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Corn and Radishes:

Successes and Failures Under CAFTA

By Ezra K. Fieser

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GUATEMALA CITY–Back in 2005, when Barrack Obama was the junior senator from Illinois, he distilled his opposition to the Central America Free Trade Agreement into a sharp op-ed for the *Chicago Tribune*.

He acknowledged that globalization is a force that is here to stay, calling it "a technological revolution that is fundamentally changing the world's economy, producing winners and losers along the way." Stopping CAFTA—whose member countries at the time had combined economies one-sixth the size of Illinois'—would have done little to stem the tide of a global shift, he wrote.

The pact, however, was problematic, he said. It did little to protect labor rights and to uphold environmental standards. It bowed to the U.S. sugar industry. He voted against it.

Free-trade opponents have seized upon the points in that article—as well as similar statements Obama made during the campaign—to urge him to renegotiate CAFTA and the similar North American Free Trade Agreement, and to resist other trade agreements the Bush administration left on the table.

But Obama's argument against CAFTA was based less on the bill's problems. The heart of his argument was that government was doing little to help workers prepare for the changes that come when competing in a global economy and even less to assist workers who had been displaced by trade agreements, such as CAFTA.

"The larger problem is what's missing from our prevailing policy on trade and globalization—namely, meaningful assistance for those who are not reaping its benefits and a plan to equip American workers with the skills and support they need to succeed in a 21st Century economy," he wrote.

The bill squeaked through Congress, passing

The terrain in Totonicapan, Guatemala, where farmers raise little besides corn.

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the House by two votes in 2005.

I have spent the past year looking at the effect of the agreement from the other side—from here in Guatemala. Obama's remarks seem as appropriate a presage for this country's vital agricultural sector as it does for the United States.

About 52 percent of Guatemalans live in poverty. The situation is worse outside Guatemala City, where roughly three-fourths of the population lives on less than $2 a day. That part of the population is dependent on farming, growing corn for its own consumption and the occasional sale to local markets.

As Obama's writing suggested, CAFTA is not the source of the problem. It is a visible continuation of the globalization trend that long ago put workers—in Guatemala and the United States and most other countries—face to face.

The problem is that the pact does not show deference to the realities of the member countries. In Guatemala, slightly less than half of the population is indigenous—people who have long been oppressed, represented the large majority of victims during the 36-year-war and are largely excluded from the country's political structure. They also make up a majority of the rural population, where poverty is widespread. To ask those same people to be prepared to compete in a global marketplace is unreasonable. That's not to say it's impossible. It was largely expected that an agreement with the U.S. would flood Guatemala with corn and other agricultural imports that would undercut products grown by farmers in Guatemala. The agreement should have goaded the government of Guatemala to prepare its people—particularly the rural poor—to confront a new economic reality. The government has done little.

"WINNERS AND LOSERS," SALOMON Cohen told me. He took a sip of mineral water and repeated it: "Winners and losers. That's the only way to measure the success of CAFTA."

"By modernizing Guatemala's economy, by giving opportunities," he said, "we believed we could create more winners than losers."

It was nearly four years after then-President Oscar Berger signed CAFTA, which Cohen negotiated for Guatemala. We sat in a cafeteria-style restaurant last month, sipping coffee and water, passing the morning and the early afternoon discussing the benefits and the failures of the agreement.

I spent the previous days preparing for the interview, jotting down observations I'd made during the past year, mining notes I'd collected from interviews with critics of the pact. Some of the criticism of the agreement was cutting and directed at Cohen. An organization that represented small farmers called him "a puppet for the U.S. and Guatemala's elite." I was prepared for defensive answers and prickly moments.

Cohen was not the shrewd businessman I expected. He asked about my personal life, my professional aspirations. He warned me about the dangers of living in Guatemala City. He told me about his kids, his deceased brother.

With that same mild manner, he defended CAFTA and the decisions he made throughout the rounds of negotiations that spanned months. "We received a lot of criticism when we were negotiating," he said. "People said it was bad for Guatemala, bad for the region and bad for the poor people. But these treaties, by themselves, don't make things better or worse. These are instruments. It depends on how you use them. You need to take advantage of these treaties to produce results."

The interview crystallized my thinking on CAFTA. A year into my fellowship, I have come to see the agreement not as the driving force behind the economic changes in Guatemala, but as a type of vehicle for transition.

This is not to say that I now believe

A small corn farm in Totonicapan.

