CAFTA to Have Mixed Effects on Region's Firms

BY BETTY JOYCE NASH

The Central American Free Trade Agreement, or CAFTA, was passed this summer by a razor-thin margin in Congress. The close vote was a reflection of divided U.S. sentiment for the trade pact, which is the most significant since the North American Free Trade Agreement broke down commerce barriers with Mexico and Canada more than a decade ago.

Workers' groups worry about lost domestic manufacturing jobs. But CAFTA's immediate impact on some domestic exports will be positive, analysts say, especially for yarn and cotton producers. North Carolina, for example, sent $1.7 billion worth of goods to the region encompassed by CAFTA in 2004, of which 77 percent were textile and apparel goods.

The agreement includes Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua, as well as one Caribbean nation, the Dominican Republic. So far, three of the six countries' legislatures have approved the deal.

In general, CAFTA will cut tariffs for goods flowing between participating countries. This will ultimately spur growth, says Peter Rodriguez, an international trade economist at the University of Virginia. "It's a huge win for these Central American countries," he says.

But CAFTA opponents say that the agreement won't help the textile manufacturing industries in Central America. That's because Chinese exports have grown sharply since the Multifiber Arrangement ended Jan. 1, 2005, potentially reducing demand from Central American firms.

CAFTA was opposed by 132 firms that form or finish fabric in the United States. The National Textile Association (NTA) protested because of provisions that could allow fabrics from outside the region, such as China, to be made into garments and enter the United States via CAFTA countries duty-free, according to Karl Spilhaus of NTA.

While textile manufacturers opposed CAFTA, companies that produce fabrics necessary for textile production generally supported it. Those firms will now be able to send their goods more easily to Central American manufacturing facilities, including factories they operate themselves.

"The higher labor content processes are done in Central America," says Cass Johnson, president of the National Council of Textile Organizations, or NCTO. "This solidifies that partnership which is important now that China's on the scene with quotas having gone away."

Yarns and fabrics manufactured in the United States are assembled into garments, many at offshore U.S. firms, and brought back into the United States duty-free. Those clothes have been imported duty-free since the Caribbean Basin Initiative, last renewed in 2000. CAFTA broadens and makes permanent this arrangement. National Spinning, of Washington, N.C., makes yarns for sweaters and home furnishings. Jim Chesnutt, president and chief executive officer, says the company has a factory in El Salvador.

"All the yarn comes from the United States, and we bring them [products] back," says Chesnutt, who also serves as chairman of NCTO. While the current agreement allows the goods into the country duty-free, it is set to expire in 2008. That uncertainty makes businesses think twice about expanding or opening factories. "Now we have something permanent in place that allows people to make decisions."

Lloyd Wood of the American Manufacturing Trade Action Coalition [AMTAC] predicts that within a few years, most remaining domestic textile and manufacturing jobs will be lost as a result of the agreement. Jobs in the textile mills and products industry are forecast to decline by about 31 percent through 2012, according to the Bureau of Labor Statistics. Already in 2005, 11 textile plants have closed in North Carolina, and another 12 in South Carolina.

While textiles and yarns dominate the conversation about CAFTA, the region may ultimately be a market for information technology, agricultural, construction, paper, chemical, scientific, and medical products. Between 2000 and 2004, the heftiest percentage increases in North Carolina's exports to the region were in categories other than textiles. Those included fruit and vegetable preserves, wire products, household appliances, and machines, among others. CAFTA will do away with tariffs in those sectors.

Rodriguez, the University of Virginia economist, says CAFTA is a step up for Central America. "You shouldn't expect this to revolutionize or overturn any of the maladies you've seen in Central American governments," he says. "But these are governments that have made tremendous economic progress since a decade and a half ago, when they were in an economic black hole." **RF**

Exports from Fifth District States to CAFTA Countries
(in thousands of dollars)

Overall	2000	2004	% Change
DC	9,260	9,260	-61
MD	23,404	36,751	57
NC	1,038,988	1,717,090	65
SC	304,576	334,004	8
VA	148,079	152,469	3
WV	4,181	2,637	-37

SOURCE: U.S. Dept. of Commerce