# Central America Regional Report 2015

## OBSERVATORIO A TRATADOS DE LIBRE COMERCIO Y RESPONSABILIDAD EMPRESARIAL EN CENTROAMÉRICA

- Food Sovereignty
- Investments and employment
- Mining and Environment

In the context of the DR-CAFTA and the Association Agreement with the EU

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This report presents a synthesis of 14 Central American case studies which led to three regional reports on Food Sovereignty, Investment and Employment, and Mining and Environment, which have in turn been integrated into this Regional Summary, written by:

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# FOREWORD

**THE SITUATION OF TRADE AGREEMENTS IN THE REGION**
**REGIONAL OBSERVATORY ON FTAs AND CORPORATE RESPONSIBILITY**
**IN CENTRAL AMERICA**

Since 2005, Central American Social Organisations have been monitoring the Dominican Republic-Central America Free Trade Agreement (DR-CAFTA) and its impact on sectors with whom we work. In 2013 we established the Regional Observatory to Monitor FTAs and Corporate Responsibility in Central America, in order to continue monitoring trade agreements (DR-CAFTA and the Association Agreement - AA), so that organisations and social movements can increase their knowledge of trade policy to assist them in their related work.

In March 2015, we began a process of regional-level research into 14 case studies, undertaken by grassroots organisations in Central America, on three themes: Food Sovereignty, Investment and Employment, and Mining and Environment. These studies provided evidence about the potential effects on the population, economy and environment.

The completed case studies and regional reports were complemented with analysis offering a regional vision, presenting the impact of trade policies on the population and at the local level.

The methodological and political process involved in carrying out the research included an exchange of regional experiences entitled “Bi-regional dialogue between CA and the EU on Trade Policies and Integration” with the participation of ACT Alliance EU and CIFCA networks, Central American networks and government delegates. The Observatory itself participated in meetings and forums with the Association Agreement Advisory Groups in Brussels, as well as in regional workshops, and during field visits with the studied sectors. The involvement of universities and specialist organisations also enriched the process and the results of the report, which we consider to be an innovative process in the region.

Special thanks go to the Observatory member organisations, the Nicaraguan FTA Monitoring Group and RENICC, with whom we have collectively worked, together with the Central American Network and the Guatemalan AA Group, with the support of KEPA. It a pleasure to present this 2015 regional report for different sectors, institutions and citizens.

Georgina Muñoz

**Secretary, Regional Observatory**

# EXECUTIVE SUMMARY

With the aim of encouraging debate on the effects of free trade agreements (FTAs) in Central American countries, not only in terms of trade statistics, but also on issues of poverty and inclusive economic development, members of the Regional Observatory on Free Trade and Corporate Responsibility in Central America (*Observatorio Regional de Tratados de Libre Comercio y Responsabilidad Empresarial en Centroamérica* - ORTLCRE) present this analysis, from the perspective of trade unions, small-scale farming organisations, community organisations, social movements and organisations promoting development.

We prioritised monitoring the effects of trade agreements on food sovereignty, employment and the environment. The analysis focuses on two treaties: the treaty established with the United States of America (DR-CAFTA), the main trading partner in the region, and the treaty established with the European Union, one of the main economic blocs and an actor for global cooperation. This regional report is the result of a collective process to develop 14 analytical studies produced by grassroots organisations in the five Central American countries, which were the basis for developing inputs for the thematic regional syntheses. The thematic syntheses and trends in the region in terms of trade, investment, employment, mining and environment, which make up this 2015 Summary Report, will be used as input for discussion and advocacy by grassroots member organisations of the Regional Observatory and will be shared with other organisations, public institutions (parliaments, AA advisory groups in both regions - EU and CA) and cooperation agencies in each country.

The Observatory on Trade Agreements (ORTLCRE) believes that there are two sides to the story. On the one hand we recognise that trade and foreign investment in the region has made significant achievements at the macro level, but on the other hand there are a number of elements such as working conditions, environmental effects, predominance of mono-crop agriculture export, and structural social and economic gaps that limit the economic inclusion of the population in these achievements.

Case studies into the effects of FTAs reflect a reality that is supported by other studies which describe how the region has developed dual behaviour with an increase in areas of agro-export production, reduced competitiveness in the production of grain and increased dependence on imports to ensure food availability. Nation states must evaluate the cost/benefit of the increase in production areas for sugar cane, including social environmental liabilities, and the fiscal cost.

The region has lost the capacity to supply its own grain, and imports corn, wheat and beans. The food trade balance with the United States deteriorated significantly between 2006 and 2010. If scenarios predicted by Hurtado (2015) become a reality, with regards to the loss of competitive grains in Central America, we can expect the food balance under the treaty to continue to disadvantage the region.

In terms of investment and employment, labour organisations recognise that after the signing and negotiation of free trade agreements there has been more investment and as a result, more jobs. However, they question the quality of this employment in terms of working conditions and adequate remuneration, and also note a trend towards non-application of legal labour frameworks.

Studies and statistics from central banks on mining and the environment, show that the contribution of mining to the country's economy is quite limited, at less than 3% of GDP. At the same time, the environmental liabilities generated by this activity are considered to be a risk to the health of communities

in mining areas, leading to a number of actions for the defence of these territories by indigenous, small-farming and community organisations in the region. Despite the environmental and social liabilities, lack of environmental regulation and inadequate tax, national states have continued to award concessions for exploration, leading to conflicts with local communities.

Central American states cannot expect international trade alone to generate inclusive economic development processes; they must instead establish policies to stimulate transmission channels for the gains made from trade. There are three lines of action that can be prioritised under public policy: technological upgrading, the formation of human capital; the promotion of stable jobs and adequate remuneration; and creating links between SMEs and small producers with high-value trade circuits. In addition, investing in infrastructure, transport, logistics and communication is necessary to reduce barriers for small and medium producers.

The national and transnational private corporate sector has an important role in a country's development to generate productive and decent jobs with appropriate remuneration, social benefits provided by the legal labour framework and the conditions for hygiene and safety required by their activities. The case studies, both in the textile industry, and in the services and mining sectors, all suggest that there is a tendency to establish labour models based on long hours, high targets, limited hours for rest, failure to comply with labour obligations for social security and social benefits and a certain flexibility on issues related to the pollution of natural resources and the management of solid and liquid waste. In this context, CSR schemes tend to be based on a voluntary approach or an almost philanthropic approach, far from the social project concepts proposed by *Integrarse*, the ILO and the World Bank. Schemes for sub-contracting by national and/or transnational companies must include certification processes including first and foremost compliance with labour laws, the formation of human capital, and the proper management of solid and liquid waste, transparency and customer protection. This process must be guaranteed throughout the value chain, from suppliers of inputs and goods, to services.

In light of the above, the Observatory on FTAs needs a mechanism to generate evidence that can be used effectively by different actors and influence different sectors. ORTLCRE member organisations agree that there are two sides of trade liberalisation processes after the signing of FTAs. On the one hand, the macro-economic results of these processes show economic dynamism, such as the increase in GDP growth; increased trade flows; and the attraction of more investment.

On the other hand, at the micro level and from the point of view of development, these trade agreements have negative results, as they bring economic change with high social and environmental costs, for example, the items that generate higher incomes, also called "winning items", are produced using models that have an environmental negative impact and a high concentration of land, therefore, only large producers have access to these markets, thus excluding small producers.

The fact that macroeconomic improvements fail to translate into favourable conditions for poverty reduction, has led networks and organisations to establish a specific mechanism to monitor the results of free trade agreements, specifically the DR-CAFTA, with the purpose of influencing public policies aimed at strengthening the competitiveness of productive sectors and grassroots sectors that are affected by these agreements. In order to carry out advocacy work, the member organisations of Central American networks and social movements need to close information gaps regarding the impact of FTAs on food security, stable and quality employment, investment and environmental protection in their countries. That is why they have established a Regional Observatory to monitor the DR-CAFTA and the Association Agreement between Central America and the European Union.

The Regional Observatory on Free Trade and Corporate Responsibility (ORTLCRE) is defined as an interdisciplinary space for reflection and action, with the purpose of making visible the impacts at the family level of FTAs in the Central American region, by carrying out different resistance activities and alternative proposals, from its member organisations. Its priority is to facilitate organisations in resistance with information / analysis / discussion on the effects of FTAs in their realities (sector/union, community organisations, and national organisations).

Three central themes have been prioritised for the monitoring agenda: food sovereignty and security, employment and the environment. The analysis focuses on two treaties: the DR-CAFTA established with the United States of America, the main trading partner in the region, and the AA established with the European Union, one of the main economic blocs and a global cooperation actor. Since the conceptual emphasis of the Observatory aims to promote grassroots construction, for bottom-up knowledge aimed at the regional level, a series of workshops were held locally on each of the issues. Each participating country carried out a specific analysis of the situation for the priority themes and on this basis the thematic regional syntheses were produced, summaries of which are found in Annexes 1-3.

# Contents

# I. INTRODUCTION

Central America is a geographical and political region that lies south of North America (Canada, USA and Mexico) which is known as the NAFTA economic bloc. The region is comprised of countries that historically share a common pre-colonial past including mainly Mayan and Nahuale indigenous communities, a colonial period, independence and joint independence, integration into the international market and modernisation with entry into international trade via the exploitation of coffee and liberalist movements, as well as a process of regional integration and economic stabilisation. Currently the economic agenda is a key element for the region, but also the social agenda with issues of poverty, violence and unequal political, economic and social development in the countries of the region.

According to population estimates from CEPALSTAT (2015), by 2015 the total population of the region amounted to 41.7 million people, mainly located in Guatemala (39.3%), Honduras (19.4%) and El Salvador (15.1 %), and taking into account that in 1980 the Central American population was only 21 million, these figures show that the population has almost doubled (98% growth rate) in 35 years. This has clearly been a challenge of great importance for public policy on issues such as access to services and basic social infrastructure (including health, education, water, energy, housing, and food security) and for employment/ job creation to enable a reduction in poverty rates in these countries.

Since the moment the DR-CAFTA negotiations began, Central America has been facing a highly complex social and economic situation. Structural adjustment plans succeeded in stabilising economies, mainly in terms of monetary issues and an increase in exports and business with large companies. However, at the micro level within the population, these gains have not translated into economic improvement. Between 2001 and 2002, 19.7 million Central Americans were poor, equivalent to 57.9% of the total population in the region. This situation was exacerbated in the case of the rural poor, with between 60 and 80% of the rural population living under the poverty line, with the exception of Costa Rica.

Poverty in Central America is a highly significant issue as it shows us whether economic development is inclusive within the region. According to CEPALSTAT (2015), Honduras is the country with the highest poverty rates in the region. In 2010, the last year reported, 69.2% of the population were situated under the poverty line, and when only the rural population are taken into account, this proportion rises to 79.5%. However, these rates in the year 2002 when the DR-CAFTA was being negotiated, these rates stood at 77.3% and 86.1% respectively, a high-pressure situation for the Honduran state. Nicaragua went through a similar situation, as in 2005 the general poverty within the country stood at 61.9% and rural poverty at 71.5%. These two countries, heavily affected by Hurricane Mitch, experienced the most complex situations in relation to poverty and rural poverty. The situation of poverty in the first part of the 2000s in Guatemala and El Salvador was also complicated.

According to CEPALSTAT statistics (2015), for the year 2002, some 60.2% of the Guatemalan population lived below the poverty line, and given its population, this was equivalent to 7.4 million people, a figure greater than the total population in the rest of the Central American countries in that year. El Salvador was slightly better in 2001, as the overall poverty rate stood at 48.9%, that is to say at least more than 50% of the population was not poor, but in rural areas the situation was similar to the rest of the region (62.4% rural poverty). In 2002, Costa Rica was the country with the lowest overall poverty rate (20.3%) and rural poverty rate (24.3%); in fact one could say that this country had the most inclusive economic development in the region.

In this context, free trade agreements were presented as offering a way to move towards the integral development of the region through favourable market conditions for exports from the region, while attracting investment to reinvigorate the economy. As a result, this would generate employment that would ensure income for Central American households, who thanks to this new income would not only be ensured food security and be lifted out of poverty, but could also take advantage of favourable prices for a range of goods that would benefit from tariff reduction.

The unions and small farming organisations that monitored the results of the structural adjustment policies saw the need to monitor and analyse the impacts that these treaties would have in their countries. One of the basic hypotheses was that, as had occurred in the previous free-trade process, earnings from this new process would be concentrated in major economic groups and transnational corporations, while the small farming sector and urban workers would be affected by competition processes for imports and limited working conditions. Ten years have passed since the signing of the DR-CAFTA and 2016 marks a decade of implementation, which means that its contribution to the national economy and the dynamics of the country must be analysed. The Association Agreement with the European Union (AA), specifically the trade pillar, is now in its second year of implementation, and the experience with the DR-CAFTA gives us a range of issues as starting points to discuss its contribution to the region.

With the aim of encouraging debate about the effects of the agreements on situations in the Central American countries, not only in terms of trade statistics, but also on issues of poverty and inclusive economic development, members of the Regional Observatory on Free Trade Agreements and Corporate Responsibility in Central America (*Observatorio Regional de Tratados de Libre Comercio y Responsabilidad Empresarial en Centroamérica* - ORTLCRE) present the following report and its analysis on the perceived impacts of FTAs on the population and rural areas, from the perspective of unions, peasant organisations, community organisations and agencies promoting development. From the perspective of ORTLCRE, there are two sides to the same coin, on one hand there are a number of benefits generated from trade and foreign investment in the region, but on the other there are a number of elements (working conditions, environmental effects, predominance of mono-crop agricultural exports) which limit the economic inclusion of the population in these benefits.

The regional synthesis is divided into five chapters; the first chapter presents the study and the Regional Observatory on Free Trade Agreements in Central America. The second chapter presents the DR-CAFTA and the Association Agreement with the EU and reviews the macro-results of three major issues: food sovereignty, employment and investment, and mining and environment, comparing these with the results of the case studies produced by each of the member countries. Chapter III focuses on analysing the role of the private sector and the state to ensure inclusive economic development in the region and concludes in Chapter IV, with the main messages generated by this process.

The synthesis report was produced using cases at the country-level, supplemented by statistical data on trade, investment and employment. The report also includes three annexes, where the main ideas from each of the 14 cases are summarised, and where a comparative analysis carried out by the working groups has been consolidated by three thematic coordinators. ORTLCRE member organisations hope that this report contributes to the regional debate on policies to promote economic development as part of the process for the regional and global integration of Central America.

# 1.1 Background to the Observatory and its functions

Monitoring the effects of Regional Free Trade Agreements, in particular the current Association Agreement between Central America and the European Union is considered to be a priority by civil society organisations. This process is necessary to gather evidence about the potential effects on the population, the economy and the environment. Since the process for the design and signing of the DR-CAFTA, an intense political and technical debate has developed around the advantages and disadvantages, and the winners and losers of these trade policy instruments.

Since the trade liberalisation policy has been implemented over a number of years (1997/1998 - 2014), there are already signs showing how this has affected different segments of the population in the region. Coordination group members consider that the impact of these policies on the economic benefits for the most marginalised sectors of the population must be analysed and submitted for public debate. This population depends on informal jobs for subsistence, and includes small-scale rural producers and those who rightfully turn to the state for healthcare. In the case of the DR-CAFTA, the expectation promoted by national states was for a better trade balance, higher GDP growth, the generation of more and better jobs, importing cheaper goods for consumption and internal production. After eight years of the treaty's implementation, CSOs consider that there are areas that are not progressing as expected, especially in terms of small-scale production, improved formal employment opportunities for subsistence households and production in harmony with the environment, because of climate change emergencies.

The second issue looks at one of the basic assumptions of the trade integration strategy, namely an increase in foreign investment and employment. The case study confirms that there is an increase in foreign investment and employment in the region, but it also notes that labour conditions have deteriorated through the process of labour outsourcing and flexibility in the application of labour standards in the countries. Under this model, a sub-sector continues to exist, involving precarious employment and low remuneration of labour, which in turn continues to stimulate the migration of Central Americans to the United States and Europe. The third element that is examined is the case of mining, which shows a number of social impacts, such as conflicts over land and the environment, especially water pollution, similar to those presented in the discussion about monocultures.

A cross-cutting reading of the three issues poses challenges for public policy, on how to create a balance between business options, generate wealth for domestic and foreign economic groups in the region and the living conditions of the population, ensure the effective regulation of resource pollution, access to nutritious and safe food supply, formal employment that complies with the laws in the countries and a more equitable society that will offer more opportunities to the poor in the region.

### Table 1.1.a Case studies in Central American countries

| Cases researched | Food Sovereignty | Investment and employment | Mining and Environment |
|---|---|---|---|
| Guatemala | | | |
| El Salvador | | | |
| Honduras | | | |
| Nicaragua | | | |
| Costa Rica | | | |

| Regional Thematic Report | | | |
|---|---|---|---|

# II. AN ALTERNATIVE READING OF THE EFFECTS OF REGIONAL FREE TRADE AGREEMENTS

The Central American region has opted for a strategy of regional and global trade integration as a way to ensure the necessary investments to generate employment and income to enable macroeconomic stability through the balance of trade (increased exports) and balance of payments (increasing Foreign Direct Investment), so that the level of reserves in the country is maintained, avoiding an increase in external debt. This is the rationale found in official documents on trade policy, and specifically on the results achieved with free trade agreements.

Trade unions and small-scale farming organisations consider that although these official figures represent the macroeconomic results, they take visibility away from a series of processes that are key to achieving the objectives of country development, mainly related to quality employment and the reduction of levels of extreme and widespread poverty. This section attempts to make these processes visible through case studies and shows that they occur throughout the region.

We will begin by discussing how incentives generated by quotas negotiated on certain products such as sugar cane, peanuts and other export monocultures, encourages both a process of concentration of land and the establishment of production systems that have social, environmental and food sovereignty consequences.

According to studies and statistics on the contribution of mining to the economy of a country, the risk of environmental liabilities generated by this activity, it is considered to be greater than the contribution generated, at between 0.3 and 2.8% of GDP in the countries in the region. Although Central American states consider that mining is an economic activity that can attract investment and create jobs, and favourable conditions for the development of communities, the case studies show that the environmental and social cost are greater than the economic benefits. With an outdated legal and tax framework and without the capacity to monitor the effects on water and soil resources, nation states should not increase mining concessions in the region.

Central American states cannot expect that international trade alone can generate inclusive economic development processes, but must establish policies to stimulate channels for the transmission of the gains from trade and FDI. Three such transmission channels that could be prioritised by public policy are technological upgrading and the formation of human capital; the promotion of stable jobs and adequate remuneration; and production chains for small producers and SMEs. Similarly, investment in infrastructure, transport, logistics and communications, and progressive fiscal policies, would reduce levels of exclusion for small producers, so that structural gaps could be overcome.

