

EUROPEAN PARLIAMENT



Directorate-General for the Internal Policies of the Union

Policy Department

INFORMATION NOTE

ON THE POLITICAL AND ECONOMIC SITUATION

OF GUATEMALA

AND ITS RELATIONS WITH THE EUROPEAN UNION

BRIEFING NOTE

Substance:

Faced with a legacy of 36 years of civil war, President Oscar Berger's government, which does not have a parliamentary majority, attempts to continue on the path of consolidating a democratic state. The Guatemalan economy, driven by exports and remittances, continues to suffer from excessive dependence on external markets, a low investment rate, serious inequality and endemic corruption. In December 2003 the EU and the Central American countries signed a Political Dialogue and Cooperation Agreement. This agreement could pave the way for a future Association Agreement.

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I. POLITICAL SITUATION

1. Background

Guatemala is a Central American State. Its history, culture and economy are very closely connected to those of Honduras, El Salvador, Nicaragua and Costa Rica, its neighbours on the isthmus. These countries, along with Panama and Belize (former British Honduras), form a tongue of land the same size as France (540 000 km²) which, in 1959, had a population of 8 million inhabitants. Fifty-five years later, the population has risen to over 33 million¹.

The countries of Central America were subject to Spanish colonial domination from the 16th century until 1821, the year of their independence. 1824 saw the creation of the Central American Federation, comprising Guatemala, Honduras, El Salvador, Nicaragua and Costa Rica. Fifteen years later (1839), the Federation fell victim to regional nationalism and foreign interests and collapsed. The second 'post-independence' period which followed was marked by consolidation of the nation states, integration of the region into the global economy (thanks to the production of coffee and bananas) and the growing influence of a 'coffee plantation' oligarchy that was very dependent on foreign capital and foreign markets.

Central America was especially hard hit by the crisis of 1929, which resulted in a fall in the price of raw materials and the shrinkage of export markets, with no alternative manufacturing sector, and rapid disinvestment by the United States. This crisis was exacerbated by frequent military interventions by Washington, which foreshadowed the long reign of the 'Depression dictators': Maximiliano Hernandez in El Salvador, Tiburcio Carias in Honduras, the Somoza dynasty in Nicaragua and Jorge Ubico in Guatemala.

In the 1960s, the rise in coffee prices and the formation of the Central American Common Market (CACM) presented an opportunity to attempt limited reforms. Twenty years later, the adverse international economic climate (slump in the prices of traditional Central American exports, increase in foreign debt, etc.) led to devaluation, inflation, unemployment, and consequently major social unrest. The oligarchies of the isthmus, fearing what had happened in Cuba, delegated political power to the military. Conflicts broke out in almost every state in Central America. The Contadora Group, which was formed in 1983 by Mexico, Venezuela, Panama and Colombia, was to play a decisive role in negotiating settlements to the conflicts, based on respect for the independence of the countries concerned. The activities of this group, which received the support of Argentina, Brazil, Peru and Uruguay, led to the signing on 7 August 1987 of the peace agreement known as Esquipulas II, which signalled a clear sidelining of US diplomacy and the adoption of a more independent attitude by the signatory Central American countries.

Peace has returned to Central America, but the region has been bled white. 100 000 to 150 000 people died in Guatemala, 75 000 in El Salvador and 100 000 (in the conflicts) in Nicaragua. In addition, over two million people were forced to abandon their homes in the 1980s, and almost half of these displaced people have left the region. However, at the peace talks, which were the result of political compromise, the socio-economic factors that lay at the origin of the conflicts were sacrificed. Despite spectacular progress at institutional level, the establishing of the

¹ See Annex I.

rule of law and the emergence of a democratic culture, the continuing degeneration of the economic and social situation makes any hope of political stabilisation improbable. A long period of civil war ended the military dictatorships, but an alternative development model has yet to be found. The crisis has ended where it started, leaving unanswered the question of how to end social injustice.

2. Background²

Guatemala is situated between the Caribbean Sea and the Pacific Ocean, to the southeast of Mexico, and is bordered to the east by Belize, Honduras and El Salvador. It has a surface area of 108 890 km² and its capital is Guatemala City. The country is home to more than 12 million people, of whom 43% are Mayas (Amerindians). From 1954, and more particularly between 1980 and 1985, the country witnessed the most savage of all Central America's civil wars, in which 100 000 people died and 40 000 disappeared.

After independence in 1821, Guatemala amalgamated with Mexico, but separated from it again in 1824 to join the short-lived Central American Federation, which dissolved in 1839. The Liberal Revolution of 1871 resulted in wholesale agrarian concentration. The communal lands belonging to the Amerindians (and those belonging to the Church) were confiscated and distributed to large landowners with a view to coffee production. In 1904, the US banana company *United Fruit Company* (UFCo) set up in the country. Fifty years later it owned 234 000 hectares of land, employed 10 000 workers and controlled all the country's commercial and railway traffic.

The primacy of the agricultural sector did little to encourage economic activity in the primary and secondary sectors. Besides this, it resulted in an unhealthy reliance on the international markets.

A series of popular movements hostile to General Ubico (1931-1944) and to the large North American companies culminated in a coup d'état. Juan Arevalo's government went on to devote a third of the budget to social programmes and to undertake judicious reforms. Among other things, it abolished forced labour contracts for Amerindians and authorised the creation of trade unions in the countryside. Jacob Arbenz was elected President in 1951. Setting himself the objective of replacing successive dictatorships (backed by the coffee planters and UFCo) with a modern democracy, he endeavoured to make public life more democratic and passed an agrarian reform act which expropriated 84 000 of UFCo's 234 000 hectares. Washington responded immediately, accusing Arbenz of 'dancing to the Communists' tune'. A 'people's revolt' by an army of mercenaries assembled in Nicaragua and Honduras and financed and trained by the CIA invaded Guatemala on 17 and 18 June 1954 and triggered the downfall of the elected president. 9 000 people perished or were taken prisoner in the first few months of the counter-revolution.

