

# TRADE OPENING, FREE MARKET AND NEW AGRICULTURAL PROTECTIONISM IN CENTROAMERICA

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International Trade has been in constant expansion since 1950. This trend can be explained by the reduction of customs tariffs negotiated within the GATT agreement. Despite some protectionist arguments, this is the new reality in terms of trade.

Despite this new tendency, the existence of trade barriers, others than the tariff barriers, as well as other technical trade obstacles, had serve to keep alive some of the protectionist policies. This can be clearly observed in the persistence of protectionist issues in trade negotiations, especially in those brought about to the negotiation table in the *Ronda Uruguay*.

This type of barriers affect especially the agricultural sector. We have to admit that the agricultural sector has decline in importance within the framework of the international trade system, and certainly it is not one of the most dynamic sector of the international economy. Despite the trend of productive diversification experienced by the region in the last ten years, Central America remains highly dependent on this sector; this is possible to be observed specially in countries like Costa Rica. The income coming from the agricultural activity represents one fifth of the GDP in the region and is an important part of the regional exports.

The major barriers and trade obstacles for this products are generated in the main export markets for Central America-United States, the European Union and Japan. These protectionist policies affect the development of the non-traditional

products in the region and contradict the world trend towards the opening of markets and economies. It is for all reasons previously mentioned, that the trade negotiations represent a fundamental instrument in favor of the countries of the region. The future of the agricultural products depends on the results of negotiations such as in the case of the *Ronda Uruguay*.

Among the small amount of products exported by Central America we find: banana, grain and instant coffee, pineapple, grapefruit, other «pulp» fruits, meat, fish and seafood, ornamental plants and foliage, honey, palm oil, sugar and molasses.

The adoption of preferential agreements and sanitary entry barriers could cause a decisive impact on the trade of tropical products coming from Central America, such as on the trade of banana and coffee. There are other types of protectionist measures such as compensatory taxes or the voluntary restriction agreements, that could affect other types of agricultural products such as flowers.

The case of the Carnation and other two types of local flowers will help to illustrate this phenomenon. The three agricultural products are included into a special agreement denominated *Iniciativa para la Cuenca del Caribe*, and enjoy a non-tariff status in the United States. The 21st of May of 1986, the company Stewart & Stewart from Washington D.C. in legal representation of the Floral Trade Council of California, requested to the Trade Department of the United States the imposition of compensatory and anti-dumping taxes to certain

type of flowers coming from Canada, Chile, Colombia, Costa Rica, Ecuador, Kenya, Mexico, Peru, Israel and the Netherlands. Among the flowers affected, there were the three species from Costa Rica-Carnation, short carnation and pompones.

In order to negotiate the dismantling of these kind of protectionist measures, Costa Rica has increase its participation in international forums such as the GATT and the World Trade Organization (WTO) as well as developed a «Free Trade» oriented economic policy and modified its institutional structure.

To face the new national and international economic reality in terms of trade, Costa Rica has been engaged during the last ten years in a process called: new international regime for liberalization and market opening. In Robert Keohane's words, the international regimes can be described as the implicit or explicit principles, norms, rules or decision making processes that gathers States' common expectations with regard to an specific area of the international relations. This norms, rules or procedures encompass compulsory norms of behaviour, even if there is not a supranational judicial institution which can supervise the observation of such rules. Its observance is negotiated and agreed on basis of «good will» and its contents are related to the specific topic to be negotiated.

Such is the case of the programs for structural adjustment and the new concept of economic integration. Both are instruments used by Central America to put into effect the policies of market liberalization and trade opening, and will help to integrate the region into the international market as part of the process of economic globalization. Together, the program for structural adjustment and the process of economic integration in the region, shape an «international regime», at least with regard to the process of market liberalization and economic opening. This is a process experienced in the region as a whole, as well as in every individual country, including their agricultural sectors.

This new economic process implied the gradual replacement of the model of import substitution by a new strategy for development characterized by the intensification of the international trade. Within this process, the agricultural sector has been a priority for the new strategy and in order to achieve the objectives in this area it has been followed a two step process: the imports promotion and the liberalization and the market opening.