CAFTA has fulfilled its promises of raising masses out of poverty. In a country where the two classes have long been sharply divided, the poor are staying poor and the rich are staying rich.

On one hand, CAFTA is helping to modernize Guatemala's economy. Foreign investors are pouring money into the country. Imports are up. New markets have opened. These factors have largely benefited the half of Guatemala that can afford to buy imported goods; the people that can shell out money to learn English and work in a newly opened call center; or those who know the construction trade and can get a job in a crew building one of the new office or apartment towers springing up around the city.

The problem, however, is that the other half can't take advantage of new opportunities. Poor farmers are being squeezed by new competition. A lack of entrepreneurship and lack of incentives has prevented the small business sector from growing. And the government is not stepping in to help.

I wrote one newsletter last year about the situation for poor farmers. But I decided to look again at agriculture—this time through the lens of CAFTA—because it is an important segment of the country's economy and a way of life for the majority of Guatemala's poor. When discussing CAFTA, former World Bank President James D. Wolfensohn said one of the agreement's goals was to "reduce poverty." It was a promise repeated by trade representatives and politicians in both the United States and Central America.

Poverty exists everywhere in Guatemala, in the slums of Guatemala City, among those who migrate to the United States and among the small business owners who are just getting by. But it's acute in the Highlands, where isolated farmers use a hoe and heft to raise as much corn as possible.

I THINK OFTEN OF THE FARMERS I MET last year. Not only the poor near-subsistence farmer trying to survive off corn and beans in the hills of Totonicapan, a rural department in the Western Highlands. But also of those who are thriving by producing vegetables and fruit that they sell to supermarkets. In judging the effects of CAFTA, I consider their stories to be central. On Guatemala's farms, you can find winners and losers.

CAFTA reduced or eliminated tariffs on thousands of products. The list for the products that fall under the agreement for Guatemala alone is 354 pages long. In other chapters, the agreement covers various other ideas—from intellectual property protection to the protection of foreign investments.

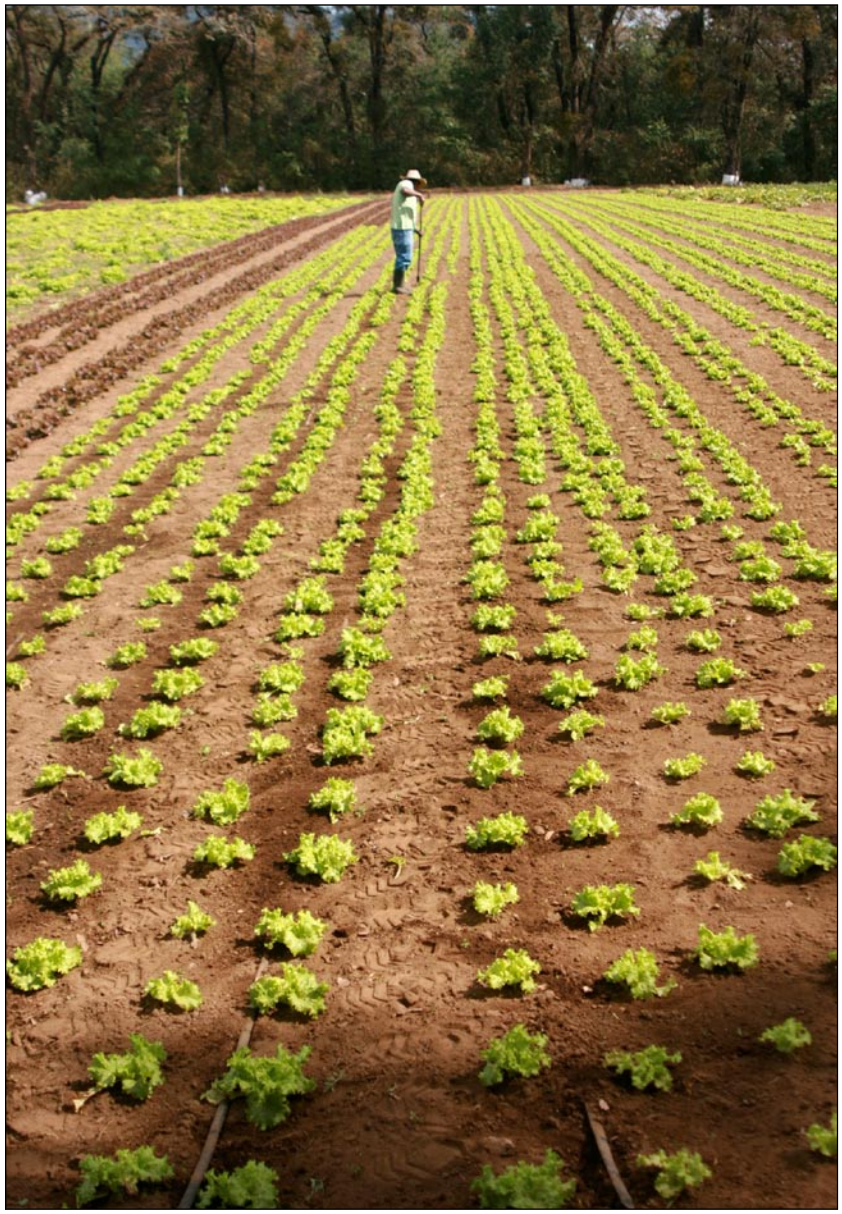
One of the most scrutinized and controversial aspects of the agreement, however, is how it treats agricultural products. At the heart of the criticism of CAFTA stands this theory: It allows the U.S. to flood poor countries with subsidized goods that disrupt local markets and undercut poor farmers, who, in turn, give up their farms and lifestyles to migrate to the United States or to the cities where they work low-paying jobs in factories that are making jeans to be sent back to the United States.