Around a hundred officers who were unhappy at this capitulation to North American interests and influenced by the revolution in Cuba staged a revolt on 13 November 1960. After this failed, some of the officers formed the first guerrilla groups. The Rebel Armed Forces (FAR) were officially established in 1962. The first phase of the struggle they embarked upon ran from 1963 to 1967, and ended in a rout. The second phase began in 1975. This time, the majority of the combatants were native Indians from Marxist former guerrilla areas and from Christian communities. The 1978 and

² See Annex II.

1981 military offensives against this guerrilla movement resulted in 20 000 deaths and in the displacement of a million people³.

A constituent National Assembly was elected in 1984. The following year, Vinicio Cerejo, a Christian Democrat, was elected president. Cerejo had the difficult task of simultaneously coping with the persistent involvement of the military in political life, entering into a dialogue with the armed political opposition and ending the economic crisis. At the end of a term of office marked by two 'technical' coups d'état, which did not overthrow the President but prevented any semblance of reform, Vinicio Cerejo was replaced by Jorge Serrano on 14 May 1991. For the first time in the history of Guatemala, one civilian President of the Republic had succeeded another.

Negotiations reopened with the guerrillas as a result of international pressure and of economic pressure from Washington, particularly since the end of the conflict in El Salvador meant that attention was focused on Guatemala as the last country still embroiled in a conflict. On top of this, Rigoberta Menchu, a native Maya who for a decade had incessantly denounced the human rights violations in his country, was awarded the Nobel Peace Prize on 16 October 1992, thereby placing the civilian authorities and the army in a tricky situation.

President Serrano also succumbed to a drift towards authoritarianism, which resulted in his being forced from office. His successor, Ramiro de Leon, a former human rights ombudsman, tried in vain to purge and restructure the three pillars of the State (executive, legislature and judiciary) which, according to observers, had been eaten away by corruption. The legislative elections held in this pernicious atmosphere on 2 December 1992 were won by the Guatemalan Republican Front (FRG) led by the former dictatorship frontman, General Rios Montt. The Presidential elections held on 12 November 1995 brought to power Alvaro Arzú, leader of the National Advancement Party (PAN) and former mayor of the capital, with 36.6% of the votes. Arzú managed to secure a peace agreement with the guerrillas on 29 December 1996, thereby ending Central America's longest-running conflict (1960-1996). A group of donor countries contributed 1.9 billion dollars to support the peace process. In February 2002, a fresh contribution of 1.3 billion dollars covering a 5-year period was made with the same goal. In addition, the *ad hoc* commission responsible for throwing light onto this dark period of Guatemalan history (the Historical Clarification Commission) indicated that over 200 000 people had perished in the period 1960-1996 and that the armed forces were responsible for 95% of the massacres and violence perpetrated. The only downside in the process of national reconciliation was the rejection in the referendum of May 1999 (for which the turnout was only 18.5%) of the 47 amendments to the Constitution necessitated by the Peace Accords. Alfonso Portillo, the FRG candidate, obtained over 68% of the votes in the presidential elections of 26 December 1999. This clear victory, combined with the majority secured by the President's party, boded well for further national reconciliation. However, these hopes have faded in the face of the increasing demands made by the official party, which wields the necessary power in the Congress and through the Vice-Presidency to impose its decisions.

After Mr Portillo's election the country was flung once again into a downward spiral of crisis and increased polarisation in social and political matters. Faced with a general public which had not seen the changes promised by Mr Portillo during his election campaign, particularly with regard to public security and the fight against impunity, the government has experienced a serious tarnishing

³ The 36 years of conflict resulted in more than 200 000 deaths and in the disappearance of 45 000 people.

of its image, increasing problems with public corruption, strikes and demonstrations, rumours of ungovernability and coups d'état.

All national and international observers and analysts in Guatemala, starting with the United Nations Mission (MINUGUA), have criticised the poor implementation of the Peace Accords in respect of the timetable laid down. The mandate granted to the UN observers was extended several times to guarantee application of the Peace Accords, especially in the fields of human rights, the rights of indigenous peoples, demilitarisation and the consolidation of civil rights and social and economic aspects (aid for victims). The FRG, which never ratified the Peace Accords, did not always feel itself to be affected by what President Portillo said. It therefore slowed down the adoption of important reforms such as the tax pact and laws on land registry, decentralisation and even electoral reform and reform of the political parties, laws which would have given impetus to the democratisation of the country.

General Efraín Ríos Montt, the former President accused of having ordered the worst massacres of native Indians and farmers under his regime in 1982-1983, intended to stand in the November 2003 presidential elections as the new FRG candidate. The Supreme Electoral Court (TSE) ruled that his candidature was unconstitutional, but the Constitutional Court validated it. He is felt to be responsible for remobilising thousands of members of the old Civil Defence Patrols (PAC), the paramilitary forces responsible for a significant proportion of the crimes committed against the civilian population during the civil war years. Intimidation, attacks and murders have since multiplied against human rights activists, journalists, trade unionists and members of the church. Behind the clandestine groups, which are also linked to drug trafficking, loom police, military and intelligence structures operating with virtual impunity.

3. **Institutions**

Guatemala is a constitutional democratic republic divided into 22 departments, whose governors are appointed by the President of the Republic. The Guatemalan Constitution came into force in 1986 and was amended in 1993.

3.1. *The executive*

The President of the Republic is Mr Oscar Berger, who won the 2003 elections and has been in office since 14 January 2004. Mr Berger, who has a 4-year non-renewable mandate, is also head of the government, which he appoints.

3.2. *The legislature*

The Guatemalan Parliament is unicameral. The *Congreso* has 158 members, who are elected by universal suffrage for a 4-year period. The next elections (legislative, presidential and municipal) will take place in November 2007.

3.3. *The judiciary*

The Guatemalan legal system is based on the US one. The Supreme Court of Justice consists of 13 members who have a 5-year mandate and who select the President of the Court from among their number. The Constitutional Court consists of 5 members, who are elected by the Congress for a 5-year term.