For these transmission mechanisms to work, structural gaps that generate inequality must be closed. Guatemala has the largest internal gaps in social issues (education, health and gender), then Honduras (environment, poverty, health, inequality and gender). Nicaragua is in third place (with gaps in education,

environmental and poverty). Costa Rica has the least social gaps in the region. Nicaragua has the largest gaps in economic issues (productivity, infrastructure, investment and income per inhabitant). Guatemala is second with significant gaps in areas such as per capita income, investment and innovation. These social and economic gaps are consistent with findings on income inequality and poverty rates, with the highest indicators belonging to Guatemala and Honduras.

The national and transnational corporate private sector must create productive jobs, with appropriate remuneration and the social benefits required by law. CSR is based on the human capital of the company and working conditions that ensure greater productivity and quality in the production and / or services offered. The case studies show that the cost of social benefits and working conditions are considered to reduce the competitiveness of companies, and so CSR practices are focused on social activities. Sub-contracting practices used by national and/or transnational companies should generate processes along their value chains for the certification of CSR, including compliance with labour laws, the formation of human capital, the proper management of solid and liquid wastes, transparency and environmental protection.

## 2.1 Trade Policy and Regional Integration, the cases of the DR-CAFTA and the AA

Many countries in the Latin American continent entered a currency crisis in the 80s, as did Central America, which was exacerbated by the context of civil conflict in four of its five countries, with the greatest impact in Nicaragua, El Salvador and Guatemala. Each country made different adjustments at different times, and all implemented unilateral trade, price liberalisation and export promotion practices. In the case of Nicaragua and El Salvador, there was a significant reduction in public spending and in Nicaragua a process was begun to privatise state-owned companies for manufacture and services[1]. However, in the 1990s these adjustment policies did not have a significant effect on GDP per capita growth, and poverty rates stand at above 50% of the population, except in Costa Rica[2]. As an alternative option, the countries of the region implemented a strategy to achieve a higher level of economic integration at different levels: regional Central American integration, with the US as the main trading partner with the Bloc of countries in the NAFTA treaty, and in a second stage they have made progress towards integration with the southern cone, mainly Chile, and Europe.

As a counterpart to these processes of export promotion and unilateral liberalisation, Central America benefited from the initiatives of the Caribbean Basin (1983) and the Commercial Association of the Caribbean (2000), both favouring Central American exports to the USA. Countries such as Honduras, the Dominican Republic and El Salvador took advantage of these initiatives. Similarly, the United States applied its Most Favoured Nation model with Central America, which continued through the World Trade Organization (WTO) until 2008. Clearly, these options led to the United States being confirmed as the main trading partner with the region, however, these initiatives were unilateral, temporary and depended on the correlation of forces inside the US Congress.



[1] Funkhouser E. & J.P. Pérez S. (1998) Ajuste Estructural, mercado laboral y pobreza en Centroamérica; una visión regional. (*Structural adjustment, labour market and poverty in Central America; a regional vision*)

[2] Moreno-Brid, J.C. & E. Pérez 2003 Liberación Comercial y Crecimiento Económico en Centroamérica. (*Trade liberation and Economic Growth in Central America*). ECLAC journal 81.

In light of this situation the countries of the region decided to establish a stable agreement which would enable them to maintain for longer periods the benefits that had been achieved, and negotiations for a Free Trade Agreement began. However, in the initial stages, the USA showed no interest in the process, it was not until 2001 that the Initiative of the Americas (FTAA) was launched and a process of preparation began (2002), followed by negotiation (2003 and 2004) and ratification of the treaty (2004-2005).

The process of negotiating the DR-CAFTA was considered to be part of the Central American regional integration process, although this was finally negotiated country by country. Central American integration is a process that has taken many decades, beginning with the signing of the Integration Treaty in 1960, which boomed in the 60s and 70s with the establishment of the CACM, but then stalled in the 80s. After the process of pacification in the region in the late 80s and early 90s, this process was reactivated with the goal of achieving a customs union in the region with the Economic Action Plan for Central America and the Central American Integration System (*Sistema de Integración Centroamericana* - SICA). A first step in this process was the internal regional tariff reduction since 1992, which has reduced bilateral tariffs to a short list of four products[3].

The experience of the countries of the region in the process of tariff harmonisation and customs union, during the negotiation of the free trade agreement with Mexico and the DR-CAFTA, created the conditions for the eventual negotiation of an Association Agreement with the European Union. Both the treaty with Mexico and the DR-CAFTA were initially conceived as regional treaties, but in light of internal disparities they became bilateral treaties. In the case of Mexico they became three treaties: with Costa Rica, Nicaragua and the Northern Triangle, and in the case of DR-CAFTA, the negotiations were bilateral.

The European Union had previously negotiated association agreements with Chile and Mexico, both countries with very different sized markets to those in the region; Mexico with 125.4 million people and an economy of USD 1,283 billion[4] and Chile a member country of the OECD high-income countries with GNI per capita of USD 19,910[5], meaning that EU interests in Central America are not necessarily the same as those in these previous agreements. In this aspect Caballero (2008) believes that the treaty had more weight in institutional politics than trade, i.e. in the areas of regional integration, democracy, governance, corruption, sustainable development, climate change, as well as gender, human rights and organised crime.

Although the Association Agreement has three components (political dialogue, economic partnership and cooperation), a first agreement was reached with Mexico on trade and trade-related issues, and a similar pattern has been applied to the process with the Central American region. Central America had clear objectives for the negotiation process in terms of quotas for agro-industrial exports, bananas, dairy and meat, sugar, rice and manufacturing, and conditions for textiles exports.

The Association Agreement entered into force in 2013, (Honduras, Nicaragua and Panama in August; Costa Rica and El Salvador in October; and Guatemala in December). The European Union is considered not only an important trading partner but also a very important cooperation partner; according to the EU, between 2007 and 2013 regional and bilateral cooperation reached € 860 million. The EU is the second most important regional partner for exports, mainly to Costa Rica, Honduras and Guatemala. The main export products from the region are coffee, pineapples, bananas, seafood and micro-chips. The main

[3] Caballero R. (2008) Centroamérica: Los retos del Acuerdo de Asociación con la Unión Europea. (*Central America: The challenges of the Association Agreement with the European Union*). ECLAC. Studies and Perspectives Series – 102. Mexico City.

[4] World Bank, GDP 2014

[5] World Bank, GDP per capita 2014

imports into the region are medicines, vehicles, machinery and petrol, with Costa Rica, Guatemala and Panama the countries importing the most goods from the EU.

One key element to understanding why the treaties have been negotiated individually is that according to Cordero (2014)[6], Central America has differences within the region, related to the structure of exports. Costa Rica exports a significant proportion of high, medium and low technology products, while in the rest of the region there is a predominance of textile manufacturing, low-tech products and agricultural exports:

- **Costa Rica:** Electronic circuits, medical instruments and devices, t-kehr tubing, bananas and pineapples. 26% of exports are classified as high-tech goods, 21% as medium technology and 24% as commodities and 18% as manufactures based on natural resources.
- **El Salvador:** Textiles, sugar and coffee. 6% of exports are classified as commodities and 22% as resource-based manufacturing. Only 6% classified as high technology.
- **Guatemala:** Textiles, sugar, coffee, bananas and silver. 36% of exports are classified as commodities and 25% as natural resource-based manufactures. Only 3% classified as high-tech goods
- **Honduras:** Coffee, bananas, shrimps/prawns, palm oil and liquid propane. 51% of exports are classified as commodities and 21% as manufactures based on natural resources. Only 1% classified as high-tech goods.
- **Nicaragua:** Coffee, meat, textiles, gold and sets of spark plug wires. 70% of exports are classified as commodities, and 25% are natural resource-based manufactures. Only 1% classified as high-tech goods.

This is the context in which Central America is integrated into the global economy, through a series of free trade agreements, guaranteeing access to markets under favourable conditions for exports from the region.

## 2.1.1 The DR- CAFTA, 10 years later

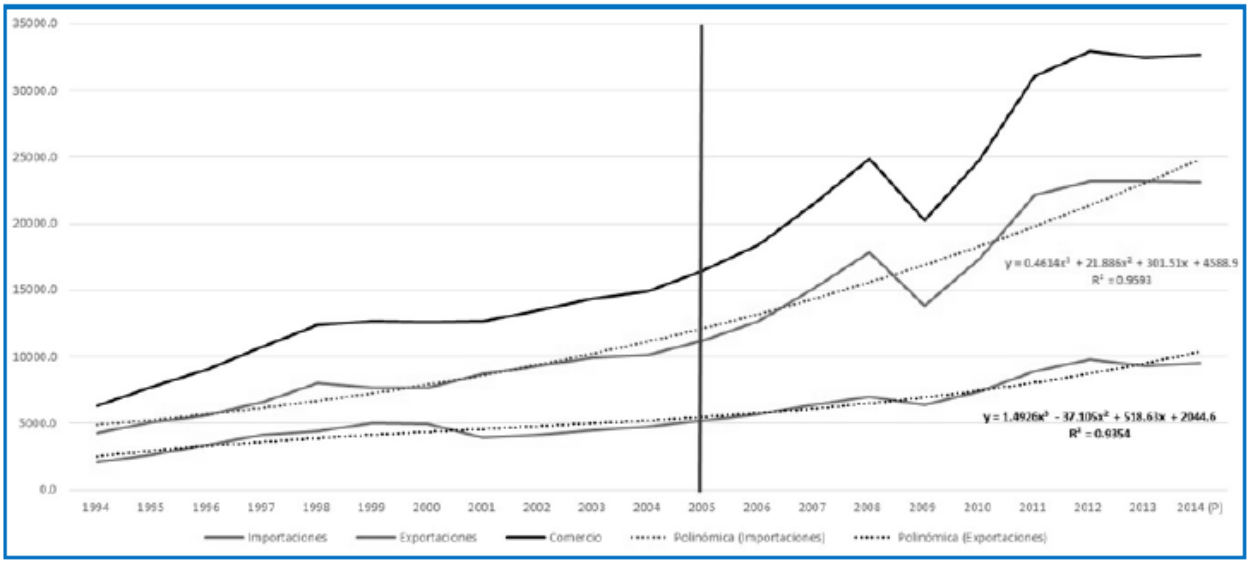
The free trade agreement with the United States is understood as a trade integration between the main partners in the region. According to Cordero (2014), in 2013 regional trade with the United States reached 40.5% of exports, over intra-regional trade in the MMCA Central American common market, (24.6%) and Europe (11.4%). At the country level, the United States are more important to exports from Nicaragua (45.9%) and El Salvador (45.8%), with Costa Rica (38.5%), Guatemala (38.4%) and Honduras (37.7%) at a secondary level. Similarly, the USA is the main partner for imports to the region with 39.7% of the total. The main imports are related to products needed for the export process, energy goods from petroleum products, vehicles and high-tech goods.

The signing of the DR-CAFTA was conceived as a strategy to guarantee market conditions obtained through CARICOM and to increase them as far as possible, and also to ensure a series of quotas that stimulate the productive sector and thereby increase exports. According to statistics from SIECA, this strategy has been effective and trade with the USA has grown from USD 14,914.4 million in 2004, to a total of USD 32,701.2 million in 2014, equivalent to a cumulative growth of 119.3%, and it has been a

[6] Cordero M. (2014) El Comercio de Bienes y Servicios en Centroamérica 2014. (*The Trade in Goods and Services in Central America 2014.*) ECLAC Unit for International Trade and Industry. Mexico City.

steady growth, except for the years of the financial crisis (2009 and 2010), resuming its overall trend in 2011.

**Fig 2.1.1.a Trade Agreement between Central America and the United States (1994-2014)**

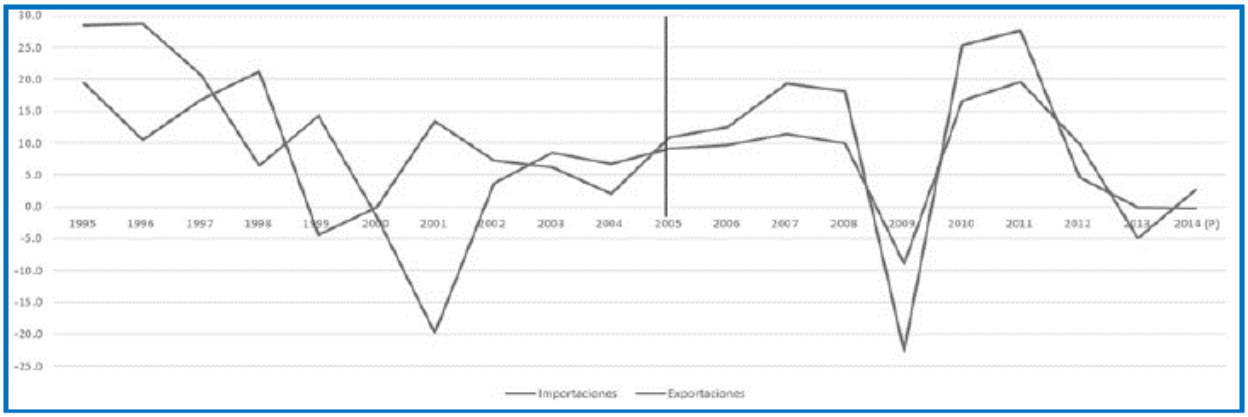



Source: Based on figures from the trade statistics system in Central America (SIECA), 2015

The data shows that there is growth in both exports and imports. Taking the SIECA statistics, in 2005, imports (USD 11,262.9 million) clearly exceeded exports (USD 5,206.3 million) and in the 2005-2014 period imports grew at a higher rate than exports between 2005-2008 and 2010-2011, so that imports have grown at an average annual rate of 9.6%, while exports have increased 7.6%, in 2011 imports reached a peak with USD 23,193.5 million, and remained in the range of USD 23.147 million in 2014. Exports reached USD 9,776.8 million in 2012, and have remained within the USD 9553.8 million range.

It can therefore be seen that while Central America may have used the DR-CAFTA to increase its exports to the United States (from USD 5,206.3 million in 2005 to USD 9,553.8 million in 2014 - equivalent to a cumulative growth of 83.5%), the United States have taken better advantage of the treaty, increasing their exports to the region by a cumulative 105.5% increasing from USD 11,262.9 million in 2005 to USD 23,147.4 in 2014.

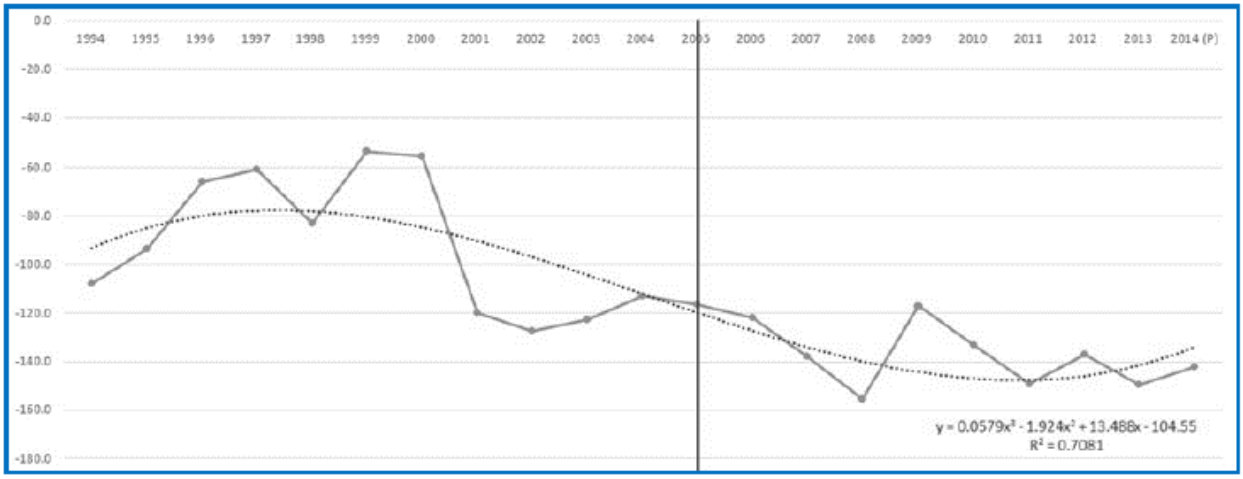
**Fig. 2.1.1.b, Annual growth rates of Exports and Imports between Central America and the United States (1994 - 2014)**




Source: Based on figures from the trade statistics system in Central America (SIECA), 2015

One key element to encourage exports is the reduction of the trade deficit, and improvement of the balance of payments. Commercial dynamics in the DR-CAFTA tend to maintain and even expand the trade deficit between Central America and the United States. According to SIECA statistics, in the 2005 - 2014 period, the trade deficit represented on average 136% of Central American exports to the United States. In absolute terms, the increase from USD 6,056.5 million in 2005, to USD 13,593.6 million in 2014, is equivalent to a cumulative growth of 124%. Clearly, the region needs to make better use of the treaty, so that the trade deficit can be reduced. The trend since 2001 has involved a process of deficit increase until 2011 when it reached its maximum value (USD 13,270.4 million), subsequently remaining at more or less the same level in the years 2012-2014.

**Fig. 2.1.1.c Trade Balance between Central America and the United States (1994 - 2014)**




Source: Based on figures from the trade statistics system in Central America (SIECA) 2015

To summarise, we can see that the United States continues to be the main trading partner in Central America and that significant progress has been made in trade integration. Clearly, trade between Central America and the United States was stimulated by the treaty, leading to an increase in the total amount traded, with significant increase in Central American exports, but with greater dynamics in imports from the USA. The trade balance is therefore even greater than in the years before the treaty. Central America should take more advantage of the benefits to increase exports and reduce its trade deficit.

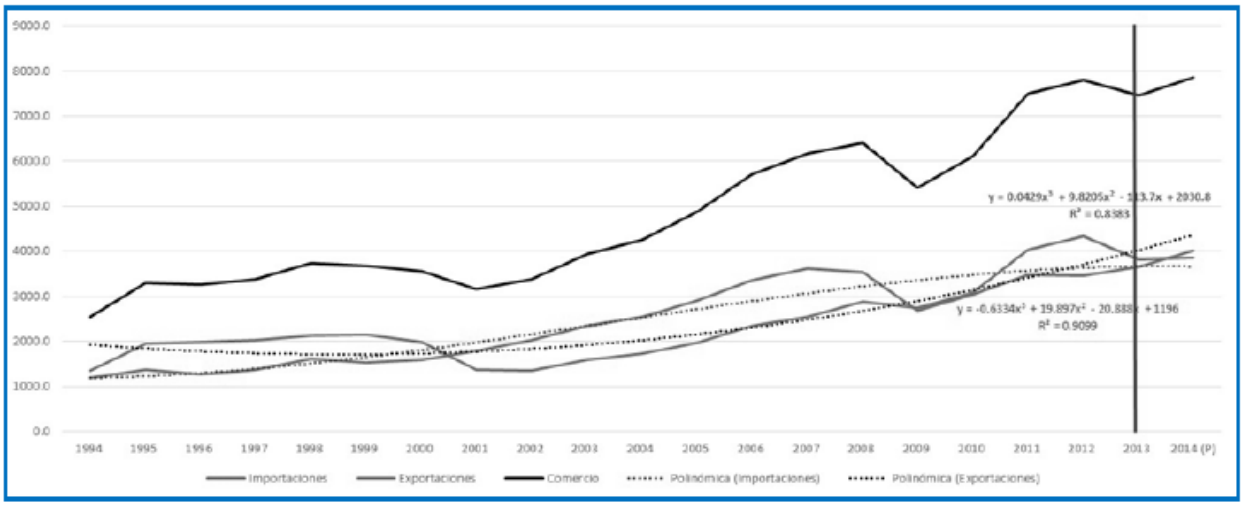
## 2.1.2 The Association Agreement with the European Union, initial stages

The European Union is the third-largest trading partner in Central America and an important partner for cooperation and investment. The Association Agreement is in its early stages, with 2015 the second year of operation, so the trade statistics available only reflect one year of the treaty, however these statistics reflect the trend in the region since 2005, when the process of trade liberalisation took on new dimensions, as countries had to adjust their legal frameworks to meet the requirements of the DR-CAFTA.

