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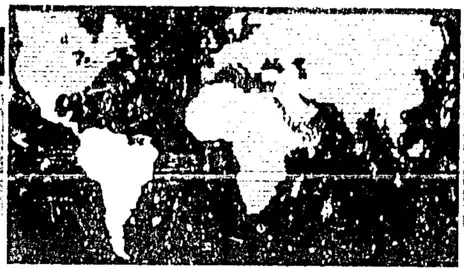

CENTRAL AMERICA'S FOREIGN TRADE AND BALANCE OF PAYMENTS:

THE OUTLOOK FOR 1988–2000

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CENTRAL AMERICA'S FOREIGN TRADE AND BALANCE OF PAYMENTS: THE OUTLOOK FOR 1988 - 2000

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CENTRAL AMERICA'S FOREIGN TRADE AND BALANCE OF PAYMENTS: THE OUTLOOK FOR 1988-2000

Clarence Zuvekas, Jr. */

I. INTRODUCTION

In the early 1980s Central America 1/ experienced its most severe economic contraction since the Great Depression of the 1930s, as the regional gross domestic product (GDP) declined by 5.0% and per capita GDP by 9.9% between 1980 and 1982 (see Table 1). 2/ Economic recovery began the following year, with aggregate GDP rising by 7.6% between 1982 and 1987. Per capita GDP, however, fell by another 5.6%, although it rose in 1987 in the region as a whole and in four of the five countries. 3/

While armed conflicts in Nicaragua and El Salvador precipitated the economic declines in those countries, I will argue that the depth and duration of the economic crisis for the region as a whole have been determined primarily by external economic events. 4/ The international economic environment has improved since the early 1980s, but many unfavorable elements remain, including low prices for the Central America's commodity exports; protectionist pressures in the industrial countries; interest rates on the external debt which remain burdensome despite a significant decline from their peak in the early 1980s; a sharp reduction in the availability of new commercial bank lending, the region's principal source of medium- and long-term external capital inflows during the late 1970s and early 1980s; low net inflows of capital from the principal international financial institutions (the World Bank, the International Monetary Fund, and the Inter-American Development Bank); and relatively slow-to-moderate growth in the industrial countries, which has limited demand for nontraditional as well as traditional exports from the region. In addition, economic recovery has been made difficult by the continuing armed conflicts in El Salvador and Nicaragua, which have had spillover effects to varying degrees in the other three countries. (The smaller-scale armed conflict in Guatemala has had relatively little direct effect on that country's economic performance.)

At the same time, the prolonged economic difficulties in the Central American countries have highlighted a number of structural problems which have prevented them from adjusting to the world recession of 1980-82 -- and to subsequent changes in the pattern of international trade and finance -- as effectively as the newly industrializing countries (NICs) of Asia. 5/ These structural problems, which have hindered a reallocation of economic resources to more efficient uses, were also present to a large degree during the rapid-growth years of the 1960s and 1970s, but their importance was obscured at that time by a highly favorable world economy in which conditions were generally the opposite of those which have characterized the 1980s.

In the current decade there has been a widespread recognition in both academic circles and international development agencies that much more attention needs to be paid to structural economic problems as a barrier to rapid and sustained economic growth, as well as to an equitable sharing of the benefits of that growth. 6/ International development agencies have been placing greater emphasis on economic policy reforms and have increased the share of their portfolios devoted to non-project, structural adjustment assistance in support of these reforms. Most of the policy changes being supported are directed toward increasing domestic savings and investment rates and improving the efficiency of resource allocation, particularly by removing barriers to exporting and efficient import substitution.

I will argue in this essay that the small size of the Central American economies -- both individually and as a group-- makes them strongly dependent on international trade as the primary engine of rapid and sustained economic growth. This does not mean that external trade is the only possible source of growth; but it must be recognized that not all of the conditions which facilitated national and regional growth via import substitution in the 1960s and 1970s have been present in the 1980s or are likely to be present in the 1990s. 7/ Nor are alternative sources of foreign exchange for needed imports likely to be as plentiful as during the 1960-80 period.

Given the relatively bleak outlook for the prices of Central America's traditional primary exports, there is a strong case for policy reforms and other measures to stimulate export diversification with respect to both products and markets. The case for export diversification has come to be widely accepted in the region. Actions to accelerate progress in this area have been strongly recommended in the Central American countries' Plan de Accion Inmediata (SIECA 1988:7), the European Community-Central American Joint Economic Communique (1988), and the United Nations' Plan Especial de Cooperacion Economica para Centroamerica (1989:19), as well as in a set of guidelines prepared for the International Commission on Central American Recovery and Development (Sanford Commission) by Rosenthal and Pineiro (1988).

While these documents appear to assign to export diversification a priority roughly equal to that of reactivating the Central American Common Market (CACM), I will argue that the Central American countries will find it easier to achieve rapid and sustained economic growth -- as well as recovery of the CACM -- by assigning a higher priority to the promotion of nontraditional exports to markets outside the region. The greater is Central America's ability to generate its own foreign exchange, the less dependent it will be on external assistance for stimulating economic growth and financing intraregional trade.

In the concluding part of this essay I develop some scenarios suggesting the rate of growth of nontraditional exports required to achieve various GDP growth rates. The base scenario assumes no fundamental changes in net external capital flows. In this scenario, which assumes a 3.5% real GDP growth rate for 1987-89 and a 4.5% rate for 1989-2000, the required real growth rate of nontraditional exports is 10.4%. This is a very achievable target, but to meet it the Central American countries will need to implement additional macroeconomic policy reforms, a subject not directly addressed in the Plan de Accion Inmediata. Higher levels of external assistance, including measures to reduce external debt burdens, would of course lower the required growth of nontraditional exports and/or make possible a higher rate of GDP growth. At the same time, they would make sustained GDP growth at any rate dependent upon a continuation of substantial foreign assistance inflows over the long run. Such dependence would be risky for political as well as economic reasons, even if the sources of external assistance were to become more diversified.

Export-led growth patterns worldwide have tended to be more labor-intensive than growth based on import substitution, and perhaps more supportive also of other equity objectives; but these results are not automatic. 8/ Indeed, past export-led growth in Central America tended to widen income and other inequalities as well as distort political systems in undemocratic directions (Bulmer-Thomas 1987). Therefore, if economic recovery in Central America is to be accompanied by greater equity, export-led growth must be accompanied by policies and programs to address equity concerns directly.

II. FOREIGN TRADE AS AN ENGINE OF GROWTH: THE KEY ROLE OF IMPORTS

In discussing the potential role of foreign trade as an engine of economic recovery and sustained growth, economists and policymakers have given most of their attention during the 1980s to exports. However, in many respects it is more appropriate for the focus to be on imports. Particularly for an economy like those of Central America (individually or combined), with a small internal market and a limited range of natural resource endowments, opportunities to increase production and productivity depend strongly upon that economy's ability to acquire from abroad those raw materials, intermediate goods, capital goods, spare parts, technologies, and technical and professional services -- i.e. factors of production -- not produced by the domestic economy. Similarly, foreign exchange enables a country to import those consumer goods which can be obtained from abroad much more cheaply than they can be produced at home. 9/

From a balance-of-payments standpoint, imports are obtained with foreign exchange (or with a balance-of-payments accounting entry) 10/ made available by some combination of the following sources: 11/

-- commodity exports;

-- exports of services (notably tourism);

-- direct foreign investment;

-- foreign loans;

-- foreign grants from official sources;

-- emigrants' remittances and other private transfers;

-- return of flight capital;

-- accumulated foreign exchange reserves;

-- debt rescheduling;

-- debt forgiveness by official creditors; and

-- debt write-offs by commercial bank creditors.

Before turning to exports, let us consider briefly some of the potential problems associated with the other sources of foreign exchange. While all of them can be regarded as welcome in at least certain circumstances, and up to certain limits, they are either subject to sharp cyclical fluctuations or -- in the cases of debt rescheduling, forgiveness, or write-offs -- they are isolated events. Heavy reliance on direct foreign investment and official foreign grants and concessional loans (whatever the political color of the donor) carries with it a risk that economically and/or politically unhealthy dependency relationships will be created. A surge in remittances -- as has occurred recently in El Salvador 12/ -- reflects increased emigration, which represents a loss of human resources (many of them highly skilled) and generally indicates that the home country's economic and political environment has become less favorable. Return of flight capital, while often potentially significant, is not a permanent source of foreign exchange, and the flow can be quickly reversed. Accumulated foreign exchange reserves can be drawn upon only until they are exhausted. Nonconcessional foreign loans were welcomed by the Central American countries in the 1960s and 1970s, but the cost of servicing loans from commercial banks began to rise dramatically and unpredictably at the end of the last decade, and in the 1980s these resources have been much less available than they were in the 1970s.

Export earnings, too, can be unpredictable. For Central America as a whole they rose from $433 million in 1960 to $1,121 million in 1970 and $4,896 million in 1980, with annual fluctuations that were not particularly disturbing to the countries of the region. 13/ But then they dropped sharply, by 22% from 1980 to 1982-83 (see Table 2), primarily because of declines in traditional export earnings (see Table 3) but also because of a severe contraction of intra-Central American trade (see Table 4). 14/ The fall in commodity prices from their 1980 levels cost the Central American countries an annual average of about $485 million in lost foreign exchange earnings during 1981-85 before a sharp but brief rise in coffee prices provided a respite in 1986.

The steep decline in commodity export earnings in the 1980s, combined with higher debt service burdens, capital flight, and reduced access to public and private international capital, resulted first in a sharp drawdown of Central America's foreign exchange reserves 15/ and then in a severe compression of imports, from $5,502 million in 1980 to an average of $4,320 million in 1982-83 (see Table 2). Given the region's dependence on imported inputs, 16/ there was bound to be a sharp contraction in production -- about 5% between 1980 and 1982 (see Table 1)-- and a rise in unused productive capacity.