3.4. *Political parties*

Politics in Guatemala are no longer bipartite. No party has an absolute majority in Congress. The Grand National Alliance (GANA, a coalition of the Patriot Party⁴, the Reform Movement and the National Solidarity Party) obtained 44 seats at the November 2003 elections, the FRG lost half of their seats (currently holding 31), the National Union of Hope (UNE) obtained 28 seats and the National Advancement Party (PAN) kept only 14 of their former 37 seats.

4. **Recent events**

4.1. *The 2003 elections*

2003 was dominated by the 9 November elections. Election campaigns took place in an unstable climate of violence, corruption and recession, while the multitude of partisan or personal candidatures revealed the extent of the crisis in the political representative system⁵. In the first round of the presidential elections, former President Rios Montt came third with 19.3% of the votes, behind Oscar Berger, PAN renegade and current leader of GANA (conservative right-wing group representing the landed oligarchy), and Alvaro Colom, a centre-right businessman and UNE candidate.

Oscar Berger won the second round of elections on 28 December 2003 against Alvaro Colom, with 54.12% of the votes to 45.87%. He was inaugurated as President on 14 January 2004.

4.2 *Oscar Berger's government*

The Berger administration has difficulty dealing with the urgent tasks that face it. In 2003 the Guatemalan economy had a deficit of over one billion dollars and an external debt amounting to 3.4 billion dollars; on a political level, the new government does not hold a parliamentary majority.

Most of the government's priorities are related to traditional issues such as the eradication of poverty (affecting 80% of the population) and underdevelopment, institutional reforms, tax reforms, fighting corruption and impunity. New issues have surfaced however: heightened insecurity, particularly in cities, and increased drug trafficking.

New impetus should be given to the implementation of the 1996 Peace Accords, which could help resolve a number of problems. The Guatemalan authorities have not kept three-quarters of their commitments, especially as regards recognising the rights of indigenous communities.

Observers state that the Berger government, despite its good will, commits many political errors. Seeking a closer rapport with the FRG in order to get a package of economic measures adopted in

⁴ The Patriot Party abandoned the coalition in 2004.

⁵ The European Commission at the request of Guatemalan authorities sent an Election Observation Mission.

Congress has led to the Patriot Party walking out on the coalition in power. The government's incapacity to initiate agrarian reforms also causes frequent incidents in the countryside such as those in Nueva Linda, 180 km from the capital, where several people were killed or injured⁶. Moreover the government has pushed a law through Congress granting compensation to paramilitary members of the Civil Defence Patrols (PAC) in order to keep promises made by its predecessor⁷. The Constitutional Court condemned these payments.

On the other hand the Berger administration welcomed a tax package adopted by Parliament aimed at refilling the State's empty coffers.

4.3 Respect for human rights

According to CIFCA⁸ the change of executive in Guatemala has not brought about the removal of structural factors helpful to impunity or the end of human rights violations.

An agreement was concluded between former President Portillo's government and the UN to establish a Commission for the Investigation of Illegal Groups and Clandestine Security to combat impunity⁹. Guatemala's Congress rejected this agreement in May 2004. An attitude of distrust persists between the military and political powers, particularly the judiciary.

Criminal activities have reached very high levels in both urban and rural areas. This is the result of unemployment, poverty, easy access to firearms, an under equipped and unprepared police force and an ineffective justice system. Two criminal groups can be distinguished: the *mafia* involved in drug trafficking, stolen cars, prostitution, etc. and *street gangs* essentially composed of youths or *maras*.

As concerns victims, there are two categories that are particularly vulnerable: women and children.

Observers point out that in recent years a marked increase in violence against street children is particularly characterised by the rise in 'social cleansing'.¹⁰

Violence against women is rampant throughout Guatemala. In 2004, more than 450 women were murdered and since 1999 a total of 1 400 victims has been recorded. Poverty, the breakdown of society, violence within the family and an overriding male chauvinism seem to be at the source of this phenomenon, which has affected particular types¹¹. The majority of victims have been

⁶ In relation to these incidents the prestigious Guatemalan newspaper, El Periódico stated in its editorial of 3 September 2004: We know perfectly well that enormous tensions are caused by the absence of agrarian reforms. We know that the rule of law is being defied by illegal land occupation and we also know that there are hundreds of thousands of farmers who are starving.

⁷ According to the Truth Commission, established under the auspices of the UN, the PAC are responsible for 12% of the human rights violations committed during the conflict between guerrillas and government. Compensating them counteracts the fight against impunity.

⁸ Copenhagen Initiative for Central America and Mexico

⁹ The Truth Commission has recorded 42 000 cases of human rights violations, including 626 massacres, between 1960 and 1996.

¹⁰ Around 50 children were murdered in 2002 and many others died from illness (AIDS essentially), malnutrition or were victims of street fights.

¹¹ In Ciudad Juárez (Mexico) 400 young female factory workers have been killed over the past ten years.

housewives, clothing industry workers, some factory workers and students. The majority of these are young women: 56% were under 30.

As for the murderers, *maras* are the first to be accused.

Guatemala's first racial discrimination trial was heard in March 2005. It was filed by Rigoberta Menchu (Nobel Peace Prize winner in 1992) against five supporters of former dictator Rios Montt on the basis of anti-discrimination laws adopted in 2002.

5. Foreign policy

Guatemala enjoys good relations with Mexico, Honduras and El Salvador. Territorial disputes with Belize are still a current issue, although relations between the governments of the two countries are now more constructive, with a view to resolving the conflict. This has owed much to the mediatory role played by the OAS. It is very unlikely that an early settlement will be reached. The Guatemalan government claims over 12 000 square kilometres of land in Belize.

Relations with the United States have grown even closer since Mr Berger's accession to power¹². The US has increased its influence in Guatemala in the fields of politics, the economy and trade, and in the area of the combating of drug trafficking and of terrorism (following the events of 11 September 2001).

¹² The inefficacy of anti-drug campaigns and accusations of money laundering and corruption under the Portillo administration led the United States to the country for *de-certification* in January 2003. This sanction was lifted end 2003, after Mr Berger won the elections.

