**The Americas: How to trade up; Central America**

Volume: 366
Issue: 8311
Start Page: 54
ISSN: 00130613
Dateline: san jose
Full Text:


Can trade negotiations with the United States help Central America to unite?

They are small, poor, vulnerable to natural disasters, and most suffered civil wars in the 1970s and 1980s. But the five republics of Central America have made some fragile progress in recent years. Now they have been picked by the United States as its latest preferential trade partners.

Negotiations to create a Central American Free-Trade Agreement (US-CAFTA) were launched in San Jose, Costa Rica's capital, last month. They continue later this month, in Ohio. The aim is to finish them by the end of this year, before presidential campaigning takes off in the United States.

Given the huge inequalities between the two sides, that looks ambitious. Even so, Central American officials hope that the talks will provide the cement their own efforts at integration have lacked for so long.

The talks involve Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Since 1960, these five have been trying to create a Central American Common Market (CACM). Though Panama and Belize belong to some Central American bodies, they are not involved in the CACM. The Central Americans have been pressing for free-trade talks ever since Mexico gained preferential access to the American market under the North American Free-Trade Agreement in 1994. Last year, George Bush took the initiative. The rationale, says John Murphy, of the United States' Chamber of Commerce, "is more geopolitical than directly commercial."

The United States exports $9 billion of goods to the Central American five, but that is barely more than 1% of its total exports. With a total population of 36m and a combined GDP of just $60 billion, Central America is hardly a vast market (see map). But there are two attractions in the talks for the Bush administration. The first is to try to make allies of vulnerable neighbours who are the source of illegal migrants.

The second is that a swift agreement with Central America, following one with Chile last year, would increase the pressure on Brazil, South America's largest economy, to sign up to the proposed Free-Trade Area of the Americas. Talks on this are due to finish by 2005, and have reached a crucial stage. This week the United States unveiled a surprisingly bold offer to eliminate tariffs on imports of textiles and clothing by 2010; it also offered to phase out all tariffs on industrial and agricultural goods. But Brazil objected that under the American proposals, its exports would gain tariff-free access more slowly than those from smaller countries, and farm subsidies would not be touched.

For these reasons, the Central Americans have some leverage in their talks with the United States. They may need it: trade unions in the United States object to the labour conditions in clothing factories in El Salvador, for example. The biggest problem is the perennial one of farming. Hundreds of thousands of Central Americans scratch a living from just three crops, maize, coffee and sugar. Maize farmers, in particular, will need aid.

Over the past decade, the Central American countries have been liberalising their economies; none has an average tariff higher than 10%. The United States is already their biggest market, and the source of remittances from migrants. So US-CAFTA would be "more of a consolidation than a brave new world," says Alberto Trejos, Costa Rica's foreign-trade minister.

Central American officials see two potential benefits from a free-trade agreement with the United States. First, they hope that it would increase the flow of investment to their countries, by, for example, strengthening intellectual-property rights. Second, the exercise might deepen co-operation between the five countries.

There are still many barriers to free trade within the isthmus. Inefficiencies and red tape at borders account for half the cost of transporting goods from one country to another, according to INCAE, a Central American business school. That is one of several issues that the five have been trying for years to deal with, in desultory talks aimed at making their supposed common market a reality.

These talks have foundered on national differences. Costa Rica has long been stable and relatively prosperous; it has been sniffy about sharing sovereignty with its neighbours. At the other extreme, Guatemala remains corrupt and backward. Last month, the United States bracketed it with Haiti as failing to fight drugs. According to the State Department, Guatemalan police "stole twice the quantity of drugs that they officially seized" and were involved in drug-related murders.

Guatemala's human-rights record has deteriorated under President Alfonso Portillo. A presidential election in December may be won by Efran Ros Montt, a former dictator and Mr Portillo's mentor. In that case, many Americans might oppose rewarding Guatemala with a trade agreement.

Much negotiating remains to be done. But many Central Americans may think a deal with the United States is the only way to keep their own neighbours in line.

**The Economist – acesso em 17/2/2003**