



Accelerating Trade-Led Agricultural Diversification (T-LAD): Talking Points

Introduction

- The Central American countries and the Dominican Republic face a common challenge in implementing the U.S.-Central America-Dominican Republic Free Trade Agreement (CAFTA-DR) – how to increase the capacity of their agricultural sectors to generate economic growth and reduce rural poverty.
- To assist the countries in responding to this challenge, USAID recently completed a study of the factors affecting a country’s capacity to generate rural-based economic growth: *Optimizing the Economic Growth and Poverty-Reduction Benefits of CAFTA-DR: Accelerating Trade-Led Agricultural Diversification (T-LAD)*.
- The T-LAD study seeks to assist CAFTA-DR stakeholders not only in formulating a strategy for trade-led agricultural diversification, but also in building national support for and mobilizing resources to implement the strategy.
- USAID is now supporting outreach to generate increased awareness and understanding of the need for a long-term strategy and program for T-LAD as the essential driver for ensuring that CAFTA-DR is a “win-win” for the U.S. and our Central American and Dominican Republic trading partners.

Conclusions

- Macroeconomic reforms and trade liberalization have not “lifted all boats,” with growth in the industrial and services sector unlikely to be sufficient to generate the jobs needed to reduce rural poverty.
- Given the proximity of the CAFTA-DR countries to the U.S. and their natural (land and labor) endowments, there is tremendous potential for T-LAD to stimulate broad-based growth.
- There are significant trade and investment opportunities in agriculture and agribusiness if public and private investments focus on developing the more remunerative export-oriented and value-added products linked to the industrial and services sectors.
- Exploiting this potential is seriously constrained by de-capitalization in the agricultural and rural sectors which are in dire need of increased and sustained public, private and donor support to improve infrastructure, strengthen institutions, develop human capital, develop and disseminate technology, etc.
- Political leaders need to better understand the opportunities and challenges, and provide leadership for the vision, funding, and institutions that are needed to energize T-LAD as a driver for rural economic growth and poverty reduction.
- Given the magnitude of rural sector de-capitalization, there is an urgent need to mobilize a long-term commitment (transcending political administrations) to build capacity for T-LAD; not addressing this capacity-building need will squander the treaty’s transition period for countries to adjust their economies, leading to increased environmental degradation and increased waves of poverty-driven violence, drug trafficking, and illegal migration.

- To reduce risks for the producers, the countries have to pay more attention to strengthen the enabling environment for agriculture, trade, and investment, while improving access to financing, development and dissemination of new technologies, providing technical support, investing in infrastructure, etc.
- USAID and other donor capacities to assist the CAFTA-DR countries to address the T-LAD challenge have been weakened over the years by cuts in funding and staffing.

Recommendations

- CAFTA-DR countries should take advantage of lessons learned from Chile's successful experience with rural diversification, and avoid repeating Mexico's mistakes under NAFTA.
- Address food insecurity in the CAFTA-DR countries by improving access to food (i.e., focus on higher-value crops and value-added products for domestic, regional, and export markets, in order to maximize the potential linkages with the industrial and service sectors to drive job and income growth), while providing "safety net" support to help small-scale producers to raise the productivity of their basic grain production.
- Engage and support CAFTA-DR countries in developing a national vision for T-LAD and commitment across administrations to implement mutually-support reforms.
- Place greater attention in current donor programs (USAID, MCC, others) on assisting countries and producers to build capacity to implement T-LAD such that potential risks are reduced and returns maximized.
- Increase USAID capacity (i.e., funding and staffing) to provide leadership and support for T-LAD.