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**THE DOMINICAN REPUBLIC-CENTRAL AMERICA-UNITED
STATES FREE TRADE AGREEMENT (DR-CAFTA), A TOOL FOR
GROWTH:
“WORKING TOGETHER FOR THE BENEFIT OF ALL”**

**INTRODUCTION
TO THE
FINAL CONFERENCE REPORT
(IN ENGLISH)**

**October 4 - 5, 2006
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INTRODUCTION

The signing and ratification of the US-Central America/Dominican Republic Free Trade Agreement (CAFTA/DR) was a major milestone in Inter-American relations. The accord was reached after two years of strenuous bargaining, during which the various country negotiating teams included not only executive branch officials but also legislative representatives, and leaders of private firms and civil society organizations. The proposed agreement was openly and democratically debated in each of the seven countries preparatory to careful and thorough consideration in national legislatures. Upon approval by both houses of the United States Congress, President George W. Bush signed the CAFTA/DR implementing legislation on August 2, 2005. The Nicaraguan National Assembly voted 49-37 to ratify the accord on October 10, 2005 and it went into effect between the two nations on April 1, 2006.

CAFTA/DR is a comprehensive, state-of-the-art trade accord. It abolishes barriers on almost all trade in goods among the seven commercial partners, opens markets for trade in many services, and strengthens guarantees for investors. On sensitive products, particularly in agriculture, it allows for very gradual phase-in periods of up to 15-20 years. CAFTA/DR also includes pledges to uphold labor standards and environmental protection and provides cooperative mechanisms to ensure compliance. Most importantly, the accord allows for free trade in the infinite numbers of products that have not yet been invented but that will be produced in the member economies in future decades.

Furthermore, after nearly 200 years of frustrating protectionism, CAFTA/DR fulfills the historic dreams of the five nations of Central America to break down the commercial barriers among themselves and, finally, to perfect their regional integration aspirations.

CAFTA/DR is more than a commercial accord. It carries important political and diplomatic implications for the consolidation of relations among member states and of their democratic institutions. As President Bush remarked at the signing ceremony in the White House:

“CAFTA is more than a trade bill; it is a commitment among freedom-loving nations to advance peace and prosperity throughout the region. As the oldest democracy in the Western Hemisphere, the United States has a moral obligation and a vital national security interest in helping democracies in our neighborhood succeed, and CAFTA advances this goal.”

The Conference Mission

The conference “CAFTA/DR: Una herramienta para crecer: ¡Trabajando juntos, nos beneficiamos todos!”, held in Managua, Nicaragua, on October 4-5, 2006, was convened to advance these main purposes:

- To underscore the opportunities that CAFTA/DR offers Nicaragua to diversify and augment exports, attract foreign investment and create good jobs
- To demonstrate, by showcasing success stories, that Nicaraguan firms can compete on international markets
- To promote effective dialogue and partnerships between the private and public sectors and to encourage the potential leaders of the next government to address CAFTA implementation with positive proposals
- To recognize the major obstacles facing CAFTA implementation and to develop priority plans of action, and
- To design a follow-up action agenda that can be monitored and evaluated.

The conference was attended by over 300 public and private sector leaders. The one and one-half day meeting benefited from addresses by Carlos Pellas, a leading Nicaragua entrepreneur and innovator, by Alejandro Arguello, Ministro de Fomento, Industria y Comercio (MIFIC), and by U.S. Ambassador Paul Trivelli. In addition, expert representatives of major political parties and alliances, business leaders and CEOs from large and small firms, and distinguished economists from academia and the World Bank shared their views and experiences. In the final plenary session, four sectoral working groups presented detailed plans of action to transform CAFTA/DR from a written accord into a tangible reality.

Conference Themes

A number of themes came up repeatedly throughout the conference proceedings. There was virtually unanimous enthusiasm for the trade accord and the opportunities it offers for Nicaraguan exporters to access the much wider markets throughout Central America and the United States – and not just on the temporary terms as previously offered by the unilateral Caribbean Basin Initiative (CBI) but now on a reciprocal and thereby permanent basis. A particularly exciting feature of the conference was the numerous testimonies by private firms of their recent successes and future plans for exporting to CAFTA/DR markets – in non traditional export products, such as wood furniture, okra, pumpkin, tubers and roots, chinese vegetables; the impressive growth of the apparel industry and the potential for vertical integration from new varieties of cotton to spin textiles for inputs into apparel, adding as many as 20,000 new jobs per year; and a dynamic and varied tourism industry catering to business executives, cruise ships, residential homeowners and upscale resorts.

