

# CompromisoCentroAmerica



## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

Industry Area Workshop: Agribusiness

Moderator:

**Alberto Trejos, Minister of Economy**

**Costa Rica**

### Objectives:

- The negotiation of a FTA will provide the opportunity to set rules, but clear goals and objectives must be set beforehand in order to ensure the success of such negotiations.
- Liberalization needs to be gradual and well balanced. Market access issues need to be dealt with in a timely and efficient manner. Agriculture is one of the most delicate items of the negotiation.

### Recommendations:

- Market access issues should be dealt concurrently with greater controls against barrier to trade, including phytosanitary and inspection issues.
- Be aware of the impact other components of the FTA negotiation will have on the agriculture sector. Such as IP laws and the use of chemicals used in agribusiness.
- Need to deal with subsidies and dumping issues and include them in the FTA negotiations. WTO round negotiations need to also be dealt with successfully.
- Central America should negotiate with only one voice before the WTO when it comes to agricultural issues, as well as with intellectual property and environmental issues, and cooperation programs.
- Coordinate the agenda for development and cooperation so as to have clear objectives and attain proposed goals.
- Have a closer relationship between the private sector and the public sector. To the extent that every sector is involved in the discussion process of the FTA negotiations, it will be the extent to which all sector will benefit.

### Comments:

- In general, we need to address the issue of agricultural competitiveness mainly because the risks and benefits multiply with the opportunity of a FTA.

### Best Practices Study Recommendations:

- Tariffs and tariff-reduction schedule
- Identify all of the components that need to be addressed in the negotiation of a FTA that will have an effect on the agribusiness sector.
- Effect of US agricultural subsidies on Central American exports
- Evaluate the use of new technology in agriculture and agro-processing sectors

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**TRADE & FOREIGN INVESTMENT FORUM**  
**October 14, 2002, Managua, Nicaragua**  
**Industry Area Workshop: Apparel**  
**Moderator: Miguel Lacayo, Minister of Economy**  
**El Salvador**

## Objectives:

- Have a full package (FP) production line ready in less than 5 years.
- Reduce cycle of production
- Supplies must be available in the region
- Make sure production is socially responsible
- Logistics optimization

## Recommendations:

- Reduce the cycle of production and delivery.
- Take advantage of the geographic proximity of Central America and use it as a competitive advantage against China.
- Accelerate the development of linked regional and local industries and make them competitive (i.e. buttons, zippers, and other accessories need to be accessible in the region.)
- WRAP certification makes regional products more attractive to foreign companies willing to invest in the region and pay for the price of certification. The region cannot afford to ignore the measures that developed countries are taking with respect to corporate social responsibility.

## Comments:

- The US apparel industry is shifting its production model from a horizontally integrated model to a satellite model, mobile and specialized in determined products or processes that generate value added.
- China is seen as an imminent threat once it enters the WTO, and once all tariffs and quotas on textiles expire in 2005.
- Address the growing concern of US rule of origin proposition for CAFTA.
- A FTA agreement will strengthen the integration process of the region.
- Develop and implement the projects involved in the Plan Puebla Panama, and elaborate studies of transportation logistics.

## Best Practices Study Recommendations:

- The US customs certification/verification process of Central American factories and their US counterparts role
- Textile industry of the region
- CBTPA vs. CAFTA
- Infrastructure (production and transportation) needs

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## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

### Industry Area Workshop: Energy

Moderator:

**Mario Arana, Minister of Economy  
Nicaragua**

#### Objectives:

- The current regulatory framework needs to be implemented, recognizing big differences between electricity and fuels industries. While electricity industry needs a regulatory body, fuels industry needs a total deregulated framework
- Establishment of a program aimed at sharing information regarding the current regulatory framework.
- Establishment of a regulatory framework that allows for incentives to generate renewable energy.
- Strengthening of the regulatory entities through the hiring of competent personnel and/or training of the current personnel.
- Deregulation of the fuel market (Guatemala's case).
- Have a customs union with zero tariffs among member countries and a harmonized system of tariffs for third countries.
- Harmonization of technical norms of fuels (ASTM).

