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Central American Nations Fortify Trade, Cooperation with Asian Countries

by LADB Staff

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Since July, the Central American countries have held high-level meetings including two presidential summits with the governments of Taiwan, Japan, and South Korea in an effort to expand the region's trade and cooperation with Asian nations. On July 25-27, the foreign ministers from all seven isthmian nations (including Panama and Belize) met in Taipei with Taiwan's foreign minister, John Chang, for the fifth annual conference of the Central America-Taiwan Cooperation Commission. Since its creation in 1991, the commission has focused primarily on promoting Taiwanese investment in the region. In fact, since the last meeting in 1995, the Central American countries have sponsored a stream of business trips for Taiwanese executives interested in investing in Central America.

Between January and May of this year, about 1,500 Taiwanese entrepreneurs visited most of the isthmian countries as part of these junkets, generating plans for a vast increase in Taiwanese investment. Currently, direct Taiwanese investment in Central America (with the exception of Belize) totals about US\$300 million. Panama accounts for the lion's share, with US\$180 million. The other five countries account, on average, for about US\$24 million each. According to Chou Yen head of the Investment Center at Taiwan's Ministry of Economy and Industrial Development the Taiwanese government and private sector plan to establish ten "industrial zones" in five of the Central American countries as a result of the visits.

A total of 150 Taiwanese firms are interested in setting up operations in one or more of the zones, which are expected to move forward rapidly in the aftermath of the latest meeting of the cooperation commission. Many Taiwanese firms now operating in the region and most of the new factories now being planned are in the maquila sector, since Taiwan, like other Asian countries, has been taking advantage of the region's cheap labor force, abundant natural resources, close proximity to the US and Canadian markets, and the tariff breaks that Central America enjoys under the US's General System of Preferences (GSP) and the Caribbean Basin Initiative (CBI).

At the July conference, the foreign ministers also discussed methods to reduce the region's chronic trade deficit with Taiwan, such as measures to promote Central American products on the island nation. According to the Secretaria de Integracion Economica Centroamericana (SIECA), in 1994 the five common-market countries Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica imported a total of US\$146 million in goods from Taiwan, mostly manufactured products such as electric appliances. In contrast, those countries only exported a total of US\$6 million to Taiwan, generating a US\$140 million trade deficit. During the conference, Taiwan also approved US\$16 million in multilateral assistance, which will finance a series of development projects in Central America.

More significant, Taiwan expressed interest in loaning US\$70 million through the Banco Centroamericano de Integración Económica (BCIE) to foment small and medium-sized businesses in the region, with US\$10 million to be made available for each one of the seven isthmian countries. Since July, the Central American countries have also held two high-level meetings with Japanese officials. On July 28-30, Japanese Foreign Minister Yukihiko Ikeda met with Central American foreign ministers in Tokyo for the second annual conference of the Central America-Japan Cooperation Forum. And, on Aug. 29 Japanese Prime Minister Ryutaro Hashimoto participated in a summit in San Jose with the presidents of Costa Rica, Guatemala, Honduras, and Belize. High-level delegates from the other three isthmian nations also participated. The cooperation forum was created in September 1995, and the forum's first meeting was held in November of that year (see NotiSur, 12/14/95).

At this second conference, the foreign ministers defined the areas for trade and cooperation that will be prioritized for the future. These include development of the tourist industry in Central America; trade and investment promotion; environmental protection, especially in the area of waste management; transfer of technology; and infrastructure development. As a result, Japanese financial and technical assistance to the region will now emphasize these areas. Japanese aid is already significant, with a total of US\$1.128 billion either loaned or donated to Central American countries (with the exception of Belize) during the 1989-1993 period. In particular, the foreign ministers agreed to review projects that the Japanese government can help finance under the Central American Sustainable Development Alliance (ALIDES) and to seek Japanese investment in environmental programs. Among other things, in 1997 Japan will provide technical training and assistance in urban waste management in Central America.

The forum participants also agreed to design a broad plan for Japan to participate in the region's tourist industry. Among the specific areas for cooperation is a tourist-promotion scheme for Japanese citizens to visit Central America as part of regional package deals (see EcoCentral, 06/13/96); an increase in air traffic between Japan and Central America, whereby Costa Rica would be converted into a gateway for Japanese citizens travelling to the isthmus and to other parts of Latin America and the Caribbean; and technical assistance from Japan to train Central Americans in tourist-related affairs. To push forward these cooperation programs, the forum participants agreed to create a Central America-Japan Technical Commission, which will begin meeting immediately. Notwithstanding the progress achieved in investment and cooperation, little headway was made in efforts to lower the region's whopping trade deficit with Japan.

