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# **Impact of the Free Trade Agreements with The United States and Taiwan on leather handicrafts in the municipality of Taxisco, Santa Rosa.**

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## **INTRODUCTION**

This essay tries to establish what impact the Free Trade Agreements that came into force in 2006, with the United States and Taiwan, have had on the production of saddlery and leather tanneries in the municipality of *Taxisco*, department of *Santa Rosa*.

At the beginning of the 1990s, with the collapse of the Soviet Union and the socialist bloc, the free trade economic model triumphed, which accelerated the process of globalization of the world economy, made up of a set of economic

processes that led to the integration of regional megamarkets, reflected in Free Trade Agreements between different nations.

This economic process of globalization has transnationalized the production processes and consumption in megamarkets that confront the large economic blocks that fight to preserve their areas of influence, such as the large North American and European transnational capitals that make up the North American market, the European Union and the new economic blocks emerging in *India* and the Far East.

The Free Trade Agreement with the United States established by Canada, the United States, Mexico and, later, the Central American countries and the Dominican Republic is considered one of the largest markets in the world due to the inclusion of the United States and Canada. It represents a large area of free exchange between countries that allows the development of capital invested in those regions by transnational companies by achieving preferential conditions, reducing taxes and other costs in the production processes and marketing of products manufactured in the region.

The Free Trade Agreement with the United States, FTA, was agreed by that country with Guatemala, approved, signed and ratified by the legislative bodies in 2006. On the other hand, another Free Trade Agreement with the republic was approved by the State of Guatemala of Taiwan, which expanded the field of commercial exchange between *Guatemala* and *Formosa*.

These Free Trade Agreements, signed by Guatemala, created great expectations of development among Guatemalan businessmen and fears in the working and popular sectors due to the privatization processes and the consequences that the insertion of Guatemala into the North American market could bring to various sectors of Guatemalan society.

Currently, almost two years after the signing of said FTAs, in reality there are few commercial sectors that have benefited from said markets, such as clothing manufacturers and some agricultural sectors that export non-traditional products. The vast majority of national producers ignore the benefits that insertion into these markets could bring them, since they do not even produce for export; reality that is more accentuated in the production of popular items such as traditional crafts, what does happen is that they feel that the impact of the FTA is marked by a general increase in prices of the inputs they use to produce their products, as can be seen in the two cases studied in this essay.

## Interviews

The current work analyzes the impact that the FTAs with North America and Taiwan have had on the artisanal production of saddleries and leather tanneries in the municipality of Taxisco, department of Santa Rosa. For this purpose, two artisans who are important in the region as local producers were interviewed, due to the quality of their

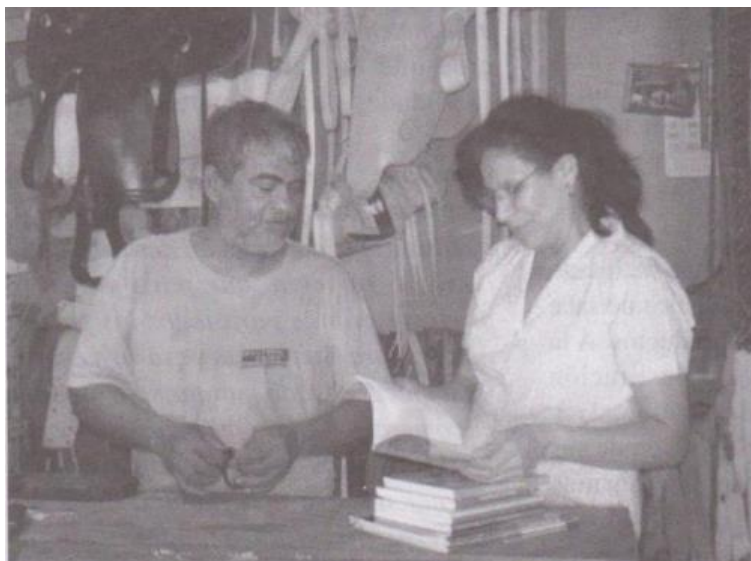
products and the output. They are Carlos Enrique López y López and José Luis Morales Carbajal, traditional saddlers. Mr. José Luis Morales also has the only leather tannery in that region, which is very important because he produces skins for the production of leather products and, therefore, he works with chemicals that are imported.