That unused capacity, however, could not be quickly converted to production for export, because most of it was in high-cost, protected, import-dependent industries with little or no potential to be internationally competitive in the short term, and in some cases not even in the long term. Overvalued exchange rates throughout Central America in the early 1980s further discouraged the development of nontraditional exports to markets outside the region, and the slow growth of those markets made it even more difficult for the Central American countries to compete with established suppliers. 17/

Imports began to rise in 1984 from their 1982-83 low point, facilitating the modest economic growth that has occurred since 1983, but in 1987 they were still 5% below their 1980-81 levels in nominal terms (see Table 2). Increased imports were made possible by a combination of factors, including accumulation of arrears on external debt obligations, debt reschedulings, lower interest rates on debt to commercial banks, and substantially higher external assistance from the U.S. government, much of it in the form of grants. 18/ Higher export earnings between 1983 and 1986 also played a role in the ability of the region to increase its imports, but total exports in 1986 were only about 5% above their 1983 level in nominal terms and were still 18% below their 1980 peak (and even more than this in real terms). 19/ Total export earnings then declined by more than 5% in 1987 as the brief coffee price boom came to an end.

III. EXPORT PATTERNS IN THE 1980s

The disappointing overall performance of exports in the 1980s masks some fundamental differences in the behavior of various export categories. Table 3 divides Central America's exports into three groups -- traditional, nontraditional-CACM (Central American Common Market), and nontraditional-other-- which have experienced very different trends in the 1980s. 20/

Traditional exports accounted for 63% of Central America's total export earnings in 1980. 21/ More than half of this category is accounted for by coffee, which in 1980 contributed about $1.7 billion in foreign exchange, or some 35% of the region's total merchandise export earnings. A significant decline in coffee prices in 1981 resulted in foreign exchange losses of about $385 million that year, holding constant 1980's export volume. Coffee prices remained relatively low until 1986, when they surged briefly, only to fall back to 1981-85 levels in 1987. Bananas, the region's second largest agricultural export, are less subject to large price swings, and their prices have exhibited a modest upward trend in the 1980s. Sugar, another important export, has suffered both from depressed world market prices and, in the last several years, from sharp reductions of quotas in the U.S. market (with the quota for Nicaragua reduced to zero because of other considerations). 22/

Intra-Central American exports, which accounted for 24% of the total at the beginning of the decade, fell from $1,166 million in 1980 to $789 million in 1982, a drop of 32%, then continued to fall sharply to only $409 million in 1986 before rising to $487 million in 1987. 23/ The expansion of the CACM in the 1960s and 1970s had been made possible to a large extent by favorable prices for traditional exports, which provided the foreign exchange needed by the protected, import-intensive CACM industries. Accumulated foreign exchange reserves from traditional exports and external capital flows also permitted the clearing, in dollars, of bilateral trade imbalances between CACM countries. As foreign exchange reserves were exhausted in the early 1980s, the bilateral clearing mechanism broke down, and this, along with falling aggregate demand and misaligned exchange rates (Loehr 1987), resulted in the contraction of intra-CACM trade noted above.

The Central American countries made several requests to external donors in the early and mid 1980s for assistance in financing the large, uncleared bilateral trade balances. 24/ But no such funding was forthcoming, largely because potential donors were reluctant to provide assistance in the absence of measures (including tariff reforms and exchange-rate realignments) needed to deal with the underlying causes of the large bilateral imbalances. The decision by the United States not to support any regional assistance program that would benefit Nicaragua was a further complicating factor. The fate of the current Central American request for such assistance -- in an environment in which the prospects for peace have been improved and progress is being made on policy reforms -- has not yet been determined.

In looking at nontraditional exports to markets outside of Central America, the figures in Table 3 show a decline of 34% between 1980-81 and 1983, from $643 million to $423 million, then a sharp increase to $819 million in 1987, substantially exceeding the level at the beginning of the decade. As a percentage of total exports, this category fell from 14% in 1980-81 to 11% in 1983, then rose to 19% in 1986-87.

Table 3 actually understates the gains that have been made in increasing nontraditional exports since 1983. Progress in export diversification is even more evident in Table 5, which shows U.S. imports of manufactured goods from Central America between 1980 and 1987. The table is somewhat misleading in that the figures include the full value of assembled goods (rather than just their value added) 25/ as well as the value of true manufactures, but it provides a broader picture of progress in diversifying the region's export base. U.S. imports of manufactures from Central America, after rising slowly from $227 million in 1980 to $249 million in 1983, rose rapidly in 1984 and by 1987 had reached a level of $486 million. While part of this increase may be attributable to the duty-free provisions of the Reagan Administration's Caribbean Basin Initiative (CBI), much of the gains have come from industries such as textiles (not a CBI-eligible category) which already benefited from the incentives provided by the United States to drawback (assembly) operations or from products benefiting from the U.S. Generalized System of Preferences (GSP) program.

The country which has made the most progress in export diversification, by far, is Costa Rica. Table 5 shows that U.S. imports of manufactures from Costa Rica rose from $58 million in 1980 to $271 million in 1987. 26/ Since 1985 Guatemala -- which ranked last on the list in 1980, below even Nicaragua and Honduras -- has also made substantial gains, with U.S. imports of manufactures from that country rising from $28 million to $67 million. U.S. imports of Honduran manufactures have likewise increased, from $39 million in 1984 to $70 million in 1987. The trend in El Salvador -- a strong first on the list in 1980 -- has been uneven but clearly downward, a reflection in part of the continuing armed conflict and in part of a lack of adequate policy incentives. Even so, the value of U.S. manufactured imports from El Salvador still exceeds that from Guatemala or Honduras. 27/ U.S. imports from Nicaragua virtually ceased after the early 1980s because of a decision by the United States to suspend trade with that country.

Export diversification in Central America has occurred not only in manufacturing and assembly operations but also in agriculture. Table 6 shows that U.S. imports of horticultural products (fruits, vegetables, plants, flowers, etc.) from the region rose from $41 million in 1980 to $115 milion in 1987. Costa Rica and Guatemala are the largest Central American suppliers of these products, accounting for $42 million and $37 million, respectively, in 1987. Honduran horticultural exports to the United States grew relatively more slowly until 1987, when they jumped to $29 million from a 1985-86 level of $18 million. El Salvador's horticultural exports to the United States have doubled since 1980, but only to $7 million. While these amounts are still relatively modest -- less than 3% of total regional exports -- horticultural exports have good potential for further expansion, despite protectionist pressures in the United States. They also are labor-intensive, can be grown efficiently by small farmers, and have a relatively low import intensity. Thus they provide more backward linkages and multiplier effects (as well as forward linkages into processing) than most manufacturing and assembly operations.

IV. OBSTACLES TO ECONOMIC RECOVERY

The pace of Central America's economic recovery in the 1980s has been disappointingly slow. Aggregate GDP grew at an average annual rate of only 1.5% between 1982 and 1987, and per capita income growth continued to decline through 1986 (see Table 1). The economic recovery target of the National Bipartisan Commission on Central American (NBCCA) -- regaining real per capita income levels of 1980 by the end of the decade (presumably 1990) -- clearly will not be achieved. 28/ Realization that progress toward economic recovery was slow led the U.S. government in early 1987 to propose an extension of the Central American Initiative (CAI) -- the Administration's plan for implementing the NBCCA recommendations -- for three additional years, i.e., through 1992 (U.S. Department of State, A.I.D., and OMB 1987). 29/ Even by 1992, however, it is highly unlikely that Central America will regain its 1980 per capita GDP level (see Part VII below).

At the beginning of this essay I noted that economic recovery in Central America has been hindered by a number of unfavorable external forces. Let us consider now how these elements of the international economic environment have affected Central America since the world recession of 1980-82.

Commodity prices. The sharp declines in the prices of Central America's principal traditional exports, particularly coffee, were discussed briefly in Part III above. Table 7 shows that commodity prices have remained depressed after their initial decline during the world recession of 1980-82; indeed, they were lower in 1987, on balance, than in 1982, the worst year of the crisis. Only banana prices were higher in 1987 than in 1980, but just by 0.5%. Beef prices were lower by 16%, coffee prices by 27%, cotton prices by 20%, and sugar prices by 74% in the world market and by 27% in the U.S. market. In real terms the decline has been even greater, since prices of U.S. exports rose by 11% between 1980 and 1987 and the dollar prices of imports from Europe and Japan have risen in the past few years with the depreciation of the U.S. currency. On the other hand, these trends were partially offset by the significantly reduced cost of imported petroleum, and the decline in Central America's terms of trade during the 1980s has been relatively modest. 30/

Protectionist pressures in the industrial countries. Among the region's traditional exports, sugar has been affected significantly by protectionism. A sharp increase in subsidized sugar beet production in the European Community has contributed to a chronic world oversupply of sugar during the 1980s, explaining much of the severe decline in the world market price that has occurred during this decade. Continued protection of sugar production in the United States, and a sharp reduction in the U.S. quota (see footnote 22), has aggravated the problems faced by the Central American countries. Sugar exports for the region, which averaged $198 million in 1980-81, were down to $100 million in 1985-86 (SIECA 1985 and 1987).

Textiles and clothing, among the region's most important manufactured (or assembled) export categories, face quantitative restrictions to entry into the U.S. market. Nevertheless, the total value of U.S. imports of textiles and clothing from Central America rose from $75 million in 1980 to $230 million in 1986, with Costa Rica accounting for 53% of the total in 1980 and 62% in 1986. 31/ If all quantitative restrictions on U.S. imports of these products had been removed earlier this decade, there is little doubt that the growth of Central America's textile and clothing exports would have been even more rapid.

Another product which from the Central American point of view (although not that of the U.S. government) has faced barriers to entry into the U.S. market has been cut flowers. In 1986, the U.S. imposed a countervailing duty on cut flower imports form Costa Rica, following a determination that the country was using an unacceptable export subsidy. New investment in cut flower production in Costa Rica, and elsewhere in the region, was probably affected adversely by this action. Nevertheless, the dispute was ultimately resolved in favor of Costa Rica, whose exports of plants and flowers to the United States have continued to increase (see Table 6). Disputes such as this should be easier to resolve once Costa Rica's accession to the General Agreement on Tariffs and Trade (GATT) is completed. Nicaragua is already a member of GATT, and the remaining countries of Central America are preparing to apply for membership.