In general terms, trade with the EU accounts for 11.4% of total exports and 6.7% of total imports, i.e. compared to the dynamics of the DR-CAFTA, the EU treaty is smaller in scale. According to statistics from SIECA, in 2014 trade with the EU stood at USD 7,865.8 million, which is itself a significant increase compared to 2005 figures when trading stood at USD 4,870.6 million, meaning that in this period trade has grown cumulatively by 61.5%.

Trade with the European Union experienced an upsurge in 2001 and sustained this growth until 2008, was affected by the global financial crisis in 2009 and 2010 and then resumed its previous levels in 2011. It is expected that the total amounts of trade have become more dynamic from 2013 onwards and that both the Central American region and the EU have increased their exports.

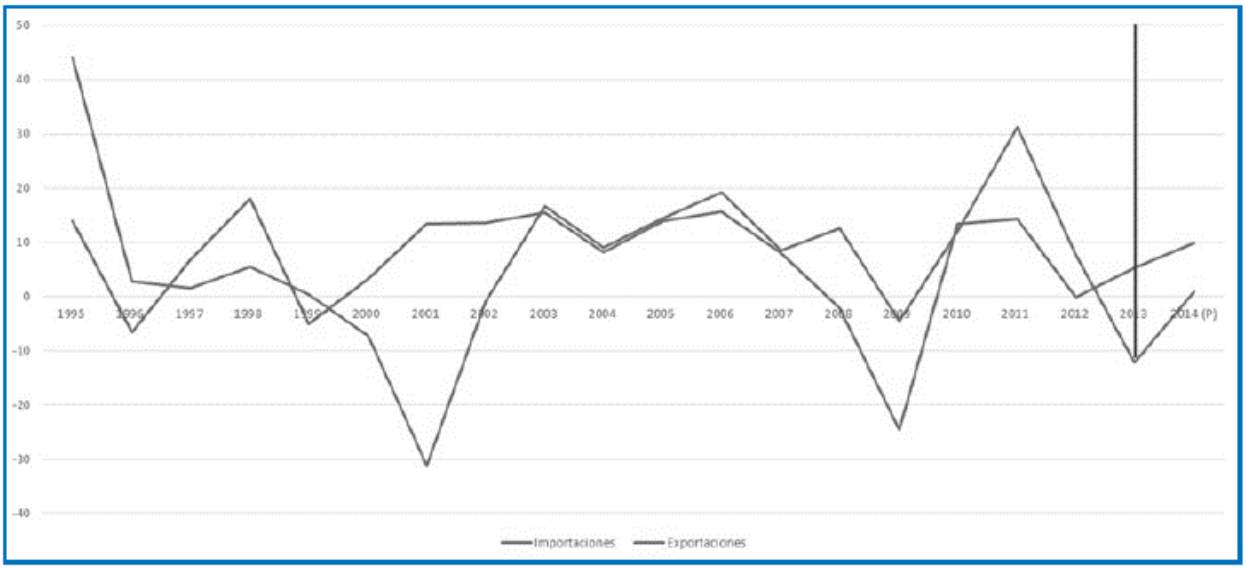
**Fig 2.1.2.a Trade Agreement between Central America and the European Union (1994-2014)**




Source: Figures from the system trade statistics for Central America (SIECA) 2015

Unlike the case of the DR-CAFTA, EU exports in Central America have had a higher average growth (9%) than imports from the EU (5.4%). There have been periods when exports are growing at a higher rate (2003 to 2012) which is why the figures reflect benefits to the region. In the years 2013 and 2014 the dynamic was different, in 2013 and 2014 there was a drop in exports related to coffee exports and this is expected to resume its previous trend in the coming years.

**Fig 2.1.2.b Annual growth rates of exports and imports between Central America and the European Union (1994-2014)**

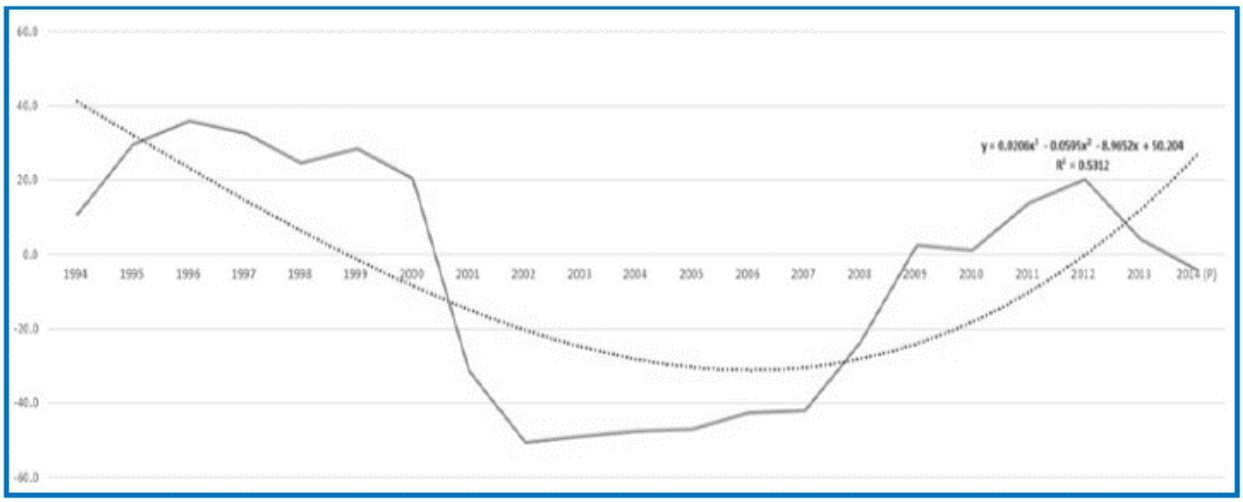



Source: Based on figures from the trade statistics system in Central America (SIECA) 2015

As a result of these periods in which exports to the EU have grown more dynamic, there have been periods in which the trade balance has favoured the region, namely in the period 1994 - 2000, although the trend moved towards a deficit in 2001, when the dynamics of EU import changed. From 2008 a process of deficit reduction was seen and in the period 2009 to 2013 exports exceeded imports.

It should be noted that 2013 and 2014 showed a trend towards a period of trade deficit over the next five years, but it remains to be seen whether this trend is confirmed.

**Fig. 2.1.1.c Trade balance between Central America and the European Union (1994 - 2014)**




Source: Based on figures from the trade statistics system in Central America (SIECA) 2015

To summarise, it can be said that trade relations with the EU have somewhat different characteristics from those established with the United States. The influence of the EU in trade with Central America is

less than with the DR-CAFTA and trade with Latin America, and even less than intra-regional trade. However, the EU is an important trading partner and also plays a role as a bilateral donor, with strong investment from European companies. This is consistent with the assertions of Knight (2008) that the EU has a major interest in strengthening institutional spaces that guarantee their investments. Until 2012, the trade balance with the EU favoured the Central American region, and this was the starting point for the Association Agreement. In three to five years it will be possible to confirm what the trend will be for this new relationship for trade, institution and cooperation integration.

## 2.2 Food Sovereignty: current evaluation and future perspectives?

One of the most divergent points among farmers and consumer associations with some state institutions, especially those dealing with trade, is related to food security and food sovereignty. States tend to focus on food security, because this comprehensive approach allows them to plan both domestic production and imports, and in times of crisis related to high prices, to increase the available supply and thus lower prices for consumers. Farmers and consumer groups tend to focus on food sovereignty as a way of achieving sufficiency and nutritional quality of food through domestic production and tend to criticise the nutritional quality of imported food.

Hurtado (2015)[7], states that the policy of promoting agro-exports in the 50s and 60s, established a framework in which areas of fertile plains were destined for the factory farming of cotton and sugarcane, ousting small-scale farming production to hillside areas and areas of agricultural frontier. After 65 years, the situation still tends to be similar, with new items (peanuts, sesame seeds, pineapples) and the recovery of traditional products (sugar cane, pasture areas), but under the same logic: fertile areas for export monocultures and hillside areas and agricultural frontiers for food production for the domestic market.

This is particularly reflected in countries like Costa Rica, where in the period 1961-2013, there was a reduction of 50% in grains production areas, while areas of agro-exports increased by about 70%. In the same period in Honduras, production areas for monoculture export increased by 160%, while grain increased by 50%, and in Guatemala the ratio is 80% increase in agricultural exports against 60% in grain production. Nicaragua and El Salvador have a different dynamic because there is a greater increase in grain areas, but we must take into account that by 1961, plains areas in these countries were already concentrated on cotton production (Hurtado, 2015).

Baumeister (2013)[8], suggests that that there has been an expansion of export items affecting food production areas. Biofuel production from the production of sugar cane and African palm in Central America has gone from 256,162 hectares in 1990 to 586,056 in 2010, a cumulative growth of 128.8%. This increase in land concentration occurs significantly in Guatemala and Honduras and to a lesser extent in



[7] Hurtado A. (2015) Estado de la Soberanía Alimentaria en Centroamérica. Alianza regional por el Derecho Humano a la Alimentación en Centroamérica ADHAC-OIKOS-UNDEF-EU. (*State of Food Sovereignty in Central America. Regional Alliance for the Human Right to Food in Central America*).

[8] Baumeister, E. (2013) Concentración de la Tierra y Seguridad Alimentaria en Centroamérica. (*Concentration of Land and Food Security in Central America*). International for Land Coalition - ILC.

Nicaragua and El Salvador.

When analysing the period 1990 – 2009, Baumeister (2013) points out that the region has lost the ability to source its own cereals. Honduras has experienced a significant loss in capacity, from generating 80.4% in 1990 to 49% in 2009. El Salvador's capacity was reduced from 81 to 58% and Guatemala from 81 to 60%. Nicaragua saw a significant reduction from 1970, when it was 97.1% self-sufficient, generating only 75% in 1990, a proportion that continued until 2009. In this case we must consider the growth of the Central American population and the actual capacity of the national agrifood systems to produce the volumes of food that this population demand.

In 2015[9], the FAO said that the issue of food security in Central America is more associated with inequitable distribution that prevents access to the necessary quantity and quality of food, than with availability, that is to say existing amounts. The FAO report, based on WTO criteria, states that El Salvador and Honduras are net importing countries. El Salvador's focus on the agricultural and food trade balance, means that the country imports more than 60% of its food, which makes it into a country dependent on food imports. Generally, the countries of the region are importers of cereals (corn, beans, rice and wheat); Nicaragua and Honduras are not importers of beans, but do import the other three cereals.

According to available data, the FAO (2015) estimates that food imports in Nicaragua, Honduras and El Salvador fluctuate between 6 and 7% of GDP, while in Costa Rica and Guatemala, the figure stands between 3 and 4% of GDP. Given the differences in the size of the economies in the region, the importance of food imports is different in monetary terms, because it means that Guatemala could be spending USD 1,800 million for food imports, while Costa Rica could be spending USD 1,500 million; while Nicaragua would spend USD 830 million. Clearly, the issue of food imports has been gaining importance over the past 20 years.

Hurtado (2015) points out that Central America has lost competitiveness in grain production to the United States and that from 2018, when DR-CAFTA safeguards are completed, the production of rice, rice and sorghum will be highly vulnerable. Items that tend to be winners under free trade conditions are coffee, sugar cane, peanuts, fruits, vegetables and beans. That is to say, the scheme negotiated under the DR-CAFTA offers incentives for the expansion of monoculture exports.

The case studies address the issue of the prioritisation of monoculture exports (sugar cane and pineapples) in the countries of the region, leaving food production as family production, which faces an unfavourable context in terms of price volatility, limited productive infrastructure and access to fertile land. Similarly, the studies address the fact that public policy is focused on promoting exports, leaving the increased competitiveness of food production in the background. Production for the domestic market has not been prioritised in public policy.

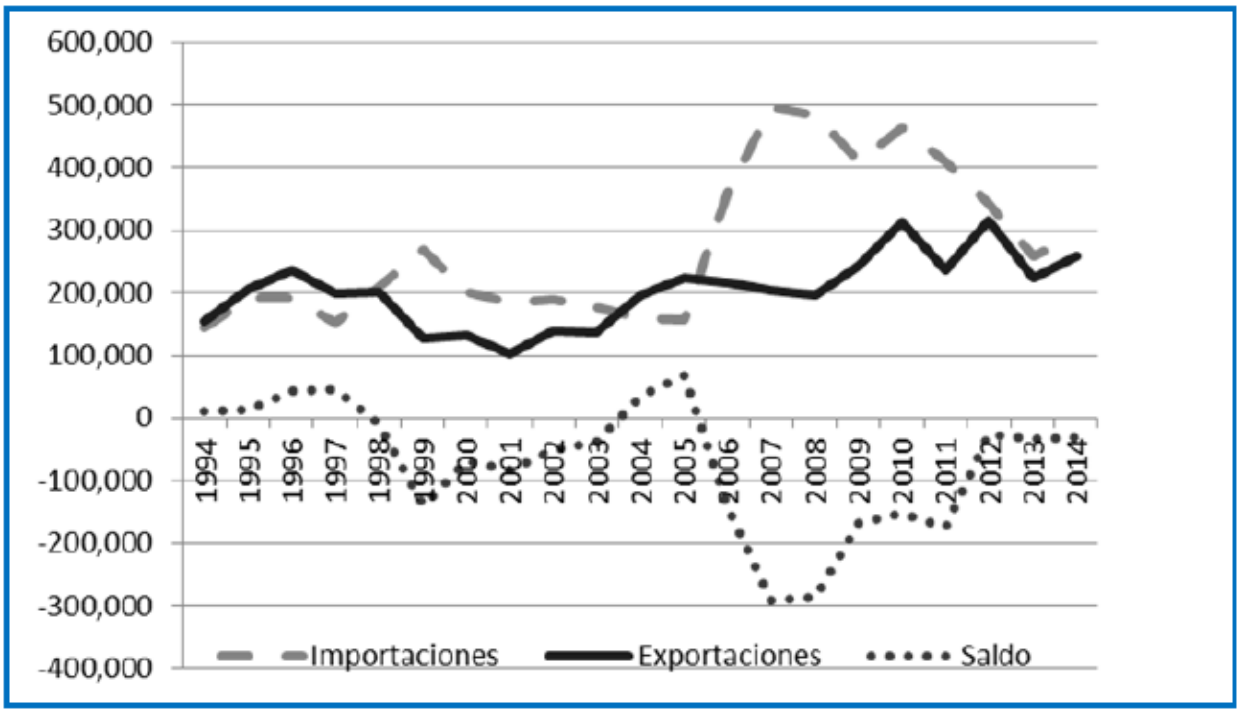
However, an important milestone, that has brought the effects of free trade agreements in food production to the national debate, is the fact that in 2016 the DR-CAFTA reaches its tenth year of operation and thus the third basket of products is freed including rice, an item that has so far been protected and a product produced by important agricultural economic groups in the region, with a strong capacity for influence, and this has placed the issue of competitiveness of food production on the policy agenda in the region.



[9] FAO (2015) Panorama of Food and Nutrition Security in Central America and the Dominican Republic 2014. FAO –Panama

According to Martinez & Contreras (2015)[10], the food trade balance with the United States deteriorated significantly between 2006 and 2010, when it went from a positive balance in 2004 and 2005, to a deficit situation between 2006 and 2014, although in the last four years the deficit has been shrinking. If the scenarios suggested by Hurtado (2015) become real, regarding the loss of competitiveness of Central American grain production to the United States, it is to be expected that the food balance in the treaty will continue to bring disadvantages to the region.

**Fig. 2.2.a Food Balance between Central America and the US (US $)**




Source: Martínez S. & A. Contreras 2015

The legal and policy framework for Food and Nutritional Security in Central America has advanced significantly. Guatemala, Honduras and Nicaragua have all created laws, policies and a technical coordination office[11], and similarly Costa Rica and El Salvador now have national technical coordination offices[12]. However, trends in the productive structure of the region indicate that there are very few real changes. In the case of the production of sugar cane, the case studies reflected that export quotas for sugar and ethanol[13] guaranteed under the DR-CAFTA (151,000 MT in the year 2015, with growth of 2% per year) and in the Association Agreement (150,000 MT with successive increases of 4,500 MT per year) have spurred a recovery in sugar cane production, and thus a greater concentration of land, as described



[10] Martínez S. & A. Contreras (2015) Tendencias del AdA en la Soberanía Alimentaria en Centroamericana: El Caso de la Caña de Azúcar. (*Trends in Food Sovereignty of the Association Agreement in Central America: The Case of Sugarcane*). Regional Observatory on Free Trade and Corporate Responsibility.

[11] Secretariat of Food and Nutritional Security (*Secretaría de Seguridad Alimentaria y Nutricional* - SESAN), Guatemala; Technical Unit for Food Safety and Nutrition (*Unidad Técnica de Seguridad Alimentaria y Nutricional* - UTSAN), Honduras; Executive Sovereignty and Food and Nutrition Security Secretariat (*Secretaría Ejecutiva de Soberanía y Seguridad Alimentaria y Nutricional* - SESSAN), Nicaragua.

[12] Secretariat of the National Food and Nutrition Policy (*Secretaría de la Política Nacional de Alimentación y Nutrición* - SEPAN), Costa Rica; Technical Committee on Food and Nutrition Security (*Comité Técnico de Seguridad Alimentaria y Nutricional* - COTSAN) El Salvador.

[13] The fee under the CBI was 156 million gallons and for 2006 only imports of 38.3 million were reported in El Salvador and 35.8 million in Costa Rica

by Baumeister (2013).

