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The fourth round of negotiations on the Central America Free Trade Agreement (CAFTA) opened in Guatemala City this week, in an atmosphere of expectation that this would be the round in which Central America got to throw a few punches (see NotiCen, 2003-03-06). But rather than the anticipated punches, in the form of an aggressive and coordinated new set of proposals on the part of the Central Americans, Guatemala threw a bombshell into the process with a proposal of its own.

Representatives of the business sectors of the countries of the isthmus were dumbfounded by the move, telling the press that Guatemala had destroyed all the accords that their negotiators had achieved to date, and that everything would now have to be rebuilt from the ground up. The comments came as they were leaving a meeting organized by the main Guatemalan business association, the powerful Comite Coordinador de Asociaciones Agricolas, Comerciales, Industriales, y Financieras (CACIF). The business sector was caught flat-footed by a change that the host country's national negotiating team presented with respect to the "canastas," or groups of products that would be tagged for special treatment within the agreement.

"Guatemala presented a surprise trade offer, in which it would remove taxes on 93% of the products that come into the country from the United States," said Jose Maria Comma, businessman from El Salvador. "The negotiations have been thrown overboard. From here on, everything has to start over, given that the United States will want us all to cave in like Guatemala has. That just tosses out all the investment and effort that we've put into this." The Guatemalan business representatives had begun to think, in recent days, that their longstanding feud with the government was over. "Until last week, our relations with the government was very communicative. Nevertheless, we didn't know in detail the new aggressive proposal that Salomon Cohen [chief negotiator for Guatemala] presented to Central America," said Roberto Castaneda, president of CACIF. The nonplussed impresarios did manage an analysis of the situation.

They saw three motives in their government's behavior: First, the Guatemalan team wanted to simplify the negotiations. Second, the government is really seeking a bilateral agreement with the US, and doesn't want to be fettered with the opinions of other countries, or other internal spheres of influence. Third, the government's confrontation with the private sector isn't over, after all.

Cohen, meanwhile, dismissed the reaction from the business sector as unfounded and uninformed, but did not deny that the abrupt change in strategy came from Guatemalan President Alfonso Portillo. But if the business representatives were misinformed, then so were the negotiators representing the other countries. They were left scrambling to rework their proposals. The delegation from El Salvador said that Guatemala had managed to violate every agreement reached during meetings in Honduras held in preparation for the present round.

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Eduardo Ayala, El Salvador's economy vice minister said, "Until yesterday, (May 11) the proposals that were to be presented to the United States were being revised, meaning the change of products from one canasta to another." This would throw the whole agenda for the round off, because the US would have to grant more time. According to sources close to the negotiations, the US was expecting consensus on all the products. "There can't be bilateral proposals, said Ayala. "The only option is to present a regional offer that includes the needs and requirements of the five countries." In dispute were some 6,300 individual products that are potential free-trade items. The countries had failed to agree among themselves on about half of these.

But they had agreed on a list of specific products divided into four separate canastas. In one of these were "sensitive" items that would need to have tariffs lifted incrementally, or at specific future dates. On this, the countries had agreed. That agreement fell to pieces when Guatemala announced that the canastas would be divided differently. Cohen's proposal called for an up-front elimination of tariffs on 79% of the items, and a schedule of six to 12 years for another 15% of the products. Treatment of the remainder was not specified.

And then there were the little guys

While the foregoing was the main concern of big business, small business was also upset with the way things were going. Julian Reyes represents small and medium-sized businesses (pequenas y medianas empresas, Pymes) in CACIF. He estimated that only 3.7% Pymes are currently in a condition to confront and survive CAFTA. He said that of 1.35 million Pymes operating in Guatemala, only 50,000 could export their products competitively. "The rest are not even prepared to offer their products competitively in the local market if this opening of trade implied by a free-trade agreement with the United States occurs," he said. In order for these businesses to survive, he continued, there would have to be an investment in training, acquisition of machinery, and technology that would allow them to be competitive with lower costs. "The Pymes also have to prepare themselves to find market niches to send their products to, but before that, they have to reach a level of internal competitiveness," said Reyes.

Enrique Lacs, coordinator of the Comision Empresarial para las Negociaciones Internacionales (CENCIT) was slightly less pessimistic. He views the Pymes as a high-turnover sector that quickly adapts to the markets. "There is no risk to them from a free-trade agreement, but neither will they see benefits because they have no capacity for export," said Lacs. He thought the Pymes would find themselves depending on the local, and perhaps the Central American markets, where they might see some secondary benefits.

Salomon Cohen, however, was optimistic that CAFTA represented opportunities to the Pymes, especially if they organized themselves into cooperatives. He offered neither explanation nor justification for his view. The Pymes are struggling even without competition from abroad. Recent statistics show that 35,000 have formally registered their intention to close. About 8,700 have unofficially ceased to operate since the year 2000. As the edifice of solidarity toppled around the Central Americans, there was no help coming from the US (see NotiCen, 2003-01-23).

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After three days of wrangling with their adversarial partner, consensus from the isthmus teams was that the US proposals on issues of tariff preferences fell far short of expectations. "The offer of the United States did not consolidate the Caribbean Basin Initiative (CBI) and did not, therefore, respond to our expectations," said Cohen. Under CBI, as much as 90% of the region's export production was eligible for tariff-free access to the great northern market (see NotiCen, 2000-10-12).

Once CAFTA becomes operative, it will supersede the unilateral CBI concessions. That would make Central America, at this point in the process, a net loser by half. Under present proposals, only 45% of production would be duty-free. That left the Central Americans pretty much back where they started. "The deal is that our countries study the US proposals in detail in order to come to agreements favorable to Central America. The regional counteroffer will be presented in the next round," offered Cohen. But with the experience of the Guatemala surprise behind them, the negotiations will take place at a different level of trust. The next round is scheduled for June, in Tegucigalpa, Honduras.

Costa Rica's private sector representative Marco Venicio Ruiz said the US proposals "give us nothing," and condemns to destruction the region's production, especially with regard to their mainstays, agriculture and textiles. Nicaraguan business leader Anastasio Somarriba said that the business representatives agreed with the official negotiators "to fix strategies to fight for equitable bases" for CAFTA.

A less circumspect Elias Antonio Saca of El Salvador, who is president of the Consejo Economico Centroamericano (CECA), said that the business sector had met with the negotiators to establish a process of "transparency, without secrecy, [but with] consensus and consultation with the private sector." Saca was referring to the lack of information coming from the governments, reportedly at the behest of the US delegation, that has been an issue since the start of the talks. He went on to fault the official delegations for not having taken into account "46%" of the proposals formulated by his sector. Representatives of all five countries' private sectors agreed on that last point, that positions and strategies of both sides still do not reach them "on time and in detail."

This round, which began May 12, concludes May 16.

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