Offsetting protectionist barriers have been the benefits provided to the Central American countries (except Nicaragua) under the Caribbean Basin Initiative (CBI), which was proposed by

President Reagan in June 1981 and took effect on January 1, 1984. As noted above, however, the impact of the CBI has been rather modest.

Interest rates. Much of the sharp increase in Central America's external debt in the late 1970s and early 1980s reflected government borrowings from foreign commercial banks at variable interest rates keyed to movements in LIBOR (the London Inter-Bank Offered Rate) or the U.S. prime rate. The LIBOR rate for six-month U.S. dollar deposits rose from an average of 9.20% in 1978 to a high of 16.63% in 1981 and did not fall below its 1978 level until 1985, when it averaged 8.64%. Although the LIBOR rate dropped significantly to 6.85% in 1986, it rose in 1978 to 7.30%. 32/

While interest rates per se are no longer the obstacle to economic recovery that they were before 1985, and while commercial banks' spreads above LIBOR have been moving downward, Central America's debt to commercial banks is a significantly higher percentage of its total external debt than in the early 1970s, and the share of this debt obtained on concessional terms is correspondingly lower. Moreover, the size of the debt has continued to grow, from $12.0 billion in 1982 to $18.1 billion in 1987, with about half of the increase occurring in Nicaragua. 33/ Interest obligations on the external debt thus averaged 18.7% of exports of goods and nonfactor services during 1984-87, not much below the 22.0% average for 1981-83 (see Table 1). Interest payments for the region in 1984-86 averaged $660 million, compared with $710 million in 1981-83 (Caballeros 1987:142).

New commercial bank lending. Since the early 1980s there has been a sharp decline in new commercial bank lending to Central America (and to the rest of the Latin American and Caribbean region). Nevertheless, commercial banks have provided some financing in the form of debt rescheduling and capitalization of interest in arrears. The overall contribution of commercial banks to Central American economic recovery, however, has fallen far short of the levels called for in the NBCCA report (1984) or implied by the Baker Plan strategy for dealing with the debt/growth crisis. 34/

Lending from official sources. The NBCCA and Baker Plan strategies also called for substantially increased lending to debtor countries in Latin America from the World Bank and the Inter-American Development Bank (IDB). Such flows have not been forthcoming. While new loan approvals by the World Bank and the IDB have increased somewhat after falling from $663 million in 1980 to an average of $329 million in 1981-82, the 1983-87 trend has been erratic and the average has been only $410 million, well below the 1980 level even in nominal terms (see Table 8). Actual disbursements under World Bank and IDB loans have averaged less than new loan approvals.

World Bank lending averaged only $87 million annually from 1983 through 1987. For a variety of reasons, including general creditworthiness problems, arrearages, armed conflict, and inability to make sectoral or macroeconomic policy reforms, the World Bank has made no loans to El Salvador in the 1980s and none to Nicaragua since 1982. Only Costa Rica has received a Structural Adjustment Loan (SAL), which provides quick-disbursing assistance in support of structural economic reforms designed to stimulate medium- and long-term economic growth. Even for Costa Rica, Guatemala, and Honduras, net transfers from the World Bank (disbursements less amortization, interest, and charges) have been slightly negative in some recent years.

Loan approvals by the IDB during 1983-87 averaged $323 million. Guatemala was the largest recipient, followed by Honduras. The IDB has made no loans to Nicaragua since 1983. Except in Nicaragua, net transfers have been positive, but only in Honduras has there has been an upward trend during the 1980s.

Another official source of external financing is the International Monetary Fund, which provides medium-term assistance to permit countries to cope with what is hoped are temporary balance-of-payments problems. Net use of IMF resources (purchases less repurchases in the IMF's terminology) increased from $54 million in 1980 to an average of $172 million in 1981-83, the worse years of the crisis (see Table 9). But in 1984 the figure was zero and in 1985-87 it was significantly negative, averaging -$127 million. If interest and charges are included, the negative net transfers are even greater.

Since 1984 only one country, Costa Rica in 1985, has drawn on IMF resources. The other countries of the region have been unwilling to adopt the economic policy reforms sought by the IMF, fearing that the short-term economic and political costs of stabilization outweigh the presumed (and heavily discounted) long-term benefits.

One source of external resources which has increased significantly during the 1980s has been U.S. bilateral economic aid, most of it in the form of quick-disbursing balance-of-payments assistance from the Economic Support Fund (ESF), and the great bulk of it in the form of grants (see Table 10). 35/ Average annual U.S. economic assistance has risen from $212 million in 1980-81 to $487 million in 1982-84 and $971 million in 1985-87. 36/ Even so, this assistance has fallen short of the amount recommended by the NBCCA (see footnote 31), with the cumulative shortfall during 1984-87 amounting to about $725 million. 37/

The largest Central American recipient of U.S. economic assistance during 1985-87 was El Salvador, with 41% of the total (an average of $401 million per year). Costa Rica and Honduras were next, each with 19%, followed by Guatemala (13%), and regional programs (8%). Nicaragua has received no U.S. economic assistance since 1982. The U.S. Agency for International Development (A.I.D.) has sought to use conditionality with its ESF programs to achieve economic policy reforms, both to stabilize the economies of the region through reduction of fiscal and balance-of-payments deficits and control of inflationary pressures, and to promote sustained, long-term growth through structural economic reforms. The results have been mixed (Zuvekas 1984; U.S. Department of State, A.I.D., and OMB 1987; see also the discussion of policy reform in Part V below).

Nicaragua, while receiving no official bilateral assistance from the United States, has obtained considerable bilateral aid from other governments. Between 1979 and 1985 bilateral loans and trade credits totalled about $2,870 million, or an annual average of $410 million, with no clear trend over time. In addition, Nicaragua received approximately $450 million in grants between 1979 and 1984. For the entire period 1979-85 about 50.5% of the official bilateral loans and credits came from capitalist countries and 49.5% from socialist countries; assistance from the latter group became dominant in 1984-85 (Stahler-Sholk 1987:162).

The sharp increase in U.S. (and, for Nicaragua, other bilateral) assistance to Central America has not fully offset the effects of lower export earnings, disappointing private and other official capital flows, very small amounts of direct foreign investment, and only a modest return of the capital that fled the region in the early 1980s. 38/ As a result, imports have remained significantly compressed (see Table 2), thus limiting the potential for economic growth, even though the countries of the region are not fully servicing their external debts. Since domestic production is more dependent on imports in the 1980s than it was during the 1930s, import compression is likely to make economic recovery more difficult now than during the earlier economic crisis (Bulmer-Thomas 1985:145-146).

Relatively slow-to-moderate growth in the industrial countries. Over the last five years (1983-87), GDP growth rates in the OECD countries have averaged 3.2%, compared with 0.8% in the world recession years 1980-82 and 3.4% during 1969-79, a period which included the mid-1970s recession following the first oil price shock of 1973-74 (IMF 1987b:39). The hoped-for sustained, strong recovery in the industrial countries following a 4.9% GDP growth rate in 1984 has not occurred, and current forecasts for 1988 and 1989 do not show much change from the estimated 2.4% growth rate in 1987. 39/

The pace of economic growth in the industrial countries has helped keep commodity prices low by limiting demand. It has also made it difficult for the Central American countries to service their debts and to diversify their exports. 40/ Even when the world economy is performing well, it is not easy for a country to develop new export products and find new markets. When world production and trade are growing relatively slowly, competing against established exporters is even more of a challenge.

The continuing armed conflict. In both El Salvador and Nicaragua, armed challenges to the legitimacy of the existing government have resulted in a sharp increase in military/security expenditures, leaving fewer resources available for programs of economic and social development. Both countries have also suffered from considerable destruction of physical capital and from loss of human capital due to war-related deaths and to emigration. In Nicaragua labor shortages in agriculture, resulting from the diversion of human resources to the war effort and to the urban bureaucracy required by a policy of widespread economic controls, have had a significant negative effect on farm output.

The civil wars in El Salvador and Nicaragua have affected private investment adversely, and the effects have been felt to some extent in the other three Central American countries. The inability of governments to end the armed conflicts, and private-sector dissatisfaction with government economic policies, have resulted in growing strains between the public and private sectors (Colburn and Lequizamon 1987).

V. THE ROLE OF POLICY REFORMS IN THE ECONOMIC RECOVERY TO DATE

The case for structural economic reforms designed to stimulate export diversification to extraregional markets would be easy to make if there were a clear correlation since 1982 between economic growth and equity performance, on the one hand, and the extent of policy reforms, on the other. However, such is not the case. Costa Rica, which ranks highest on the policy reform scale, 41/ has the best economic growth performance and also has done relatively well according to equity criteria; but

Honduras, which ranks second on the growth scale, has a rather poor overall policy reform record, despite recent tax reforms and measures to provide some exchange-rate flexibility. Guatemala's policy reform score has fluctuated widely in the 1980s, hitting both extremes at one time or another. In El Salvador and Nicaragua any effort to establish a clear relationship between economic policy and economic performance is complicated by the effects of the armed conflicts in these countries.

Nevertheless, if one examines the relationship in each country there is good reason to believe that policy reforms have stimulated economic recovery and that a strategy centered around export diversification is showing signs of succeeding. While GDP growth rates in the region are still low, this should not be surprising in view of the unfavorable external environment described above.

Let us briefly examine now the extent of policy reforms in the individual countries.

