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The recession in the US has hurt the Central American garment industry and forced the layoff of thousands of workers. Maquila owners in Guatemala also blame the government for its inhospitality to the maquila assembly plants that export to the US market. They also are concerned about pending changes in US trade policies that could further damage the industry. In Honduras, some 19 foreign businesses closed or fled the country in recent months leaving 10,000 workers unemployed. Some of these were maquiladora plants that shut down because of the recession in the US.

Juliette Handal, president of the Consejo Hondureno de la Empresa Privada (COHEP), told a news conference in September that some plants had moved to other Central American countries, and she said that President Carlos Flores should take action instead of saying COHEP's warnings were exaggerated.

In an interview in December with the daily El Tiempo, Asociacion Hondurena de Maquiladoras president Jesus Canahuati said 32 factories employing 22,000 workers had closed this year. While new plants hired 10,000 workers, the downturn in the US and a reduction in trade benefits are likely to squelch new investment in the sector.

The maquila sector in Honduras employs about 120,000 workers in 200 plants. With an unemployment rate of 40%, the economy can ill afford layoffs. Handal and other private-sector leaders say not all of the problem is a result of the US economic slowdown. Another important factor, they say, is the discouraging effect that crime has had on investors. Because of recent murders and kidnappings of US citizens, the US Embassy in Tegucigalpa has warned investors that they live in Honduras at their own peril.

Jorge Chang, president of the Camara de Comercio de Taiwan in Tegucigalpa, said in June that high crime rates were causing Taiwanese-owned plants to close. He cited the kidnapping of the owner of Glory Garments in May. The plant soon left the country and its 400 employees went jobless. The kidnapping took place in the northern city of San Pedro Sula, where the maquiladoras are concentrated and where the crime rate is especially high. Local media said that the kidnapping and torture of the owner was a blow to the entire industry.

The daily La Tribuna warned that, if the high crime rate continued, the maquila sector could disappear. Salvadoran plants in trouble despite profitability In El Salvador, Banco Central de Reserva (BCR) figures show maquila exports in the first semester of this year rose by a 6% annual rate and accounted for nearly US$970 million of the US$1.72 billion in total exports. However, the Asociacion Salvadorena de la Industria de la Confeccion (ASIC) reported that, during the following quarter, half the maquiladoras in the country were in financial trouble. ASIC president Francisco Escobar Thompson said the industry had lost between 10% and 30% of its contracts, in some cases

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to Asian countries. He said that 3,000 workers had already lost their jobs and that 25 maquiladoras were expected to close by the end of the year.

Despite the closures, Economy Minister Miguel Lacayo said that by December maquila jobs should increase as 15 new plants, mostly producing textiles, start up in the Free Zone. In September, the Salvadoran Legislative Assembly dominated by the governing Alianza Republicana Nacionalista (ARENA) passed a bill permitting maquiladoras to sell 100% of their output in the domestic market. The law voided a previous restriction limiting domestic sales to 15% of output. The only significant requirement is that the garments must contain 50% Salvadoran or Central American material. The opposition Farabundo Marti para la Liberacion Nacional (FMLN) opposed the bill, arguing that it would hurt small businesses. The change has put the sector at odds with non-maquila producers.

The association representing the smaller textile producers (Asociacion de Medianos y Pequenos Empresarios, AMPES) protested the law as fostering unfair competition. In this situation, rather than foreign-owned maquilas closing or relocating, locally owned plants could be driven out of business. "With this law, [the legislature] is strangling small businesses," said an AMPES statement. Government blamed in Guatemala Maquila textile production has also fallen off in Guatemala. Twenty-three Guatemalan maquila factories employing 130,000 closed in August alone.

A survey of the industry conducted in August by the daily Siglo Veintiuno found that owners were pessimistic about the future and said both US and world sales were down. One owner said the situation was the worst in seven years. Representatives from more than 200 Guatemalan maquiladoras said they were considering moving their plants to Nicaragua, and they sent a group to review conditions there. The group has plans to invest as much as US$150 million to begin development of a new industrial park with initial construction of two plants in Tipitapa. Industry leaders warned the government that the losses from such a move would worsen an already bad economic situation. However, the government downplayed the seriousness of the closures.

Economy Vice Minister Roberto Rodriguez said that some plants had moved to Nicaragua but that the warnings were baseless. "There is always this type of warning," said Rodriguez. "They always say the same thing." He said maquila owners periodically predict disaster to force tax concessions from the government. "I don't think it will reach the point where they leave the country, Rodriguez said. Julio Reyes, president of the Federacion de la Pequena y Mediana Empresa FEPYME), said Guatemala needed to produce 100,000 new jobs every year just to keep up, but instead had been losing up to 150,000 per year for the past several years.

Luis Linares, a consultant with the Asociacion de Investigacion y Estudios Sociales (ASIES), said the government must establish clear rules and a stable environment for the industry. He said the issue was not to compete with other countries on the basis of low wages. Still, he noted that the average wage in Nicaragua was US$200 per month compared with US$300 in Guatemala. Some owners complained that government support for higher minimum wages, high interest rates, taxes on imported capital goods, and government indifference to tax breaks and other incentives were driving maquiladoras to relocate in Nicaragua. Owners complain especially about the business tax (Impuesto a las Empresas Mercantiles y Agropecuarias, IEMA), which taxes both business assets and net income.

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Another impediment is the slow process of getting imported raw materials through customs and in exporting the final product. Officials say the procedures are necessary to guard against contraband. For the moment, Nicaragua appears to benefit from the deterioration of maquila sectors elsewhere in Central America. A delegation of 15 representatives of Guatemalan maquiladoras visited Nicaragua after the presidential elections there to find out what president-elect Enrique Bolanos, a business- oriented politician, might offer as guarantees and incentives when he takes office in January. Concerns mount over fallout from fast-track authority Another problem is the uncertainty about changes in US trade policy.

Last year, the US permitted maquilas in Central America and the Caribbean to handle a large share of the production process, which promised a larger share of the profits. Under the Caribbean Basin Trade Partnership Act (CBTPA), the US extended trade benefits to 24 countries that already enjoyed special access to the US market under the Caribbean Basin Initiative (CBI). The major benefit under CBTPA was the right to manufacture entire garments instead of assembling pieces cut in the US (see NotiCen, 2000-10-12).

This year, the administration of President George W. Bush is pressing for Trade Promotion Authority (TPA) fast-track approval to negotiate trade agreements. Central American presidents are worried because the TPA bill the House passed Dec. 6 is accompanied by a proposal to reduce some of the trade benefits the region received under CBI and CBTPA legislation. In its final form, the bill could end the practice of allowing textile maquiladoras in the region to cut, dye, and assemble the finished product, which would reduce the product's value added and profits.

In December, Honduran President Flores sent Foreign Minister Roberto Flores to Washington to lobby against the reductions. Other presidents planned to do the same. US legislators promised to compensate for the lost benefits by doubling the amount of goods the region could export to the US to 225,000 metric tons of garments per year. Although the region's maquiladoras cannot produce that much now, maquila owners say the increase places an upper limit that could prevent expansion of the sector.

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