II. ECONOMIC SITUATION

1. Introduction

In 1991 Guatemala, which is the leading economy in Central America in that it generates almost a third of the region's GDP (18.95 million dollars in 2002) and has a *per capita* GDP of 2 190 dollars (2004), adopted a stabilisation and structural adjustment programme designed to control inflation, bolster the balance of payments and establish sustainable economic growth. Implementation of this programme was facilitated by the signature of the 1996 Peace Accords. Over the course of the past decade, measures have been adopted to modernise the Guatemalan economy while simultaneously promoting a better allocation of resources. The government, which is keen to adapt the country's economy to meet the demands of globalisation, has furthermore recently laid the emphasis on disengagement by the state and greater participation by the private sector. This policy is still a long way from bearing fruit, since 80% of the population and 90% of the Amerindian population is still living in poverty. The Guatemalan economy, driven by exports and remittances sent from abroad (*remesas*), continues to suffer from excessive dependence on external markets, a low investment rate, serious social¹³ inequality and corruption.

2. Economic sectors

Over 50% of the Guatemalan workforce is employed in agriculture (including forestry and fisheries), which accounts for over 60% of the country's exports (22.7% of GDP). Guatemala's main exports are coffee, sugar, bananas and cardamom. The sector is experiencing the major structural problem of concentration of land ownership. 2.5% of farms cover an average of 200 hectares and account for 65% of all arable land. In addition to this, Guatemalan agriculture has suffered from the passage of Hurricane Mitch (which destroyed many banana plantations) and from the slump in coffee prices on the world market. Until the early 1990s, the fishing industry, which is concentrated on the Pacific seaboard, was geared solely to the domestic market. Recent years have seen the rapid development of shrimp farming, and seafood exports have increased. The minerals sector is insignificant and accounts for less than 1% of GDP.

The manufacturing sector is dominated by textiles and leather (20% of GDP). Guatemala has proved an attractive location for the *maquilladoras*¹⁴, albeit one less dynamic than Mexico, Honduras or El Salvador. This sector and the service sector employ 17.5% and 30% of the workforce, respectively.

The United States is Guatemala's main trading partner, and accounts for 55.3% of the country's foreign trade. Guatemala also has significant trading links with other members of the Central American Common Market (not least El Salvador), and with Mexico and the European Union (8.8% of Guatemalan imports). Since 1997, the country's balance of trade deficit has gone from bad to worse. Observers estimate that the deficit will stand at 5.4 billion dollars for 2005. This deficit has traditionally been offset through privatisation, transfers from emigrants (more than 2 billion

¹³ Second only to Brasil, Guatemala is the Latin American country with the highest level of income disparity.

¹⁴ Factories which import components (notably from the United States), assemble them and re-export the finished product.

dollars in 2004) and the influx of capital attracted by high interest rates. A facilitated access to the European market (under the 'Drugs GSP') and the implementation of a US - Central American Free Trade Agreement (signed in August 2004) should ease the reduction of Guatemala's trade deficit.

About two thirds of exports are made up of agri-food products. The level of export of the five main traditionally exported products, in order of importance, coffee, sugar, bananas, oil and cardamom decreased over several years and is now on the rise again. Non-traditional exports include chemicals, houseplants and flowers as well as fruit derivatives.

The rapid liberalisation of the financial system has led to a considerable increase in the number of banks and other financial institutions. This over-proliferation on a confined market has resulted in the bankruptcy of three such institutions¹⁵. The tourism sector has developed substantially, with tourists coming mainly from Central America (43%), the United States (33%) and Europe (16%).

3. Economic indicators¹⁶

Between 1995 and 1998, real GDP growth rates reached almost 4.4%. From 1998 onwards, the factors mentioned above (Hurricane Mitch, slump in coffee prices, etc.) weakened growth, which stood at just 3.4% of GDP in 2004. This is still far off the 5 to 6% needed to reduce poverty. According to observers, growth rates could reach 3% in 2005 thanks to the entry into force of the Free Trade Agreement with the US (DR-CAFTA), remittances, tourism and the increase in private investment. *Per capita* GDP was 1 795 dollars in 1998 and only 2 000 dollars in 2004. The Central Bank (Banguat) has imposed a strict monetary policy in an effort to maintain price levels and exchange rates and control inflation. This policy failed to prevent an increase in the balance of payments deficit, due mainly to the worsening balance of trade deficit. Between 1997 and 2001 the average annual inflation rate was 6.9%. After having touched 9% in 2001, it fell to 5.5% in 2003 and observers¹⁷ are predicting a rate of 7.2% for 2005. The quetzal depreciated between 1994 and 2001. From that year onwards, it began to regain value thanks to transfers from emigrants, the influx of capital and the agreements signed with the IMF. Analysts estimate that one dollar will be worth 9 quetzals at the end of 2006.

In order to achieve the objective of financing the social programmes laid down in the Peace Accords, the government is attempting to increase tax revenue, particularly as this constitutes only 11% of GDP owing to the difficulties of tax collection. The authorities therefore raised VAT from 10 to 12% in August 2001 and recently imposed a 30% tax on alcoholic drinks. The government has also signed two agreements with the IMF (April 2002 and January 2003), undertaking to bring the budgetary deficit and inflation under control. The Berger administration has further adopted, in Congress, a tax package imposing a temporary tax in support of the Peace Accords.

In early 2001, the IMF and the World Bank carried out an assessment of the country's financial system at the request of the government. The report indicated that many banks had become insolvent due to bad management. The bankruptcy in 2001 of the *Empresarial*, *Promotor* and *Metropolitano* banks highlighted the weakness of the Guatemalan banking system. Consumer

¹⁵ There are currently 24 different banks; experts consider 11 to be sufficient.

¹⁶ See Annex III.