In order to respond to the new economic requirements, the government of Costa Rica had encourage the creation of public and private institutions in charge of the development of the international trade of non-traditional products. Institutions such as MINEX and COMEX, the CNI, CINDE and CADEXCO

were created, and others like CENPRO and the regime for temporal importation were reformed in order to attend the new needs. Finally, the government also created the Sector de Comercio Exterior (Foreign Trade Sector) dependent on the Minister of Foreign Trade.

From the beginning of the new strategy in 1983, the private sector has played a decisive role with a strong support of the government of the United States. Internally, the private sector was in charge to develop the new strategy with the institutional support of the government of Costa Rica. And it is due to his new relationship that the private sector was incorporate to the decision making process of the public sector and it played an important role in the international negotiations. Within this structure CINDE will play a central role supporting the initiatives oriented to increase the exports, the investment, the training and promotion of the new model for development. CADEXCO will defend the Labour Union interest and finally, the Foreign Trade Sector will provide the general policies needed for the implementation of this new model.

The impact of this reforms in the agricultural sector has arrived late. The new strategy was introduced not long time ago into this sector and it found no resistance from any of the parts involved. At a first stage in the development of the new strategy, the agricultural sector was excluded from the international negotiations with the GATT and the World Bank. Nevertheless and due to the importance of the sector in the economy and maybe because the interest of the Minister of Agriculture Figueres - now president of the Republic, the agricultural sector was soon incorporated into the new economic process by participating in a first stage in the Program for Structural Adjustments (PAE II) negotiations. From that moment, the agricultural sector became an important actor within the new strategy of liberalization and market opening.

The nature of the process of incorporation of the agricultural sector -above mentioned- into the new economic strategy, explains the weakness of the institution in charge of the competitive incorporation of this sector into the world market. The public institutions shown a lack of decision making skills and the bureaucrats a degree of inefficiency to serve the needs of the local farmers. These factors, together with the inefficiency of the private institutions to achieve the main objectives of the new strategy, pushed the creation of a Program for Structural Adjustment for the Agricultural Sector. This program represent a institutional reform that it is been implemented since not long time ago.

The implementation of the regime for liberalization and market opening also needs the use of several instruments at national and regional level. Among other instruments to achieve

this goal we find the reduction of tariffs and non-tariffs barriers, of the obstacles for the imports, and of the external tariffs for imports. Other traditional instruments used are the price control, exchange rates and finance policies.

At a regional level, there was possible to observe a similar process. The regional integration agenda changed and with it also change the regional institutions encharge to take forward the integration process. The SICA was a product of the development of a Central America view towards the new international economic trends.

The first signs of life of the new policies of export promotion, liberalization and market opening can be sectorially analyzed. For example, we can see that the changes in the international trade system have had a little effect on some areas oriented to internal consumption, such as the production of beans. In any case, the effects suffered by this type of products has been as a consequence of the regional policies and in a future, it is expected that some of these products gain a major degree of commercial mobility within the area of Central America.

Other products such as the concentrated orange juice, the pineapple and the tubercles have good possibilities to be introduced into the international market only if the adequate trade policies are followed.

The case of the beans is different. If the regional commercialization of the beans is desired, it is imperative the implementation of policies that guarantee the domestic production and encourage the production of excedents to be put into the market of Central America. Among others measures, it is necessary to guarantee the level of competitiveness and to have some control over the prices. So far, this is not a governmental priority and neither a concern for the farmers. The future development of the commercialization of this type of products will need the creation of a well organized strategy, that must include research and technical assistance programas, as well as a good system of information about prices and markets.

Other products such as the potatoe and the onion are among the «protected» products, and it is not possible to foresee the increase of the import levels. Nevertheless, the farmers engaged in the production of potatoe must watch carefully the American's import and push the government to negotiate a major level of protections if needed.

The producers of onion claim the opening of new markets for their product, and Central America could be an option for them. In a mid term period will be necessary to watch closely the developments in the region as well as in the domestic market in order to be able to develop a future regional strategy.

The tomato face similar characteristics. The industry of the tomato is characterized by its growing level of exports especially to the United States and Colombia. The domestic market is self-sufficient and there are not imports of the product. The major challenge for this product, will be to develop a major degree of industrialization in order to become more competitive and gain markets to the mexican tomato. In order to achieve this objective, will be necessary to have a better system of price fluctuation and to provide the necessary technical support, credits and options of commercialization to the farmers.