Costa Rica. During 1979-81 Costa Rica experienced fiscal deficits for the consolidated nonfinancial public sector averaging 13.1% of GDP. The current account deficit in the balance of payments (before official transfers) averaged $545 million, or about 16% of GDP. Consumer prices, which had risen by a modest 6% in 1978, jumped by 90% in 1982. The official exchange rate became overvalued, leading to the development of a black market and then a poorly conceived multiple-exchange-rate system. After borrowing heavily in external markets in the late

1970s and early 1980s, Costa Rica was forced to suspend debt servicing in July 1981.

Under stabilization programs supported by both the IMF and A.I.D., the fiscal deficit was reduced to 3.6% of GDP in 1983 and to an average of 1.3% during 1985-87. The current account deficit (before official transfers) fell to $280 million annually during 1982-84, although it rose slightly to $293 million a year during 1985-87. Inflation dropped to 12% in 1984 and an average of 14.5% during 1985-87. The exchange rate was unified at an appropriate level in November 1983 and has been kept internationally competitive since then through a series of mini-devaluations. Stand-by arrangements were negotiated with the IMF in 1982 and 1985 for a total of SDR 146.25 million (of which all but SDR 20 million was drawn), facilitating external debt renegotiations with public and private creditors. A Structural Adjustment Loan (SAL) for $80 million was obtained from the World Bank and was fully disbursed. A new stand-by arrangement was approved by the IMF in October 1987 (and revised in April 1988), and negotiations with the World Bank for a second SAL are well advanced. Exports have been encouraged not only through exchange-rate policy but also through credit programs and through technical assistance and promotional efforts by both the government and the private sector.

Costa Rica's average annual GDP growth rate of 3.9% between 1982 and 1987, and its success in increasing nontraditional exports, have already been noted. Another significant achievement has been an increase in the national savings rate, from about 7% in 1980-81 to 14% during 1983-87, permitting investment to be maintained at a relatively high level while reliance on external savings was reduced. The unemployment rate fell from an average of 8.5% in 1982 to 6.1% in 1986. 42/ Real wages, which fell by about 29% between 1980 and 1982, recovered to 98% of their 1980 level by 1986 (ECLAC 1987:17).

El Salvador. Economic policy in El Salvador has suffered from a lack of coherence and from a deep split between the public and private sectors. Export promotion measures generally have been weak. Adjustment to an overvalued exchange rate in the early 1980s was slow, further discouraging both nontraditional and traditional exports, which were being affected adversely by failing prices, the armed conflict, and the short-term disruptions associated with the implementation of an agrarian reform program which offered hope for both production and equity gains over the long run.

A comprehensive stabilization program was introduced in January 1986, including unification of the exchange rate at 5 colones to the dollar and complementary fiscal and monetary measures designed to curtail demand, thus keeping the new exchange rate competitive, and to encourage a shift of resources into export and import-competing activities. However, implementation of the fiscal and monetary program was weak, and the annual inflation rate averaged nearly 30% during 1986-87, making the exchange rate once again overvalued. While it is difficult to untangle all the factors affecting poor export performance in El Salvador, coffee exports -- by far the largest foreign exchange earner -- have almost certainly been discouraged by a frequently overvalued exchange rate and an inefficient government marketing organization which pays relatively unattractive prices to producers, often with long delays. Exchange-rate policy and the weakness of the export promotion effort have contributed to a decline in exports of manufactures to the United States (see Table 5), although overall exports of nontraditional products to countries outside the region have been increasing since 1983 (see Table 3)

Guatemala. In the early 1980s Guatemala broke with its conservative fiscal traditions, responding to the second oil price shock and the onset of the world recession by borrowing abroad heavily on unfavorable terms. The deficit of the consolidated nonfinancial public sector rose from 1.0% of GDP in 1978-79 to 7.2% in 1981. Foreign exchange reserves disappeared because of capital flight and speculative stockpiling of imports. Pressures on the exchange rate (at one quetzal to the dollar) led to the adoption of a multiple-exhange-rate system with perverse effects 43/

In mid 1986 a more rational exchange rate system was adopted, and by April 1987 all trade transactions had been transferred from the fluctuating "banking" market (initially in the Q2.70-2.90 range) to a "regulated" market (Q2.50). By the end of 1987 the banking rate had strengthened to Q2.53, thus moving the country closer to exchange-rate unification. (The old Q1.00 rate was still used to service previously contracted debt.)

The strengthening of the exchange rate was due largely to tight fiscal and monetary policy, which resulted in no economic growth in 1986. Still, this was an improvement over the -1.5% average rate for the four preceding years. Although the inflation rate doubled to 37% in 1986, reflecting past fiscal and monetary laxity, it was held to less than 10% between December 1986 and December 1987. Fiscal policy was based both on expenditure controls (which held down much needed public investment) and on revenue measures. Although coffee tax revenues fell in 1987 with the sharp drop in coffee export prices, other tax receipts increased, as the government sought gradually to raise one of the lowest ratios of taxes to GDP in the world.

The government's relatively moderate tax policies have been responsible to a large degree for what is currently a serious rift between the public and private sectors. Nevertheless, the private sector has benefited significantly from the current government's policies. Private investment is rising, private capital is flowing back into the country, and, as noted above, nontraditional exports to markets outside of Central America have reversed an earlier decline, with an especially strong performance in 1987. The 3.1% GDP growth rate in 1987 was the highest since 1980 and was slightly positive in per capita terms. While overall progress in various dimensions of equity is still slow, and basic needs indicators are well below the average for countries at Guatemala's level of per capita GDP, some small farmers have been among those significantly benefiting from the rapid expansion of horticultural exports.

Honduras. Significant internal and external imbalances appeared in Honduras in the early 1980s, and the government was relatively slow to introduce measures to correct them. The deficit of the consolidated nonfinancial public sector, already a high 8.5% of GDP in 1980-81, soared to 11.6% during 1982-84. On the other hand, the current account deficit in the balance of payments (before grants) improved from 12.3% of GDP to 10.3% over the same period, although the latter figure is still relatively high. The annual increase in the consumer price index fell from 15.1% between 1978 and 1980 to 8.9% over the next three years, still higher than inflation in the country's trading partners while the exchange rate remained fixed at 2 lempiras to the dollar. Greater progress in reducing internal and external balances began to be made in 1985. By 1986 the fiscal deficit had been reduced to 6.4% of GDP and the current account deficit to 7.4%, thanks largely to a surge in coffee prices and to new tax measures. Inflation was held to an average of 3.8% a year during 1984-87, despite the still-high fiscal deficits, as budget support from external sources (mainly the

United States) limited the need to finance the deficit through domestic credit expansion.

Honduras managed an average annual GDP growth rate of 2.8% between 1982 and 1987. It has also suffered less of a decline in exports than any other country in the region except Costa Rica, and it has had modest success, described above, in increasing nontraditional exports. This apparently better-than-average performance, however, is deceptive. A not insignificant portion of the mid-1980s GDP growth was due to the construction of the large El Cajon hydroelectric project, and the 4.2% GDP growth rate in 1987 was due in part to unusually favorable conditions in agriculture and to the accumulation of arrearages on the external debt. Significant amounts of U.S. economic and military assistance, and the absence of armed conflict outside the Nicaraguan border area, have also contributed to economic growth.

Exports did not decline as much as in some other countries because they are more diversified and because steady-price bananas rather than volatile-price coffee are the principal export product. On the other hand, nontraditional exports are still a relatively small percentage of the total, and export growth has been limited by an exchange rate which is moderately overvalued (even after the recent fall in the U.S. dollar) and has contributed to a loss of market share for most major exports.

In the last few years the government has slowly begun to adopt policy reforms to deal with these issues, including actions in the area of export promotion, tariff reform, and exchange-rate flexibility. Still, Honduras lags considerably behind Costa Rica in these efforts, and its entrepreneurs are less experienced than Costa Rica's in knowing how to take advantage of new export opportunities.

Nicaragua. The dramatic decline in Nicaragua's exports since the late 1970s is explained in large part by the armed conflict, the suspension of trade relations with the United States, and the conflictive relations between the public and private sectors. Economic policies, however, also are responsible for a sizeable share of the decline. Exchange-rate policy has been chaotic, encouraging capital flight, smuggling, and generally poor resource allocation. Overvaluation of the cordoba, often to the extremes for which some West African countries have become infamous, has discouraged investment and fueled the demand for imports, which available foreign exchange cannot satisfy. The monetary reforms introduced in early 1988 constitute an important step toward correcting these distortions, but until the fiscal problem is addressed more forcefully the current hyperinflation is likely to continue, wiping out the benefits of the new monetary measures. Subsequently announced layoffs in the public sector may be a sign that strong measures to deal with the fiscal imbalance finally are on their way.

Extensive price controls and other regulations continue to act as serious disincentives to production for both the domestic and foreign markets. Labor shortages attributable to the armed conflict (as well as the conflict itself) are reported to have significantly affected agricultural production, but the high reported open unemployment rates (see Table 1) suggest a considerable degree of labor market inefficiency. 44/ If the cease-fire in early 1988 evolves into a lasting peace, and the size of the armed forces is reduced, reintegrating former combatants into the economy will present a significant challenge to the government, but also an opportunity substantially to increase production by allowing the price mechanism to play a greater role in allocating resources. If Nicaragua wishes to continue following a socialist economic model, it would profit by looking at how China has used price incentives to increase production.

VI. ALTERNATIVES TO AN EXPORT DIVERSIFICATION STRATEGY

Although progress in export diversification has been encouraging in the last few years, it is important to consider carefully both the potential and the limitations of a strategy for achieving sustained economic growth with equity that is centered around further export diversification. First, however, it is useful to consider the alternatives to such a strategy:

-- The "old" export model, based on coffee, bananas, and, to a lesser extent, cotton, sugar, and beef;

-- Another strong push for regional import substitution by strengthening the institutions of, and financial support for, the CACM;

-- Individual, national-level import substitution strategies; and

-- Autarky, at either the national or regional level, perhaps with a strong emphasis on basic grains production in order to address equity concerns.