Investment Climate: Participants recognized that trade agreements, if properly implemented, can help to improve the climate for investment – domestic and foreign – in a number of ways. FTAs can add to investor certainty, increase the size of the market, induce a number of market-oriented reforms, and require a more modern and transparent government. If Nicaragua fully implements the CAFTA/DR provisions, including those requiring high labor standards and environmental protection, the country can project a quality “brand” image on international markets and make itself a choice site for global investors.

Complimentary Agenda: Many speakers underscored the importance of the “complimentary agenda,” a good portion of which has already been addressed in legislation in the Nicaraguan legislature. Producers cannot deliver their goods to market in a rapid and low-cost manner without well maintained roads, deep ports, and efficient customs handling. Recent modernization of the international airport in Managua is a major step in this direction. The facilitation of trade – lowering transactions costs and increasing speed to market - includes a range of issues, some touching on Central American integration and harmonization. Effective adjustment of national laws and regulations to meet CAFTA/DR standards touches on competition policy, the commercial code, and protection of intellectual property rights.

Equitable Benefits: A constant preoccupation throughout the proceedings was the insistence that CAFTA/DR benefit all Nicaraguans. Upgrading the educational system, especially the primary and secondary schools, and training students for good jobs in economic sectors with future promise, was a clear priority. Many speakers also addressed the needs of small and medium-sized firms, and the importance of assuring credit at reasonable interest rates, access to technology, management training and marketing expertise. Workers and farmers likely to be adversely affected by trade liberalization and accelerated competition would be in special need of financial assistance, retraining, marketing know-how and working capital. As small firms grow, an effective national competition policy can be their best guarantee that large firms will not engage in unfair predatory pricing policies – guaranteeing that all Nicaraguans will be free to compete on fair and equal footing in a democratic marketplace.

Public-Private Partnerships: In seizing the CAFTA/DR moment, both the public and private sectors have critical roles to play. Participants varied in the degrees of emphasis they placed on the respective roles of government and private enterprise. However, a persistent refrain was the critical importance of reforming the public sector. Many speakers questioned the current mix of government subsidies and tax breaks, arguing that fiscal resources should better be oriented toward smaller firms and the social needs of poorer citizens. The importance of building a more modern, accountable, transparent and less corrupt government was another theme, as was the urgent necessity of improving coordination among government agencies so as to facilitate information-sharing, the quality of decision making, and speed of response to the public at large. Many speakers

suggested that, rather than imagine conflict between the public and private sectors, it would be more profitable to seek public-private partnerships; one successful example is ProNicaragua, whose board of directors is a mix of public and private sector – an agency that has recently received an award for being among the five best investment promotion agencies in the world. Some speakers argued for opening infrastructure investment – in roads and energy – to private investment and public-private partnerships.

International Standards: A new foundation such as the CAFTA-DR requires existing legal frameworks to be examined in light of best international practices. We have worked with a network of interested parties to assist Nicaragua in the adoption of new measures such as the approval last week of a new anti-trust law (Ley de Competencia). This single legislative effort is the culmination of more than a decade of effort by Nicaragua, supported by many international donors, to forge a framework that ensures that illegal practices in the marketplace are subject to legal sanction. This law grants legal protection to the small producers and to all consumers in general. Among other laws that would be harmonized we can mention the Micro-Small and Medium Enterprises Law (Ley MIPYMES); environmental laws; security guarantee law; free trade zone law and others.

International Cooperation: Finally, speakers from the World Bank and USAID, and many Nicaraguan participants, offered a wealth of ways that international cooperation can assist Nicaragua in implementing CAFTA/DR and seizing its opportunities. Cooperation programs can help improve the business climate, assist MIPYMES (SME), build complementary infrastructure, and harmonize commercial laws and regulatory practices, including with regard to labor and the environment, to international standards.

In recent years, the Nicaraguan economy has grown at a modest 3-4 percent annual rate – insufficient to overcome unemployment and poverty. CAFTA/DR is an instrument that, properly seized, can add dynamism to the economy and significantly boost growth rates, creating good jobs and spreading prosperity.

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