3-22-2001

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LADB Article Id: 53526
ISSN: 1089-1560

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by LADB Staff
Category/Department: Central America
Published: 2001-03-22

After a 10-year effort, the northern triangle countries of Central America will ease into free trade with Mexico between March 15 and April 15. Economy officials in the three countries Guatemala, Honduras, and El Salvador say their economies will benefit almost immediately, but critics have reservations. Free trade between Mexico and two of the triangle countries Guatemala and El Salvador began March 15. Honduras will enter the system April 15.

Discussion of a free-trade treaty between Mexico and the triangle countries began in 1991 at the Tuxtla I meeting in the capital of the Mexican state of Chiapas (see EcoCentral, 1996-10-24). Presidents of the four countries signed the treaty in June 2000 (see NotiCen, 2000-07-13), and the pact was ratified by all but Honduras last December. Honduras delayed ratification until February 2001. Otherwise, the treaty would have gone into effect in January of this year.

Economy officials in the three countries see great potential for their exports to Mexico's market of 100 million consumers. Salvadoran Economy Minister Miguel Lacayo said exporters could begin immediately to ship paint products, textiles, tiles, tropical hats, and other products to Mexico. The treaty is also expected to generate 15,000 new jobs in El Salvador over the next four years. With much of El Salvador's economy in ruins because of the series of earthquakes that began in January (see NotiCen, 2001-01-25), Salvadoran officials expect Mexican investment, particularly in housing, to help with reconstruction efforts.

Despite the expectation that trade will improve, Central American officials agree that the trade pact favors Mexican exports such as automobiles and auto parts, food products, and construction materials, while it excludes exports to Mexico of three of the region's most important traditional products coffee, sugar, and bananas. Some aspects of free trade remain unresolved, particularly how labor rights and the environment are to be protected. These concerns have been somewhat muted during debates since in all three countries conservative parties rule.

In El Salvador, the leftist Farabundo Marti para la Liberacion Nacional (FMLN) says it supports free trade but believes the treaty violates the Constitution because it does not guarantee labor and other rights. The party has threatened to test the constitutionality of the treaty once it is in force. FMLN Deputy Ileana Rogel said in December that the accord unconstitutionally strips away the legislature's functions regarding commerce, such as customs taxes and trade incentives, and hands them to a regional body (Comision de Tratado) created under the treaty. Some Salvadoran scholars oppose the treaty on similar grounds.

Raul Moreno, director of macroeconomic studies at the Fundacion para el Desarrollo Economico (FUNDE), said that the governing mechanisms of the agreement were not very transparent and

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gave too much power over trade matters to the presidents and economy ministers. Other critics of free trade claim it will flood their countries with Mexican goods. Defenders of the treaty point to trade statistics for Costa Rica and Nicaragua to show that exports steadily increased because of their bilateral trade agreements with Mexico.

By contrast, without such a treaty, El Salvador has seen its trade imbalance with Mexico widen. Figures from Mexico's Banco Nacional de Comercio Exterior (BANCOMEXT) show Mexico exported US$245 million in goods to El Salvador last year but imported only US$19.8 million. Mexican exports to Honduras the same year were US$189.4 million against US$10.9 million in imports from Honduras. For all three countries, Mexican exports in 1999 were more than US$1 billion, while triangle-country exports to Mexico totaled just US$256 million. Some private-sector leaders worry that local economies are too weak to resist an onslaught of Mexican imports.

In Guatemala, Chamber of Commerce president Jorge Briz predicted that free trade would increase Mexican imports by 3% and would lead to an increase in contraband imports because of lax customs practices that are expected to accompany free trade. The result, said Mario Montano, president of the business organization Comite Coordinador de Asociaciones Agricolas, Comerciales, Industriales y Financieras (CACIF), would be that a majority of small business in Guatemala could go under. He said the outcome might be different were the government able to pull the economy out of its current crisis. Likewise, Honduran business leader Jose Mejia said many businesses were not ready to face Mexican competition.

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