¹⁷ World Markets Analyses (WMA).

confidence and investor confidence shrank still further. These events led to financial system reforms which essentially took the form of the '4 laws' package (financial control act, law on banks and financial groups, monetary act and the law concerning the *Banguat*). These measures should help to reinforce the banking sector, since the new conditions governing capital adequacy, along with tighter lending rules, will make the market less easily accessible to the smallest banks. Besides this, the government is trying to attract direct foreign investment, which remains at a low level, with the exception of investment arising from privatisations. While direct foreign investment stood at 627 million dollars in 1998, WMA¹⁸ forecasts for 2004 were for 320 million dollars. In addition to this, Guatemala's foreign debt stood at 45.3 billion dollars in 2003. Against this backdrop, the government has entered into the IMF agreements mentioned above and signed two loan agreements with the Inter-American Development Bank.

As regards regional integration, Guatemala was one of the five founder members of the Central American Common Market, which was created in 1960 and in 1993 became the Central American Integration System (SICA), with Panama and Belize also joining. In March 2001, free trade agreements were signed between Mexico and the northern triangle of Guatemala, Honduras and El Salvador. Lastly, in August 2004 the USA and the Central American states as well as the Dominican Republic signed a Free Trade Agreement (DR-CAFTA). This agreement enters into power as soon as the United States and two Central American countries ratify it.

¹⁸ World Markets Analysis (WMA).

III. RELATIONS BETWEEN THE EUROPEAN UNION AND GUATEMALA¹⁹

1. Multilateral relations

Relations between the European Union and Guatemala are established at bilateral and multilateral levels. At bilateral level, relations are undoubtedly economic but also involve cooperation.

Since 1984, Guatemala has participated, along with Costa Rica, El Salvador, Honduras, Nicaragua and Panama, in the San José Interministerial Dialogue between the countries of Central America and the European Union. The annual conferences held by Central American and EU foreign ministers as part of this dialogue have gradually helped to develop the San José process as a platform for strengthening cooperation, economic links and regional integration. This example of successful cooperation helped establish peace and re-establish democracy in the region in the early 1990s. The ‘San José Dialogue’ was modified at the 1996 Florence meeting to better suit the changing relations between the two regions.

Against the background of the XIXth San José Dialogue Ministerial Meeting, which took place in Panama City from 12 to 15 May 2003, the EU and Central American countries opened a first round of negotiations aimed at the conclusion of new Political Dialogue and Cooperation Agreement. It is the countries of Central America which have called for the establishment of a vast free-trade zone between Central America and the European Union. This has given cause for some reservations on the part of the EU. After the Madrid Summit of 17 May 2002 where the Heads of State or Government of the Member States met their 33 counterparts from Latin America and the Caribbean, the two parties still managed to agree to continue political dialogue and cooperation to prepare for the negotiation of a free-trade agreement, based on the results of the Doha work programme, which both parties had committed themselves to conclude, at the latest, in 2004. The consensus between the six countries involved is that the compromise is acceptable as a solution, because the Union has its priorities and is still presenting them with great opportunities.

The EU - Central American Political Dialogue and Cooperation Agreement was signed in December 2003. The basic principle of this agreement is respect for human rights while its main objectives are enhanced political dialogue and cooperation.

Enhanced cooperation should be implemented:

- promoting political and social awareness indicating democratic values, respect for human rights and good governance;
- furthering the regional integration process of Central American countries, thereby promoting economic development and a gradual improvement in the standard of living for people living in Central America;
- eradicating poverty and promoting equal access to social services.

¹⁹ See Annexes IV to V.

On 19 January 2005, the Central American states and the European Commission officially engaged in a common evaluation process of Central America's regional economic integration, as agreed at the III EU - Latin American - Caribbean Summit held in Guadalajara in May 2004, which should lead to the opening of negotiations for a future Association Agreement. This evaluation will be undertaken by an *ad hoc* working party whose first meeting will be held in Spring 2006 in Tegucigalpa (Honduras).

2. **Bilateral relations**

2.1 *Political dialogue*

In addition to the San José Dialogue, the Union has been involved in other initiatives such as the sending of an electoral observation mission to Guatemala during the presidential, legislative and local elections of 9 November 2003 and 28 December 2003 (second round in the presidential elections). This mission was undertaken by Mr Jannis Sakellariou, member of the EP Delegation for relations with the countries of Central America and Mexico.

2.2 *Cooperation*

Since 1986 Guatemala has been the leading recipient of Community aid in Central America. Around EUR 390 million were committed to some 320 programmes and actions in that country over the period 1984-2001, at an average of EUR 30 million per year from 1990 onwards. Most of these related to technical and financial assistance (52.1%), aid for displaced persons (13.8%) and food security (9%). Guatemala also receives assistance under almost all the available EU instruments and budget lines. Besides bilateral initiatives, the country participates in projects aimed at promoting integration in Central America and in other horizontal programmes open to Latin American operators such as ALFA in the field of teaching, AL-Invest for economic cooperation and @LIS for cooperation with regard to the information society. The EU has provided emergency humanitarian aid to the victims of natural disasters and conflicts in Guatemala through its humanitarian office (ECHO). Since 1998, the EU has also funded disaster prevention and preparedness projects via the DIPECHO programme in an effort to reduce the vulnerability of local communities to natural disasters.

Following the 1997 Declaration issued by the EU and the Guatemalan Government the overall objective of Community cooperation has been support for the implementation of the 1996 Peace Accords. These accords constitute a reference framework from which to overcome the causes of the conflict and lay the bases for the country's development. This objective was reaffirmed in the joint political declaration presented by the EU at the Consultative Group meeting held in Washington in February 2002 which also emphasised the need for Guatemala to make significant progress in combating poverty and corruption.

In March 2001, the European Commission and the Guatemalan Government signed a '*Memorandum of Understanding*' which defined a level of assistance of EUR 93 million for the financial and technical cooperation and economic cooperation budget lines for the period 2002-2006. This approach was in line with the priorities established by the Council in its *Country Strategy Paper 2002-2006* on Guatemala and in the *Regional Strategy Paper 2002-2006*.

