

A risky business



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Costa Rica has traditionally done quite well in terms of development and human security indices.¹ This is the result of a political and social consensus which in the past led to greater public investment in important areas, such as social security, education, and infrastructure. It is also the result of an integrative vision of the country, and the basis for designing public policies that complemented each other as they were being implemented. By following this approach to development the country has avoided putting all its eggs in one basket.

In the present national, regional and global context, Costa Rica is faced with two major challenges: to continue to nurture the original sources of its development and to strive to improve its participation in the new world economic order.

Negotiations with the United States over the Free Trade Agreement (FTA) have been the key item on the agenda of Central American countries. Starting in 2002, when regulations for conducting them were defined, the main rounds of negotiations took place in 2003. Toward the end of the year, in the ninth round of negotiation with the United States, the only country that had not signed the FTA was Costa Rica. Some Central American heads of state voiced their disapproval that the regional agree-

The Free Trade Agreement (FTA) recently signed between Central American countries and the United States will have a marked effect on the region's economies, legislation and social policies, and will influence governance and, therefore, human security. Social organisations are pessimistic about any positive results accruing from the FTA for the benefit of ordinary citizens; they are more inclined to envisage considerable difficulties arising in the medium term.

ment had not been signed jointly by *all* the countries involved. Costa Rican negotiators pointed out that not signing the treaty simultaneously with the other countries did not mean that Costa Rica was opting out of the agreement. It had not signed the FTA because of the pressure exerted by the United States on highly sensitive areas of the economy such as telephone services, insurance and agriculture. Negotiations between Costa Rica and the United States were finalised in January 2004. As expected, the Costa Rican negotiating team came away with what they termed as a "fair and balanced" agreement.

Everything indicates that the "sacrificial lambs" were the industrial rice producers, the telecommunications and insurance sectors, and the public health sector. The lion's share of the benefits fell to business groups linked to the textile and sugar industries, and the financial sector.

The Central America-United States FTA will change the region profoundly, and it will leave its mark on each and every one of the signatory countries, since this is no ordinary trade agreement. Its impact will be felt in their economies, legislation and social policies, and it will influence the levels of governance of the entire region.

Some sectors of society have already identified the effects that they will experience as a result of the Agreement. Social organisations representing farmers, the energy and communications workers' unions, as well as the insurance services and the Costa Rican Social Security Fund, do not anticipate many social benefits from the treaty; indeed, what they envisage is greater difficulties in the short, medium and long term. The chambers of commerce of the pharmaceutical sector and the exporters sector share this view.

In order to make a reasonable assessment of the agreement and its impact on the chances for a dignified and secure life for individuals and society as a whole, it would be worth asking what was the starting point for FTA negotiations and to what extent the country was adequately prepared to sign it.

A new development model

The economic and political dynamics in Central America in the 1980s involved emphasising export earnings; downsizing the State, as well as changing some of its functions; opening up the economy

to imports; market liberalisation; and attracting direct foreign investment and finance. This new development model has been promoted for the past two decades. With the negotiation of bilateral free trade agreements with Canada, Chile, Mexico, the United States and the European Union, this model has become more extended.²

So far, the expected benefits of the new model have not materialised. Nevertheless, advances have been made: inflation has been stabilised, economic growth has been reactivated, the influx of international capital has increased, there has been a remarkable increase in exports and the fiscal deficit has been reduced. Important as they are, these improvements are not enough, partly because per capita economic growth has not matched the levels reached in earlier years, poverty has remained high, and income distribution has deteriorated.

The economic and social performance mentioned above demonstrates that the policies adopted should be maintained and expanded by promoting education; preserving and strengthening democracy, justice and human rights; moving toward regional co-operation on environmental issues; strengthening the financial markets; and eradicating poverty - all these policies need additional attention (Summit of the Americas, April 1998). The Government and social institutions play an important role in promoting economic development, improving living conditions and ensuring people's human security. It would appear that in Central America - with the exception of Costa Rica - the lack of institutional development has had a negative effect on economic growth, and this in turn means that the State cannot afford the human resources needed to improve its institutions.

At this point, two big questions arise: a) What aspects of economic growth can contribute to create lasting agreements for development and human security? b) What challenges must the region face in order to build those agreements? Economic growth is not in itself a sufficient condition for designing those agreements, but without economic growth it is impossible to achieve the degree of

1 The United Nations Development Programme (UNDP) *Human Development Report* for 2003 assigns Costa Rica a Human Development Index (HDI) of 0.832. This figure places Costa Rica in 42nd position out of 175 countries for which indices were calculated, and among the 55 countries described as having a high level of human development. When classifying countries according to per capita GDP, Costa Rica takes 52nd place, ten positions lower than its ranking on human development. The human poverty index measures deprivation in a population in matters related to health, education, and income; by this index, Costa Rica occupies 4th place out of 94 developing countries. If the human poverty index used only income measurement, Costa Rica would have been number 17. In other words, Costa Rica's high score on the human poverty index is primarily due to the high levels of access to education, health, drinking water and nutritious food enjoyed by the population. www.estadonacion.or.cr/Info2003/nacion9/informe_mundial.html

2 Information taken from UNDP. *Segundo Informe sobre Desarrollo Humano en Centroamérica y Panamá. Proyecto Estado de la Región*. San José, 2003, pp. 117-186.

human development desired. Economic growth is an indispensable, but not necessarily sufficient, condition.