- **El Salvador:** Sugar cane had reached a record area in 1999, with 77,140 hectares harvested, then this product entered a crisis that resulted in a reduction of 30% in areas. Since 2006 there has been a spike and 2013 the harvested areas reached 77,152 hectares, i.e. an increase of 22,880 hectares, equivalent to a 42% increase.
- **Guatemala:** The areas increased from 226,000 hectares in 2004 to 261,520 hectares, an increase of 35.520 hectares, equivalent to 15.7%.
- **Honduras:** Harvested areas have remained stable at around 75,000 hectares.
- **Nicaragua:** Areas have increased from 45,294 hectares in 2004 to 70,858 in 2013, an expansion of 25.564 hectares, equivalent to a 56.4% increase.
- **Costa Rica:** Went from 49,210 hectares harvested, to 63,616 hectares in 2013, an increase equivalent to 29.3%.

Therefore, while the region increased its levels of dependence on food imports, the production of sugar cane increased by 98,370 hectares. There are relatively higher increases in these areas in Nicaragua and El Salvador than in Costa Rica and Guatemala. This leads to a number of questions for public policy:

- What limits will be placed on the expansion of the monoculture export model in the region?
- What is the cost-benefit of this model, including the costs of water and soil contamination (environmental liabilities), health costs for agricultural workers and conflicts over land tenure (social liabilities)?
- What is the cost-benefit of tax incentives (exemptions) and protection mechanisms from which this sector benefits?

## 2.3 Investment and Employment: what are the effects on formal employment and labour rights?

One of the key elements in the process of structural adjustment in the 90s was the the creation of policies to attract Foreign Direct Investment (FDI). Like the increase in exports, FDI is key to the balance of payments, and in general terms, could serve as an engine to energise economies that do not have strong dynamics of domestic investment. One of the main effects of the adjustment process was a reduction in the size of governments and a reduction in public spending, consequently a higher rate of underemployment and unemployment in general. The Central American countries created a series of incentives to attract investment, which could in turn take advantage of the benefits of the Caribbean Basin Initiative and the Caribbean Trade Partnership.

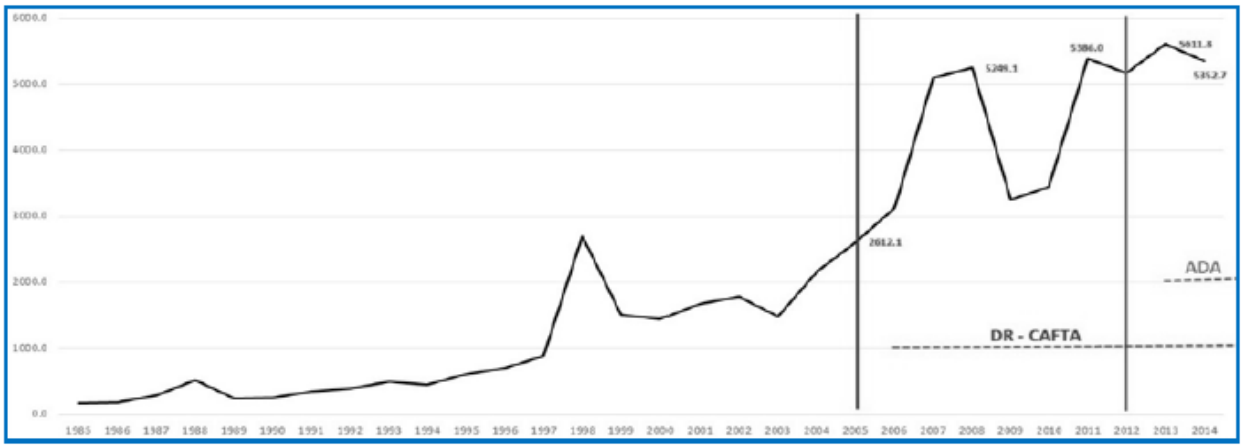
According to ECLAC (1998)[14], in the period from 1990 to 1996, the Central American region attracted USD 3.223 billion, however, 59.1% was attracted to Costa Rica, 18.4% to Guatemala and 10.3% to Honduras. Costa Rica's strategy for attracting investment was different to other countries in the region, by opting for technology-intensive industries with high knowledge levels. Costa Rica's competitiveness focused on qualified staff and infrastructure for the technology industry, and as a result, investment generated well-paid jobs. Similarly, the country opted for mega construction works such as: a new INTEL plant and the

[14] ECLAC (1998) Foreign investment in Latin America and the Caribbean: Report 1997. ECLAC, Santiago de Chile.

Miravalles III power plant. The other countries in the region competed based on availability and low cost of labour, tax incentives and infrastructure facilities, attracting manufacturing industry for assembly known as *maquilas*, which were located in Honduras, Guatemala, El Salvador and to a lesser extent in Nicaragua. A second process, since 1995, has involved the purchase of electric utilities, telecommunications and the consolidation of financial companies (regional banks) and services (supermarkets, pharmacies, airlines, hotels, entertainment) and manufacturing (food, soft drink bottlers, beer, snacks, oils and cleaning products) by extra-regional groups in the United States, Europe and South America. This period saw an increase in direct investment flows towards Central America with an accompanying set of factors, some related to incentives and low wages in export processing zones, and others to new elements such as political and institutional stability associated with trade liberalisation and integration schemes between countries in the subregion.

According to CEPALSTAT data, net investment in the region between 1990 and 2003 had positive growth rates (23.6% annually on average) and an average amount of USD 1,050.1 million. However from 2004 onwards, when negotiations were established for the DR-CAFTA, there was a significant change in net FDI, which rose to more than above USD 2,100 million annually. In the period 2005 - 2013 the average FDI was USD 4,429.7 million, an amount much higher than those seen before the pre-negotiation and signing of the agreement.

**Fig. 2.3.a Fig. 2.3.a Millions of USD of Foreign Direct Investment flows into Central America**




Source: Based on data from CEPALSTAT, 2015

According to the information found in the case studies and the statistical information available, it was not possible to attribute investment growth in the region to the DR-CAFTA. However, there was a clear trend for increased annual average amounts, despite the financial crisis of 2009 and 2010. By 2014 the cumulative increase was 148% compared to 2004, from USD 2,157 million to USD 5,352.7 million. In this period, in 2014, Costa Rica continued to be the leading attraction for FDI with 34.3%, followed by Guatemala (25.5%) and Honduras (20.9%), and it must be stressed that Nicaragua doubled its amounts from 1996 reaching 14.1%, while El Salvador continues to attract the least FDI in the region.

The European Union reports that it is the second-largest provider of FDI in Costa Rica, with an annual average (2007-2013) of USD 329.1 million per year; similarly it is a major investor in Honduras and Guatemala and follows the general trend concentrating investments first in Costa Rica (37%) followed by Guatemala (29.5%) and Honduras (15.5%). European investments prioritise telecommunications, energy and tourism sectors. Similarly, the EU states that since 2012 (the ratification of the Association

Agreement) FDI from the EU in the region has passed the milestone of USD 1,000 million.

**Table 2.3.b FDI flows from the EU to Central America**

| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | Average |
|---|---|---|---|---|---|---|---|---|
| **Costa Rica** | 440.0 | 259.0 | 183.0 | 71.0 | 315.0 | 485.0 | 551.0 | 329.1 |
| **Honduras** | 155.0 | 387.0 | 110.0 | 311.0 | 309.0 | 283.5 | 280.5 | 262.3 |
| **Guatemala** | 161.0 | 184.0 | 152.0 | 55.0 | 154.0 | 143.0 | 117.0 | 138.0 |
| **El Salvador** | -3.0 | 39.0 | 472.0 | -197.0 | 36.0 | 96.0 | -1.0 | 63.1 |
| **Nicaragua** | 54.0 | 72.0 | 71.0 | 71.0 | 176.0 | 133.0 | 94.0 | 95.9 |

Source: EU Delegation (2014)[15]

While policies from Central American countries to attract FDI have been implemented since the early 90s, the available data shows a change in growth trends that coincides with the negotiation, signing and ratification processes for treaties with the United States and the EU. There is not enough information to enable us to attribute the change in dynamics to these treaties, but it is likely that the guarantees for investment protection laid down in the treaties have generated a confidence in local institutions that did not previously exist.

An important relationship between the macroeconomic data of FDI and micro household level is job creation. In general terms, according to data from the World Bank[16], the population in the region went through a period of declining rates of employment between 1999 (59.5% of EAP) and 2004 (57.5%), with Honduras and El Salvador reporting a greater reduction in employment rates. Since 2005 there has been a recovery in employment rates, only affected by the period of the financial crisis (2009-2010), affecting Guatemala and Nicaragua, however, the occupancy rate achieved in 2007 was subsequently achieved again.

As with FDI, there is no information available enabling us to attribute the increase in 2.7 percentage points in the EAP employment rate to the free trade agreements, however, the processes do coincide; with the signing of the treaty FDI increases and higher employment rates are visible, and since 2005 onwards the trend, with the exception of 2009/2010, has been towards growth.

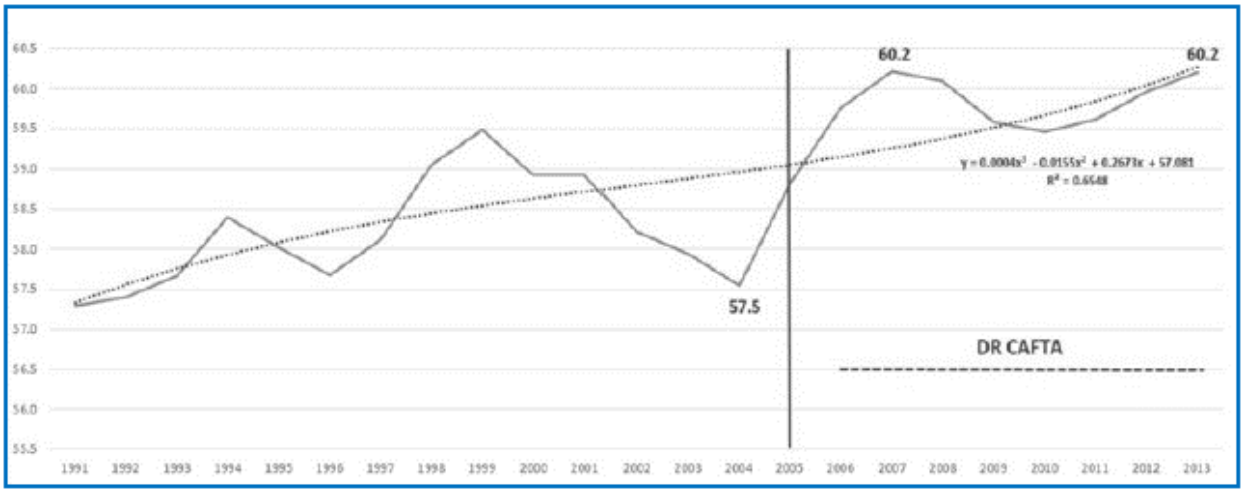
This particularly refers to the number of jobs and not necessarily to the quality of employment, although as previously described in this report, most of the countries in the region promoted themselves as having an abundant and inexpensive labour force, and so it is not surprising that the jobs created, mainly in *maquilas*, are not high income.

**Fig. 2.3.c ILO estimate of employment rates of EAP in Central America**



[15] EU Delegation (2014) European Union Trade and Investment in Central America 2014. Delegation of the European Union for Nicaragua, Costa Rica and Panama

[16] based on the ILO framework




Source: Based on data from the World Development Indicators, World Bank 2015

The case studies included in this regional synthesis recognise that there has been more investment and more jobs in Central America, compared with the period of structural adjustment and afterwards. It could therefore be concluded that free trade agreements led to a situation in which different investments from different regions of the world were located in the Central American region, either to take advantage of the opportunities generated by the treaties (for example the *maquilas*) or because of new opportunities in the countries, as a result of economic growth and policies to attract investment (investments in services and infrastructure).

However, the case studies all coincide in questioning the quality of the employment generated and the flexibility in the implementation of labour laws in the countries. This implies that although the region has increased its capacity to attract investment, this has not translated into an improvement in working conditions. On the contrary, mechanisms such as outsourcing are used in the countries, which allow for the evasion of labour laws. The cases from Guatemala, Honduras and Costa Rica not only discuss the deteriorating working conditions in these countries, but in some cases (Guatemala and Honduras) they also describe how some activities under the framework of CSR end up being financed by the workers themselves and not by the companies.

According to the case studies, export processing zones and their accompanying model of labour exploitation in the textile industry are currently being deployed in service activities such as Call Centres, in the mining sector and even in agricultural production, as in the case of the pineapple industry. Aspects of labour law most likely to be breached in the *maquila* models are: working hours, rest periods depending on the activity, payment of social benefits and especially social security payments, vacations, job stability, the right to organise and the payment of legal benefits in the case of cancellation of contracts.

Although FTAs, specifically the DR-CAFTA, include important elements for the respect of labour rights, there are no clear mechanisms that can be used to exert sanctions on companies that do not comply with labour codes. The United States Department of Labour has promoted the Better Work program, which is a certification process involving ten basic conditions for workers, a voluntary program limited to Nicaragua[17]. ORTLCRE member organisations believe that while there is no mechanism to assess, certify and define compliance with the legal labour framework in the countries along its value chain, and that

[17] Other countries where the Better Work project is applied are Haiti, Vietnam, Cambodia, Indonesia, Jordan and Lesotho

this certification is made a requirement for market access, compliance with labour codes will face serious restrictions. The perception is that companies have a strategy to reduce the costs of labour, as a mechanism for increasing the rates of return and payback in the short term and one way to do this is to create mechanisms such as outsourcing to evade compliance with labour regulations.

## 2.4 Investment in Mining: What are the environmental and social liabilities?

Mining is one of the most controversial activities in the region. It has inherited the environmental liabilities of extractive practices during the years 1900-1940, which a number of municipalities in the region continue to suffer from even now, including water and soil pollution (cyanide), and diseases associated with the activity (mainly lung diseases). Environmental reports have proposed defining environmental liabilities, as a way of accounting for the environmental debt generated by economic activities. According to Oblasser & Chaparro (2008)[18] this is a little known concept and only Chile and Peru have advanced towards incorporating this idea into the environmental legislation of the country in accordance with the recommendations issued by the World Bank in its Review of Extractive industries report (2004) which states that mining selection /concession criteria must incorporate criteria for governance and environmental and social sustainability in the territories where these activities take place.

Oblasser & Chaparro (2008) define the environmental liability of mining as "*the environmental impacts generated by mining operations abandoned with or without an owner, or identifiable operator, and where there has not been a mining closure regulated and certified by the relevant authorities. In regulation terms, although this refers to abandoned places, it not only refers to initiatives in the past, but also to the need for the regulation of active and future operations requiring companies to perform a proper shutdown preventing further damage to populations and their territories*". One of the biggest risks of mining is the pollution of surface and groundwater with cyanide, sulphuric acid and nitrates, as well as toxic concentrations of aluminium, arsenic, asbestos, cadmium, chromium, iron, lead and mercury, among the most common. In the case of soils, the main risks are erosion, degradation and contamination due to the improper disposal of chemical waste and substances.

ECLAC (2007)[19] states in its analysis of the environmental issues in the DR-CAFTA, that Central America arrived at this FTA in a context of strong deforestation, pollution of major bodies of water with domestic and / or industrial wastewater, infiltration of agricultural chemicals in groundwater and a significant increase in pesticide use.

According to Sosa (2015), the environmental negotiations in the DR-CAFTA and the Association Agreement (AA) have different implications; the DR-CAFTA establishes punitive measures and a dispute resolution process. The (AA), meanwhile, has no disciplinary approach to this issue, instead using cooperation to overcome deficiencies by monitoring institutions at various levels and instances. The Association Agreement explicitly establishes aspects of cooperation relating to the mining sector such as considering initiatives for the exchange of information, experts, experience, development and transfer,

[18] OBLASSER A. & E. CHAPARRO (2008) Estudio comparativo de la gestión de los pasivos ambientales mineros en Bolivia, Chile, Perú y los Estados Unidos. (*Comparative study of the management of mining environmental liabilities in Bolivia, Chile, Peru and the United States*). ECLAC, Santiago de Chile.

[19] ECLAC (2007) La Cooperación Ambiental en los Tratados de Libre Comercio. (*Environmental Cooperation in Free Trade Agreements*). ECLAC, México.

ensuring that domestic laws and procedures are taken into account, as well as aspects of sustainable development, including the protection and conservation of the environment.

Indeed, civil society environmental organisations fear that the approaches set out in the Association Agreement are rather simple statements, far-removed from local realities where current and possibly future mining operations do not explicitly meet these environmental aspects; in particular, the European Union's cooperation strategy with Nicaragua for the next seven years fails to mention the aspects established in this treaty.

Moreover, although legislation and efforts exist to tackle environmental issues, the historical effects of mining in rural areas have led to increased social unrest, based either on issues related to land rights, the right to populations to define the future of their communities and the fight to avoid negative effects on the health of the population. This has been described as the social liability of mining operations.

Within this scenario, one of the key questions is whether the economic benefits generated by mining in the region are really so significant as to be worth the environmental and social risks they pose. However, according to Sosa (2015)[20], the annual statistics of the Central Banks of the countries involved report that the contribution of the Mining and Quarrying sector is between 0.27% and 2.83% of the GDP of the countries in the region.

**Table 2.4.a Contribution of Mining and Quarrying to the economies of Central American countries**

| Indicators for the mining sector | Contribution by "Mining and Quarrying" to Annual GDP. | |
|---|---|---|
| | 2009 | 2014 |
| **Guatemala**[1] | - | 2.83% |
| **El Salvador** | - | 0.27% |
| **Honduras**[2] | 1.60% | 0.90% |
| **Nicaragua** | 0.78% | 1.59% |

Source: Sosa T. (2015)

1. Data for 2011, although due to social pressure, most companies are paying between 4 and 5% royalties (ICEFI, 2014a).
2. Average data for the period 2005 - 2009. In the first half of the last decade, its contribution to GDP was 1.6%, while the contribution was reduced to 0.9% in the period between 2005 and 2009, partly due to the ban on ratification in 2006 and lasting until 2013 (ICEFI, 2014b).

The regulatory framework on mining in Central America is still considered to be weak. The first initiatives of special laws in the mining sector were discussed until late 90s, in a context where international prices of metals were very low and the mining industry had not yet developed good environmental and social practice. In this period, legislation for environmental protection and management of natural resources was taken up by national congresses, but they had little influence on mining legislation. The legal

[20] Sosa T. (2015) Minería y su regulación ambiental, en un contexto de liberación comercial. (*Mining and environmental regulation, in a context of trade liberalisation*). Alexander Humboldt Centre – KEPA Finland

framework focuses on establishing tax requirements and demands, which in recent years since the new mining boom, especially in gold and silver, are completely obsolete for States, since there are no mechanisms in place for more and better collection of mining taxes that in turn contribute to better control of a sector that has grown almost exponentially and that continues to work with low operating costs and high environmental and social liabilities.