The areas of cooperation set out in the Memorandum are as follows:

- consolidation and modernisation of the State: support for judicial reform, decentralisation of the State and the reinforcement of civil society, for taxation policy and equal opportunities for men and women.
- campaign against poverty: support for education, health and environmental protection.
- economic cooperation: support for the business sector and consumer protection.
- local development and decentralisation: promotion of the decentralisation process and modernisation of the State, reinforcement of local powers and promotion of social and economic development;
- fair and sustainable economic and employment growth: promotion of conditions for increasing the competitiveness and productivity of private enterprises in Guatemala and reinforcement of the country's position on the international markets by intensifying and stimulating private sector economic linkages.

The issue of respect for human rights and democratic consolidation remains the subject of a major programme. The EU continues to support the democratic institutions by way of assistance programmes and regularly reaffirms its backing for the implementation of the recommendations made by the Historical Clarification Commission.

EU and Member State cooperation is Guatemala's largest source of public non-repayable aid.

2.3 Trade

In 2004 the United States remained Guatemala's foremost trading partner, accounting for no less than 56.50% of exports. Central American countries are the second leading destination for exports, at around 20%. The EU share is relatively modest in comparison, as it stood at just 8.8% for 2002. 8.7% of Guatemala's imports came from the 15 Member States that same year. Traditional products such as coffee, sugar, bananas and crude oil are still the country's main exports. However, since the 1990s, the percentage of non-traditional product exports has been increasing. Guatemala's main imports from the Union are fuel, machinery, transport equipment, building materials and fertilisers. Germany, Spain, Italy, the Netherlands, the United Kingdom and France are the leading trading partners. Spain is now the second highest foreign investor, notably in the energy, mobile telephony and banking sectors. However, trade between the Union and Guatemala has diminished since 2002.

Like the other countries of Latin America, Guatemala benefits from the generalised system of preferences adopted on 7 December 1998, which establishes a unilateral trade preferences system. Under the 'Drugs GSP', the EU has renewed the tariff conditions granted for certain agricultural products. Similarly, the special preferences for manufactured products granted to the Andean countries have been extended to Central America. In December 2001, this system was renewed until the end of 2005. The relations between the two sides take on even greater significance if one considers that the European countries supported the efforts to restore peace and negotiate a peace agreement from the outset. This political support has bolstered the EU's credibility in Guatemala.

The Central American integration process began in the 1960s. This integration was halted in the 1980s by the period of crises and problems that many of the member countries were going through.

It was not until the beginning of the 1990s after a general pacification of the region that the dialogue could resume its 'normal' course.

It was the Tegucigalpa Protocol, signed in Honduras' capital in 1991, that initiated the Central American Integration System (SICA), a permanent structure equipped with a General Secretariat. Contrary to the European integration procedure, this Protocol had the primary objective of political integration, and it was only in 1993 that economic integration was reconsidered after the signing of the Guatemala Protocol. Since 1997, Central America has attempted to implement a rationalisation plan for its institutions, unfortunately without much success. Recently the integration process has met some obstacles because of border disputes.

Regional integration seems to be the way ahead in the years to come, and could guarantee sustainable development for the region and enable it to handle globalisation. The EU is especially convinced of the need to develop a 'culture propitious to integration'. However, it has also confirmed its desire to see the region play an active role by presenting programmes and projects which demonstrate its own commitment to integration.

4. The European Parliament's role

Until 1984, there was a single EP delegation for relations with the whole of Latin America. In that year, two separate delegations were created: one for relations with Central America and Mexico and another for relations with South America. The work of these delegations has included the participation of Members of the European Parliament as observers during elections and as mediators in regional conflicts. The EP also maintains steady relations with the national parliaments in the region and with the Central American Parliament - PARLACEN. During the 1980s, the EP centred its attention on the peace and democratisation process in the region, and considered regional integration to be a solution to the difficulties encountered in those countries.

The EP has promoted an increase in resources, the extension of the EIB's activities in Central America and a general refocusing of Community cooperation policy. It would like the European Union to make Latin America one of its leading dialogue partners in the world and to instigate, to this end, a 'Transatlantic dialogue' on areas including security and defence, and to draw up a sufficiently-funded overall action programme for the region. In recent years, Parliament has adopted several resolutions on respect for human rights in Guatemala²⁰. The EP has asked the Guatemalan authorities to conduct an in-depth investigation into allegations of crimes against humanity and genocide. On the same occasion, it expressed its concern at the violent acts committed in that country against several judges and other representatives of the judiciary, and against political and human rights activists, political leaders and EU citizens. It also condemned all the violent acts and intimidation perpetrated in Guatemala by people who wanted to cover up the crimes and atrocities committed during the civil war era. It has also denounced violations of women's rights (sexual harassment, absence of any minimum wage, sacking of pregnant women).

Parliament has also asked the Guatemalan authorities to ensure that the judicial authorities have complete independence and freedom to judge the crimes brought to light by the Historical Clarification Commission. It has also stressed the need to put an end to the civil impunity of certain

²⁰ OJ C 53E, 28.2.2002, p. 403 and OJ C 147E, 20.6.2002, p. 20.