Going global: access to international markets

A crucial issue in the debate on development is access to international markets. In Central America, countries have concentrated their efforts at the regional and national level in gaining access to free trade zones. In the 1990s, the globalisation process picked up speed, but economic growth was nowhere as dynamic.

El Salvador, Honduras and Costa Rica were the first countries in the region to move toward integrating into international markets. Various factors influence the moment and context in which a country joins the trend toward joining the global economy. Among them are the specific historical circumstances and internal conditions which characterise their economies: extent and quality of education; skills training of the labour force; infrastructure development; quality of and access to telecommunications; adequate electricity supply services; development of the financial system; social development (public health, social security programmes and income distribution); human security; structure of the business sector.

Costa Rica joined the global market with its traditional exports (coffee, bananas and sugar), to which new lines of goods and services were added: agricultural products (pineapples, melons, ornamental plants, flowers, cassava, and miniature vegetables); aquaculture products (shellfish and tilapia); forestry products and products made of wood (doors, window-frames, toys, furniture); manufactured goods (plastics, paper, metalwork, foodstuffs, sports gear); *maquila*³ products (textiles, electronic hardware and software); services (call centres and medical services); processing and assembly of integrated circuits; and tourism. Costa Rican exports grew from USD 1 billion per annum in 1984 to more than USD 6 billion in 2003.⁴

Is the FTA a tool for development?

The question of development is central to any national or regional debate about the significance and consequences of FTAs with the United States or with any other country or region. To what extent can FTAs contribute to the achievement of nationally determined goals, favourable macroeconomic indicators,

wider and more cost-effective social coverage, and better-equipped urban and rural infrastructure, among other projects?

The answer would appear to be obvious. Even in the best of cases, a trade agreement by and of itself cannot accomplish all these things. That is why support for or opposition to the signing of a free trade treaty with the United States should be debated in the context of a nation-wide, open discussion about long-term strategies for development, and the specific form such development will take. The national debate has been neither as profound or as transparent as its importance warrants.

Sectors in favour of the treaty subscribe intrinsically to global thought and take for granted that globalisation in any country of the world will, in the long run, automatically improve the quality of life of its people. According to this way of thinking, there is no need to take into account the specific situation of a given country; indeed, to do so would be to create an obstacle to the integration of that country to the international marketplace. For them national interests are substituted by global interests. Free trade, then, is the accepted national model.

On the other hand, sectors opposed to the signing of the FTA think differently, and exert pressure to open a public debate about the characteristics that they hope Costa Rica should have in the next 50 years. All the evidence suggests that this pressure is aimed at achieving nationally valid rules in order to set certain limits to and safeguard economic and social sectors that have historically characterised Costa Rica's national identity and should continue to be recognised as such. A country's trade policy is part of its economic policy, which in turn is part of a whole set of policies which taken together should reflect an integrative vision of the country.

Today's international context is changing both the form and the content of the conditions which until now were points of reference for the legal basis of a specific model of international trade relations. In many areas, particularly with regard to trade, the globalisation process requires new instruments and mechanisms that will enable the free movement of goods and persons. Any national legislation that hinders the aims of free trade will have to change.

FTAs are defined as the set of instruments and mechanisms that will change the terms of international trade in order to favour more dynamic regional markets and, consequently, provide better opportunities for the so-called weak economies. In theory, when put into practice, FTA mechanisms should favour the more dependent economies, since these will interact with stronger economies which will introduce capital that will boost local exports, thus

benefiting the future economic development of developing countries.

Costa Rica's participation in the joint FTA negotiations carried out by Central American countries with the United States is based on the Government's conviction that signing the Free Trade Agreement will give the country the economic impulse needed for development. Some years ago, however, the country's social and economic development started to slow down; the initial impulse provided by progressive long-term policies devised in the 1940s and 1950s showed signs of deterioration in the 1980s, and finally came to a halt in the 1990s.

Since then, Costa Rica's development has been typically contradictory: on the one hand, the country has been able to keep its high development indices above the average for Central America and for many Latin American countries; on the other hand, the current economic crisis has made an impact on the country, whose consequences will only become clear in the next 10 to 15 years.

Today, when free trade is put forward as the road to salvation, there are many voices warning of possible future effects that will transform the country, negatively affecting its social and productive sectors. ■

3 *Maquilas* are factories owned by foreign or transnational companies which are set up in countries where labour is cheap, to manufacture or assemble some of the components of a finished product.

4 Ministry of Foreign Trade (COMEX). www.comex.go.cr