A strategy of autarchy is an especially unattractive option for a small economy with an undiversified natural resource base and limited technological sophistication. There is probably no contemporary example of a purely autarchic model; but some countries, including Albania and Burma, have adopted reasonably close approximations, and their record of economic performance, while not disastrous, is not particularly distinguished. 45/ Central America, as a single economic entity, could probably be self-sufficient in basic grains -- at an economic cost higher, but not outrageously so, than current costs -- but its lack of many industrial raw materials would severely restrict possibilities for producing manufactured goods at any cost under a strategy of autarchy.

A more reasonable option is an import-substitution strategy at the national level. But this, too, is unattractive given the small size of each country's market -- about $10 billion for Guatemala and less than $5 billion for each of the other countries. A number of products in some industries -- e.g., textiles, clothing, wood products, and food processing -- can be produced efficiently (i.e., internationally competitively) in markets this small, but most such opportunities have already been exploited. For capital goods, intermediate goods, and consumer durables, there are often substantial economies of scale in production, and the individual countries of Central America have markets for some products which are so small that one firm of close to optimum size has a production capacity far in excess of what is needed to supply the national market. 46/ Since such a firm is unlikely to be internationally competitive, if established under tariff protection it would operate well below capacity, resulting in high unit costs. The alternative is a smaller-scale plant with high unit costs even at full capacity.

Regional economic intergration has been promoted in a number of world areas to overcome the disadvantage of small market size. For Central America, Cline (1984) has shown that opportunities for efficient production are substantially greater for the regional (CACM) market than for the individual-country markets.

As is well known, the CACM grew very rapidly in the 1960s and continued to grow, albeit at a more modest rate, in the 1970s. While the strong growth of the Central American economy during the 1960s is sometimes popularly attributed largely to the CACM, favorable commodity prices and external assistance under the Alliance for Progress played greater roles by stimulating aggregate demand and by providing foreign exchange to purchase imports from abroad and to clear trade imbalances among CACM members. Although studies of the CACM have generally concluded that it provided net welfare benefits for most if not all of its members, 47/ these benefits were always found to be small. 48/ Most of them went to Guatemala and El Salvador, and within Honduras there was a widespread belief that the net benefits were negative, provoking that country's semi-departure from the CACM in 1970.

As the growth of the CACM slowed during the 1970s, even observers sympathetic to regional integration in Central America began to recommend a switch away from import substitution toward export diversification. Bulmer-Thomas, who has pointed out that the old export model affected income distribution adversely (1987, passim.) and that the grafting of the CACM onto this model aggravated these effects (1987:196-197), argued nearly a decade ago (1979:182) that "tariff and exchange rate policies . . . should be altered in favor of export promotion rather than further import substitution, because only in this way can Central America reap the benefits of specialization." One of the problems with the CACM, he found, was that relatively little country-level specialization was taking place, and that "a significant amount of two way trade in industrial products was found even at the 7- and 9-digit levels" (1979:185).

Can the CACM play an important role in Central American economic recovery? Bulmer-Thomas believes that it can, and that its neglect by external donors during the 1980s has "made the task of economic recovery significantly harder and robbed industrialists of a market which could provide a convenient stepping-stone between the protected domestic market and the full rigours of international trade" (1987:263-264). 49/ At the same time, he has recognized that a deepening of the import substitution process is incompatible with the export diversification he recommends, since the latter requires reduction or elimination of the tariff protection required by the former (1979:194). Bulmer-Thomas rightly focuses on tariff and exchange-rate policy reforms as essential for the success of export diversification; such reforms would also serve to strengthen the CACM. The relatively slow rate of progress in these areas, as noted in Part III of this essay, has been largely responsible for the failure of external donors to make available significant financial resources to the CACM, despite the NBCCA's recommendation that the United States provide such assistance.

I am basically supportive of the view that the CACM can play an important role in the economic recovery of Central America, although not the leading role. If most of the decline in intraregional trade during the 1980s can be attributed to overall macroeconomic trends and the resultant fall in incomes (Cline 1984:11; Saidi and Loehr 1985), as well as to increased intraregional trade restrictions (Cline 1984:14ff), then a reversal of these trends should have a significant positive impact on intraregional trade.

Cline (1984:Appendix A) calculates that increased barriers to trade in the early 1980s were equivalent to a 16 percentage-point tariff increase for intraregional imports and a 22 percentage-point increase (from 40% to 62%) for extraregional imports. His analysis shows that removing the added intraregional protection, while temporarily maintaining it for extraregional imports, could reduce imports from outside the region by $254 million (6.6% of non-oil imports in 1982) and replace them with an equivalent amount of CACM production, thus freeing enough foreign exchange for other imports to permit an increase in the regional GDP of 3% or more. While the extent of the potential gains from intraregional trade liberalization may be exaggerated, 50/ there is little doubt that removal of the new, intraregional protectionist measures would increase intra-CACM trade and improve resource allocation. But retention of the additional protection for extraregional imports is more problematical, since it would likely divert resources into relatively inefficient import substitution sectors and away from potentially more efficient production for extraregional markets.

The revival of intraregional exports from $413 million in 1986 to $492 million in 1987 (see Table 4) seems attributable both to more rapid economic growth and to some reduction of intraregional trade barriers. Further increases in intraregional trade would be made possible by elimination of additional trade barriers and by greater exchange-rate flexibility. 51/ Progress in these areas would reduce the potential for large imbalances in intraregional trade and would increase the Central American countries' chances of obtaining external resources to help finance existing bilateral trade debts and/or to provide financing for future trade. A peaceful solution to the armed conflicts in the region would likely provide a further impetus along these lines. 52/

While there is considerable scope for a strong recovery in intra-CACM trade in the medium term, over the long term the expansion of such trade is more likely to follow economic growth than to lead it. Opportunities for efficient import substitution are limited, and Central American governments are increasingly coming to regard extraregional markets as offering more potential.

The greatest opportunities in extraregional markets do not seem to lie with traditional exports, although given their importance as sources of foreign exchange, policies designed to retain or if possible expand market shares -- as recommended by Rosenthal and Pineiro (1988) -- still make sense. But prospects for a strong recovery in traditional commodity export prices are not good over the medium and long terms. The World Bank's September 1987 forecasts -- in constant 1985 prices (see Table 11) -- show coffee prices recovering by 8% from their 1987 lows for the balance of the decade; but the projected price in 1990 is still 33% below the 1980 price in real terms, and the projection for 1995 is 27% below it. Real banana prices are projected to decline by 4% between 1986 and 1990 and then to grow by 8% over the next five years, leaving them in 1995 still 8% below their 1980 level. World market sugar prices are projected to double in real terms between 1986 and 1990; but the 1990 projection is still 65% below the 1980 price, and a further real price increase of only 8% is projected between 1990 and 1995. Real beef prices are projected to rise by 12% between 1986 and 1988 but then to drop by 24% over the next two years; an increase of 66% is forecast between 1990 and 1995, but this would still leave real beef prices 6% below their 1980 level. Finally, real cotton prices are projected to decline by 11% between 1987 and 1990, then to rise by 32% between 1990 and 1995, leaving them 18% below their 1980 level. Price projections for the year 2000 are of course even more speculative than those for 1995, but in any event they do not provide much ground for optimism, showing on balance a marginal decline in real terms between 1995 and 2000.

VII. A GROWTH-WITH-EQUITY STRATEGY FOR 1988-2000

The international economic environment now facing Central America differs significantly from that of the 1960s and 1970s. The accumulation of large external debts, and the inability of the countries of the region to service them regularly, have reduced new lending by foreign commercial banks to a small fraction of the level of the late 1970s and early 1980s Prospects for a strong revival of such lending in the medium term are not good, even if orderly debt reschedulings and/or write-offs occur in the next few years.

New commitments by the international financial institutions (IFIs) have also declined in the 1980s, and trends in the net transfer of resources by these organization have been even more unfavorable. Prospects for increased activity by the IFIs are good, however, if continued progress in economic policy reforms is made. 53/ But while potentially significant in percentage terms, this increased activity would still be modest in absolute terms relative to foreign exchange requirements for rapid economic growth, unless the capital and/or borrowing capacity of the IFIs is substantially increased. Bilateral economic assistance to the region increased significantly during the 1980s, but the trend in such assistance from the United States, the largest donor, is now downward. Other bilateral assistance to the region -- mainly from the socialist countries, the European Community, Japan, Mexico, and Venezuela 54/ -- has been significant especially for Nicaragua; but despite the interest expressed by the European Community in a major program of assistance to Central America, a significant further expansion of non-U.S. bilateral assistance is not yet assured. An end to the armed conflict in the region could change the outlook for bilateral assistance, and possibly place it within the framework of a consultative group chaired by one of the IFIs; 55/ but if peace comes to Central America, some donors might decrease rather than increase their assistance, and the likely net effect of peaceful conflict resolution on the overall level of external assistance is difficult to judge.

High levels of external assistance remain important to Central America in the short and medium terms in order to facilitate the replacement of worn-out or damaged capital, the undertaking of new public and private investments, and the addressing of basic human needs. But sustained and rapid economic growth during the 1990s and beyond depends even more on the region's own efforts. This will require policy reforms to boost national savings and investment rates and to generate the foreign exchange earnings needed to acquire rising levels of necessary imports. The Central American countries' Plan de Accion Inmediata does not directly address the key role that such reforms need to play.

I have argued in this essay that Central America's best prospects for achieving rapid and sustained economic growth, with progressively less dependence on external capital, lie in export diversification, particularly expanded sales of nontraditional products to markets outside the region. The success of such a strategy, however, will depend not only on domestic (and regional) policy reforms but also on the cooperation of the international economy. Failure of the industrial countries to deal adequately with the underlying causes of large trade imbalances and exchange-rate instability, and to stem protectionist pressures, could produce another world recession and an international financial crisis. Prices would then fall for Central America's traditional exports; opportunities for export diversification would diminish; and external capital flows would decline. A more inward-focused development strategy, focused on the CACM, would thus become justified, but its success would require greater intraregional product and factor mobility than has occurred to date.