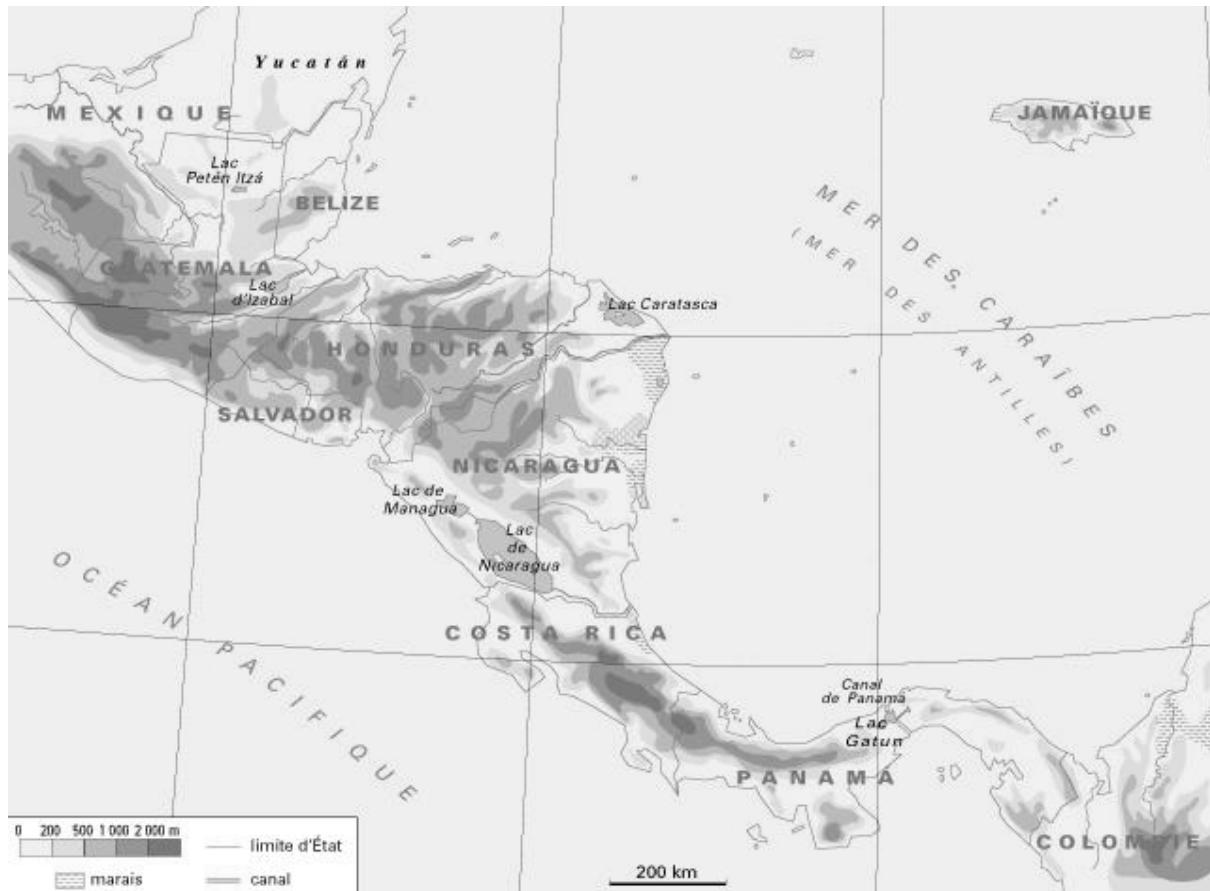
elites and to lay the emphasis on freedom of expression and the right to disseminate information for all citizens. In its latest resolution on Guatemala, which was adopted on 10 April 2003²¹, Parliament expressed alarm at the delays in implementing the Peace Accords (signed in 1996) and agrarian reform.

It also called on the Guatemalan Government to draw up and launch a national policy on food security and rural development. The Members of the European Parliament expressed their concern at the increase in violence in Guatemala and condemned the recent murders of local farmers' leaders. They called on the Guatemalan Government to abolish impunity and give its unreserved support to the work of the Commission for the Investigation of Illegal Groups and Clandestine Security Apparatuses.

Parliament sent a delegation to observe the November and December 2003 elections.

Furthermore, the Political Dialogue and Cooperation Agreement of December 2003 provides for the creation of a joint parliamentary committee with members from both the PARLACEN and the EP. After the 2004 European elections a specific EP Delegation for relations with the countries of Central America was set up.

²¹ OJ L 64, 12.3.2004, p. 36.





GUATEMALA - ECONOMIC DATA ⁽¹⁾

	1997	1998	1999	2000	2001	2002 e	2003f
Domestic Data							
GDP Growth %	4	5,1	3,8	3,6	1,8	2,3	3,3
Inflation %	9,2	6,6	4,9	5,1	8,7	5	3,9
Budget Balance % GDP	-0,6	-1,8	-3	-2	-3	-2	-1,8
Leading Interest Rate %	16,4	18,1	9,23	9,33	10,58	9,29	8,5
GDP \$ bn	17,8	19	18,29	18,65	18,72	18,95	18,9
GDP Per Capita \$	1595,9	1656,7	1558	1547	1512	1535	1535
External Data							
\$ to Currency	6,18	6,85	7,34	7,75	7,84	7,8	7,9
Exports \$m	2602	2847	2781	30,85	2865	3050	3200
Export Growth % . y-on-y	16,4	9,4	-2,33	10,95	-7,15	6,47	4,92
Imports \$m	-3852	-4255	-4226	-4742	-5142	-5400	-5700
Import Growth % .y-on-y	23	10,5	-0,7	12,22	8,44	5,02	5,56
Trade Balance \$m	-1250	-1408	-1445	-1657	-2278	-2350	-2500
Current Account Balance \$m	-633	-1039	-1026	-1050	-1238	-1300	-1075
Current Account % GDP	-3,6	-5,5	-5,61	-5,63	-6,61	-6,86	-5,69
Reserves (minus gold) \$m	957	1200	1197	1597	1852	2215	2400
Reserves Imports Cover - Months	3	3,4	3,4	4,04	4,32	4,92	5,05
Foreign Direct Investment \$m	84	627	155	230	456	280	300
F D I % GDP	0,5	3,3	0,85	1,23	2,43	1,48	1,59
Total External Debt \$m	4124	4565	4644	4622	5460	5420	5350
Short Term Debt \$m	1149,3	1393,6	1356	1335	350	420	425
Total Debt % GDP	23,2	24,1	25,39	24,78	29,17	28,6	28,31
Debt Service Ratio %Total Export	16,5	14,4	11,7	10,74	10,68	10,73	10,7
Total Debt % Total Exports	158,5	160,3	130,59	113,38	129,6	132,2	124,42
Short Term Debt%Total Debt	27,9	30,5	29,2	28,88	6,41	7,75	7,94
Short Term Debt % Reserves	120,1	116,1	113,31	83,57	18,9	18,96	17,71

(1) Source: World Markets Research Centre

Trade relations EU-Guatemala 2002

Structural analyses

EU-imports (cif)

