect the region's most sensitive products, a window of opportunity in which to promote rural adjustment programs. With access to credit, technology and training, many small farmers will rise to the challenge of modernizing their output.

Above all, CAFTA should promote a spirit of cooperation and mutual respect among partners. Throughout my career, I have insisted that fostering a peaceful, prosperous and equitable Central America is in the best interests of the United States. Sadly, aid to Central America evaporated with the end of the Cold War, a *de facto* punishment for achieving peace. That is why, in terms of closing the perilous gap between rich and poor, CAFTA is just as much a crucial opportunity for the United States as it is for Central America. A strong and well-defined complementary agenda, focused on promoting development and sustainable competitiveness, will ultimately be the most convincing proof of the commitment of the United States to the region's democratic future.

For the people of Central America, the long-term impact of open markets and regional integration has yet to be determined. As Victor Hugo once wrote, the future has many names: "for the weak, it is the unreachable; for the timid, it is the unknowable; for the brave, it is an opportunity." For all the uncertainties surrounding CAFTA, we must remember that it does offer the possibility of a better future. It is a magnificent opportunity, and we must make the most of it. In that way, our dreams and our hard work will finally allow us to take flight, beyond the horizon, towards the most elevated mountains. And each new summit conquered will provide a view of another, further peak, from which to depart towards the Himalayas.

Thank you