#### Recommendations:

- Give national treatment to foreign investors.
- Create a supranational entity through SIEPAC to homogenize and apply a regulatory framework, for the Electricity Industry, throughout Central America.
- Establish stable policies and uniform tariffs to homogenize costs.
- Creation of water regulatory laws.
- Creation of national antitrust laws.
- Eliminate fuel and liquefied gas subsidies.
- Design a development plan for generating hydroelectric energy in order to utilize resources more efficiently.
- Invest in a communication strategy for the creation of consensus between the private and the public sectors.

#### Comments:

- Re-shift attention to the inter-oceanic canal project as a long-term benefit for the region.
- Government and private sector should coordinate their efforts in the regulation of the electrical sector.
- Private sector participation must be guaranteed in the discussion forums and negotiations of the SIEPAC.
- Implement a free fuel market. Government and private sector should coordinate their efforts in implementing free market oriented policies in the fuels sector. Guatemala should be the model. Government should ask ECLAC's (CEPAL) energy commission to invite the private sector to its "Harmonization of the Central American Petroleum market" study.

#### Best Practices:

- Product Specifications: Guatemala's stringent petroleum product specifications
- Tax Regime: Guatemala's fixed Fuel Tax
- Tax Regime: Nicaragua's harmonization of diesel and gasoline taxes
- Tax Regime: Panama's elimination of subsidies
- Anti-Trust Legislation: Panama's anti-trust law

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## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

### Industry Area Workshop: Financial Services

Moderator:

**Dennis Flannery, IADB**

#### Objectives:

- Create a unified regulatory system for 2005 applicable to all 5 countries.
- Reduce or eliminate the inefficiencies that exist in some countries with the goal that there not be limitations on foreign banks.
- Ensure that banks fulfill the needs of the market by creating a regional regulatory apparatus, with the intent of making banks more attractive and contributing to the economic development of the region.
- Create a regional private bank that is well capitalized and competent in risk analysis.
- Stock markets should integrate not only at a regional level but also with other foreign stock markets.
- Reduce the number of banks and make the rest more efficient.
- Give better access to capital to small and medium enterprises.
- Resolve the topic of remittances, which represents a great opportunity for Central American banks.
- Transparency.

#### Recommendations:

- Reform the judicial system.
- Ration licenses for banks. Reducing the number of banks will allow the transaction costs to be reduced and this will allow them to offer lower interest rates.
- Create regional institutions. CABEI could function as coordinator, as it has the capacity to promote this type of initiative.
- Adopt the Basel Accords.
- Promote electronic banking to lower costs.
- Explore the possibility of one currency in Central America, the dollar being one option.
- To attract investment, it is very important to homogenize the laws and regulations of the banking sector.
- Create more institutions like pension funds, as well as make the banking sector more accessible to the small and medium enterprises.

#### Best Practices Study Recommendations:

- The process for purchasing equity and securities in the capital markets.
- The loan application process.
- Information disbursement by banks and bolsas to account holders and shareholders.
- Pension fund participation and management.

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## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

### Industry Area Workshop: Telecommunications

Moderator:

**Eduardo Aguirre, EXIMBANK**

#### Objectives:

- Create a modern regulatory framework on practical standards and establish an independent regional regulating organization.

#### Recommendations:

- Standards: regulatory framework that allows competition and offers full services and products of the industry, regional regulator (ITU)
- Interconnection: To guarantee the interconnection, capacity of co-location, barriers to the competition, cradle in the costs according to the IV Protocol of the WTO on Basic Telecommunications
- Regulating organization: pressure on the regulators on the part of the operators: trained regulators that know the industry, the international market, to guard the development of the sector in a manner that benefits the population, to control the abuse of dominant position (guard against monopolies), implementation: enforcement, greater attention to this, that the regulator has to have force.
- Regional regulator: group of professionals, i.e. CARTEL regulating organization of the Andean region, has interconnection.