For Central America, CAFTA was an import pact. Eighty percent of goods sent to the U.S. by Central American countries were duty free before CAFTA was signed. The Caribbean Basin Initiative, a trade program that went into effect in 2000, allowed 19 countries to send most products to the United States free of duties.

What did an increase in imports portend for Central America? The North America Free Trade Agreement (NAFTA) was often used as an example of the effects CAFTA would bring. Statistics show that in the decade after NAFTA took hold, the number of Mexicans living illegally in the United States rose from 2.5 million to an estimated 8 million. More jobs were lost in the agricultural sector than were created in new factories that opened.

Central American economies are still heavily dependent on agriculture. In Guatemala, agriculture accounts for more than 20 percent of the gross domestic product and supports 40 percent of the workforce.

Keeping that in mind, I looked at the U.S.-Guatemala trade balance. It long favored Guatemala. In 2004, the year before CAFTA was signed, Guatemala's trade surplus with the U.S. was $602 million. By 2006, the balance favored the U.S. Last year, the U.S. counted a $1.2 billion trade surplus with Guatemala.



A farm hand works a field that was converted from corn to lettuce to sell to local supermarkets.

Looking solely at agricultural and livestock products, U.S. exports to Guatemala rose from $179 million in 2004 to $432 million in 2008, an increase of 140 percent. Meanwhile, Guatemalan exports to the United States went from $631 million to $993 million (up 57 percent) during the same time period.

I drilled down a step further, looking solely at cereals—which include wheat, corn, rice, millet, oats, grain sorghum and barley. In the same 5-year-period, U.S. exports of those cereals rose 194 percent, from $118 million to $346 million. Save for a little rice, Guatemala does not export cereals to the United States.

For a country the size of Guatemala, the increase in corn imports is substantial. But the drop in prices that was predicted has not accompanied the increase in imports. The opposite has happened. The price of corn tortillas, a staple eaten with every meal, has increased. From 2004 to 2008, the price increased 50 percent to roughly 45 cents for one pound of tortillas. The price of tortillas are sensitive to the market price of corn and seen as an accurate indicator of food prices.

During the global food crisis last year, an estimated 1.2 million Guatemalans were pushed into poverty or near-impoverished conditions

What the numbers show belies the argument of how CAFTA would upset the agricultural market. What the data say is that the farmers are not being undercut by the imports from the U.S. because they are net consumers. That is, they don't produce enough to be suppliers. They occasionally sell parts of their harvest for quick cash. But the farmers are more likely to work part-time jobs or migrate for months to earn money to buy food.

Last year, I wrote about Jesus Victor, who I met during the global food crisis. Victor's costs were increasing significantly. He managed to harvest about 200 pounds of corn a year, hardly enough to feed his five children. By working jobs in construction or at other farms, he could earn enough to buy needed foods—namely proteins—at the market.

I told Cohen about Victor. "What did you—and the Guatemalan government—expect to happen to people like him?" I asked.

"They'd be upset by CAFTA," he said. "They are the people who are going to need to adapt or they will be displaced."

In other words, under the CAFTA model we are asking Victor to change the way he lives or to close his farm, which was handed down from his father's father.