### Mr. Carlos Enrique López y López

Carlos Enrique López expressed that he is poorly informed about the FTA and, although he watches the news on television and reads the newspapers to stay informed of events national and international, says *I am misinformed about the FTA*. Regarding what is directly related to crafts, he says: *I have not heard what is bothering about the FTA, but some friends have commented that it is damaging because one's product will no longer be worth it*. However, Mr. Carlos believes that his products would be worth more if he exported them. He indicates that in *Taxisco* there has not been any person dedicated to exporting leather articles nor have they organized them to export. Therefore, he states that *the FTA has not had any impact on leather crafts*:

Likewise, he does not know if exports of saddlery products have increased to the United States, since he does not export his *products and says that tourism in Taxisco, in reality, does not exist. Tourists only pass through the town because they are going to Monterrico beach and, since there is no market where tourists can learn about local crafts, town, continue its path toward*

*Monterrico. And the saddleries, not to mention, tourists don't know them. The foreigners who visit his saddlery are Salvadorans who are his acquaintances because they are his clients who buy his product that they take to El Salvador. Mr. Carlos is so alien to the FTAs that he does not know if tariffs or taxes on exports have been reduced*



Master saddler Carlos Enrique López y López in the workshop he owns in Taxisco, Santa Rosa, accompanied by the researcher Aracely Esquivel Vásquez. (Photography Arturo Matas O.)

He indicated that in *Taxisco* there are no union associations of saddlers. According to Mr. Carlos, here everyone makes their balances, their personal purchases. There are no associations where we are united because we all know each other and since there are really very few saddlers, we all know each other. As for his leather craft styles, Mr. Carlos says that he has maintained them and some have been made different at the request of the customers. *For example, if one makes a*

*belt in one way and another copies it, then one thinks about changing it, but not because of the demands of the market.*

Mr. Carlos believes that those who have benefited from the FTA *are the clothing manufacturers, because they export more. The other day, he indicated, I heard the president of the Chamber of Commerce speak on television, he said ' that they have*

*their sales have increased because they have exports' In crafts I have not heard that they are exporting, except for the typical costumes of Sololá or Chichicastenango that may be exported, but I have not known if it has been relevant for artisanal production, here life continues the same.*

In Regarding materials necessary to make their products, Mr. Carlos says: *In my opinion as an owner if it increases a little, then one maintains the prices of the products. But if it goes up*

*too much, then you have to raise the price a little because you don't absorb the increase, you have to take the increases out of the product. Now, what I have seen an increase in is the purchase of leather and I buy all of that in the capital, where there are stalls selling bells, drumsticks, chamois<sup>1</sup>. A month ago. I have been buying*



1 Chamois: a piece of this soft leather, or of another material that feels like leather, used for cleaning and making things shine.

*material for a month and the prices have gone up. In the leather bells there are several qualities: extra, AB and C and they have increased the price of each bell by about 025.00 quetzales.*

For his crafts, Mr. Carlos uses the thick stamp, which is the extra A. Previously these stamps cost Q300.00 per unit and now they cost between Q325.00 and Q350.00. Bell B, which was a little cheaper, also went up *a little*. The drumstick, which is the thin leather, now costs Q350.00. The drumstick is used to make the *saddle riders*<sup>2</sup> and is also used to make the girth linings.

As for whether customs procedures have been facilitated, Mr. Carlos knows nothing since he does not export his products. When asked if any public or private institution of the Guatemalan government has asked for certification of its products and if it has used international quality control standards, Mr. Carlos expressed no and that the only relationship he has with the government is limited to the payment of taxes that must be made to the Superintendence of Tax Administration, [SAT for its acronym in spanish]

#### Mr. José Luis Morales Carbajal

The importance as an artisan of Mr. José Luis Morales lies in the fact that, in addition to making the traditional products of the saddlers of Taxisco, he has a leather tannery and produces the stamps with which



<sup>2</sup> Saddle riders: straps placed behind the saddle, they serve so that the person riding behind the horse can hold on so as not to fall.

It manufactures its products. It also sells stamps or leather to other national producers. His opinion is much more optimistic than Mr. Carlos because he considers that *I have not felt the arrival of the FTA, because there is still a long way to go before it is implemented in Taxisco.*

Think that Guatemalan crafts *are always very well received abroad but the implementation of the FTA is going to go slowly from what I see and hear on television forums.* Although he believes there has been a little more ease in trade than before.

He considers that the FTA has favored the industry and, *although sometimes I do not know what the authorities are developing with that project, which for me is a big project for all countries, not just for Guatemala and that will have an impact on everything, because it will facilitate trade. Companies will grow, new clients will come and we will have our opportunity to modernize ourselves to be able to work when we see an opportunity in the free trade market, which will bring us great benefits.*



Master saddler José Luis Morales Carbajal in the sales room of his workshop, in Taxisco, Santa Rosa with the author of this essay. (Photography Arturo Matas O.)