The roots and tubercles have increase its importance as export products since 1985, when a strategy for export to non-traditional third markets was implemented. Its has been achieved to become the first supplier of the United States and to attract the attention of countries like Sweden (in the case of «la yuca»). The main problem with this products is the price inestability due to the quality of the product. This is a problem that should be combat with a high degree of priority. Despite this obstacle, Costa Rica's products have no problems for access to other markets due to their high degree of competitiveness.

The export of citrus fruits, such as the pineapple and the concentrated orange juice have been increased. For example, Costa Rica became the main supplier of pineapple for Germany. The country also export important quantities of concentrated orange juice of the United States. Both products could be affected seriously by the NAFTA.

As a special characteristic, this two products are mainly cultivated in medium and big size farms owned by foreign investors. In principle, the development of the technology necessary to achieve a better level of competitiveness should not be a problem. But if it is desired to incorporated the small producer to this process, it will be necessary to provide them with the technology and the information needed.

None of the last products face serious problems of market protection since the level of import is almost inexistent or none. Only the concentrated orange juice could face some problems due to the increase of imports from the United States. Within Central America, Costa Rica enjoy competitive advantages especially in products such as beans.

Some of the products have a possibility to open new markets through the free trade agreements if the production in adjusted to the international standards (price, quality and parcel norms or packing norms). Such is the case of the tomato's industrialization, the dehydration of onion, and the standards for roots and tubercles. All the products above described also have possibilities to expand into the regional market if their level of production and competitiveness is increased.

By increasing the competitiveness of our products in the international market and by opening new frontiers, we will be able to increase the possibilities of our farmers to locate their products in highly profitable market.

The negotiations for a major opening of markets in Mexico, Colombia, Europe, as well as the negotiations to join the NAFTA, will be of major importance to achieve the introduction for more products of Costa Rica into the international market.

The small agricultural producers organizations must take into account the domestic as well as the international characteristics described in this paper. It must be promoted a transparent trade policy, based on the principles of equity and asymmetry and which must be characterized by a progressive development, trying to preserve and increase the special and differentiated treatment in favour of the developing countries such as Costa Rica.

The countries of Central America should be concentrated in the implementation of an open economic policies based on these principles, and with a gradual pace, taking into account the domestic as well as the international conditions of the agricultural sector.

This order of ideas must be taken into account at a regional level. In order to make possible the Integration of Central America, the countries must be in the best disposition of sharing costs and benefits. The new policies of market opening, must include the views of all the member states, taking into account the individual characteristics of each country. This is necessary in order to permit the creation of the internal conditions that guarantee a competitive participation of the agricultural sector in the regional as well as in the international markets.

Because of the specific topics of negotiation on liberalization and market opening -rules of origin, norms of

quality, commercialization networks, etc.- the impact of the traditional producer organizations is low. Although these groups can be an important pressure groups in the negotiation of macroeconomic issues, they are not major actors in the negotiations of non-traditional products and on the insertion of their products into the international markets. The structure and origin of these organization is related to the old model of import substitution and therefore to a protectionist economic project, and that is why they had become unfunctional into the negotiations for the new economic strategy.

But in the other hand, once reformed, the decentralized institutions such as the National Office for Seeds and the Institute for the Coffee (CAFE) and other specialized institutions in the agricultural sector could become important instruments for the improvement of the agricultural quality standards and for the provision of efficient services to the small producers.

The small agricultural producers must increase their participation in organizations such as CADEXCO and CINDE which are highly interested in the negotiation of issues related to the export of their products. The small producers also should get involve into the process of consultation and negotiations carried out by private enterprises or by the government.

Finally, it is important to stress the need to conform a negotiation agenda between small agricultural producers and the government, and these producers and regional instances. This agenda must include topics related to technical assistance, financing, market information and capacitation. At the present time will be difficult to include other topics not related to the development of the liberalization and market opening.

The small producers should be prepared to participate in trading enterprises as well as in producer cooperatives, looking for to increase their production in order to get the opportunity to open markets for their products in the regional as well as in the international market with a higher degree of efficiency at the lowest possible intermediate cost.