The government and non-governmental organizations are already seeing signs that farms are closing and selling their land to agribusinesses. Fontierras, which was set up after the end of the war by the government to distribute land to campesinos (small farmers), says that thousands of families have sold their land in recent years, although they could not provide data. CONGCOOP, an NGO that studies Guatemalan agriculture, says the costs of inputs—particularly fertilizers—have skyrocketed, making it cheaper for farmers to buy corn than to grow it, even despite the increase in food prices.

I spent a day in the government's Institute of National Statistics sifting through the most recent agriculture surveys. (I later found out the surveys are available electronically.) The numbers show that while the harvest of white corn—used for human consumption—has remained steady, the number of farms has dropped significantly. According to the data, around 1,000 small farms—those growing solely white corn—closed or were sold from 2006 to 2007. The 2008 numbers have yet to be released.

At the same time, the amount of land being cultivated for sugar cane and African palm—from which palm oil is pressed—grew dramatically. Roughly 34,000 new acres of those two crops were planted from 2006 to 2007. The roughly 800,000 acres of sugar cane and African palm are held by a small number of owners.

The nation's agricultural structure is shifting more toward export markets. In 2007, 32 percent of the nation's cultivated land was planted with the top five agricultural exports—coffee, sugar cane, banana, palm oil and cardamom. That was up two percentage points from 2006.

In total 63 percent of land under cultivation was dedicated to products that are mainly designated for export markets. For comparison, about one-third of U.S. land under cultivation is dedicated to exports.

The numbers reflect the disparity in land ownership in Guatemala. They also suggest that the benefits of enhanced agricultural trade with the United States created under CAFTA are being realized by the large agribusinesses, not the small holders that the agreement promised to lift from poverty.

Is this a sign that the pattern that took place in Mexico—in which farmers working small plots were forced out—is bound to repeat itself in Guatemala? Perhaps, but one key difference exists between NAFTA and CAFTA.

Whereas NAFTA tore down tariffs on agricultural goods overnight, CAFTA built in a 10-year schedule that caps the tonnage for some products, such as corn. Instead of allowing an unlimited amount of corn to enter Guatemala, CAFTA slowly increases the amount that can enter duty free.

This 10-year timetable was designed to prevent the widespread displacement of small farmers. "It gives them time to adjust, to do something different, to adapt," Cohen told me.

"The government is supposed to be a significant player in this part of the equation," he said. "They are supposed to be out there, teaching these farmers how to take advantage of CAFTA and not be hurt by it."

The government, in this respect, has been nowhere to be found. The number of civil servants in the farming sector in Guatemala was 20,000 strong in 1980. By the late 1990s, after years of structural-adjustment reforms, it was 700 people, a drop of more than 95 percent, according to World Bank figures.

A 2008 study by the International Food Policy Research Institute stated that Guatemala's public spending on agriculture as a percentage of its gross domestic product is one of the lowest in the world for agriculture-based countries.

According to government statistics, only 4 percent of farms received technical assistance during 2006-2007 fiscal year. Government technicians reached more than 10 percent of farms in only one of its 22 departments.

Most small farmers are left to their own devices. Victor, for example, left school before sixth grade. His farming techniques are limited—he uses a few hand tools to grow corn each year. He fertilizes heavily. He has no system for irrigation. He does not rotate crops. When the corn is not growing he prays.

Is what we are asking of Victor possible? Could he compete with the combines and subsidies of U.S. agriculture?

The answer is yes. He could compete and even thrive in the face of increased competition. But, it requires an investment.

WORKING A FEW HOURS FROM VICTOR, in similar hilly conditions, Gumercindo Ajanel's small farming business is thriving. Just a few years ago, he was growing corn and beans on a small, rented plot and not doing very well financially. When I met him last year, his farm had expanded by several acres. He was employing 30 people and growing thick radishes, and bright green parsley, cilantro and lettuce in neat rows.

He did not make the transition alone, however. A Wal-Mart agronomist taught him best methods for growing produce. The company linked him to a bank that provided him with a micro loan at a low rate, with which he purchased irrigation equipment. And he received regular visits from soil experts whom he consulted on the use of fertilizers and pesticides.

He sold directly to Wal-Mart, which owns 145 major supermarkets in Guatemala and some 460 in Central America.