At present the world economy appears to be in a "muddling through" phase. The initiation of the Uruguay Round of trade negotiations offers some hope for a reversal of protectionism; some needed exchange-rate realignments have occurred; and progress, albeit limited, has been made in reducing the U.S. budget deficit, which has exerted a profound and disturbing effect on international trade and financial flows. Even so, the current outlook is for relatively slow-to-moderate growth in the industrial countries for the balance of the 1980s. World trade is growing moderately, however, and so long as this trend continues there is plenty of scope for the Central American countries to increase their exports of nontraditional products to the United States, Europe, Japan, and other markets outside the region if their products can be made more competitive with those of other nations. Given the small size of the Central American countries, and their still small nontraditional export base, annual rates of growth of their manufactures and other nontraditional exports of 15-20% or more can occur for a number of years without unduly disruptive effects in the countries with which they would be competing. Rapid nontraditional export growth from Central America, even in the context of moderately growing world trade, would probably occur at the expense of well under one percentage point in the potential GDP growth rates of the East Asian countries, which would still leave them with relatively high rates of economic growth.

In the paragraphs which follow I present three scenarios -- not projections -- for Central American economic growth out to the year 2000, based upon a very simple model which glosses over many of the complexities of trade and capital flows and their relationship to economic growth. Nevertheless, I believe that the model is sufficiently useful to illustrate, particularly for the base scenario, the order of magnitude by which nontraditional exports need to increase for Central America to achieve a moderately good rate of economic growth. The analysis is based largely on trends in the region as a whole, not in the individual countries.

The base scenario -- with all growth rates in real terms -- begins by establishing a target GDP growth rate of 3.5% for 1987-89 and 4.5%, or approximately 1.9% per capita, for 1989-2000. This is a slower rate of GDP growth than that which prevailed in the 1960s and much of the 1970s, but modesty is called for in view of current commodity price projections, the outlook for public and private international capital flows, and present economic policies in the industrial countries. At this rate of economic growth, the 1980 per capita GDP level is not recovered until 1997 (see Table 12A).

Under the base scenario, a target growth rate is then established for exports slightly higher than the presumed rate at which imports (FOB) need to grow to achieve the target GDP growth rate. (Since exports start from a lower base, they need to grow faster than imports to prevent the trade deficit from widening unduly.) The presumed income elasticity of demand for imports is 1.1, so that imports need to grow by 3.85% in the first two years and 4.95% thereafter. The required export growth rate is 5.42%. Initially, the other items in the balance of payments are assumed, on a net basis, to exactly finance the trade deficit. 56/

The required growth of nontraditional extraregional exports (NEX) is determined as a residual after subtracting from imports the values for traditional exports and nontraditional exports to the CACM. For traditional exports I assume a 2.5% annual rate of growth of export earnings -- based more on volume increases than price changes -- for Costa Rica, El Salvador, Guatemala, and Honduras. 57/ For Nicaragua I assume that a 6.5% annual rate of increase is possible if hostilities cease and more favorable policies are adopted. A 6.5% annual rate of increase is likewise assumed for intraregional exports. The required (cumulative) annual rate of (real) NEX growth for the region is 10.4% (see Table 13), 58/ a very achievable target if appropriate policy reforms are undertaken and more technical assistance is made available to exporters, particularly in the area of international marketing.

Many variations of the basic (4.5% GDP growth) scenario could be developed by changing one or more of the assumptions. Here are three variations, and the resulting affects on the required NEX growth rate:

-- Higher import growth requirements (1.2 times the GDP growth rate), e.g., because large capital equipment requirements offset to a greater degree the moderating effects on import demand of more favorable exchange rates. Required NEX growth rate (cumulative): 11.7%.

-- Higher capital inflows, e.g., $50 million more in 1988-90, $100 million more in 1991-93, $150 million more in 1994-97, and $200 more in 1998-2000. Required NEX growth rate (cumulative): 9.8%.

-- Faster annual growth of traditional export earnings, e.g., 3.5%. Required NEX growth rate (cumulative): 9.4%.

The results of the base scenario suggest that a GDP growth rate for 1989-2000 averaging 4.5% a year is very possible if the industrial countries succeed in muddling through their present period of slow growth without serious damage to the world economy, and if the Central American countries adopt the appropriate policy reforms, as well as promotional and technical assistance activities, needed to stimulate nontraditional exports.

A hign GDP growth target of, say, 4% annually for 1987-89 and 6% for 1989-2000 would be much more difficult to achieve. This would result in a recovery of the region's 1980 per capita income level by 1994, and per capita income in 2000 would be 25% above the 1980 level. The additional growth, however, would likely be quite import-intensive, so that we may assume an income elasticity of demand for imports of 1.2. Import requirements would be $11,322 million by the year 2000, and the required NEX growth rate, other things equal, is 15.7% (or somewhat lower if we allow for faster growth in exports to the CACM). Achievement of this target would require exceptionally strong policy reforms as well as a more favorable international environment. 59/

Finally, we may consider a low-growth scenario -- though by no means a worse-case scenario -- with GDP increasing by 3.0% a year throughout the 1987-2000 period. The regional per capita GDP in 2000 would still be 10.5% below the 1980 level. If imports needed to grow by 3.3% a year, the required NEX growth rate is only 4.6%. However, the NEX growth rate would have to be higher if slower GDP growth were the result of lower prices for traditional exports.

Although this paper has focused primarily on economic growth, it would be incomplete without some discussion of equity issues. As noted in Part I, export-led growth generally is more labor-intensive than growth based on import substitution. This is because the latter strategy tends to rely on underpriced capital, while the former (at least in developing countries) stresses utilization of labor, the relatively abundant and therefore cheap factor of production, thus permitting a country to benefit more from international comparative advantage. But in countries where political power is highly concentrated, as has been the case historically for much of Central America, the trickling down of the benefits of economic growth to the poorest levels of society cannot be taken for granted.

Bulmer-Thomas (1987:passim.) has observed that the labor movement throughout Central America is weak and in some countries has at times been harshly repressed, especially in rural areas. In El Salvador, Guatemala, and Nicaragua, access to land, education, and other services historically was more restricted than in Costa Rica and Honduras, limiting the opportunities for low-income groups to improve their levels of living over time. Traditional patterns of export-led growth in the twentieth century generally produced a high degree of income inequality, and the CACM appears to have had a further regressive impact on income distribution (Bulmer-Thomas 1987:196-197). At the beginning of the economic crisis of the 1980s, labor suffered very sharp real wage declines, even in Nicaragua (Bulmer-Thomas 1987:283).

While there are many good reasons to support higher real wages and improved working conditions in Central America, there are some potential short-run/long-run trade-offs which suggest caution regarding how fast real wage increases should be promoted. In looking at the impressive economic performance of the East Asian countries, Fields (1984) regards wage policy as an important factor in their export-led economic successes. Specifically, rapid economic growth in these countries occurred in the context of "strict" wage policies but nevertheless resulted in greater employment and income gains and more equitable income distributions over time than in countries where wage policies were "lenient" and economic growth tended to be slower. 60/ He cautions, however, that "If a country adopts a lenient wage policy . . . [which] renders the country's exports unprofitable in world markets, then an export-oriented development strategy may harm the development effort. An export orientation may make a bad situation worse. If the wage policy cannot be changed, an inward-oriented trade policy may be called for" (1984:81-82).

In the small economies of Central America, I have argued that an inward-oriented trade policy would not be optimum. Although it may appear unprogressive to suggest that export diversification may benefit from short-run wage restraint, it is important to add that these temporary effects can be offset by significantly greater investment in human capital through more public (and private) spending on education, health, nutrition, and other services. This not only will address basic needs but also will make labor more productive and increase its income-earning potential over time. If peace comes to Central America, a significant amount of resources now allocated to the war effort could be diverted to such investments. Additional resources could come from abroad, as requested by the Central American countries under the Plan de Accion Inmediata. A more cooperative, problem-solving approach to labor relations -- which characterizes Costa Rica and Honduras to some degree (Bulmer-Thomas 1987:279-284), and apparently the East Asian countries as well -- should also enhance productivity and labor incomes over time.

There is a need also to reexamine other conventional political wisdom regarding income distribution policies. Subsidies and price controls ostensibly designed to redistribute income in favor of low-income groups sometimes have precisely the opposite effect in addition to allocating resources inefficiently. Electricity rate controls, for example, tend to benefit middle- and upper-income groups more than the poor, many or most of whom -- expecially in rural areas -- do not even have electricity. From an income distribution standpoint, subsidizing electricity consumption up to a modest level of use and then charging full cost (or slightly higher) for all additional consumption makes more sense than subsidizing all consumption at a substantial loss to the treasury. The revenue gains from such a policy can be used for programs targeted directly at the poor, or they can be used to lower inflationary pressures arising from government borrowing from the banking system to pay subsidies.

Price controls in agriculture, or truly onerous taxes on agricultural exports, can also have perverse effects. 61/ Controls on prices paid to producers of basic foodstuffs tend to discourage production and restrict supply. If the controls work, they tend to benefit urban middle- and upper-income groups, as well as the urban poor, at the expense of the generally worse off rural poor. If they do not work, food prices may rise even faster than the general price index -- not an uncommon phenomenon in Latin America -- either in white or in black markets. Export taxes may raise revenues in the short run, but if they are so high as to discourage production these revenue gains will be offset by lower tax collections over the long run because economic growth is restricted by a shortage of foreign exchange with which to purchase needed imports.

The preceding few paragraphs may appear to have little to do with an export-led growth strategy, but that is precisely the point. Export-led growth *per se* does not inherently produce an inequitable pattern of economic growth. The distribution of income, rather, is determined more by who controls the levers of export-led growth, or of any other growth strategy. In this regard a strategy of export diversification is attractive because it broadens not only the range of products but also the range of producers.

NOTES

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1/ Central America is defined in the traditional sense, i.e., the five countries of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

2/ The economic downturn in Nicaragua began in 1978 and, in El Salvador, in 1979 (see Table 1).

