Posted on Sat, Jul. 01, 2006

CAFTA

Guatemala joins trade agreement

BY JANE BUSSEY

jbussey@MiamiHerald.com

A free-trade agreement with Central America inched closer to completion with the announcement that Guatemala will join three nations already in the pact today.

Guatemala is the latest country to join the U.S.Dominican Republic-Central American Free Trade Agreement, or CAFTA. El Salvador implemented the agreement in March and Honduras and Nicaragua in April after receiving the green light from Washington. Costa Rica and the Dominican Republic have yet to join.

The Guatemalan congress passed legislation implementing CAFTA Wednesday after months of delay. President Bush signed the proclamation sealing the deal Friday.

"Now it is the responsibility of the private sector to complete this accord," said Mariano Rayo, chairman of the Economy and Foreign Trade Commission.

The Guatemalan government has been struggling for months to meet Washington's conditions. Its congress met in a special session to approve new rules on telecommunications and commerce regulations and new laws for industrial property, copyright and arbitration.

CAFTA makes already existing duty-free benefits for apparel permanent for the six countries. The six countries will lower duties or increase quotas for U.S. agriculture and manufactured products.

The agreement faced opposition in Guatemala, and at least one person was killed in protests when the accord was first approved last year. Critics have said increased imports of U.S. subsidized corn and rice will create hardships for Guatemalan farmers.

CAFTA implementation leaves some countries hanging by a thread

Staggering the implementation of CAFTA has disrupted business in countries that rely on trade with their Central American cousins but have yet to join the regional trade agreement with the United States.

BY JANE BUSSEY

GUATEMALA CITY - While the machines on the factory floor whirred rat-a-tat-tat, textile maker Sergio de la Torre sat in his office and extolled what CAFTA will bring in the future: attention and foreign investment.

But up to now, the Central American Free Trade Agreement has hurt more than helped his business.

"The plant is half-empty because the treaty has not started for Guatemala," said de la Torre as he conducted a tour of his factory, Accesorios Textiles.

Until today -- when Guatemala officially joins CAFTA -- he couldn't sell his labels in countries that had previously joined -- El Salvador, Honduras and Nicaragua -- without paying higher duties.

De la Torre's factory points up the perils of implementing a trade agreement in fits and starts. While El Salvador, Honduras and Nicaragua joined in the spring, Guatemala only joins today, and Costa Rica and the Dominican Republic have no target date. The staggered implementation has disrupted business cycles, created uncertainty and compounded the painful adjustments already underway in the competitive global game of textile trade.

CHANGING RULES

Retailers, apparel makers and textile producers -- the biggest boosters and CAFTA's main beneficiaries -- still wait for the trade benefits to deliver while trying to keep pace with rules that change from one month to the next.

What is officially called the U.S.-Dominican Republic-Central American Free Trade Agreement originally was set to debut Jan. 1, 2004. Delays in congressional approval pushed the unveiling to 2006.

In December, U.S. trade officials deemed the countries had not rewritten their laws to meet treaty rules and announced a staggered start-up.

But there was a devilish detail: The new trade pact wiped out the duty-free benefits in the Caribbean Basin programs it was replacing. A CAFTA member could not use components from its former trade partners and retain the benefits of duty-free trade.

Sew one of de la Torre's clothing labels on a shirt stitched up in El Salvador, and the addition pushed the garment's tariff rate from zero to 30 percent when it entered the United States.

This wrinkle has cost the textile and apparel sector millions since the spring. Tariff rates have shot up, supply chains have temporarily broken. Importers are left scrambling to substitute component parts, bring some to the United States for finishing or pay higher duties.

'A BLACK HOLE'

"No one in Washington or Guatemala knew that this was going to be a black hole when some entered CAFTA," said Peter Klose, who heads one of Guatemala's largest textile manufacturers and is president of the Commission of the Clothing and Textile Industry.

The delays in implementing CAFTA are affecting imports from Central America, the bulk of which are shipped through South Florida's seaports and airports.

U.S. apparel imports from Central America and the Dominican Republic fell by nearly 18 percent in the January-April period over last year. Central America's overall share of U.S. apparel imports fell from 18.2 percent to 15.5 percent, according to the American Apparel and Footwear Association.

For a region already losing ground to competition from China and other low-cost producers in Asia, the CAFTA start-up delays have added an unwelcome problem.

"A lot of that has contributed to a loss of confidence in the region, a lot of confusion of how the region operates," said Stephen Lamar, of the American Apparel and Footwear Association.

"It's a very footloose industry that responds to changing terms of trade fast," he said. "If [a trade agreement] is done right, it's really a magnet for the region. If it's done improperly, it has the opposite effect."

The original Caribbean Basin trade program -- offering duty and quota benefits for garments -- was fashioned in the 1980s to promote industrial ties with the region through offshore apparel assembly and to draw the countries away from leftist revolution.

The burgeoning off-shoring helped spur Miami's trade renaissance in the late 1980s and early 1990s.

Textiles have become a major source of employment in the region. But resource-poor Central America has missed out on the commodities export boom boosting Mexico and nations in South America.

EMPLOYMENT BURDEN

Guatemala already bore the brunt of the lifting of global apparel quotas worldwide on Jan. 1, 2005. As cheaper Chinese apparel flooded the United States, Central American imports declined. Employment in Guatemala's apparel and textile industry fell from 150,000 to 125,000 in 2005, a 16 percent drop.

Guatemalan's textile industry had little choice but to try to survive until the trade hurdles are crossed. They were out in full force at the Apparel Sourcing Show in Guatemala City in May, which drew more than 5,000 executives from Central America, the United States and elsewhere.

Most representatives of the sector went because they still believe Guatemala stands to reap the agreement's rewards in the long run.

U.S. retailers and textile executives suggest the key to success involves taking advantage of the proximity to the United States.

"No matter how competitive China is, it still stays the same number of miles away," said Mark D'Sa, director of international sourcing at GAP, at the show. "We have to begin to look at it all as a region and not individual countries."

CAFTA timeline

• **Jan. 2004:** Most CAFTA negotiations complete, but U.S. delays ratification to July 2005.

• **Dec. 2005:** Implementation delayed until January 2006, and staggered.

• **Spring:** El Salvador, Honduras and Nicaragua join in March and April.

• **Today:** Guatemala becomes the fourth nation to join the U.S.-Dominican Republic-Central American Free Trade Agreement. **Story, 2C**

• **What's Next:** The Dominican Republic has not yet met the U.S. government's conditions for joining. Costa Rica's Congress has yet to approve the treaty.