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Brazilian President Luiz Inacio Lula da Silva arrived in Guatemala for a two-day visit to discuss business with his Guatemalan counterpart President Oscar Berger and other regional presidents. He was there to present his Programa de Incentivos a las Inversiones Brasilenas en Centroamerica (PIBAC). PIBAC is a Brazilian initiative to use the Central American states that have ratified the Central America Free Trade Agreement (CAFTA), and the Dominican Republic, also a signatory, as a platform to export Brazilian products to the US under the favorable conditions of the treaty.

The Brazilian plan allows South America's largest economy to take advantage of the trade agreement without the downside of having to open its markets to US goods. Lula has stalled, perhaps forever, US plans to expand CAFTA to the whole of the hemisphere under a Free Trade Area of the Americas (FTAA). PIBAC thus becomes something of an unintended consequence of CAFTA for the US. CAFTA is slated to go into effect in January 2006 for those countries that have ratified it. They include Guatemala, El Salvador, Honduras, and the Dominican Republic. Nicaragua and Costa Rica have yet to make the commitment.

In Brazil, director of the trade department of the Foreign Relations Ministry Mario Vilalta has headed a push to get businesspeople throughout the vast country to see the beauty of the scheme and invest in Central America. He has been offering credit to prospective players through the Banco Nacional de Desenvolvimento Economico e Social (BNDES), while simultaneously spinning the idea as something less than an FTAA workaround. "Brazil is interested in the FTAA, but as long as it doesn't exist, we're gambling on another type of access to markets," he said.

Plans for Central America include not only flow-throughs to the larger northern market but also infrastructure, food products, and steel for local consumption. Lula arrived in Guatemala Sept. 12. He and Berger quickly set to work signing accords including a Protocolo de Intenciones en el area de las Tecnicas de Produccion y Uso de Etanol Combustible.

Ethanol has a role to play in solving the serious problems to regional economies posed by high fuel prices and also as one of the flow-through products to the US, where corn and sugar growers had planned on keeping that burgeoning market largely to themselves (see NotiCen, 2005-06-30).

The quick coming to an agreement between the two owes in part to a basic cooperation agreement in place since 1976. Lula seemed happy with the day's accomplishments, saying he could leave Guatemala "with the conviction that we are barely taking the first steps so that Central America and South America, Brazil and Guatemala, can tighten our relations in the political, commercial, economic, and cultural fields." He and Berger also signed an agreement allowing permanent consultation to broaden cooperation and take common positions on international political matters.

In all, the two presidents signed six separate accords:

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Literacy Brazil will support a project to coordinate and implement teaching reading and writing in Guatemala.

Scholarships Brazil will provide 50 scholarships for students of poor families.

AIDS prevention Brazil will implement a plan of information, education, communication, and epidemiological investigation in Guatemala.

Fruit production Brazil will implement a project for the expansion of tropical-fruit production, with training to develop the industry.

Use of ethanol Brazil will, within three months, come to an agreement with Guatemala regarding levels of production and types of cooperation, as well as consultation to increase the installed capacity for use of the fuel.

Brazil invited Berger to visit, but only on condition that he bring Rigoberta Menchu along. Lula apparently has a special fondness for the Nobel Prize laureate who has joined the Guatemalan government as goodwill ambassador. In return, Berger said he was "absolutely convinced that the leadership of President Lula is marking a historic step" on the issues plaguing the region, among them hunger and poverty. Lula had attended and spoken at the close of the Conferencia Latinoamericana sobre el Hambre Cronica put on by the UN Food and Agriculture Organization (FAO) on Sept. 12. The next day, he attended the meeting of heads of state of the countries of the Sistema de Integracion Centroamericana (SICA). The SICA meeting was programmed to expand into the I Encuentro Empresarial Brasil-SICA, for which Lula brought along about 100 representatives of 18 of his country's companies. These businesses are concentrated in the agribusiness, textile, and energy sectors and are looking for opportunities to promote products and invest in the region. They will deal with businesspeople from Central America, including Belize. Guatemala's trade with Brazil has been nothing to get excited about in the past. Small as the trade has been, it has been severely skewed. Data from the Banco de Guatemala, the central bank, show a mere US$900,000 in exports and US$172 million in imports for 2004. Guatemalan exports have been limited to sesame seeds, some plastics, and electrical-transmission equipment. Criticism of the plans These insignificant figures have formed part of the basis for media criticism of these commercial goings-on. Prensa Libre, Guatemala's largest daily, editorialized that there is little room for expansion of trade with a country so comparatively large and far away, which also happens to be, in some cases, the world's leading exporter of many of the goods that Guatemala produces. Among these are coffee, sugar, soy, citrics, poultry, cacao, tobacco, corn, and cotton. Brazil also produces many of the same minerals, and its technological advantage is enormous. For the isthmus as a whole, the paper pointed out, Central America bought US$1.36 billion in goods and services, while managing to export only US$105.6 million to the southern colossus. Add in transportation costs and the possibilities of improving the balance of trade are slim. Even the usefulness of the region as an export platform for Brazil is limited; the US, Japan, and Germany are already Brazil's largest trading partners. Niches for Guatemala The critique concedes that there are some niches in which the region might benefit from closer ties to Brazil. Those are Brazilian direct investment, tourism, and Brazil's experience in educational, technological, and industrial development. It does not appear that Guatemala's expectations were far off that mark. Emmanuel Seidner, Berger's competitiveness commissioner, said that he had identified four areas ripe for Brazilian investment in the short to medium term. In tourism, he said the hotel chains Othon S.A. and Palmares, both of Rio de Janeiro, had shown interest. In consumer electronics, Multibras S.A. of Sao Paulo and Electrolux do Brasil

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of Curitaba were interested in doing business. Seidner said Brazilian candy makers and clothing assemblers had looked upon Guatemala's existing capacity with interest. "Furthermore," he argued, "those businesspeople are after the access benefits the country will have with the US after the ratification of the trade agreement." It is not as though Brazilian cooperation is not worth the time and trouble. Minister of Energy and Mines Luis Ortiz said the technology transfer and consultation in the use of ethanol have real value, and so do hydroelectric minigenerators and oil exploration, all Brazilian areas of expertise. Brazilian state oil company Petrobras will be doing some analysis of Guatemalan oil potential. "We're completing the details of this cooperation," he said. Guatemala is counting heavily on the promise of ethanol and Brazilian experience with the fuel to help ease the burden of current energy costs. A Central American delegation will go to Brazil within the next three weeks to learn more about the process of converting sugar cane to ethanol. Central Americans are also interested in Brazil's extensive use of "flexi" engines for cars and trucks. These engines can run on gasoline, ethanol, or a combination of the two. Costa Rican Foreign Minister Roberto Tovar said that all the SICA members have agreed on the necessity of building an assembly plant for these engines somewhere in the region, although concrete plans are far from completion.An area of discord between Brazil and Guatemala on the trade front concerns the FTAA. Guatemala would prefer being a party to a multilateral deal of that kind to a bilateral agreement with Brazil or other countries to the south, but the parties are far from that kind of discussion at this time. Closer to short-term accomplishment would be the inclusion of Brazil in the Banco Centroamericano de Integracion Economica (BCIE); this was agreed upon at the summit. Also agreed upon was an instruction by the heads of state to their respective ministers of economy and foreign relations to advance exploration of an eventual free trade agreement with the Southern Cone Common Market (MERCOSUR). The final formal outcome was an agreement to use the opening to the Brazilian market to move the balance of trade toward equilibrium.

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