According to SIECA, in the 1990-1994 period, Japan exported nearly five times more to Central America than it imported from the isthmus. In those five years, the five common-market countries sold US\$499 million in goods to Japan, mostly coffee, fish products, raw goods, and vegetable extracts. In contrast, those nations imported US\$2.415 billion from Japan mostly machinery, equipment, automobiles, and electric appliances generating a US\$1.916 billion trade deficit. Japan did agree to help the Central Americans promote their products on the island, but Japanese officials warned that exporters must diversify their products to increase sales, since there is limited demand for the raw goods and agricultural products that make up the bulk of the region's exports. "We are trying to import more from Central America, but industries on the isthmus have yet to respond fully to our recommendations," said Kenshiro Akimoto, Japan's ambassador to Costa Rica. "These countries don't have enough variety in the products they offer to Japanese consumers."

Meanwhile, the summit with Japan's prime minister was largely a symbolic gesture to emphasize the growth in economic relations. Hashimoto only met with the regional delegations for four hours during a stopover in Costa Rica en route to South America, and no multilateral accords were signed. Nevertheless, the prime minister did promise significant aid to Guatemala once President Alvaro Arzu signs a final peace accord with the Guatemala guerrillas later this year (see NotiSur, 09/27/96).

The Arzu administration estimates that reconstruction and financing for the implementation of programs contained in the peace accords will cost a total of US\$2.5 billion. The government expects to finance US\$1.5 billion with domestic funds and is appealing to foreign governments and multilateral organizations to provide the remaining US\$1 billion. Costa Rica also received new aid. Among other things, Hashimoto signed an accord to provide US\$200 million for construction of a hydroelectric dam, which will become operational in the year 2002 with a 150-megawatt capacity.

Finally, on Sept. 4-5, South Korean President Kim Young-sam visited Guatemala, where he held bilateral meetings with the presidents of Guatemala, El Salvador, and Honduras, and then a summit with those three presidents and the heads of state of Nicaragua and Costa Rica. The summit marked the first time that any multilateral conference has been held with South Korean leaders, despite the high level of Korean investment in Central America. Currently, South Korea has about US \$200 million invested in the five common-market countries, the majority of which is in the maquila sector, particularly textiles.

South Korean investment is particularly strong in Guatemala and Honduras. In Guatemala, there are approximately 180 South Korean firms, about half of which are maquila factories. Although most are medium-sized companies, some large firms are also operating there, such as Sam Phoong with three factories, and Samsung with five. According to SIECA, as of 1991, a total of 25,916 Guatemalans were employed in South Korean maquilas, representing 47.7% of the 54,272 employees in the maquila sector that year. In Honduras, there are more than 70 South Korean firms in the maquila sector, which, like Guatemala, account for the largest percentage of the 68,000 jobs created by the maquila industry. According to Kim, his country's central interest is to increase South Korean investment in Central America, particularly in the maquila sector, since the Korean government considers the isthmus a strategic region to export textiles and other goods to North American markets.

The South Koreans are carefully following Central America's efforts to negotiate parity status for their exports with the members of the North American Free Trade Agreement (NAFTA), which, if approved, would create a boon for Asian investors in the Central American maquila sector. "Our interest in Central America is growing because of the latent, largely untapped domestic markets in the isthmian countries and because the region provides a platform to gain access to the US market," said Kim. Added Buan Ko, spokesperson for Kim's delegation, "Our goal is to transfer our industries to commercially strategic regions that are geographically well-located and that offer cheap and intensive labor."

Trade with the region, however, is also very important for South Korea. Like Taiwan and Japan, South Korea maintains a huge trade surplus with the Central American countries. In 1995 alone,

South Korea sold US\$2.570 billion worth of goods to the five common-market nations, mostly machinery, automobiles, and electric appliances. In contrast, those five countries only exported US \$460 million in goods mostly sugar, coffee, and other agricultural products generating a US\$2.11 billion trade deficit. At the summit, the participating presidents agreed to create the first Central America-South Korea Forum for Dialogue and Cooperation, which, like the Taiwanese and Japanese forums, will meet on an annual basis. The presidents also created a technical commission that will meet regularly to push forward the agreements reached by the forum.

Among other things, South Korea decided to become an extraregional member of the BCIE, with an initial contribution of US\$57 million to capitalize the bank. The total will be increased to US \$150 million if the Central American countries agree to grant South Korea a seat on the bank's directorate. [Sources: Reuter, 05/12/96; La Prensa (Nicaragua), 07/05/96; Panorama Centroamericano (Guatemala), August 1996; Notimex, 08/07/96; Prensa Libre (Guatemala), 08/20/96, 09/03/96; Agencia Centroamericana de Noticias-Spanish news service EFE, 08/06/96, 08/16/96, 09/05/96; Siglo Veintiuno (Guatemala), 08/20/96, 09/05/96; Inter Press Service, 08/26/96, 08/28/96, 09/05/96; Agence France-Presse, 05/23/96, 06/10/96, 06/25/96, 07/15/96, 08/08/96, 08/15/96, 08/25/96, 08/27-30/96, 09/04/96, 09/05/96, 09/08/96, 09/10/96; Inforpress Centroamericana (Guatemala), 08/15/96, 09/05/96, 09/12/96, 09/19/96]

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