**Table 2.4.b. Summary of Mining Laws in Central America**

| Country | Original law | Year | Year of Reforms | Current Law | Decree/ Year of Publication |
|---|---|---|---|---|---|
| **Guatemala** | *Mining Law, Decree 48-97* and its *Regulations 176-2001* | 1997 | - | still in force | - |
| **El Salvador** | Mining Law | 1996 | 2001 | still in force | - |
| **Honduras** | General Mining Law, Decree No. 292-98 | 1999 | 2013 | General Mining Law | Decree No.32 - 2013 |
| **Nicaragua** | **Law No. 316, General Law on the exploitation of natural resources** | 1958 | 2001<br>2005<br>2006 | Law 387, special law on the exploration and exploitation of mines | Decree No. 02-2002 |
| **Costa Rica** | Law N° 6797, Mining Code and its reforms | **1982** | **2002**<br>2010 | Law declaring Costa Rica a country free of Open Cast Metal Mining | Legislative Decree No. 8904-2011 |

Source: Sosa, 2015

Despite this context, with limited contributions, with outdated environmental regulations, and risks of the environmental and social liabilities of mining, concessions for exploration and exploitation continue to be adopted in the region, mainly in Guatemala and Nicaragua. It is considered that Honduras had already concessioned most of the country before the entry into force of the Association Agreement with the EU. Similarly, the legal framework is considered highly beneficial for the mining tax regime, since the royalties required by law are no higher than 3% of the total production for any of the metals. In countries whose legislation responds more closely to the reality of the extractive industries (Peru, Bolivia, Chile, Zambia, Ghana, and Mozambique), this tax is between 10% and 30%.

**Table 2.4.c Mining concessions granted by the year 2015 in Central American countries**

| Country | Base year | **Requests** | Total Concessions Granted | Year | Inactive/ **Requests** | Total Concessions | % Of the national territory under concession |
|---|---|---|---|---|---|---|---|
| **Guatemala**[1] | 2013 | **359** | 107 | 2015 | **320** | 79 | - |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **El Salvador** | 2009 | - | 29 | 2015 | 29 | 0 | 5.20% |
| **Honduras** | - | - | - | 2015 | **950** | 365 | 70%[2] |
| **Nicaragua** | 2013 | - | 174 | 2015 | 159 | 172 | 10.05% |

Source: Sosa, 2015

[1] July 2013

[2] Calculation of Honduran civil society according to the maximum hectares permitted per concession

National states are considered to have failed to respond quickly to increased mining exploration and exploitation projects, mainly with regards to the monitoring and environmental assessment of mining. Without adequate environmental assessment, the vulnerability of rural communities increases problems of access to clean water, sanitation and fertile land. There should be greater control over water use by mining companies, in the absence of restrictions or sanctions for abusing water use in their operations. The only existing regulations are related to the issue of wastewater treatment, through tailing dams or drainage fields.

This situation has led to social conflicts with communities throughout the region. In all countries, resistance movements have been formed by communities against the advance and / or effects of mining in the region. In Guatemala the number of social conflicts has increased. Those caused by mining - or opposition to mining activity - have increased in Huehuetenango, Santa Rosa, Jalapa and Alta Verapaz. In Nicaragua social conflicts have appeared in the mining triangle area and the area around the El Limón mine, due to working conditions and/or payments for the extraction of brushwood, and in Rancho Grande and Santo Domingo against the expansion of mining. In the case of Rancho Grande, rural communities achieved the suspension of the exploration/exploitation. In the case of El Salvador, pressure to assess concessions led to their administrative suspension, following a review of the environmental strategy of the mining sector in the country, and in Costa Rica, constant mobilisation and popular pressure against mining in Las Crucitas, managed to completely prohibit open pit mining in the country.

Although Central American countries believe that mining is an economic activity that can attract investment and create jobs, lead to development and favourable conditions for communities, the case studies show that the environmental and social cost is greater than the economic benefits. The outdated legal and tax framework and lack of capacity to monitor the effects on water and soil resources, mean that national states do not have the conditions needed to increase mining concessions in the region.

# III. TOWARDS INCLUSIVE ECONOMIC DEVELOPMENT: AN ALTERNATIVE REGIONAL READING

One of the main conclusions of the structural adjustment processes is that although significant macroeconomic achievements were made in terms of inflation and economic stability in general, these processes excluded significant proportions of the population. At the end of these processes countries like Guatemala, Honduras and Nicaragua reported that more than 60% of their population were living below the poverty line, while El Salvador reported the same for half the population (48.9%). Given this background, trade unions, farmers' organisations and consumers are concerned that the process of integration with major players in global trade in the region will lead to deeper levels of inequality and the social and economic exclusion of the population.

The results of this process, in a simplified model, will depend on the relationships between three major players: companies, workers and the state. Although some believe that interests are not shared among employers and workers, this is not so. The worker is interested in the company growing in transactions and in local, national and regional coverage, because this ensures not only stable employment, but a possible route for promotion in responsibilities and wages. The company is interested in a committed, stable employee, with goals, innovation and training, allowing them to be competitive and grow in the market. The state is interested in these virtuous circles because they lead to lower levels of unemployment and underemployment, and higher levels of aggregate demand, and in this way the state can collect more taxes and generate macroeconomic stability. The question is whether Central America is situated within this kind of dynamic. And if not, how the state can create incentives to establish inclusive dynamics and avoid higher levels of poverty and social instability.

In this chapter we review the role that can be played by the corporate business sector and the State in promoting inclusive development. In the business sector emphasis is placed on issues of Corporate Social Responsibility (CSR) and Corporate Responsibility, concepts on which there is apparently no clear consensus, however, common elements can be identified by reviewing the various proposals of different bodies. Using examples from the case studies, we discuss whether the actions of companies comply with these elements of CSR. The second key players are National States, and in this section we discuss general trends between trade and inequality and transmission mechanisms to promote inclusive international trade.

## 3.1 The role of the corporate business sector: business responsibility

One current debate in recent years has revolved around the role of the private sector in sustainable development, which goes beyond what is traditionally expected. It is good to define which private sectors are covered in these policies, because private investment can range from micro and small businessmen and women, to corporate companies. The private sector has been expected to generate wealth, through the production of goods and services and thus job creation. This sector is expected to play at least six roles: job creation, investment, source of funding, driver of innovation, competitiveness and the formation and development of human capital[21]. According to the IDB, the private sector is responsible for 90% of economic activity in the Latin American region and for 9 out of 10 jobs[22].

However, in light of the subcontracting model used by some transnational corporations, to outsource to companies that do not provide adequate wages and/or force workers to work long hours in industrial *maquilas*, questions have been raised about business ethics. Also, with the implementation of the Earth Summit, bringing greater awareness of sustainable development and the effects of climate change, there is greater pressure on issues of pollution and exploitation of natural resources, mainly of water and forest resources.

Debates about the effectiveness of development aid have increased the profile of activities undertaken by the corporate private sector to promote development, and the private sector also became more



[21] Petkosky D.; Jarvis M. & G. De la Garza (2006) El Sector Privado como un verdadero aliado en el Desarrollo (*The Private Sector as a true partner in development*). World Bank Group.
[22] IDB (2010) The role of the private sector for the economic and social development of Latin America and the Caribbean

important after the Declarations of Paris (2005) Accra (2008) and Busan (2011). Davis (2011)[23] suggests that it is necessary to differentiate between the national corporate sector and the transnational sector, as many of the actions that affect one country or another, could be the result of global corporate policies. Davis also classifies private sector interventions into three types: those with a focus on philanthropy and investment in social areas, either through their own value chain with the integration of local companies, or through political dialogue with the state.

Investments through the value chain itself, through the business itself, are an extremely important route because this generates economic dynamics at the local level. For example, in Ghana, industrial chocolate plants supported 100 communities, with some 55,000 cocoa farmers, for 10 years and a fund of 45 million pounds (USD 82.9 million), and this led to an improvement in productivity, quality, expansion of cultivation and compliance with certification requirements. This relationship led to economic benefits for communities and families, and at the same time built a system of suppliers that increased the business of the chocolate processing plant.

The ILO (2014)[24] promote a focus on sustainable business based on three elements: business growth, the development of productive and decent jobs, and environmental sustainability. In The ILO's focus could be classified as an option to contribute through the value chain. One simple option could be that corporate groups include a basic contribution from their own value chain and then they could add to this actions focusing on social issues and/or policy dialogue. A company that does not generate decent and productive employment and/or does not contribute to environmental sustainability does not contribute to the sustainable development of countries.

According to Davis (2011), there is an important debate related to the contrast between the option of promoting development from business, from a company's value chain, which has been called Corporate Social Responsibility, is more focused on volunteering and social aspects and is assigned limited resources. One of the main criticisms is that its approach is closer to being philanthropic and interventions are therefore considered to be short term and unsustainable.

The World Bank (2006)[25] offers a concept of corporate social responsibility, which has a different approach to philanthropy than that offered in the analysis of Davis (2011). The WB understands CSR as the company's business motto with ethical and law-abiding principles. This model, which could be understood as part of the value chain, identifies four fundamental elements:

- Internal customers are their workers who, with more training, reduced turnover rates, and adequate working conditions, achieve higher productivity and generate quality care to external customers.
- The second element is to listen to external clients, microfinance has called this the Smart Campaign, a strategic action to ensure customer loyalty through policies to review the satisfaction and product needs of new customers. In addition, this action includes other actors as providers of inputs and services, who it considers to be allies in the value chain.
- A third element that is also related to the value chain, is to ensure the quality and certification of products and / or services offered by the company, so that it meets the basic standards of safety, security, and policies on quality and guarantees for the consumer.
- The fourth element is associated with developing a trusted brand, a brand that meets

[23] Davis P (2011) The role of the private sector in the context of Aid Effectiveness

[24] ILO (2014) Sustainable companies: creating more and better jobs.

[25] WB (2006) What is CSR? World Bank Group, Washington D.C.

environmental regulations, which is respectful of communities and the population in general.

The WB (2006) believes that CSR* is very different from a philanthropic approach, and is instead related to establishing productive clusters, given its relationship to suppliers and the necessary linkages to ensure the quality and certification of the chain, from inputs to the product that is delivered to the consumer. Petkosky et al (2006) considered that the commitment of transnational companies to this CSR approach would put pressure on intermediate companies and grassroots providers, and that if CSR was a requirement to enter the value chain, the companies would adopt a similar process.

As part of the Central American Integration System (SICA), a regional CSR network, integrating where seven national networks, has been promoted in Central America, including Panama and the Dominican Republic[26]. These networks bring together 690 companies, which invest USD 5,000.000 million per year in CSR, of which 64% are funds provided by international cooperation[27]. The definition of CSR that they promote is in line with the World Bank's definition:

*"By CSR we mean the practices and policies establishing the adoption by the company of principles and values that guide its business conduct regarding the workplace, trade, environment and government. The basis for carrying out this strategy is that organisations undertake to comply with codes of ethics that establish performance frameworks and are subject to constant scrutiny by civil society. Enforcing the law is no longer enough. Society expects companies to go further in the development of their business and be real agents of change in improving the quality of life of individuals, families and communities in general. The fundamental principle of social responsibility is that the company is a leader in development in the environment in which it operates, in 3 dimensions: social, environmental and economic".*

Social movements, community organisations and global development networks committed to human rights, several of them members of ORTLCRE, consider that corporate responsibility is a longstanding responsibility of companies and is related to comprehensive economic development, central to the human being above and before simple economic growth, as it should lead to decent living conditions, decent employment, compliance with labour rights and food sovereignty.

The previous discussion regarding the different angles used by multilateral bodies to promote development, and those used by CSR networks, is a different dynamic to the one described in the case studies presented on investment, employment and mining. These cases describe a deterioration in working conditions which cuts across the different sectors: services, manufacturing and in the case of Costa Rica, rural labour markets. The emphasis on Costa Rica is related to the fact that this country was considered to have the highest conditions in rural labour markets, to the point that it has attracted temporary urban and rural migrants to the region to participate in cultural practices and harvesting crops for export. Similarly, the cases describe some of the environmental liabilities of mining companies regarding the use and pollution of surface and groundwater, which should be part of their corporate responsibility.

The outsourcing model does not ensure that sub-contractors comply with the established labour framework or ensure conditions and training for their employees, thereby breaking the chain of actions



* CSR: Corporate Social Responsibility

[26] AED, Costa Rica www.aedcr.com; CENTRARSE, Guatemala www.centrarse.org; FUNDAHRSE www.fundahrse.org; FUNDEMAS, El Salvador www.fundemas.org; UNIRSE, Nicaragua www.unirse.org, SUMARSE, Panamá www.sumarse.org.pa; ECORED, Republica Dominicana www.ecored.org.do.

[27] www.integrarse.org

aimed at the internal customer and focusing its business strategy on profit based on a low-wage workforce. This encourages employees to work double shifts as an option to get a better salary every month.

Guatemala is a case in point, as CSR is understood as volunteers working in the social reconstruction of schools (Guatemala) and housing (El Salvador) and support provided to schools for blind children in different countries. They also have a job placement program for young people, who they understand as part of their value chain.

However, interviews with young people and workers in the company shows a different picture, where the main message is that a call centre has the same labour practices as a textiles *maquila* (job instability, long hours, lack of social benefit payments) and that in reality a three-month the training program without salary is actually paid by young workers with a daily and weekly goal on workdays and training on free days. This case does not meet the very basis of CSR relating to the working conditions of the internal customer.

In the case of El Salvador the situation is somewhat similar, according to national statistics only 27.1% of workers are covered by social security and 73% of workers are in sub employment, i.e. they are not busy throughout the year, only seasonally. Considering that the manufacturing sector and industry represents 20.2% of employment, they are expected to social security contributors for some 469,000 workers, however reports describe this as being the case for some 176,450, so clearly there is an important gap to be filled. In the services sector, the gap is greater, accounting for approximately 1.38 million workers, with only 29.5% having social security coverage.

Honduras, with its strong emphasis on textile *maquilas*, also shows a series of labour law violations in the country. In this case, the norm is long working hours with a 4x4 system and double shifts to meet delivery commitments. The CODEMU has brought cases against different *maquilas*, calling for them to respond for damage to the health of at least 280 workers, who were fired if they failed to meet targets[28].

The case studies show that both the textiles and service industries tend to establish labour models based on long hours, high targets that mean workers have limited hours of rest, and a failure to meet labour obligations related to social security and social benefits. In this context, CSR schemes tend to be based on volunteers and on social works, closer to a philanthropic approach. According to the case studies, the CSR model proposed by both the World Bank, the ILO and even in the *Integrarse* network of companies, is only implemented on a voluntary basis and does not tend to be the rule, but rather the exception.

The corporate private sector, both national and transnational, has an important role in a country's development through the generation of productive and decent jobs, understanding decent as employment with appropriate remuneration and the social benefits required by law. A key indicator for this is not just how many jobs are created, but how many jobs exist all year round, complying with the labour laws of the country in question. The proposed CSR schemes presume that employee training and working conditions are necessary conditions to ensure higher productivity and quality in the production and / or services offered, however, in the case studies, the social benefits and working conditions are presented as costs which decrease the competitiveness of businesses, and that is why the CSR approach



[28] Matamoros, F. B & L. Zelaya (2015) Inversión y Empleo en Honduras. (*Investment and Employment in Honduras*). Insurrectas Autónomas – ALTERECO, Honduras

applied focuses on activities outside the business itself.

Schemes for sub-contracting by national and/or transnational corporations should be subject to certification processes, including first of all compliance with labour laws, training for workers, the proper management of solid and liquid waste, transparency and customer protection. This process must be guaranteed throughout the value chain, from suppliers of inputs and goods, to services.

In light of this, social movements, community and development organisations, international organisations committed to human rights and ORTLCRE members, instead of talking about CSR, refer instead to the concept of Corporate Responsibility which includes a more focused approach to the socio-economic impact of companies. This concept stresses the responsibility of companies to comply with existing laws and regulations, respect for labour rights and the provision of decent employment, environmental protection and the expectation that companies will act transparently within their environment. Companies are seen as comprehensive economic development actors, in which voluntary CSR activities are not enough unless the socio-economic impacts of the company have firstly been taken into account.

## 3.2 The role of the state in the promotion of inclusive economic development

Central American countries are classified as middle-income countries, Costa Rica being the only upper middle income country, and as such they share some of the characteristics of this country category. According to ECLAC (2011[29], 2012[30], and 2014[31]), one of the main characteristics is that they have high poverty rates; Guatemala could be a good example of this, because it is the country with the largest GDP in the region and also reports the second highest rate of poverty. Similarly, poverty remains high in Central American countries except in Costa Rica. The basic approach of ECLAC is that although there has been economic growth in the region, this has not necessarily been inclusive and has thus failed to reduce poverty levels in the region in the manner expected after structural reforms.

**Table 3.2.a GDP, GNI per capita and poverty in the countries of Central America**

| | Country category | GDP 2014 | GNI per Capita 2014 | Poverty Rate |
|---|---|---|---|---|
| **Costa Rica** | I. Medium High | USD 49.55 billion | USD 10, 071 | 17.7% (2013) |
| **El Salvador** | I. Medium Low | USD 25.16 billion | USD 3, 953 | 40.9% (2013) |
| **Guatemala** | I. Medium Low | USD 58.73 billion | USD 3, 719 | 54.8% (2006)* |
| **Honduras** | I. Medium Low | USD 19.56 billion | USD 2, 378 | 69.2% (2010) |
| **Nicaragua** | I. Medium Low | USD 11.81 billion | USD 1,919 | 58.3% (2009)** |

Source: CEPALSTAT, 2015.

*ENCOVI 2011[32], 53,7%
**EMNV 2014[33], 29,6%

[29] ECLAC (2011) Funding for development and middle-income countries. New challenges. ECLAC, Chile.

[30] ECLAC (2012) middle-income countries, a new approach based on structural gaps.

[31] ECLAC (2014) Instability and Inequality. Vulnerability of Growth in Latin America and the Caribbean (2014) Juan A. Fuentes Editor. ECLAC – AECID - GIZ

[32] INE (2011) Pobreza en Guatemala. Encuesta nacional de condiciones de Vida. (*Poverty in Guatemala. National Survey of Living Conditions*) INE, Guatemala

[33] INIDE (2015) Resultados de la Encuesta Nacional de Hogares sobre Medición de Nivel de Vida 2014. (*Results of the National Household Survey*

Altimir (2013)[34] states that this situation can be understood by looking at the concentration of income, which he considers to be a structural element in development in Latin America and the Caribbean. An important case in this regard is Costa Rica, according to the World Bank WDI, this country has the highest per capita income in the region, at USD 10,120, while CEPASTAT ranks it as a country with high income concentration (GINI 2014: 0.51), although higher levels of income concentration are described in Honduras (GINI 2011: 0.57) and Guatemala (GINI 2011: 0.52), which are also the countries with the highest poverty rates in the region.