3/ Costa Rica, El Salvador, Guatemala, and Honduras.

4/ See Zuvekas (1988), the original version of which was presented at a conference in October 1984. For other discussions of the origins of the crisis see ECLAC (1984); Bulmer-Thomas (1985; 1987:Ch. 10-11), and Weeks (1985:Ch. 8).

5/ Average annual GDP growth rates for 1980-85 were 7.9% in the Republic of Korea; 6.5% in Singapore, 5.9% in Hong Kong, and 5.5% in Malaysia (World Bank 1987:205). For a recent overview of the East Asian experience and its possible application to other developing countries, see Balassa (1988).

6/ See, for example, Little (1982), World Bank (1981), and A.I.D. (1984).

7/ In particular, as discussed below, external private capital flows have been much less favorable to the region since the early 1980s. Public external capital flows have also been disappointing. The outlook for a significant revival in commodity export prices over the medium term is not good. In addition, a combination of factors, discussed below, has resulted in a sharp contraction of intra-Central American trade in the 1980s.

8/ For evidence regarding employment, see Krueger (1983). Although exporting of manufactured goods is often assumed to result in a more egalitarian income distribution, the evidence in the studies summarized by Krueger was not clear-cut. In another study, based on a regression model with cross-section and time-series data for 83 countries, Papanek and Kyn (1986:58) found, somewhat to their surprise, that "a high rate of manufactured exports has no significant effect on equality." They speculate that this may be because some countries have succeeded in exporting manufactures through indirect subsidies as large as those commonly provided to import substitution industries.

9/ This is not to deny the validity of the infant-industry argument, or the concept of dynamic comparative advantage; but when infants are not forced to grow up -- or when small market size (e.g., for automobiles or chemicals) makes competitive production questionable for decades -- the costs of import substitution in some industries can be very high.

10/ E.g., for donations in kind.

11/ Excluding relatively minor sources such as allocations of Special Drawing Rights (SDRs) by the IMF, as well as increased purchasing power resulting from appreciation of currencies (or gold) in which foreign exchange reserves are maintained.

12/ Although one recent study (Montes 1987), based on survey of Salvadorans living in both the United States and El Salvador, has estimated that annual remittance inflows to El Salvador are as high as $1.4 billion, macroeconomic evidence (e.g., monetary variables and aggregate demand indicators) does not support an estimate of this magnitude. Balance-of-payments estimates for 1987 show inflows of private transfers to be $190 million, but many knowledgable observers believe that actual inflows are in the $350-$450 million range.

13/ See IMF, International Financial Statistics, Yearbook 1987.

14/ The 1980 total export figures in Table 4 differ from those in Table 2, mainly because they do not fully record coffee exports form El Salvador. Table 4 also underreports exports in Guatemala, Honduras, and Nicaragua.

15/ Table 2 shows that the region's net foreign exchange reserves fell by an average of $1.2 billion a year during 1980-82. Net regional reserves continued to decline in subsequent years, but at a slower rate, with nearly all of the losses during 1983-86 occurring in Nicaragua.

16/ The average ratio of imports (including intraregional imports) to GDP in the five Central American countries rose from 22.9% in 1960 to 28.1% in 1970 and 36.1% in 1980. As import compression occurred after the onset of the economic crisis, this figure dropped to 28.8% in 1982. See IMF, International Financial Statistics, Yearbook 1987.

17/ The annual growth rate of real GNP in the industrial economies, which had averaged 3.4% during the years 1969-79, averaged only 2.3% during 1980-86, a period in which the real

GDP growth rate exceeded the 1969-79 average only once, in the brief boom of 1984 (4.9%). The slowdown in the average annual growth of world trade was even more significant:

	1969-79	1980-86
Volume	6.7	2.8
Unit value (US$)	11.5	1.4
Unit value (SDRs)	8.9	2.8

(Source: IMF, Annual Report 1987, pp. 7 and 16.)

18/ Table 8 shows that U.S. economic assistance to Central America (Development Assistance, Economic Support Funds and PL-480 assistance) increased from an average of $246 million in fiscal years (FYs) 1980-82 to $541 million in FY 1983-84 and $896 million in FY 1985-87 (including $50 million in Disaster Assistance to El Salvador in FY 1987). See A.I.D. (1987) and previous annual issues of this publication, and A.I.D.'s Congressional Presentation for FY 1989.

19/ The overall trend in export earnings, however, masks some significant increases that were beginning to occur in nontraditional exports, reflecting steps taken by most countries of the region to promote exports and make them internationally more competitive through exchange-rate reforms.

20/ The original version of this essay used a table based on export statistics reported by SIECA, which unfortunately underrecord coffee exports in the early part of the decade and have other data problems. For a discussion of problems with the intra-CACM trade data, in both the original table and the current one, see Richter (1987).

21/ The definition of nontraditional exports varies by country, as explained in the notes to Table 3.

22/ Because of quota reductions, U.S. sugar imports fell from 5.0 million short tons in 1981 to 1.6 million in 1987, with the latter figure including 0.6 million in quota-exempt sugar for reexport.

23/ Based on the data in Table 3; data published by SIECA (see Table 4) are slightly different in some cases.

24/ One such request was made at the Special Meeting of the Program for the Economic Development of the Central American Isthmus, Brussels, Belgium, September 13-15, 1983. This meeting, organized by the IDB, was attended by representatives of the principal multilateral and bilateral aid agencies. As of September 1984, uncleared bilateral trade balances amounted to $506 million. Nicaragua was the largest debtor ($396 million) while the largest creditors were Costa Rica ($260 million) and Guatemala ($190 million) (Saidi and Loehr 1985:124).

25/ Value added in assembly (drawback) industries rose in Costa Rica from $10 million in 1984 to $40 million in 1987; in Guatemala the figure rose from $9 million in 1985 to $25 million in 1987. The import component of drawback industries in Costa Rica is estimated to be about 75%, compared with 50-60% for nontraditional exports to the CACM and 20-30% for nontraditional exports to other countries. (Source: A.I.D. Missions in Costa Rica and Guatemala.) In the balance-of-payments accounts, value added in assembly operations is recorded as an export of services and thus is not reflected in the merchandise export figures.

26/ Major items in this category of U.S. imports from Costa Rica include apparel (by far the largest item), electrical machinery, textiles, furniture, chemicals, wood products, and metal products.

27/ Also, as Table 3 shows, El Salvador's total exports of nontraditional products to destinations outside the CACM doubled between 1983 and 1987.

28/ NBCCA (1984:64). A regional GDP growth rate of 6% (about 3% per capita) was assumed by the end of the decade.

29/ The proposed increase in funding, however, was only from $6.4 billion to $6.9 billion, in recognition of the substantial shortfall up to that time in meeting the NBCCA target ($400 million in 1984 and $1.2 billion in each of the next five years.) The Congress has not formally responded to this request, but funding levels for Fiscal Year 1988 have been cut significantly from the previous year's level.

30/ Terms of trade indices for 1985, based on 1980 = 100, were as follows (World Bank (1987:220-221):

Costa Rica	97
El Salvador	98
Guatemala	91
Honduras	95
Nicaragua	89

31/ U.S. Department of Commerce data; excludes Nicaragua, from which U.S. imports of textiles and clothing amounted to $14 million in 1980.

32/ IMF, International Financial Statistics.

33/ Although the rate of increase in the external debt has slowed, the absolute increase between 1982 and 1987 almost equalled that between 1978 and 1982 (see Table 1).

34/ U.S. Treasury Secretary James A. Baker called for a three-point program based on structural economic reforms in the debtor countries; an increase of $3 billion annually (50%) in disbursements by international financial institutions to the major debtor countries; and net new lending by commercial banks to these countries of $20 billion over the 1986-88 period. The Baker Plan recognizes that economic growth in the debtor countries is essential for generating the foreign exchange necessary to service external debt within the conventional rules of the game (including reschedulings). See Baker (1985).

35/ The grant component in 1987 was 84%.

36/ U.S. fiscal years ending September 30.

37/ The NBCCA figures include (relatively small) amounts for Belize and Panama.

38/ Defining and measuring capital flight, as is well known, is difficult, and estimates are subject to wide margins of error. According to one estimate, $1.5 billion left the region during 1980-82 (U.S. Department of State, A.I.D., and OMB 1987:6). Another estimate, for a 5-year period in the 1980s (the specific years are not clear) places the figure at $4.5 billion (Caballeros 1987:129).

39/ The October 1987 IMF forecast for 1988 was 2.6% (IMF 1987b:39). The OECD's December 1987 forecast was 2.25% in 1988 and 1.75% in 1989 (OECD 1988:37).

40/ U.S. Treasury Secretary Baker highlighted the importance of growth in the industrial countries at the beginning of his "Baker Plan" speech: "Sound policies and sustained, low-inflation growth in the industrial countries must provide the essential foundation for a successful debt strategy, and are a prerequisite for stronger growth in the debtor countries" (Baker 1985:1).

41/ "High" for purposes of this discussion refers to the degree to which economic policy promotes export-led growth based on market-directed diversification of the export base. For the moment, equity concerns are set aside

42/ Costa Rica conducts a household labor force survey three times a year. It is the only country in Central America with relatively good labor force data

43/ At one point, for example, exporters of coffee under the quotas established for Guatemala by the International Coffee Organization (ICO) had to surrender their foreign exchange at the old Q1.00 = U.S. $1.00 rate, while those exporting in the non-quota market were able to obtain Q3.75 or more using the parallel exchange market. This provided an incentive not to export to ICO countries, even though the dollar price of coffee sold to these countries was about twice that in the non-quota market. Moreover, Guatemala risked having its ICO quota reduced in subsequent years if it was not filled.

44/ The Nicaraguan figures probably overstate the open unemployment problem relative to that of the other Central American countries as reported in Table 1.

