

Guatemala and Costa Rica: In and Out of CAFTA

By Umberto Mazzei | July 18, 2007

“Foreign exchange for traditional exports is increasing” announced the *Periódico de Guatemala* on April 25. It reported that the Bank of Guatemala announced an increase of 11.8% in traditional exports—sugar, coffee, bananas, cardamom—up to US\$551.4 million. Furthermore, exports of industrial products—with added value—to Central America, grew by 43.8%. Finally, “the revenue of foreign exchange from non-traditional exports registered a slight decrease of 0.9% compared to 2006, attributable to a dip in foreign sales of clothing, molasses, and rubber, totaling US\$482 million.”

It was a short, but eloquent, announcement: after nearly a year in CAFTA's orbit, the same traditional exports as always are growing, outside of the Central American Free Trade Agreement (CAFTA). The message is overwhelming: the country “sacrificed” itself to the Free Trade Agreement (FTA) with the United States for nothing. The CAFTA model, pushing the Central American economy toward the export of non-traditional goods to the United States, has been a pretext for imposing expensive foreign pharmaceuticals as opposed to cheap, national generic drugs, overwhelming the peasant farmer with subsidized imports, and granting extra-territorial jurisdiction to foreign companies. The growth in exports being celebrated by the Bank of Guatemala has nothing to do with CAFTA. Traditional exports enjoy free entry under current tariff duties (under the “Most Favored Nation” (MFN) policy). The exception is sugar, which is administered by quotas, which CAFTA has barely increased.¹ Furthermore, 68% of exported products that have preferred status under the CBI (Caribbean Basin Initiative) and CAFTA also have free entry—making it misleading to include them in these figures. Preferential treatment accounts for 15% of exports that pay less than 10%

duty, 11% that pay more than 20% duty, and 7% that pay a specific duty. Non-traditional exports of agricultural products are not large since they are perishable and seasonal. The important ones are textile and clothing exports, however, and these are decreasing.

Imports, on the other hand, are growing. Agricultural imports increased by 15% from US\$360 million in 2005 to US\$415 million in 2006. In January, they stood at US\$141 million, indicating that they might exceed US\$500 million in 2007. Imports of manufactured goods increased by 12% from US\$7,992 million in 2005 to US\$8,963 million in 2006. Raw materials (extractive industries) grew by 18% from US\$2,146 million in 2005 to US\$2,541 million in 2006. This increase can be attributed to the increase in fuel prices.

What we don't import are investments—another of CAFTA's false promises. Most interested parties already took advantage since the beginning of the CBI preferences, which CAFTA merely repeats. The purchasing of national companies by foreigners—banks in particular—represents a transfer of property and not a new investment. CAFTA, however, bestows it the privileges of foreign investment. There will be



those that will come to settle conflicts, real or fictional, under the jurisdiction of the CIADI (World Bank). The lawsuit for US\$50 million, which was never invested, for withdrawing the contract ceding Guatemala's railroad network is merely the first example of this. See Argentina.

Costa Rica

The country best educated and most advanced in terms of human development in Central America has its own approach to the Free Trade Agreement with the United States. The issue brought the election to a stalemate and is now being resolved by referendum. The pressure against the ratification of the Agreement—negotiated in secret—is growing as more and more people learn about its content. Universities, professional associations, trade unions, rural cooperatives, and business groups believe it to be incompatible with the prestigious Costa Rican social model of human and economic development.

Costa Rica, without entering into CAFTA, is not only the biggest exporter in Central America but is also the country in which exports are growing the most: by 17%, from US\$700 million in 2005 to US\$820 million in 2006. From 2000 and 2006, exports to the United States (from US\$3,190 million to US\$3,400 million) and the European Union (from US\$1,190 million to US\$1,280) varied only slightly. The sharp increase comes from exports to Asia, from US\$304.8 million in 2005 to US\$1,485 million in 2006—up 370%. China (including Hong Kong) made up US\$1,082 million and continues to increase. Exports to Taiwan grew from US\$10 million in 2000 to US\$95 million in 2006. Indeed, future trade is heading toward Asia.