According to Mr. José Luis, he has not yet had the opportunity to feel the benefits of the FTA because there has not been any individual or company that has come to Taxisco or his workshop to import or export. He believes that what has happened with the FTA is that there has been a lack of communication to explain its benefits to people. In the period of time that the FTA has been in effect, he says that it has not affected him in any way and he has kept his sales stable, since massproduced leather products have not entered that local market.

One problem he sees regarding the FTA is that to produce more, more qualified labor will be needed. And in the case of handicrafts it is more difficult to find people to do that work, *since not everyone can make them and even more so in the work of saddlery and leather tanning that needs people with will, with the desire to work and who know the technique to be able to present a good work for export.*

He does not know if exports have increased, but he has had American clients for several years who come to Guatemala every year to buy his product and, depending on the sales they consider they have, this is how the orders will be. As he indicated, one of those clients usually buys about 40 dozen zip ties from him *and that helps me a lot because it is money that I receive together and they pay me in dollars.*

According to Mr. José Luis, tourism in Taxisco is very little agrees with Mr.'s

Carlos Enrique López opinión that the tourism that passes through goes directly to the beach and only passes through Taxisco because it is one of the ways to get to Monterrico beach. The few tourists who visit his store are already known Salvadorans who are his clients and who come to buy his product.

In his opinion, the taxes have risen and he feels quite pressured because he has to spend more money to pay the tariffs, because the raw material he buys is paid for in dollars and the increase forces him to have to increase the price to the products. According to him, it is in the leather tannery where he has the most contact with the international market due to the chemical products that he has to buy to tan them, *which have greatly increased their price.*

He says that, in 2007, the bag of tanning chemical cost Q275.00 and, in 2008, the price is Q350.00, that is, an increase of Q75.00. The problem you see is that if you raise the price of the final product too much, people will no longer buy his products *because the competition is terrible.* He believes that product price increases are *what will kill crafts.* Another situation that Mr. José Luis says that he considers important is the fact that he could not say *if it is the government of Guatemala or the financial institutions that have not done a good economic study and have not realized that small private companies, such as I call it, it requires financial support,*

*such as low interest loans to be able to work, because small producers have knowledge and use the technology, but they do not have the resources to produce, which is why loans are necessary.*

As for the machinery to produce, he says that the same thing happens as with the raw materials, prices have increased. An industrial sewing machine, which he needed last year, had been offered for Q15,000.00 and, after a year when he was able to acquire it, it cost him Q17,000.00 in cash. *This expense has affected me because all the things that are bought now have an increase, let alone in finished materials. He is of the opinion that Free Trade is doing no good for us in terms of improving our trading conditions. We do not have any artisan union that defends our interests. Once, I spoke with Carlos Enrique López so that we could unite for any little thing we wanted to do, we would do it together because it has more value and all things are better because the associations have more credibility. But it takes a lot of will from everyone.*

When asked if he has been forced to change the styles of his products due to market demands, *he responded that very little, because we do what people ask of us and the work is made to order. From time to time, I make a product that we believe could have some impact but that is on a personal basis because legally what we sell here is what people buy from us and who are already customers.*

For Mr. José Luis, the FTA *has favored the marble producers of the Guatemalan highlands but not us, because we do not have much to change because the people who visit us want a handmade, leather product, so we already know how to do it. and we manufacture it to the client's liking. If we make any variations it is because the client requests it. Here the client is the boss.*

In his opinion, he does not see the relevance of the FTA in crafts in general, although he has always thought *that it could be good. Apparently those in charge of managing the treaty managed it with businessmen with many economic resources, but we, the poor, those who really do need a change in the economy, did not take us into account and who are certain certain sectors of Guatemalan businessmen. those who have the benefits and opportunities to make use of the resources.*

Mr. Carlos Enrique López agrees that no institution or official has come to Taxisco to offer them any project so that they know what benefits the FTA can offer them, which is why the saddlers have not found people to work with them to advise them or provide them with the opportunity. to join the FTA. They have only seen how the prices of the products increase and they do not know what facilities they may have in customs procedures since the people who have come from abroad to buy their products are the ones in charge of these procedures.