#### Best Practices Study Recommendations:

- The concept of legally establishing an independent regulator to enforce competitive regulation and practices.
- Telecom licensing structure; granting of new competitive licensed services; and enforcement by an independent regulatory authority.
- Interconnection policy and implementation framework
- Universal Service Policy
- Number portability for all carriers and transparency and competitiveness of the market.
- Tariff re-balancing as part of transition into a competitive marketplace.

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## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

### Industry Area Workshop: Tourism

Moderator:

**Pablo Schneider, CABEI**

#### Objectives:

- Transform the tourism sector into one of the most revenue-generating activities in Central America, supported by a multinational package in five categories of tourism products: archeology, colonial cities, living cultures, nature tourism, and sun/beach/diving activities.
- Attract 8 million tourists annually that generate \$4,000 millions for the year 2005. Additional to creating this volume, it is recommended to add a qualitative aspect to this goal by defining the typology of tourists.
- Reach in a generalized way standard world class services.

#### Recommendations:

- Facilitate the transit of people in Central American countries.
- Develop and articulate the demand of products a process in which the business chambers and official agencies play an important role.
- Verify regional promotion efforts that portray Central America as the destination of choice. An example that could be useful as a reference is the Caribbean experience.
- Stimulate services that provide basic support to the tourism sector:
  - Infrastructure particularly that which facilitates ground, air and ocean transportation.
  - Financial Services
  - Education a short- and long-term task that needs to permeate the general population.
    - § Employment generated by the sector
    - § Tourist service relations
  - Articulation of the planning capacity of public agencies

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## TRADE & FOREIGN INVESTMENT FORUM

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### Public Policy Area Workshop: Corporate Social Responsibility

Moderator:

**Adolfo Franco, USAID**

#### Objectives:

- The public sector must be the catalyst for development, while the private sector's role is to be the motor that keeps this process going.
- Corporate social responsibility should be seen as a long-term investment.
- A legal regulatory framework needs to dictate the rules of the game, and national and foreign companies need to comply with the same set of regulations and laws.
- Current codes for workers, employers, environment, etc. should be complied with and there is great need for enforcement. In order to do business with the USA, Central American businesses need to be recognized as responsible, credible and ethical.
- A certification program (such as WRAP in the apparel industry) should be established and promoted across all sectors.

#### Recommendations:

- Companies with a strong corporate social responsibility comply with international standards.
- The environment has a direct effect on corporate responsibility. Central America should take advantage of programs offered through USAID aimed at cleaning up the environment, or protecting it in order to avoid environmental degradation.
- Some of the basic principles a corporation must comply with are: agreements, contracts, normal regulations and laws. The company should also give back something to the community. Foreign corporations should act abroad the same way they act at home. Finally, businesses should have a growth strategy that leaves room for environmental protection. A corporation should invest in its workers and always protect human rights.
- An award for excellency should be created in order to recognize a socially responsible corporate philosophy and environment, at the same time it encourages other people to act the same.

#### Comments:

- The ethical practices of companies are very important and they include activities that go from philanthropic to more integral ones.
- Economic sustainable growth can only be attained if the government and civil society work together. Corporate responsibility goes hand in hand with economic growth.

#### Best Practices Study Recommendations:

- Cost and benefit analysis of businesses that have CSR as an integral part of their policy
- Foreign vs. local practices: benchmarking opportunities

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**TRADE & FOREIGN INVESTMENT FORUM**  
**October 14, 2002, Managua, Nicaragua**  
**Public Policy Area Workshop: Customs and Immigration**  
Moderator:  
**James Fendell, AACCLA**

## Objectives:

### Immigration:

- Regional reception of tourism
- Standardize the charge of departure among Central American countries.
- Coordinate regional police with international police organizations.

### Customs

- Harmonization and standardization of all the processes, codes, registries, sanitary measures, etc.
- Total deregulation
- Pre-screening and Pre-clearance
- Open dialogue and take into account those who are being affected the most
- Demand the same transparency and clarity that the US demands of other countries customs rules and regulations.
- Permanent education, sharing of knowledge, training, and promote cooperation between the US and Central America.
- Have modern customs, with world-class standards and transparency.