Later, during a press event announcing that an additional 600 farmers would be recruited to sell directly to Wal-Mart, then Ambassador James M. Derham drew a connection between those farmers and CAFTA. He said it was an excellent example of the types of opportunities the agreement creates. Several chapters of the agreement paved the way for foreign companies, like Wal-Mart, to buy local businesses or open up new businesses. Under the agreement, governments cannot treat foreign companies differently from the way they treat local businesses. And if a government passes laws or regulations that it believes are contrary to free trade, a corporation can sue to recoup expenses and unrealized profits. Drawbacks to those provisions exist, but they create an environment that encourages investment from foreign businesses. In the case of Wal-Mart, CAFTA also allows it to send produce duty free to stores throughout the region and in the United States.

What I saw at Ajanel's farm—and few other dozen that I have visited—were members of a dynamic economy. These farmers—none grew corn—were part of the same system that excluded Victor and thousands of other near-subsistence farmers.

Getting farmers ready to produce vegetables that are suitable to sell to the market is expensive and time-consuming. The program to recruit those 600 farmers is expected to take three years and cost $2.2 million—paid for by USAID, Wal-Mart and the NGO Mercy Corps (none of the funds came from the Guatemalan government).

Some 550,000 farming families live in Guatemala's Highlands. But they are a fraction of the people who depend, in some part, on agriculture for income—which is roughly 50 percent of the workforce.

Clearly, many of them will be displaced. However, as the example of Ajanel showed me, economic change does not necessarily mean small farmers cannot survive.

In dozens of cases in which farmers have received a small amount of technical assistance and been taught basic business skills, they have pulled themselves out of poverty. In the rural department of Chimaltenango, farmers were struggling to earn enough to survive. They were selling to intermediaries and spending much of their income on transportation costs. Today, 98 of them have organized into LeStansa. The cooperative has built a packing facility, owns two refrigerated trucks and sells green beans directly to a Miami food broker.

The common thread that runs through the stories of small farmer success is corn. I found no cases in which a small farmer or cooperative improved their lot by growing corn. In nearly every case, the farmers made the transition from basic grains to high-value vegetables or fruits. That trend is reflected in export numbers. Twenty years ago, the export of non-traditional crops was nearly zero. In 2005, they represented 38 percent of total exports.

Gumercindo Ajanel is surrounded by local media and Wal-Mart representatives as the company announces a new plan to recruit more small farmers to sell to its stores.

Farmers growing lettuce and radishes for sale to Wal-Mart grocery stores are benefiting under the agreement.

It has grown by 26 percent each year since 2000.

More importantly, the cultivation of these crops is a job producer. The National Coffee Growers Association estimates that the annual coffee harvest creates 2 million seasonal jobs in the Highlands.

That trend could be continued with an investment by the government.

Last month, the Association of Guatemalan Exporters (Agexport) estimated that 31,120 jobs could be created this year under a $32 million plan that focuses on development of the agricultural sector. Thulium Garcia, Agexport president, said the money could be used to construct roads and food storage centers, offer technical assistance and build needed 100 irrigation systems that could be used by as many as 10,000 hectares of farmland. Thirty to thirty-five thousand pounds of vegetables could be grown on each hectare, he said.

Agexport presented the plan to President Alvaro Colom, who is due to present his budget to Congress in coming weeks.

WHEN COHEN SAT DOWN TO NEGOTIATE the agreement, he envisioned a burgeoning agriculture industry, one in which farmers were rapidly transitioning to the type of business model that employs people rather then just grows food for self-consumption.

He believed that through growth in the farming sector accompanied by new opportunities created by foreign companies in the service sector—such as call centers—more Guatemalans would be employed, migration would be cut and poverty and the chasm between the rich and the poor would come down.

"The treaty opened with high expectations," Cohen said. "I don't think Guatemala is making a big enough effort to take advantage of the opportunities it affords."

Foreign direct investment has increased. In 2007, foreign firms spent $724 million, up from historical averages of around $250 million a year.

In terms of poverty reduction and closing the income gap, however, the agreement appears to be having little effect. The unemployment rate for those working in the formal sector has increased in recent years. In 2002, it was less than 2 percent. In 2008, it reached 5.5 percent, according to the Ministry of Labor.

Last year was a record year for deportations from the United States with more than 27,000 Guatemalans being sent back. Yet, they keep leaving. A government migration representative told me there has been no discernible drop in migration in the last year or two, suggesting CAFTA has done little to help cut migration.