The Structural Gap approach (ECLAC 2012) states that inequalities in income are the result of a series of social inequalities (access to education, health and infrastructure, capacity for savings and investment, gender, environment, productivity and innovation), which are gaps that should be considered to be priority elements for public policies in the region. Under this approach, in Central America, Honduras and Guatemala have the greatest internal gaps in social issues. Guatemala has the largest gap out of all the 21 countries in Latin America and the Caribbean on issues of education, health and gender. Honduras has the largest gaps in environmental and poverty issues, the second largest in health and inequality and the third largest in gender gaps. Nicaragua has the second largest gaps in education, environmental and poverty issues. Costa Rica has the smallest gaps in social issues in the region.

**Table 3.2.b. Ranking of Countries, based on the size of their social gaps**

| | Gap in education | Gap in Health | Gap in gender | Gap in Environment | Gap in Poverty | Gap in inequalities |
|---|---|---|---|---|---|---|
| **Nicaragua** | 4 | 2 | 3 | 1 | 1 | 2 |
| **Guatemala** | 1 | 1 | 1 | 4 | 6 | 6 |
| **El Salvador** | 2 | 4 | 4 | 2 | 2 | 9 |
| **Honduras** | 7 | 14 | 7 | 3 | 8 | 16 |
| **Costa Rica** | 12 | 19 | 20 | 19 | 18 | 12 |

Source: ECLAC (2012)

In terms of economic issues, Nicaragua has the largest gaps in the Central American region, mainly in the areas of productivity, with the largest gap in Latin America, infrastructure, investment and income per inhabitant. Guatemala also has with significant gaps in areas such as income per capita, with the largest gap in Latin America, and also has gaps in investment and innovation. Costa Rica has the least gaps related to economic issues in Central America.

**Table 3.2.c. Ranking of Countries, based on the size of their economic gaps**

| | Gap in income per inhabitant | Gap in investment | Gap in savings | Gap in productivity | Gap in innovation | Gap in infrastructure |
|---|---|---|---|---|---|---|
| **Nicaragua** | 3 | 3 | 4 | 1 | 6 | 2 |
| **Guatemala** | 1 | 5 | 6 | 9 | 5 | 9 |
| **El Salvador** | 7 | 7 | 3 | 8 | 2 | 15 |
| **Honduras** | 6 | 6 | 16 | 5 | 3 | 7 |

*on Life Measurement Levels*) INIDE, Managua.

[34] Altimir O. (2013) Indicators of medium-term inequality in Latin America. ECLAC.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Costa Rica** | 15 | 17 | 11 | 18 | 16 | 11 |

Source: ECLAC (2012

The basic approach of ECLAC, is that while these structural gaps are not addressed and prioritised by the Latin American states, inequality in the region will not be reduced; it will tend to increase, and with it poverty and extreme poverty will continue to be unresolved. To reduce these gaps, the Central American states, mainly Honduras, Guatemala and Nicaragua, should clearly invest from the budget public to address social and infrastructure gaps, and develop strategies to incentivise the private sector on economic issues such as innovation, investment, savings, and productivity.

One of the questions for economic policy is that if the state is no longer gaining revenue through exonerations for the national business sector and tariff reductions, are these really offset by employment generated and tax revenue gained by taxing the consumer. We could even infer, to a certain extent, that a regressive policy exonerating the largest employers and shifting the tax burden to mainly middle class workers, could in the medium term polarise countries with a significant proportion of the population close to the poverty line and a very small proportion with high levels of income.

Rosales et al (2014)[35] argue that international trade alone does not necessarily contribute to inclusive economic growth, and could even generate unemployment with activities that cannot compete and therefore disappear. The feasibility that the workforce can migrate to the winning productive sectors is key to economic inclusion. Trade manages to generate growth when there are basic conditions of macro-economic stability, investment and innovation, except for Costa Rica, there are five countries in the region with major gaps, and this is a key element in the results obtained so far.

Interestingly, the authors consider that intra-regional trade generates more options for social inclusion, than extra-regional trade (USA, Europe and Asia) as these are more diversified exports, with higher levels of internal linkages, and thus create more jobs. They conclude that the strengthening of human capital, the chain of SMEs and policies to promote innovation and technological change, are the keys to achieving international trade with greater economic and social inclusion.

A number of agencies (UNCTAD 2007; ILO 2008; OECD 2010; WTO-ILO 2011; World Bank 2011, ECLAC 2012) have been promoting the concept of inclusive trade, where the central element is human capital (stable employment and payment enabling workers to live above poverty levels), technological innovation and competitiveness. Two associated concepts are inclusive value chains (FAO) and inclusive business (IDB, 2011), both are considered by Rosales et al, (2014) as a means for social economic inclusion.

ECLAC (2013)[36] considers that it is important to invest in infrastructure, transportation and logistics to promote inclusive business, as this reduces the gaps in access to markets for small and medium businesses. Nicaragua, Honduras and Guatemala have the largest infrastructure gaps in Latin America and should be a priority for public policy. A second area for investment is in technology, communication and quality standards for SMEs, so that they can be integrated into the supply chains of economic groups exporting in both intra-regional and global markets. These chains are one of the main mechanisms for the transmission of earnings from international trade to social inclusion, for example, for every million dollars of Costa Ricans SME exports, 204 jobs are generated, while large companies only generate 7.



[35] Rosales O.; Mulder N.; Urmeneta R, & D. Zaclicever (2014) El Comercio Internacional ¿Qué aporta al Crecimiento Inclusivo? Inestabilidad y Desigualdad. La Vulnerabilidad del Crecimiento en América Latina y el Caribe. (*What does International Trade bring to Inclusive Growth? Instability and Inequality. Vulnerability of Growth in Latin America and the Caribbean*) Juan A. Fuentes Editor. ECLAC – AECID - GIZ

[36] ECLAC (2013) International Trade and inclusive development. Building Synergies. ECLAC Chile.

The production chain is the channel for the inclusion of small and medium enterprises, but the main channel for integration of the general population is stable and paid employment. According to studies, the legal framework and policies established by the Central American states include the benefits needed for decent employment, and reflect serious limitations in the real ability to monitor and enforce labour laws. The case studies refer to a preference for flexibility in implementing labour and environmental laws so as not to "scare" investment and / or affect the competitiveness of businesses.

In short, the Central American states must not expectat that international trade alone can generate inclusive economic development processes, they must instead establish policies to stimulate channels for the transmission of the gains made from trade. Several transmission channels exist, but there are three that can be prioritised in public policy:

- Technological upgrading, the formation of human capital and the promotion of stable jobs and adequate remuneration. To achieve this, educational and training programs are needed as well as the implementation of legal labour frameworks in each country.
- Chains of SMEs, leading to improvements in technology, quality standards and business management in this business sector, so that their offer can be integrated into the dynamics of export.
- Investment in infrastructure, transport, logistics and communication. So that there are lower transaction costs and greater access to the integration of small and medium rural (agricultural) and urban (SMEs) entrepreneurs.

# IV. PRINCIPAL MESSAGES FOR PUBLIC POLICY

The case studies reflect a reality about the dynamics of the FTAs that is supported by studies from the FAO (2015), Hurtado (2015) and Baumeister (2013), describing the way in which the region has developed dual behaviour. On the one hand there has been an increase in production areas for agro-exports of sugar cane, peanuts, pineapples and cattle, while on the other hand, competitiveness in grain production has been reduced and there has been an increase in reliance on imports to ensure food availability. National states must value the cost/benefit, including social and environmental liabilities, and the fiscal cost (exonerations, protections) of the increase in the production of sugar cane in the region.

Central America has lost the ability to source its own cereals; Honduras generates only 49%, El Salvador 58%, Guatemala 60% and Nicaragua 75%. Honduras has a deficit in food production and El Salvador imports more than 60% of food. The countries in the region import corn, rice and wheat; and with the exception of Nicaragua and Honduras, the other countries also import beans. Food imports in Nicaragua, Honduras and El Salvador fluctuate between 6 and 7% of GDP, while in Costa Rica and Guatemala, the figure lies between 3 and 4% of GDP. Guatemala could be spending USD 1,800 million on food imports, and Costa Rica could be spending USD 1,500 million; while Nicaragua could be spending USD 830 million.

The food trade balance with the United States deteriorated significantly between 2006 and 2010, moving from a positive balance in 2004 and 2005, to deficits between 2006 and 2014, although in the last four years this deficit has been shrinking. If the scenarios described by Hurtado (2015) are met, related to the loss of competitiveness of grain production Central Americans to the United States, we can expect that the food balance in the treaty will continue to disadvantage the region.

While policies to attract FDI from Central American countries have been implemented since the early 90s, the data shows a change in growth trends that coincide with the negotiation, signing and ratification of treaties with the United States and the EU. There is not enough information to attribute the change in dynamics to the treaties, but it is likely that the guarantees for investment protection laid down in the treaties have generated a confidence in local institutions that did not previously exist.

Trade union organisations recognise that following the signing and negotiation of free trade agreements there has been more investment and therefore more jobs. However, they question the quality of employment generated in terms of working conditions, adequate remuneration and a more flexible application of the legal labour framework. Although the FTAs, especially the DR-CAFTA, include important elements for the respect of labour rights, there are no clear mechanisms that can be used to exert sanctions on companies that do not comply with labour codes.

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# ANNEXES

Silvia Martínez Arróliga and Alder Miguel Contreras

# Annex I

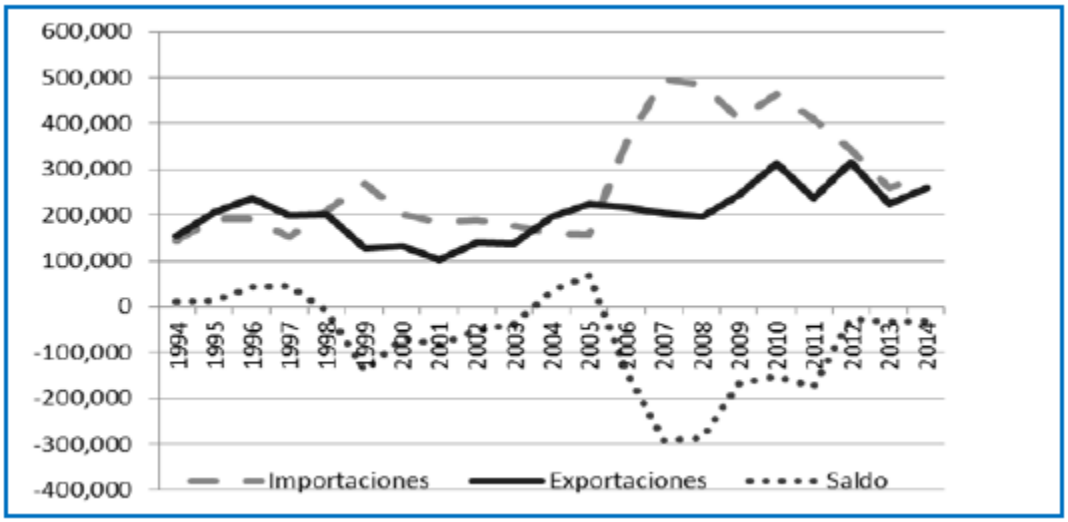
## Tendencies of the AA on Food Sovereignty in Central America: the case of Sugar Cane

### A.1.1 Introduction

The countries of Central America have committed to free trade as a means of attracting investment and generating economic growth. The main instruments of this strategy are trade instruments, such as the DR-CAFTA signed with the United States and the Association Agreement (AA) with the European Union (Suazo & Ochoa, 2015)[37] treaties. However, the economic growth achieved with FTAs by an increase in exports, it is not translated into equitable redistribution for all socio-economic sectors, so for some farming sectors and some NGOs, the free trade agreements endanger local food production by promoting agro-industrial sectors associated with monoculture production (e.g. sugar cane) that cause environmental pollution and the degradation of natural resources and assets.

These risks are seen as a threat to food sovereignty, which is understood as the right of peoples to healthy and culturally appropriate food produced in a sustainable and environmentally friendly manner, and their right to decide their own food and agriculture systems (Nyeleni International Steering Committee, 2007). Free trade agreements are a threat to the governance of local food systems by generating a trend of increase in food imports, generating a negative balance for the Central American region.

**Figure 1. Food Balance between Central America and the US (US $)**




Source: Based on SIECA database. (P) Preliminary figures

[37] Suazo, J., & Ochoa, A. (2015). Impactos y Tendencias de los Tratados de Libre Comercio en Centroamérica. Honduras, Estudio de caso. Honduras. (*Impacts and Trends of Free Trade Agreements in Central America. Honduras, case study*).

The regional report on food sovereignty and security addresses the issue of monocultures and export incentives, exemplifying the case of sugar cane. However, monocultures are not limited to sugar, but also extend to peanuts, pasture and African palm, among others. They share three characteristics; as export items, as chains governed by industrial economic groups, and as users of fertile areas in the Central American countries. This report aims to open up a debate on economic policy where the effects on food sovereignty can be analysed, that is to say, how much is the Central American region willing to rely on food imports and what environmental liabilities are generated by these farms growing monocrops, in terms of the pollution of soil, water and air.

## A.1.2 Country cases

The case studies presented, (Nicaragua, El Salvador, Guatemala and Honduras) analyse the impacts of sugar cane production on food sovereignty. They are based on the fact that the quotas agreed in FTAs and the Association Agreement stimulate the expansion of monoculture areas. This expansion in turn reduces access to land for food production for indigenous and/or rural communities, which makes them increasingly depend on food imports for food security. Food production is the economic basis of rural production, to the extent that if this disappears, not only will the diet of the country be reduced, but also if economic options for 44% of the population living in rural areas are not guaranteed, there would be significant potential for social conflict. From a macroeconomic point of view, buying more imports will demand higher exports and/or FDI to offset the widening trade deficit. The cases emphasise environmental liabilities generated from increased exports of sugar cane, which in the short-term is a foreign exchange earner for the country, but in the medium term, could be a model that increases the vulnerability of rural communities to climate change, given the effects on water and forest resources.

### Guatemala case

This case study includes the communities of the South Coast of the departments of Retalhuleu, Suchitepequez, Escuintla and Santa Rosa. In this area the sugar mills of El Pilar, Magdalena, Tululá, El Salto, and Palo Godo, a total of 14 mills. The country ranks internationally as one of the largest sugar producers in the region, however sugarcane production has generated some environmental problems:

- Water pollution; drought in artesian wells; deterioration of access to drinking water and the elimination of fishing as activities sustenance.
- Soil deterioration.
- Reduced availability of land for the cultivation of basic grains, vegetables and fruits.
- Air pollution due to chemical application.
- Destruction of forests due to extensive activity.

Similarly, there have been social impacts caused by the expropriation of indigenous communities: In 2011 the judiciary issued 44 court orders to prosecutors in order to carry out evictions with the support of the National Police throughout the country. These included evictions of hundreds of families in the Valle del Polochic, Retalhuleu and Petén. Special attention has been given to cases of eviction of the Maya Q'eqchi' People in the Polochic area, where 732 families were arbitrarily evicted from 15 to 18 March 2011 due to land grabbing for the expansion of sugar cane. The mills are said to be contributing in some communities with medicines, pumps for water extraction, etc. however, this is not seen by the indigenous and community as a gift, but as a payment for the damage done by the same mills, both to the environment and the impacts on health and nutrition.

## Nicaragua Case

This case study includes the Western region, which has seen the expansion of monocultures (sugar cane, sesame and peanuts). Sugar cane is exploited in four mills, associated with business groups (Monte Rosa with Guatemala capital; CASUR Azucarera Mayagüez from Colombia, located in Rivas; Ser San Antonio of the Pellas Group; and Montelimar located in San Rafael del Sur, Managua). These 4 mills generate 35,283 direct jobs and 120,000 indirect jobs with a minimum wage of 3.600 to 3.800 córdobas, a salary that does not cover the cost of the basic food basket of 12,277 córdobas[38]. The Monte Rosa mill generates 2,500 permanent jobs, and 6,000 to 7,000 temporary jobs at harvest time. According to BCN, the export of sugar cane produced in 2014, brought 220.9 million dollars to the country, with a similar amount generated in 2013. However, the production of cane has the following effects on the region:

- Increased areas for planting sugarcane (e.g. 145.7% in Chichigalpa) and reduction of areas intended for the production of basic grains in more than 30% in the municipalities of Chinandega,
- El Viejo and Chichigalpa from 2001 to 2011 (INIDE 2001 and 2011)[39].
  Although the mills have achieved a reduction in water use for processing sugar cane, its use has meant reducing water sources (rivers, wells and streams), which limits access for the consumption of the population.
- Impact on health, due to the burning of cane that causes breathing problems in workers and surrounding municipalities, the long hours of the harvest produce problems of chronic kidney failure denounced by workers and questions have been put by ASOCHIVIDA to the mills who in many cases have given no answer.
- Reduction in forest areas. For example, in the Municipality of Chichigalpa the forest area was reduced by 76% in 2011 compared to 2001, according to the III and IV CENAGRO.

The mills work using a model of community support through medical care, better food and scholarships for current employees under their corporate responsibility approach.

## El Salvador Case

The case studied was in the canton of Líbano, Suchitoto, in the area of Bajo Guazapa, a sector located on the borders between San Salvador, Chalatenango and Cuscatlán. There are only six mills buying from sugar cane producers and selling the refined sugar, which stimulate the production of sugar cane by offering lower rates to farmers and providing them with inputs and technical assistance programs. It is considered that the production of sugarcane causes the following problems:

- Loss of biodiversity, as this production substantially alters the forest composition, which also leads to changes in the hydrological cycle, resulting in both decreased water sources, and increased floods and mudslides, aggravated by the degradation of the soil.
- The change in land use leads to a decrease in food production and conflicts between companies and communities over land tenure (Alvarez, 2009[40] and Guereña and Burgos2014[41], cited in

[38] Price in June 2015, BCN

[39] III CENAGRO (2001) and IV CENAGRO (2011), INIDE

[40] Álvarez, A. (2009). Efectos del monocultivo de la palma de aceite en los medios de vida de las comunidades campesinas. (*Effects of monoculture oil palm in the livelihoods of rural small-farming communities*) Bogotá: Pontificia Universidad Javeriana.

[41] Guereña, A., & Burgos, S. (2014). La pequeña agricultura en peligro. Expansión de los monocultivos, tierra, alimentos y medios de vida en América Latina. (*Smallholder agriculture in danger. Expansion of monocultures, land, food and livelihoods in Latin America*) Oxford: OXFAM Internacional.

Magana J., 2015[42]).

CSR can subordinate community opinions to the opinions of transnational capital, and legitimise the role of transnational companies in the national development agenda. The DR-CAFTA introduces the concept of indirect expropriation which limits the action of States to pursue policies that regulate environmental, labour, tax or social aspects in favour of transnationals.