## Recommendations:

- Require only one immigration document to enter the region
- Control on the country of entry and in the country of departure.
- Coordination among immigrations and judicial authorities.
- Eliminate intra-regional traveling charges
- Lobby all governments and make this step a priority.
- Maintain minimum regulation for hazardous materials.
- Begging with primary or elemental points
- Ask the EU for technical assistance
- Have inspectors in producing plants
- Open dialogue between Central American authorities and NAFTA countries .
- Plan of action: 1) Immediate: procedures, standards, harmonized tariffs, code of conduct for customs, gradually attain a 24-hour clearing cycle. 2) Medium term: regional customs information network, the creation of a customs career and homogenization of such, homogenize customs rules and regulations, share data bases of information and transportation registries. 3) Long-term (2005): peripheral frontiers open 24 hours, change toward a client-oriented service.

## Best Practices Study Recommendations:

- Customs rules and procedures
- Duties
- Improper application of rules of origin
- Customs valuation
- Pre-shipment inspection and import licensing
- Public procurement

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## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

### Public Policy Area Workshop: Fiscal & Monetary

Moderator:

**Jaime Rivera, BLADEX**

#### Objectives and Recommendations:

- The countries of the region must conduct a monetary and fiscal policy that is adequate and sustainable in order to maintain economic stability and create a fertile environment for investment (i.e. sustainable fiscal policies, prudent monetary policies). Additionally, governments must demonstrate that they are committed to maintaining stability by implementing sustainable and credible policies. Nicaragua has succeeded in doing so with its exchange policy.
- There is a need to research ways to reduce financial costs and interest rates in the region. For this to happen, competitiveness and the atmosphere for investment must be improved to reduce the level of risk in investment projects. Also, structural problems and/or regulations that can impede reduction in interest rates must be identified, as well as researching ways to promote more competition in the financial sector and permit the entry of foreign banks in our countries.
- The topic of monetary unification or dollarization of the Central American economies was undertaken. There were mixed opinions on this matter. Some said it is not possible in the immediate future given the political conditions. Others said that if the governments were really committed to maintaining prudent monetary policies and not taking on more debt than necessary, they should not fear dollarization. The majority agreed regardless that dollarization could offer better monetary stability and exchange for investors. Others asserted that many investors are attracted by the fact that a local currency exists and by the relative prices that implies. Still others mentioned that the existence of a local currency is necessary because it permits the correction of distortions in local prices and reduces the costs of production in relation to the prices of transferable goods. All agreed that whatever the manner, monetary stability and the application of prudent, consistent, and regionally coordinated monetary policies is fundamental to be able to attract more investment.
- There is a need to look for ways to refinance internal debt or convert it into external debt, in the case of Nicaragua.

#### Best Practices Study Recommendations:

- Budget appropriations processes.
- Best methods of taxation collection, including VAT.
- Reporting of internal debt.

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## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

### Public Policy Area Workshop: Governance & Legal

Moderator:

**Manuel Rosales, US Small Business Administration**

#### Objectives:

- Provide Legal Security; Eliminate Bureaucracies; Arbitration; Fight Corruption; Fiscal Reforms; Customs Union; Antitrust laws

#### Recommendations:

- Harmonize pertinent laws.
- Summary of common laws for CA Inventory
- To improve the judicial system through institutions of CA integration
- Promote communication between all parties involved and have a processes of consultations between the involved established
- Process of arbitration and education of the judicial civil employees.