The United Nations' Gini Coefficient, which measures income inequality, has worsened for the country. In 2002, it was 48.1. In 2007, it was 55.1. The scale is set from 0 to 100 with 0 being completely equal and 100 being completely unequal. The most equal countries in the world have a coefficient of around 23. Guatemala's coefficient was the 13th worst in the world.

Its economy grew by 3.9 percent last year, slightly below average annual growth prior to the implementation of CAFTA.

If opportunities for growth exist—as the story of the farmers selling to Wal-Mart suggest—than the stagnant social indicators tell us that too few are taking advantage of them.

In his op-ed, Obama wrote "almost all of these trade agreements are about making life easier for the winners of globalization, while we do nothing as life gets harder for … workers."

"We cannot expect to insulate ourselves from all the dislocations brought about by free trade ... But we need a national commitment."

Thus far, that's exactly what's missing in Guatemala. ❑

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Elena Agarkova • RUSSIA
May 2008 - 2010

Elena is living in Siberia, studying management of natural resources and the relationship between Siberia's natural riches and its people. Previously, Elena was a Legal Fellow at the University of Washington's School of Law, at the Berman Environmental Law Clinic. She has clerked for Honorable Cynthia M. Rufe of the federal district court in Philadelphia, and has practiced commercial litigation at the New York office of Milbank, Tweed, Hadley & McCloy LLP. Elena was born in Moscow, Russia, and has volunteered for environmental non-profits in the Lake Baikal region of Siberia. She graduated from Georgetown University Law Center in 2001, and has received a bachelor's degree in political science from Barnard College.

Pooja Bhatia • HAITI
September 2008 - 2010

Pooja attended Harvard as an undergraduate, and then worked for the *Wall Street Journal* for a few years. She graduated from Harvard Law School. She was appointed Harvard Law School Satter Human Rights Fellow in 2007 and worked as an attorney with the Bureau des Avocats Internationaux, which advocates and litigates on behalf of Haiti's poor.

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May 2009 - 2011

Eve is a *New Republic* staff writer interested in character and in how individuals fit themselves into new or changing societies. Through that lens, she will be writing about medicine and politics in the new South Africa. At the *New Republic,* she covered the first Democratic Congress since 1992 and the 2008 presidential race; her book reviews have also appeared the *New York Times*. She graduated with a degree in political science from Yale, where she also studied music.

Ezra Fieser • GUATEMALA
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Ezra is interested in economic and political changes in Central America. He is an ICWA fellow living in Guatemala where he will write about the country's rapidly changing economic structure and the effects on its politics, culture and people. He was formerly the deputy city editor for *The News Journal* (Wilmington, DE), a staff writer for *Springfield Republican* (Springfield, MA) and a Pulliam Fellow at *The Arizona Republic*. He is a graduate of Emerson College in Boston.

Suzy Hansen • TURKEY
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A John O. Crane Memorial Fellow, Suzy will be writing about politics and religion in Turkey. A former editor at the *New York Observer*, her work has also appeared in Salon, the *New York Times* Book Review, the *Nation*, and other publications. She graduated from the University of Pennsylvania in 1999.

Cecilia Kline • CENTRAL AMERICA
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Cecilia is a graduate of Georgetown University, Loyola University Chicago School of Law, and the University of Chicago School of Social Service Administration. In 2007 she began with Casa Alianza in Tegucigalpa, Honduras providing outreach for youth living on the street. As an ICWA Fellow she will write about youth-service programs from several Central American cities as a participant observer.

Derek Mitchell • INDIA
September 2007 - 2009

As a Phillips Talbot Fellow, Derek will explore the impact of global trade and economic growth on Indians living in poverty. He has served for the past year as a volunteer for Swaraj Peeth, an institute in New Delhi dedicated to nonviolent conflict resolution and Mahatma Gandhi's thought. Previously he was a Fulbright scholar in India at the Gandhi Peace Foundation. He has coordinated foreign policy research at George Washington University's Institute for Communitarian Policy Studies and worked as a political organizer in New Hampshire. Derek graduated with a degree in religion from Columbia University.

Raphael Soifer • BRAZIL
April 2007-2009

Raphi is a Donors' Fellow studying, as a participant and observer, the relationship between the arts and social change in communities throughout Brazil. An actor, director, playwright, musician and theatre educator, he has worked in the United States and Brazil, and has taught performance to prisoners and underprivileged youth through People's Palace Projects in Rio de Janeiro and Community Works in San Francisco. He holds a bachelor's degree in Theatre Studies and Anthropology from Yale University.

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