## Honduras Case

An analysis was conducted into the case of the Azucarera North S.A. company (AZUNOSA) which is a company financed by Honduran and English capital, and includes seven mills. The sugar industry generates 12,000 direct jobs and around 200,000 indirect jobs. It also generates clean energy estimated at 100 megawatts at the time of the sugar cane harvest. However it is considered that the production of sugar cane also leads to:

- Low-wage jobs, with health risks and a lack of social insurance for temporary workers who cut the sugar cane.
- Deforestation.
- Conflicts over land between small-scale producers or indigenous communities and sugar producers with eviction processes involving the army, which have cost human lives.
- Reduction of planting areas for the small-scale farming sector who plant basic grains and other agricultural products for consumption.
- AZUNOSA does not comply with environmental regulations when burning the sugar cane and this is considered to be the starting point for environmental responsibility.
- A limited number of trees are planted on company premises

## A.1.3 Main Conclusions

The concept of food sovereignty refers to the ability and rights of people to establish their own models for the production, distribution and consumption of food. However, we have shown that in the case of El Salvador, Guatemala, Honduras and Nicaragua, the DR-CAFTA and the agreement with the EU (AA) have created incentives for a production model limited by their competitive capacity, creating a series of favoured products, while other products are damaged by this model. This has encouraged the creation of large business groups that base their production models on a small number of crops with some comparative advantages internationally.

In the case of the production of sugar cane, both treaties condition sugar as a regulated product, which is allocated export quotas for Central America, distributed by countries that will enter the US and European markets. These quotas imply a product entry without tariff restrictions, and with prices regulated by these markets, higher than in surplus markets. Low productivity, low capacity to generate added value and free trade agreements have reinforced a prevailing pattern of agricultural production through monocultures, with one of the most representative items being sugar cane. Such crops generally belong to business groups with significant economic power, which base their policies for economic-productive expansion on

[42] Magaña, J. (2015). Impactos de los TLC en la Soberanía Alimentaria de Centroamérica. Tendencias del CAFTA-DR y AdA en los monocultivos. Caso de la caña de azúcar en El Salvador. (*FTA impacts on Food Sovereignty in Central America. CAFTA-DR and Association Agreement trends in monocultures. The case of sugarcane in El Salvador*) San Salvador.

acquiring more land, generating processes which segregate local residents and concentrate agricultural land ownership.

At the micro level, this type of economy has to accept a trade model based on external production, aimed at promoting agro-business with non-traditional export crops, technology packages imposed by the government and transnational corporations and marketing mechanisms that bind small producers to these companies and to supermarket wholesalers. The knowledge and cultural values of the producers are not of interest, since these models are imposed via packages of technological innovation and entrepreneurship training for farmers and producers for the market.

The trend for increased sugarcane areas, driven by the Free Trade Agreement between the US, Central America and the Dominican Republic (DR-CAFTA), extended in the quota negotiated in the Association Agreement between Central America and European Union (AA), jeopardises areas of food production by causing a reduction in these areas, causes environmental pollution, and natural resources degradation, including biodiversity and native seeds in the areas under study. Increasing monoculture sugar cane production is a major obstacle to the economic development of local communities in these areas. Indeed, the food sovereignty of communities is one of the most strongly affected aspects due to the limited availability of land to cultivate alternative agricultural products and the deterioration of the environment that makes it impossible to establish other types of crops.

Mario Rodríguez Acosta

# Annex II

## Investment and Employment under free trade

### A.2.1 Introduction

The aim of this study is to determine and analyse the impacts of the Free Trade Agreements in Central America, with special emphasis on the Free Trade Agreement between the US - Central America (DR-CAFTA), and the Association Agreement between the European Union and Central America (AA), using two indicators: investment and employment.

Trade liberalisation led to an increase in the flow of FDI in the region. Transnational corporations established mechanisms for local insertion and to benefit from the globalisation process that was underway. To join the global economy, developing countries adopted mechanisms to attract greater flows of investment such as; subsidies (financial incentives or tax extensions), protective regulatory frameworks, strengthening of institutions governing intellectual property rights, institutions to put regional integration processes into action, development linked to facilitating export process infrastructure, and promotion policies and incentives for exclusive zones or export processing zones.

Gert Rosenthal (2010)[43] mentions three historical phases to identify the objectives sought by investors. In the first stage, investment focused on the so-called productive "enclaves" where agricultural monocultures were the main targets. The creation of the Central American Common Market (CACM), favoured industrialisation based on import substitution or displacement and a phase of trade liberalisation.

**Table n.1 Central America: foreign direct investment**
**Years 1986-2015. Expressed in thousands of dollars**



[43] ROSENTHAL. Gert. "Inversión extranjera en Centroamérica" (*Foreign Investment in Central America*) [edited by] Grettel López C. and Carlos E. Umaña A. San José, C. R.: Academia de Centroamérica, 2006. xxi, 236 p. : tbs. ; 23 cm

**Cuadro n. 1 Centroamérica: flujos de inversión extranjera directa. Años 1986-2015. Expresada en miles de dólares**

| Años | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 |
|---|---|---|---|---|---|---|---|---|---|---|
| Guatemala | 6,880 | 15,020 | 32,990 | 7,620 | 4,770 | 9,070 | 9,410 | 14,250 | 6,520 | 7,520 |
| El Salvador | 2,413 | 1,832 | 1,696 | 1,436 | 189 | 2,518 | 1,530 | 1,643 | 218 | 3,803 |
| Honduras | 3,000 | 3,865 | 4,830 | 5,100 | 4,350 | 5,210 | 4,760 | 2,670 | 3,480 | 5,000 |
| Nicaragua | 60 | 241 | 90 | 28 | 670 | 4,200 | 1,500 | 3,880 | 4,670 | 8,890 |
| Costa Rica | 6,100 | 8,030 | 12,220 | 10,130 | 16,250 | 17,840 | 22,600 | 24,670 | 29,760 | 33,690 |
| **Pormedio** | **4,088** | **6,195** | **10,763** | **5,261** | **5,644** | **8,166** | **8,358** | **9,821** | **9,328** | **12,180** |

| Años | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|---|---|---|---|
| Guatemala | 7,690 | 8,440 | 67,280 | 15,460 | 22,990 | 45,552 | 11,061 | 13,100 | 29,600 | 54,000 |
| El Salvador | 479 | 5,904 | 110,371 | 21,580 | 17,340 | 27,890 | 47,000 | 14,120 | 36,327 | 51,114 |
| Honduras | 9,090 | 12,150 | 9,900 | 23,730 | 38,165 | 30,424 | 27,516 | 40,277 | 54,686 | 60,105 |
| Nicaragua | 12,000 | 20,340 | 21,820 | 33,730 | 26,650 | 15,020 | 20,390 | 20,130 | 25,000 | 24,110 |
| Costa Rica | 42,695 | 40,817 | 61,308 | 61,946 | 40,856 | 46,037 | 65,935 | 57,506 | 79,383 | 86,104 |
| **Pormedio** | **14,790** | **17,930** | **54,535** | **31,689** | **29,600** | **33,385** | **34,781** | **29,427** | **45,400** | **55,488** |

| Años | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|
| Guatemala | 63,530 | 85,920 | 75,110 | 69,645 | 84,559 | 113,965 | 126,363 | 135,314 | 120,467 | |
| El Salvador | 24,113 | 155,051 | 90,305 | 36,873 | 113 | 12,250 | 44,770 | 24,234 | 47,480 | |
| Honduras | 71,759 | 96,692 | 120,079 | 49,449 | 48,483 | 104,257 | 106,755 | 106,902 | 107,253 | |
| Nicaragua | 28,680 | 38,170 | 62,730 | 43,390 | 48,990 | 93,630 | 76,765 | 81,550 | 84,000 | |
| Costa Rica | 146,908 | 189,609 | 207,823 | 102,244 | 185,066 | 214,161 | 269,216 | 328,449 | 234,525 | |
| **Pormedio** | **66,998** | **113,088** | **111,209** | **60,320** | **73,442** | **107,653** | **124,774** | **135,290** | **118,745** | **0** |

Fuente: Elaboración propia con datos del Banco Mundial

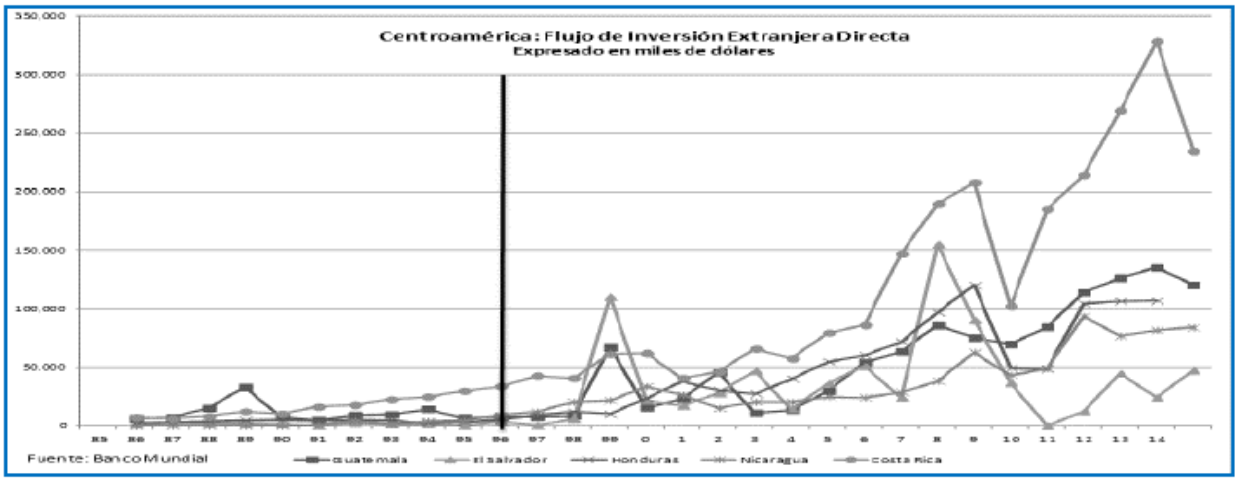
Primera Etapa — Final de la etapa de sustitución de importaciones

Etapa 3.55% — Ajuste Estructura Apertura Comercial Ingreso a la OMC

1.14% Etapa 3 — Vigencia de TLC Estados Unidos Unión Europea y Otros

With the entry into force of the DR-CAFTA, came a significant increase in capital flow into the region, mainly towards Costa Rica and Guatemala. El Salvador recorded the lowest FDI flow during the years after the CAFTA, while Nicaragua and Honduras maintained a stable dynamic. The financial crisis significantly affected investment in the region, Nicaragua was the least affected and El Salvador the most.

**Figure 1. Central Flow of foreign direct investment by decade**




**(1985-2014)**

Source: prepared with World Bank data

Investment flows after the crisis have set in motion new production patterns, especially related to trade and services, which has led to a significant change in the productive activities in the region. In countries such as Costa Rica and El Salvador outsourcing of the economy has increased. Industrial processes that receive more investment continue to require the use of labour in bulk for expansion. Costa Rica has seen

industrial investment with high formation of human capital, while in Nicaragua investments have been made in manufacturing, demanding unskilled labour. The main sectors that have attracted most investment are energy, telecommunications, export processing zones (which mainly includes textiles *maquila*), mines, real estate and the tourism sector.

Compared to other regions in Latin America, Central America remains marginal in terms of worldwide investment flows. Trade liberalisation schemes and bilateral free trade have helped to generate mechanisms to attract more investment. To strengthen this policy, all governments have created public offices to attract investors who end up playing the role of facilitators to the private sector in detecting investment opportunities.

## A.2.2. Country cases

The country cases presented (Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica) have in common the fact that although the region has increased its capacity to attract investment, this has not translated into improved conditions for workers in the country. On the contrary, mechanisms have sprung up such as sub-contracting (outsourcing) that allow companies to evade labour legislation in the different countries. The cases of Guatemala, Honduras and Costa Rica not only describe deteriorating working conditions within countries, but in addition in some cases (Guatemala and Honduras) some activities promoted as CSR end up being financed by workers themselves, not by companies.

# Guatemala: Technological *maquilas* and the socio-labour vulnerability of their workers

The “call centre” industry is booming in Guatemala. It is one of the fastest-growing sectors in recent years, generating thousands of jobs, especially for young university students, people returned from the USA and professionals with an acceptable level of English. According to Invest Guatemala (government office for investment promotion http://www.investinguatemala.org/) during the 2006-2012 period, direct investment in this sector was received for a total of 104.8 billion dollars. And income rose from around USD 225 million in 2009, to reach a total of USD 742 million for 2014, of which 635 million were exports of services and the rest locally generated. The main foreign capital came from the United States, Spain, Luxembourg, France, Mexico, India and Canada.

This case focuses on the company TELUS International, a multinational based in Canada with representative offices in the United States, whose investments in the sector have made the company one of the leaders in the industry. Its employment policy is quite aggressive and has promotional and staff training components which are promoted as Corporate Social Responsibility.

In light of the results of a public job placement program for young people, TELUS has improved its training plan, adapting it to their needs and it works as a career plan, where young people are integrated over a period of three months without a contract and without pay, during which time they participate in a training process and a trial period based on care goals. Participants interviewed from the training program have stated that they themselves have funded their own training process, because during working hours they work as any other employee and it is in their free time on weekends that they receive training.

Although the jobs created in this sector have increased in number, they tend to offer limited working conditions and employment benefits for their employees. The interviewees mentioned:

- Long working hours with reduced work spaces, with high targets that do not allow for break times. In this respect, the conditions are similar to in textiles factories in free exporting zone areas.
- Labour instability and failure to pay social benefits once the contracts are cancelled.
- Little attention to the health problems caused by work intensity to achieve the assigned goals (hearing problems, mental fatigue, stress due to attending to many people with multiple problems and attitudes, problems with their back due to sitting in the same position for long hours every day.

## Honduras and the violation of labour rights in the *maquilas*

In Honduras allegations of labour rights violations in the textile industry are constant, affecting the country's image and leading to conflictive labour relations. The labour rights and human rights of the workers in the maquilas are constantly violated and very few are reported, on the one hand due to a lack of support from the institutions responsible for guaranteeing these rights, which are permissive and slow to apply existing law, arguing that foreign investment must not be scared off.

One example of the extreme working conditions in the *maquilas* is shown in the case of Honduran company Electrical Distribution Systems, a company with USA and Korean capital that manufactures electrical systems for vehicles for export to the United States. The company employs around 4,900 people at its plant in San Pedro Sula, which has been installed in the country for 10 years. This transnational is benefited by free trade agreements and national laws because its products are exported.

In 2013 the company promoted the use of disposable diapers to avoid employee trips to the toilet. Employees are only allowed to go to the toilet twice a day. In light of these requirements, the employees filed a complaint with the Human Rights Commissioner and to the Ministry of Labour. Government agencies sent inspectors on several occasions but the company did not allow them to enter their facilities. In the end the case had an impact in the media, nevertheless, it was ruled that the allegations were false.

What was found was that working hours in sweatshops in general and in this one in particular, are exhausting as they are related to goals, which result in long working hours and non-payment of overtime, as the goals are usually placed above the normal average. It was also found that corporate social responsibility policies are used to force employees to raise money for charitable works.

## Costa Rica: the conditions in rural labour markets

Costa Rica ranks seventh in pineapple production worldwide and is the largest exporter of fresh pineapples. Costa Rica also accounts for 84% of the total exports fresh pineapple in Latin America. It is estimated that pineapple production generates 24,000 jobs in the country.

The case focuses on the Pineapple Development Company PINDECO, the largest producer and exporter of pineapples in Costa Rica. It is a subsidiary of the USA multinational Del Monte which in turn is the world's largest pineapple producer with presence in Asia and Latin America. In its initial working model, PINDECO prioritised its own production (65% of the country's output). It is now stimulating the integration of medium and large domestic producers by establishing purchase contracts, in a "satellite farming" model, for which the producers put in the land and labour and PINDECO provides technology and machinery and guarantees them the purchase of their produce.

In labour terms there have been constant questions levelled against the three largest pineapple multinationals, Del Monte, Dole and Chiquita, regarding:

- Poor working conditions due to a lack of fumigation equipment causing severe health damage to workers.
- Low wages, through a payment scheme for the packaged product and not by working hours. This mechanism enables the company to evade complying with measures such as the minimum wage. In the case of regional migrant workers, mainly Nicaraguans, the situation is worse.
- Long working hours without pay.
- Informality of recruitment methods through the outsourcing model.

A basic feature of pineapple multinationals and large pineapple producers nationwide, is the decision to prevent union organisation by workers, via a regime of reprisals and persecution in order to prevent the existence of trade unions. In the country there is only one union that has been able to recruit pineapple workers, and now faces a severe labour dispute over layoffs of almost all of its affiliated workers.

## El Salvador, factors limiting the flow of FDI into the country

El Salvador is the Central American country with the least FDI flows recorded in recent years. This has sparked debate within political and economic circles in the country, regarding the factors affecting the situation and possible solutions. Three key factors have been identified by the business sector (AMCHAM - El Salvador) as limiting the inflow of FDI to El Salvador:

- Education and dropout rates lead to the main deficiency in human resources, quality educational training is not up to the needs of companies. To generate quality jobs “they have to improve their human resources skills and abilities”. Consequently, the supply of quality jobs and better wages will depend on the productive capacities of the labour force. Legal security and predictability are vital characteristics for investment, however, at present the legal framework is seen as a constraint to the investor, as three limits have been identified in the regulatory framework: firstly, the legal framework works according to subjective criteria; secondly, there application of the law is arbitrary; and thirdly, there is no prompt or effective justice.
- Violence and associated crime, is a structural problem to be solved, crime is a deterrent, even if, crime in Honduras and Mexico is almost at the same levels as in El Salvador and investment still arrives.

The private sector recognises that the FTA with the United States has not served as an automatic means of attracting foreign investment, but it can be said that it has been an instrument that certain companies have taken advantage of, for example to invest in agribusinesses and produce nostalgic, retro products for export to the USA.

## Nicaragua: Harnessing FDI factors

Nicaragua is presented as a safe and viable destination for FDI flows. Among its main assets are a young, qualified population and a society with the lowest indicators of violence in the region and relative political stability. However, factors that are being promoted such as production costs and low remuneration of labour, draw investment in low levels of technology.

One clear example of this is the late arrival of the textile industry when other countries in Central America had already developed their textile industrial base, through the incentives which increased profits for companies and the use of the Preferential Treatment Agreement (TPL) with the United States, which closed in December 2015. This is expected to have an impact on investment in textile manufacturing, and thus a reduction in employment generated from free export zone areas. The Nicaraguan state will have to generate new incentives so that there is no abrupt departure of investors and to simultaneously generate occupational retraining options for workers who are not rehired. These incentives would be added to a legal framework which itself already provides tax advantages, municipal customs, repatriation of capital, and protection of investment and capital infrastructure.

## A.2.3 Main Conclusions

This study has aimed to show that FTAs have generated a number of different impacts, however we do not have the information required to draw conclusions. There is a sharp increase in FDI in the region, since the negotiations and / or signing of the DR-CAFTA and the AA, which leads us infer that they have acted as a stimulus, through the protection of investments, which has stimulated FDI to the region. The best strategy to attract FDI in terms of results, has been implemented by Costa Rica which has managed to be the main recipient of capital flow. This strategy has focused on public investment leading to the formation of human capital and infrastructure.