#### Comments:

- Promote efforts aimed at strengthening the judicial career and have independence from the finances of the judicial powers.
- Importance of the independence of the administrative part of the judicial branch; it is to say the judges do not have to spend time administrating the structures of the courts and other instances of the Judicial Power.
- Citizen Participation in the political processes, by means of education for democracy, in as much this education prepares the citizen to choose its leaders more intelligently. This education must occur at all levels.
- Law of reduction of the bureaucracy: it forces the Public Administration to deregulate itself, in addition, if a law no longer is applied or becomes obsolete, this must be countermanded. Have to work with the private sector.
- First draft of law should be a law that prohibits bureaucracy.
- Necessity of having an antitrust law.
- You have to take into consideration the experience that the customs union has undergone as a best practice.
  - The importance of harmonizing the judicial powers of CA, in the matter of processes.
  - The need to review the structure of the different powers of government.
  - Possible constitutional reforms where pertinent.
  - Regional regulator for the CA financial sector
  - Investments should not be discriminated.
  - The adoption of a Central American harmonized regulatory frame in the matter of commerce and tourism.
- Impossible to resolve in three years should be a prolonged and permanent process. But have to get all countries in CA involved.
- Governance should not only be focused on investments, but also concentrate on the consumers well being.
- Foreign investors indicate that a visible obstacle and of high importance is the lack of legal security.
- Bureaucracy distances investment from Central America

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## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

### Public Policy Area Workshop: Infrastructure & Transportation

Moderator:

**Barbara Bradford, US Trade Development Agency**

#### Objectives:

- Improved/Good Highways
- Improved/More Efficient Customs Administration and Clearance — Central America Customs Union in 2004

#### Recommendations:

- Plan Puebla Panama (PPP). Strong support for PPP - consensus that it should be continued but with regards to roads and highways the issue of maintenance must be properly addressed or all efforts of PPP will be for naught.
- Infrastructure as a complementary issue/aspect, i.e. example of European rail infrastructure that originally was developed for commercial purposes but now is used by tourists
- Ports and airports. Regional ports and airports and integration vs. each country trying to develop their own port/airport, i.e. regional airport being discussed in northern Costa Rica that could serve the southern tourist area of Nicaragua as well. Port of Corinto in Nicaragua as a regional port.
- Planning. More specifically the importance of integrated planning that would count on a consensus between the private and public sector with specific goals **and timeframes for** reaching and achieving the goals.
- The importance of the complementary elements of infrastructure, such as logistics and the human resources that would offer the services.
- Development of social infrastructure, human capital as a KEY complementary element. Example of lack of hospitals at tourist destinations.

#### Comments:

- Infrastructure for Tourism was woven through all of the above.
- Need to keep in mind integrated planning for infrastructure and its derivatives, both direct and indirect.
- Take into account the importance of logistics and human resources.
- Must build consensus on the importance of integration in Central America. For example regional tourism, the region as a single destination arriving in San Jose and departing from Guatemala. Car rental in Managua and returning it in El Salvador, as is possible in Europe.

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## TRADE & FOREIGN INVESTMENT FORUM

October 14, 2002, Managua, Nicaragua

Public Policy Area Workshop: Commerce

Moderator:

Javier Morales, Vice Minister of Economy

Nicaragua

### Objectives:

- Have open regional borders.
- Make sure the FTA is aimed at generating the economic development of the region.
- Give priority to investment.
- Generate trust among the population that the FTA will provide economic opportunities.
- Have a better and greater knowledge of the US market in order to take advantage of its opportunities.
- Have a broader pool of potential investors and promote the opportunities available in Central America.
- Take advantage of the political and social stability that the region enjoys today.

### Recommendations:

- Standardization of rules and norms throughout Central America.
- Participation of civil society through the creation of communication channels and a constructive dialogue.
- Strengthening the chain of production.
- Design market information systems.
- Design a survival and transitional strategy for sectors that will be affected the most.
- Secure the resources necessary to promote investment.
- Take advantage of the knowledge shared by transnational corporations to identify investors and attract them to the region.
- Harmonize and standardize customs procedures.
- Identify business opportunities and produce the goods and services that the market demands.
- Strengthen the capacity of negotiating groups that seek economies of scale in the integration process.
- Differentiate the goods and services that are being offered and identify weaknesses and strengths.
- Avoid new taxes that affect the competitiveness of the region.
- Avoid new barriers to trade.

### Comments:

- Create and institute for the training of dislocated workers, funding it with 1% of the revenues of the planilla as an alternative to the creation of an unemployment fund.
- Transformation must precede trade liberalization.
- The current stability the region now enjoys should be seen as an opportunity.
- See the region as a corporation and place it in the international market.