\	1000 €	- % -	<u>Main products (SITC division):</u>	SITC 3rd rev.	1000 €	% of total	Intra- industry trade intensity (1)
Total (A+B+C)	266.659	100,0	COFFEE, TEA, COCOA, SPICES, AND MANUFACTURES THEREOF	07	109.105	40,9	196,7
of which:			CRUDE ANIMAL AND VEGETABLE MATERIALS, N.E.S.	29	46.529	17,4	192,9
A: Raw materials	245.976	92,2	FISH, CRUSTACEANS AND MOLLUSCS AND PREPARATIONS THEREOF	03	36.063	13,5	197,3
Food, beverages and tobacco (0+1)	191.066	71,7	VEGETABLES AND FRUIT	05	27.773	10,4	181,5
Raw materials (2+4)	54.910	20,6	TOBACCO AND TOBACCO MANUFACTURES	12	14.931	5,6	199,7
Energy (3)	0	0,0	OIL SEEDS AND OLEAGINOUS FRUITS	22	6.195	2,3	200,0
B: Manufactured articles	18.878	7,1	ARTICLES OF APPAREL AND CLOTHING ACCESSORIES	84	5.385	2,0	126,9
Chemicals (5)	4.936	1,9	CORK AND WOOD MANUFACTURES (EXCLUDING FURNITURE)	63	2.641	1,0	119,8
Machinery and transport eq. (7)	2.294	0,9	ORGANIC CHEMICALS	51	2.551	1,0	13,1
Other manufactured products (6+8)	11.648	4,4	ESSENTIAL OILS + PERFUME MATERIALS; TOILET, POLISH + CLEANING	55	1.809	0,7	24,1

EU-exports (fob)

\	1000 €	- % -	<u>Main products (SITC division):</u>	SITC 3rd rev.	1000 €	% of total	Intra- industry trade intensity (1)
Total (A+B+C)	638.175	100,0	POWER GENERATING MACHINERY AND EQUIPMENT	71	122.477	19,2	1,0
of which:			MACHINERY SPECIALIZED FOR PARTICULAR INDUSTRIES	72	61.690	9,7	0,9
A: Raw materials	38.322	6,0	ROAD VEHICLES (INCLUDING AIR-CUSHION VEHICLES)	78	46.924	7,4	0,6
Food, beverages and tobacco (0+1)	28.313	4,4	GENERAL INDUSTR. MACH. + EQUIPMENT, N.E.S., MACHINE PARTS	74	43.755	6,9	0,9
Raw materials (2+4)	5.032	0,8	ORGANIC CHEMICALS	51	36.455	5,7	13,1
Energy (3)	4.977	0,8	MEDICAL AND PHARMACEUTICAL PRODUCTS	54	35.744	5,6	0,8
B: Manufactured articles	586.480	91,9	CHEMICAL MATERIALS AND PRODUCTS, N.E.S.	59	27.501	4,3	2,2
Chemicals (5)	149.595	23,4	MISCELLANEOUS MANUFACTURED ARTICLES, N.E.S.	89	21.951	3,4	12,2
Machinery and transport eq. (7)	310.204	48,6	MANUFACTURES OF METALS, N.E.S.	69	17.247	2,7	2,6
Other manufactured products (6+8)	126.681	19,9	TEXTILE YARN, FABRICS, MADE-UP ARTICLES, N.E.S., + RELATED	65	16.081	2,5	6,9

Source: COMEXT 2 database, EUROSTAT

Production: JDa/DG4/European Parliament

(1) The index can vary between 0 and 200: 0 means only exports, 200 only imports and 100 means balance in trade

Index: $\frac{((x+m)-(x-m))}{(x+m)} \cdot 100$

EU trade with Guatemala by Member State

EU-imports (cif)

	2002		January-February:		
	1000 €	- % -	2002	2003	% change
Total	266,659	100.0	39,333	41,148	4.6
<i>of which:</i>					
France	15,829	5.9	3,120	4,454	
Netherlands	68,088	25.5	9,733	11,145	
Germany	66,081	24.8	7,522	6,483	
Italy	24,769	9.3	5,412	4,998	
United Kingdom	25,420	9.5	4,712	4,295	
Ireland	45	0.0	0	3	
Denmark	3,005	1.1	507	321	
Greece	163	0.1	1	40	
Portugal	1,276	0.5	75	165	
Spain	31,364	11.8	3,888	4,592	
Belgium	11,471	4.3	1,572	1,707	
Luxembourg*	7	0.0	1	1	
Sweden	11,142	4.2	1,999	1,484	
Finland	5,256	2.0	461	1,153	
Austria	2,744	1.0	330	307	

EU-exports (fob)

Total	638175	100.0	79,717	74,021	-7.1
<i>of which:</i>					
France	42272	6.6	4,941	3,954	
Netherlands	26336	4.1	2,648	4,487	
Germany	139953	21.9	24,015	21,459	
Italy	92238	14.5	11,704	11,248	
United Kingdom	53694	8.4	7,744	5,324	
Ireland	914	0.1	9	207	
Denmark	10508	1.6	1,715	1,330	
Greece	118	0.0	7	225	
Portugal	3335	0.5	603	323	
Spain	96103	15.1	16,615	12,978	
Belgium	38893	6.1	3,844	7,556	
Luxembourg*	995	0.2	1	70	
Sweden	13837	2.2	2,940	2,266	
Finland	111952	17.5	1,844	1,718	
Austria	7024	1.1	1,086	876	

Source: COMEXT database, EUROSTAT

Production: JDa/DG4/European Parliament

* Luxembourg January 2003 only

EU trade with Guatemala: 1995-2002

	<i>1000 ECU/€</i>		
	EU-imports (cif)	EU-exports (fob)	Balance
1995	370,153	301,400	-68,753
1996	342,769	332,300	-10,469
1997	457,147	381,897	-75,250
1998	426,630	443,306	16,676
1999	403,754	491,317	87,563
2000	460,832	479,307	18,475
2001	345,636	557,276	211,640
2002	266,659	638,175	371,516

Source: COMEXT database, EUROSTAT

Production: JDa/DG4/European Parliament