When asked if he has had quality control by any institution of the State of Guatemala or private on the products of leather that it produces, mainly the leather tannery, which is highly polluting, answered *no, I only remember that during the time when President Árbenz was in power, government employees came, it seems that it was a global environmental protection project and they supervised that my products were well made from the beginning to the final process and that the treatment given to the materials and waste was correct so as not to contaminate the environment.*

He does not remember if it was employees of the Ministry of Public Health who also came to visit him and offered him advice and to build a water tank, but they never fulfilled the offer and did not return. The only authorities that have been concerned about the production processes of his tannery have been the authorities of the Taxisco Health Center, who have always recommended that he ensure that he does not contaminate the river that passes next to his tannery, of which he is in charge. not to contaminate.

According to Mr. José Luis, the only thing that the Guatemalan authorities require of him is that he pay the Value Added Tax, [IVA for its acronym in spanish] of, and have all taxes paid up to date. *But he considers that, in terms of environmental protection, it is the municipalities that play the most important role and have the final decision in each town to manage the treatment of*

*sewage and garbage. In Taxisco all the waste goes to the river. When that river is a blessing, there God left us and everything remains dirty, because all the people throw their garbage into the river. That's sad because in Guatemala we don't have education to control garbage. I, despite having the tannery, take care not to contaminate it.*

### Comment

According to an article by Eduardo Smith, published in *Prensa Libre* on Tuesday, April 29, 2008 on page 21, Trade between Guatemala and the United States broke a record at the end of 2007, reaching 7,108 million dollars, 7% higher than the exchange reported in 2006.

According to figures updated by the United States Department of Commerce, Guatemala sold 3,032 million dollars to that country in 2007 and bought 4,075 million dollars in goods. Guatemala sold mainly knitted clothing products for an amount of 1,089 million, fruits and nuts for 458 million and coffee, tea and other species for 312 million dollars.

Among other products purchased from the United States were fuels for 703 million, mechanical appliances for 464 million, plastic items for 302 million dollars and cereals for 273 million. According to the American Chamber of Commerce in Guatemala, the stimulus to exchange has come from the Free Trade Agreement. For them, taking advantage of the FTA is a continuous work and they are concerned because the clothing sector is still

languishing in exchange with the United States. because Guatemalan sales to the North American market fell by 21% in the last month of March, so they want to create contacts direct with the customers North Americans to promote the exportable supply of clothing and textile. As can be seen, the FTA has generated growth in trade between Guatemala and the United States except in the textile sector, so in the case of Guatemalan crafts such as leather products, in reality, they have not been promoted by their producers, as is seen in the case of the Taxisco saddleries, because there are no producer unions that can promote them and obtain a market abroad. Artisans, as in the case of Mr. José Luis Morales, have high expectations in the free trade market but do not have the opportunity to promote or offer their products to the American or Taiwanese market and Mr. Carlos Enrique López says that he is poorly informed about the FTA. For both, raw materials have increased their price and this increase is not due to the FTA but to the devaluation of the dollar in the international market and the high cost of oil that has caused an escalation in the increase in product prices.

The free trade market between Guatemala and the United States, like any global market, moves based on the demand and supply of products. That is why promotion is necessary, in commercial areas, at competitive prices that meet the quality requirements demanded by consumers. It is necessary

to be part of associations or chambers of commerce, local or national, that promote these commercial exchanges through promotion at fairs, or national or regional meetings, both nationally and abroad. It is the success that cooperative movements have had in rural areas to export their agricultural products and associations, such as the Guatemalan Association of Exporters (AGEXPORT) [Spanish acronym] and the Guatemalan American Chamber of Commerce.

As long as Guatemalan artisans, such as the saddlers of Taxisco, do not join together in unions that allow them to make their products known abroad and negotiate markets, it is very difficult for them to enjoy the benefits of the FTA and be able to increase their sales... Furthermore, to achieve this they must have the capacity to increase their production to lower costs that make them competitive in the market and to do so, they would need to incorporate machinery and specialized personnel.

One of the biggest current problems in craft production is precisely the lack of specialized personnel to produce it, because young people do not show interest in learning these trades and master craftsmen would have to have the technical and economic capacity to mechanize their production process, moving them away from traditional forms of production and turning them into massproduced artisanal industries, in order to cover mass consumption markets; which is not possible with the small family-type craft workshops in which most Guatemalan crafts are produced.



The other saddlers due to the fact that their workshop works with employees paid by task and the same in their leather tannery, so their workshop cannot be considered as a family-type business but as a small business-type industry with large development possibilities if it is granted financing that allows it to encourage its production and contacts with markets where it can place the offers of its products.

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