The greatest number of exports is derived from the information technology component sector: integrated circuits represent 13% (at a value of US\$1,091 million) and computer components 7.7% (US\$633 million) of exports to Asia. These are followed by traditional banana exports, representing 7.6% (US\$624 million) that mainly go to the United States, where they enjoy tariff-free entry. Textiles are also exported to the United States, although these exports decreased from US\$730 million in 2002 to US\$464 million in 2006, of which US\$130 million did not use the CBI preference.

Despite all this, Costa Rica has a trade deficit. The San José *La Prensa Libre* reports that the “quarterly accumulated trade deficit has reached US\$788 million.” Furthermore, the newspaper explains that “despite exports growing by 13.2% (US\$260 million) in the first quarter of 2007, reaching a value of US\$2,228 million, it was not possible to reduce the trade deficit and, rather, it increased by 9.3%, from the US\$721 million reported in 2006 to US\$788 this year.” It is easy to imagine what would happen if CAFTA opened up imports of subsidized cereals in the United States.

The Textile Factor

The Central American product with unlimited export potential to the United States is sugar, a traditional product that has been capped by CAFTA. Non-traditional products in the light manufacturing sector are very competitive and their big development was in clothing with preferential treatment. This functioned effectively while the “Multifiber Agreement” determined quotas in the U.S. market, and ceased to be so effective once the market was opened up to competition.

Clothing imports by the United States, by country of origin (in millions of US\$)

Country	2005	2006	% change
Total imports of the USA	68,713	71,630	4.25
Guatemala	1,816	1,666	-8.26
Costa Rica	482	465	-3.53
Mexico	6,078	5,297	-12.85
China	15,143	18,518	22.23

Source: OTEXA, April 2007.

The table demonstrates how the textile market in the United States is growing only slightly while imports from China are growing at a faster rate than the market. This displaces competitors that enjoy preferential treatment under the FTA because the “rules of origin” render them less competitive. Such is the conclusion of the CATO Institute² on the accusation of dumping leveled at China.

Ethanol

Ethanol does not figure into the promises made by CAFTA but it does represent an advantage. Demand for energy is growing and the conquest of the oil producing states of the Middle East has failed. The United States is now contemplating ethanol but the efficient source of it is tropical sugar cane, a substance that is barely produced in the United States. The United States produces its ethanol from corn, which it protects at US\$0.54 a gallon. CAFTA gives Central America free entry of ethanol, at quantities higher than its current production. This leads to possible cooperation with Brazil—the “ethanol champion”—in order to exploit the exportable quota to the United States. In the medium term the United States will have to eliminate the tariff on ethanol in order to reduce the price of its energy when it confronts

the debacle of its corn and its US\$6 billion in subsidies. CAFTA gives Central America a quota without tariffs while others, such as Brazil, pay 54%. When the United States eliminates the tariff in order to avoid increasing the price of its energy, Central America will lose its advantage to Brazil, although it will continue to be competitive against corn or cellulose-produced ethanol from the United States.

Non-traditional exports in Guatemala have decreased instead of increasing—contrary to the objectives of CAFTA. In Costa Rica, which remains outside CAFTA, exports of new products and markets have grown, while the CBI model is wearing thin. To parties interested in textiles, neither CAFTA nor the CBI gives them a competitive advantage. All indicates that the privileged share in an FTA with the United States is more a hindrance than a help.

END NOTES

- ¹ 99,000 metric tons are divided up among all of Central America and the Dominican Republic over a period of 15 years. Guatemala has increased its share by 32,000 metric tons to 49,820 and Costa Rica by 11,000 metric tons to 14,080. The total does not reach 1% of U.S. consumption.
- ² “Who’s Manipulating Whom? China’s Currency and the U.S. Economy” by Daniel Griswold.

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