While there is a significant increase in FDI, it is important to say that there is also a fiscal cost associated with exoneration policies and the facilitation of infrastructure, mainly in export processing zones. National states must systematically assess the cost-benefit of investments by type, since according to studies, there are a number of investments that are not generating quality jobs, or which do not meet legal labour and / or environmental standards, which should be regulated and / or suspended.

New forms of recruitment through outsourcing schemes, allow companies to avoid compliance with labour laws. In this model, the business rationale is to increase profit rates and payback on investments in the shortest possible time. This situation shows that despite having legal frameworks for workers, there are limited mechanisms for the monitoring and regulation of actual compliance by the business sector.

Although FTAs such as the DR-CAFTA include a chapter on the protection of labour rights and the environment, there is little knowledge about available mechanisms to enforce this part of the treaties. Labour grievances, without force, without union support, without job support, often do not work, due to a lack of local institutions. A coordinated action based on existing mechanisms established in the treaties to protect workers, could be beneficial to improve working conditions in the future.

After the processes of structural adjustment to their economies, the governments of Guatemala, El Salvador, Honduras and Nicaragua, have focused their policies on the promotion of extractive activities as a means of attracting Foreign Direct Investment (FDI) and as a model for national development. Except for El Salvador, in other countries metal mining experienced a boom that began to be more evident from 2009 until 2011, the year in which international prices for gold and silver, in particular, reached a record high in the international market.

After 10 years of implementation of the DR-CAFTA and two years since the signing of the trade chapter of the Association Agreement, although the legal framework in some countries has improved, the private sector has pushed for greater flexibility in the application of a number of procedures for obtaining

concessions, environmental permits and/or authorisations, using the argument of further encouraging FDI flow.

Tania Sosa

# Annex III

## Mining and environmental regulation, in the context of trade liberalisation

### A.3.1 Introduction

Both treaties have a different working approach. The DR-CAFTA establishes measures for sanctions and a dispute settlement processes, while the AA does not have a disciplinary approach to this issue but rather a cooperation-type approach to overcoming deficiencies via institutional monitoring at various levels and instances. The Association Agreement explicitly states cooperation aspects relating to the mining sector such as considering information exchange initiatives, experts, experience, development and transfer, ensuring domestic laws and procedures are taken into account, as well as aspects of sustainable development, including the protection and conservation of the environment.

Indeed, civil society environmental organisations are concerned that the approaches of the Association Agreement are simply statements are far from local realities facing current and possibly future mining operations, and do not explicitly lead to these environmental aspects being met; in particular, the cooperation strategy of the European Union with Nicaragua for the next seven years, does not mention the provisions of this treaty.

In Central America, the first initiatives for special laws in the mining sector were discussed until the end of the 1990s, in a context in which international metal prices were very low and the mining industry had not yet developed good environmental and social practices. In this period legislation for environmental protection and the management of natural resources began to be debated by the national congresses, with little influence on mining legislation. The legal framework therefore focused on establishing requirements and tax requirements, which in recent years since the new mining boom especially in gold and silver, are completely obsolete for States, since there are no mechanisms in place for more and better collection of mining taxes that would in turn allow for better controls on a sector that has grown almost exponentially and continues to work with low operating costs and high environmental and social liabilities.

**Table 1. Summary of Mining Laws in Central America**

| País | Ley original | Año | Año de Reformas | Ley actual | Decreto/ Año de Publicación |
|---|---|---|---|---|---|
| Guatemala | Ley de Minería, Decreto 48-97 y su Reglamento 176-2001 | 1997 | - | aún vigente | - |
| El Salvador | Ley de Minería | 1996 | 2001 | aún vigente | - |
| Honduras | Ley General de Minería, Decreto No. 292-98 | 1999 | 2013 | Ley General de Minería | Decreto No.32 - 2013 |
| Nicaragua | Ley No. 316, Ley general sobre explotación de riquezas naturales | 1958 | 2001 2005 2006 | Ley 387 Ley especial de exploración y Explotación de minas | Decreto No. 02-2002 |
| Costa Rica | Ley N° 6797, Código de Minería y sus reformas | 1982 | 2002 2010 | Ley para declarar a Costa Rica país Libre de Minería Metálica a Cielo Abierto | Decreto Legislativo No. 8904-2011 |

Source: Prepared by the Humboldt Centre, 2015

Mining companies have developed a series of strategies to gain the support of the communities where they are located, so that potential social conflicts are handled preventively. They offer different kinds of social support to schools, health clinics, and recreational activities, which fall under their corporate social responsibility programs and serve as a connection between the company and the community.

## A.3.2. Country cases

The case studies (Guatemala, El Salvador, Honduras and Nicaragua) show that fiscal investment (exemptions) and preferential treatment for the mining sector in the countries of the Central America Region, have not created a sector that contributes to sustainable development. Through investment protection, trade agreements could stimulate more foreign investment in mining, but without the application of an appropriate regulatory framework, they would be promoting traditional extractive enclaves, which throughout history have caused environmental pollution and damage to the health of local populations. Similarly, this activity fails to generate internal linkages in the economy, which could be key to job creation and the sector's added value.

## Guatemala case

In Guatemala the number of social conflicts related to mining have increased in Huehuetenango, Santa Rosa, Jalapa and Alta Verapaz, which are departments by a mainly indigenous population. In 2011 community resistance began to the El Tambor project, based on the fact that communities had not been informed or consulted about the construction and operation of a mine. The community had been told by the company that the project was for fruit for export so they needed to buy land and they offered prices above the norm in the communities, so many owners sold their plots.

Community resistance against the El Tambor project began in 2011 on a site known as La Puya, when a neighbour stopped her vehicle for several hours in front of the entrance to the mine, preventing the entry of machinery, and after hours of threatening her with the machinery, the workers left. The next day they

more neighbours arrived, taking it in turn to stay all the time and prevent the entry of the machinery. After four years, in June 2015 the community mayors won a writ for constitutional protection ordering the suspension of the construction licence of the PROGRESO VII DERIVADA mining project in the El Tambor mine owned by the North American company Kappes Kassiday & Associates KCA - EXMINGUA.

## Honduras Case

Agalteca belongs to the municipality of Cedros, Francisco Morazán, Honduras, and is approximately 75km east of Tegucigalpa. Five Star Mining, financed by Italian capital, currently operates 600 hectares, of a total 7,500 hectares in Agalteca-Los Cedros, with a potential for 30 million tonnes of exportable iron oxide to China, which is why it one of the most important mining operations in the country.

During the period of good prices in China, its target market, the company hired up to 300 workers, generating a local economy with a lot of trade. Now that prices have fallen, the payroll has been reduced to 50%, with serious implications for the local economy. To this is added the fact that the local inhabitants are no longer producers of grains and vegetables, as they were prior to the arrival of mining.

The Mocho Mine is the only underground mine in the country with an estimated reserve of 4.5 million tonnes of minerals with commercial values for gold, silver, lead and zinc. This mine processes 2,000 tonnes of brushwood daily. The concessionaire is Nyrstar, which is dedicated to integrated mining and metals, with leading positions in zinc and lead, and growing positions in other base and precious metals. In the areas near the concession lies Lake Yojoa, which is the only natural lake in Honduras and is a mirror of water of some 96 $km^2$.

Research carried out on Lake Yojoa since 1983 has consistently demonstrated a polymetallic contamination, particularly by lead and cadmium in the sediments of the lake and have revealed that one of the main sources of pollution has been mining activity. An analysis of water quality found that cadmium exceeded the maximum allowable amounts according to National Technical Standards for Drinking Water Quality (Agreement No.084), where the maximum value is 0.003 mg/l. The study reported that in two areas of the lake amounts were found of 0.02 mg/l (13 metres) and 0.03 mg/l (16 metres) (Sandoval, 2005)[44].
From a social point of view, the culture of political resistance by the inhabitants of the two communities in the case studies (Las Vegas and Agalteca) has been disappearing due to repression against their long-standing organisations (trade unions and management) and the prevailing culture of employer-led unions, and cooperatives organised from within companies as a mechanism to divide, scatter and annihilate these struggles.

## El Salvador Case

Mining investment in El Salvador in recent years could total as much as USD 200 million (USD 77 million in Oceana Gold and USD 100 million in Commerce Group). Mining in El Salvador represents 0.27% of GDP, and according to the Multiple Occupancy Households Survey (*Encuesta de Hogares de Propósitos Múltiples* – EHPM, 2013) 0.079% of the economically active population in the country are employed in the mining sector.

[44] Sandoval, Sigfrido (2005). La Verdad sobre la llamada contaminación de las aguas del Lago de Yojoa. Ciencia y Tecnología. (*The truth about water pollution in Lake Yojoa*). June 2005 (15): 1-17.

El Salvador's environmental law aims to protect, preserve and restore the environment and sustainable use of natural resources, and also contemplates public consultation. Article 9 establishes the framework for consultation, in cases where it is necessary to define the environmental policy when concessions are in the process of being granted for the exploitation of natural resources and activities, and works or projects that may affect this or require an Environmental Permit. It is important to mention that Article 25, which regulates the public consultation of environmental impact studies, makes clear that the opinions expressed by the population participating in the consultations is not binding, and that these will only be considered by the Ministry of Environment and Natural Resources (*Ministerio de Medio Ambiente y los Recursos Naturales* - MARN).

The law gives companies the right to use the water they need for production processes located in the concession area, be it surface or underground water, with no restriction on the volume, which implies that it was not considered at any time what this represents in terms of competition for water demand from the communities that inhabit the area of influence of a mining project. In 2010 the state conducted a strategic environmental assessment of the mining sector, the results of which were the basis for a proposed "Special Law for the suspension of administrative procedures relating to metal mining exploration and exploitation projects". To date, the mining licences granted until 2009, have been frozen at the administrative stage, however, as mining is not prohibited through any law, executive order or other legal instrument, these projects can be taken up again immediately by transnational corporations.

Although there is no public policy on mining, there is interest from national and international economic sectors in promoting mining in the country, which has been stopped due to the opposition of the majority of the Salvadoran population, a key element causing governments to adopt a precautionary decision about whether to approve metallic mining in the country.

The environmental impacts of mining and pollution in the north-eastern area of the Morazán department have been widely studied, confirming that the basins of the rivers Seco, La Majada, Corozal, Guayabal, San Francisco, Cañas and Grande de San Miguel are depositories for heavy metals. Poisoned with cyanide, mercury, cadmium and other metals which are causing severe renal failure, cancer and other deadly diseases to residents in the area.

## Nicaragua

Mining in Nicaragua is one of the sectors showing the least job creation, although this has grown, especially in the period 2011-2013, years when the prices of gold and silver reached historical peaks. Exports of gold and silver increased during the period from 2009 to 2013, obtaining USD 83 million in 2009, USD 442 million in 2013, and in 2014 suffering a slight decrease, generating only UDS 394 million. 218 thousand troy ounces were exported in 2009 and this increased to 899 thousand ounces in 2013, however, during 2014 only 830 thousand troy ounces were exported. The contribution of mining to GDP is around 1.59%.

In the municipality of Santo Domingo in Chontales, a department in the central part of the country, industrial mining was reactivated in 2013 as part of a mining project belonging to the Canadian company B2Gold, through its subsidiary Desarrollo Minero de Nicaragua (DESMINIC), which is the main exporter of gold in the country.

The data collected to date on El Túnel Azul, the main source of drinking water in the municipality, show an increase in the concentration of different physical-chemical parameters in the water quality samples

under study: total suspended solids, settleable solids, and heavy metals, particularly aluminium (Al+3), copper (Cu+2) which did not appear in 2014 are now shown in (very small) trace concentrations and Manganese (Mn+3) has been increasing (Table 2).

Although Aluminium appears to be innocent and innocuous, studies suggest that it is capable of decreasing the concentration of the DNA molecule in sensitive plants and slow the growth of these, as it inhibits certain proteins. In addition, it could promote nerve problems in humans and is even as mentioned as a cause of Alzheimer's disease, which is why this metal, so abundant on earth, and seemingly innocuous, should be monitored systematically in water sources around the mining area.

It is impossible to guarantee without a competent and specialised study in Hydrogeology exactly where the aluminium comes from, with all the mathematical certainty necessary to point to a cause for its deterioration. There are no satisfactory maps to calculate the effects that cause the breakdown of rock and organic material in the affected area, and nor is there a map to determine the contamination area that may have to be diverted in groundwater or be re-injected into the aquifer.

| **Place** | **Santo Domingo** | **Banadi** | | | |
|---|---|---|---|---|---|
| Name of the sample | **Blue Tunnel** | | | | |
| Parameter | **Detection limit** | **Unit** | **Result** | **WHO** | **CAPRE** |
| **Temperature** | | °C | 24,6 | 18 a 30 | 18 a 30 |
| **pH** | | pH | **6,38** | 6.5 a 8.0 | 6,5 a 8,6 |
| **Conductivity** | | µS/1cm | 182,3 | 400,00 | 400,00 |
| **Total suspended solids** | | mg/L | 1,00 | 600,00 | 1 000,00 |
| **Sedimentary solids** | | mg/L | <0,1 | | |
| **DBO** | 1,00 | mg/L | **3,75** | | |
| **DQO** | 10,00 | mg/L | <10,00 | | |
| **Calcium** | 0,08 | mg/L | **22,45** | - | - |
| **Magnesium** | 0,20 | mg/L | **5,59** | | 50,00 |
| **Sodium** | 0,10 | mg/L | **10,60** | | 200,00 |
| **Potassium** | 0,10 | mg/L | **2,37** | | 10,00 |

| | | | | | |
|---|---|---|---|---|---|
| **Nitrites** | 0,25 | mg/L | **8,33** | | 50,00 |
| **Nitrates** | 0,003 | mg/L | **-po** | | |
| **Total hardness as $CaCO_3$** | 0,13 | mg/L | **79,00** | 200,00[45] | 400,00 |
| **Total Cyanide** | 0,010 | mg/L | <0,010 | 0,07 | 0,05 |
| **Total Aluminium** | 25,00 | µg/L | **285,00** | 200,00 | 200,00 |
| **Total Copper** | 1,24 | µg/L | 6,34 | 2 000,00 | 2 000,00 |
| **Total Manganese** | 1,16 | µg/L | **47,75** | 400,00 | 500,00 |
| **Total Mercury** | 0,09 | µg/L | <0,09 | 6,00 | 10,00 |
| **Total Zinc** | 35,95 | µg/L | 55,25 | 3 000,00 | 3 000,00 |

[45] Established by WHO to avoid accumulation in distribution systems, and to avoid bad taste and the effects of water diluted with soap in domestic use.

Nicaragua also faces problems of social conflicts related to mining. Since 2005, the population of Rancho Grande has been trained and sensitised on the social and environmental impacts generated by mining projects, and as a result they have publicly and flatly declared themselves to be opposed to any mining activity in the municipality. Since 2010, there has also been opposition to the "El Pavon" mining project which the company B2Gold, through its subsidiary, aims to develop in these lands.

From the period 2010 to 2014, the entire population of Rancho Grande, in coordination with local organisations, the Catholic and Evangelical Church and other key players in the municipality, has held more than 15 peaceful marches, at the municipal and departmental levels, and has also participated in awareness-raising workshops; they have also collected and delivered to the National Assembly and the Presidency more than 6,000 signatures from the population who are against mining (2014). In 2015 the Government of Nicaragua suspended the mining concession, a success for the communities who considered themselves to have been affected.

**Table 2: Results of water quality analysis in the Túnel Azul, Santo Domingo, Chontales**
Source: Own Monitoring Data, Humboldt Centre, 2015

## A.3.3 Main Conclusions

In the context of FTAs, the States of the Central American countries have been given the task of improving their legislation in general and in particular with regards to foreign direct investment, and environmental, social and transparency standards, which are intended to prepare the countries in some way for the implications of trade. However, none of the four cases studied show improvements in terms of the level of progress in the sustainable management of natural resources and the environment by mining

companies that have entered these countries.

In general, mining legislation in Central America enables areas for concession to be granted for periods of 25 years, leaving open the possibility of these areas being extended for the same period or longer, according to the potential found during the stages of exploration, and including, in the particular case of the new law in Honduras, no maximum time limits for mining concessions. This enables a continuous increase in space for exploration and thus the expansion of mining activity, which often includes protected areas, including those of international importance. The laws governing mining and other environmental regulations applicable to the sector, fail to establish an integrated management and efficient use of natural resources and the environment, because there are still loopholes in issues such as accountability, transparency and free, prior and informed consultation with communities. There are still serious gaps, mainly of a procedural nature, to enforce and apply penalties for breaches of the different requirements under law.

Data from the respective central banks indicates that the category "Mining and quarrying", has a limited contribution to the country's economy (not exceeding 2% of GDP), and also that its contribution to employment is limited (no more than 2% of employment), with wages that do not cover the official basic food baskets, and limited enforcement of benefits established under labour law. As for the mining tax regime, royalties required by law are no higher than 3% of the total production of any of the metals. In countries where laws are closer to the reality of the extractive industries, this tax is between 10% and 30%, as in Peru, Bolivia, Chile, Zambia, Ghana, and Mozambique. Added to limited taxation are deficiencies in state monitoring systems, in order to verify that the companies' production does indeed correspond to what they report. The tax contribution is also limited because companies are given free zone regimes, where the state is committed to generate certain infrastructures for them.

States have failed to respond quickly to increased mining exploration and exploitation projects, mainly in the areas of monitoring, environmental follow-up and assessment of mining. Without adequate environmental assessment, the vulnerability of rural communities increases, in terms of problems accessing clean water, sanitation and fertile land. There should be greater control over water use by mining companies, as there is an absence of restrictions or sanctions for the abuse of water use for mining operations. The only regulations for the issue of wastewater treatment relate to tailing dams or drainage fields.

Resistance to mining by indigenous, tribal or mestizo peoples and communities, is a trend that has been increasing more and more in many countries, because thanks to the different actions for information dissemination and awareness, every day people are becoming more informed about the social, environmental and economic impacts involved in mining. There have been successful cases such as the case of La Puya in Guatemala, and there are many cases that reflect the severe criminalisation of social protest as in the case of the El Dorado project in El Salvador, with the murder of environmental activists. One trend that continues to gain strength in the region, is the declaration of territories free from mining, mainly in Guatemala, El Salvador and Honduras. These experiences of different consultations, open forums and votes, should be developed of a single methodology that can be applied at the level of the Central American region, and be enforced through legal channels, in a transparent and democratic manner.

The perspective of the Central American states is to continue promoting extractive activities, with an emphasis on metal ore mining, in line with the FTAs, especially the Association Agreement, which openly promotes cooperation in the field of mining. The commitment to this sector will continue to generate

social conflicts and environmental impacts unless clear and detailed mechanisms are in place for the application of national and international standards, and the creation of clear and binding procedures around issues such as public consultations, local endorsements, social guarantees, and social and environmental auditing, and on water quality in mining areas.