45/ Burma's GDP grew between 1965 and 1980 at annual rate of 3.9% (1.7% per capita), well below the 6.0% average for all developing economies, although higher than the 3.2% average for low-income countries other than China and India. Its exports fell at an annual rate of 2.1% and its imports by 5.8% a year between 1965 and 1980. Burma's manufactured exports amounted to only $1 million in 1965 and $26 million in 1985, still less than $1 per capita. Despite an improvement in the GDP growth rate to 5.5% a year between 1980 and 1985, Burma's per capita GNP in 1985 was only $190 (IBRD 1987:202, 204-205, 220, 228).

46/ ECLAC has estimated that unit costs of raw materials used by an automobile assembly plant producing 10,000 units annually are 25% higher than those for a fully integrated plant producing 300,000 units. For parts and pieces (40% of total production costs in the larger plant, compared with 15% for raw materials), unit costs are 80% higher for the smaller plant. See ECLAC, Notes sobre la economia y el desarrollo de America Latina, No. 143 (November 16, 1973), p. 2.

47/ Perhaps the best-known of these studies is Cline and Delgado (1978), in particular Cline's analysis in Chapter 3. Other studies are cited by Bulmer-Thomas (1979) and by Mendez and Rousslang (1988). The analysis by Mendez and Rousslang leads these authors to a dissenting view that there have been net static welfare losses from the CACM. At the same time, Brada and Mendez (forthcoming) have found that the CACM did provide dynamic benefits during 1961-77, but only at an annual rate of 0.36% of the regional GDP (cited in Mendez and Rousslang [1988]).

48/ Studies cited by Bulmer-Thomas (1979:185-186) show that the CACM accounted for 11%-25% of the region's growth in the 1960s, with one study suggesting that the effect was limited to a one-time increase in per capita income of 0.6%.

49/ Bulmer-Thomas's support for the CACM stems in part from his argument that "the base of the new model (non-traditional exports to third markets) has been so small that even spectacular rates of growth would not have major economic impact for many years, while actual rates of growth of the exports in question have been far from spectacular" (1987:292). Thus he views a revival of the CACM as an important medium-term complement to a longer-term strategy of export diversification. In the nearly two years since Bulmer-Thomas made the judgment just cited, the actual performance of nontraditional exports from Central America has significantly improved (see Part III above).

50/ It is not clear, for example, that Cline has taken into account the import component of CACM production that would replace extraregional imports.

51/ Honduras has recently moved in this direction by allowing intraregional trade to occur at market-determined exchange rates. Other countries in the region have similar schemes.

52/ Guatemala has recently rescheduled the trade debt it is owed by Nicaragua.

53/ This might include World Bank Structural Adjustment Loans (or sector loans) and IMF extended facilities.

54/ Assistance by Mexico and Venezuela has been provided primarily under the San Jose oil facility.

55/ The current movement, however, is toward bilateral consultative groups, beginning with a meeting on Costa Rica in June 1988.

56/ This assumption pushes a lot of problems under the carpet, but it avoids highly speculative assumptions regarding such items as debt rescheduling and debt write-downs.

57/ See the price trends reported in Table 11, as well as the assumptions regarding the base year for the scenarios as explained in Table 13, footnote [a].

58/ The annual growth rates are higher at the beginning of the period and lower at the end. Central America's competitive position in the U.S. market will improve at the beginning of 1989 when Hong Kong, South Korea, Singapore, and Taiwan will be graduated from the U.S. GSP program.

59/ A stronger international environment would reduce the required NEX growth rate by exerting upward pressures on traditional export prices. Higher net capital inflows would also lower the required NEX growth rate.

60/ Particularly notable were real wage increases of 141% in Hong Kong (1960-80), 206% in South Korea (1966-80), and 292% in Taiwan (1960-79). Open unemployment rates in these countries (plus Singapore, where the growth of real wages was significantly lower) ranged from 1.3% to 4.1% in 1980-81. In the other three countries studied -- Barbados, Jamaica, and Trinidad & Tobago -- open unemployment rates in the same period were higher (12% to 30%). Real wages declined sharply in Jamaica during the 1970s, while in Barbados and Trinidad & Tobago their growth was similar to that in Singapore. Although it would be inappropriate to make broad generalizations on the basis of this small sample, the comparisons are so striking that they call for further research along these lines.

61/ Although some economists adopt a purist position and oppose all taxes on exports, the neoclassical rationale for such a position breaks down in countries where there are no alternative means of effectively but fairly taxing producers of these products.

TABLE 1. CENTRAL AMERICA: SELECTED MACROECONOMIC DATA, 1978-1987

GROSS DOMESTIC PRODUCT (annual % changes)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	6.3	4.9	0.8	-2.3	-7.3	2.9	8.0	1.0	4.6	3.0
El Salvador	6.4	-1.7	-8.7	-8.3	-5.6	0.8	2.3	2.0	0.6	2.6
Guatemala	5.0	4.7	3.7	0.6	-3.5	-2.6	0.5	-1.0	0.5	3.1
Honduras	7.4	6.8	0.6	1.0	-2.6	1.1	3.0	3.2	2.7	4.2
Nicaragua	-7.2	-25.5	10.0	5.4	-0.8	4.6	-1.6	-4.1	-0.4	1.5
Regional Average [a]	4.5	0.8	1.5	-0.8	-4.2	0.3	2.4	0.1	1.6	3.0

PER CAPITA GROSS DOMESTIC PRODUCT (annual % changes)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	3.5	1.8	-1.7	-4.9	-9.8	0.2	5.2	-1.7	1.9	0.3
El Salvador [b]	4.2	-3.6	-10.2	-9.4	-6.5	0.0	1.3	0.7	-1.0	0.8
Guatemala	2.1	1.9	0.9	-2.1	-6.2	-5.2	-2.2	-3.7	-2.2	0.4
Honduras	3.5	3.0	-2.7	-2.5	-5.9	-2.3	-0.4	-0.1	-0.3	1.1
Nicaragua	-10.2	-27.9	6.4	2.0	-4.0	1.2	-4.8	-7.3	-3.7	-1.7
Regional Average [a]	1.6	-2.1	-1.2	-3.4	-6.7	-2.2	-0.2	-2.5	-1.1	0.3

GROSS DOMESTIC INVESTMENT (% of GDP)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	25.8	26.9	28.5	18.2	14.6	18.9	19.8	21.2	22.5	n.a.
El Salvador	22.5	14.8	12.5	13.1	12.5	11.3	11.4	10.6	13.0	n.a.
Guatemala	16.8	13.9	11.4	13.1	11.0	9.4	9.9	8.0	8.2	n.a.
Honduras	24.8	21.2	25.0	20.5	12.4	15.0	20.1	18.5	16.3	n.a.
Nicaragua	12.1	-6.4	16.8	24.4	20.2	21.0	21.6	22.3	23.7	n.a.
Regional Average [c]	20.4	14.1	18.8	17.9	14.1	15.1	16.6	16.1	16.7	n.a.

CENTRAL GOVERNMENT FISCAL BALANCE (% of GDP)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	-4.3	-6.5	-8.2	-3.6	-3.3	-3.6	-3.0	-2.0	-3.6	n.a.
El Salvador	-2.3	-1.2	-6.7	-8.0	-7.7	-8.9	-7.1	-2.7	-1.8	n.a.
Guatemala	-1.1	-2.6	-4.7	-7.3	-4.7	-3.3	-3.8	-1.8	-1.4	n.a.
Honduras	-6.0	-4.4	-7.8	-6.2	-10.1	-9.8	-9.5	-7.7	-5.6	n.a.
Nicaragua	-8.2	-6.7	-9.0	-10.4	-13.6	-28.7	-23.3	-22.0	-15.8	n.a.
Regional Average [c]	-4.4	-4.3	-7.3	-7.1	-7.9	-10.9	-9.3	-7.2	-5.6	n.a.

TABLE 1 (continued)

INFLATION (annual % changes)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	6.0	9.3	18.1	37.1	90.1	36.1	12.0	15.0	11.8	16.8
El Salvador (d)	13.3	14.7	17.4	14.8	11.8	13.3	11.6	22.3	32.0	26.4
Guatemala	8.3	11.4	10.9	11.4	0.4	4.5	3.4	18.7	37.0	12.3
Honduras	5.7	12.2	18.1	9.4	9.0	8.3	4.7	3.3	4.4	2.5
Nicaragua (e)	4.6	48.1	35.3	23.9	24.8	31.0	35.4	219.5	747.4	838.8
Regional Average (f)	7.6	19.1	20.0	19.3	27.2	18.6	13.4	55.8	166.5	179.4

OPEN UNEMPLOYMENT RATE (%)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	4.6	4.1	5.4	8.3	8.5	7.9	6.4	6.3	6.1	n.a.
El Salvador	n.a.	n.a.	4.9	6.4	8.2	9.7	9.9	10.0	11.9	n.a.
Guatemala	n.a.	n.a.	2.2	1.5	6.3	10.3	9.4	12.3	14.5	n.a.
Honduras	n.a.	n.a.	8.8	9.0	9.2	9.5	11.7	11.7	12.2	n.a.
Nicaragua	n.a.	n.a.	22.4	19.0	19.9	18.9	21.1	20.9	22.1	n.a.
Regional Average (c)	n.a.	n.a.	8.7	8.8	10.4	11.3	11.7	12.2	13.4	n.a.

DISBURSED EXTERNAL DEBT (millions of dollars)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	1870	2233	3183	3360	3188	3532	3752	3742	3739	3800
El Salvador	986	939	1176	1471	1808	2023	2095	2162	2200	2250
Guatemala	821	934	1053	1305	1841	2149	2505	2624	2641	2720
Honduras	971	1180	1510	1708	1986	2162	2392	2803	2931	3145
Nicaragua	961	1136	1588	2556	3139	3789	4362	4936	5773	6200
Regional Total	5609	6422	8510	10400	11962	13655	15106	16267	17284	18115

INTEREST ON EXTERNAL DEBT (% of exports of goods and nonfactor services)	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	9.9	12.8	18.0	28.0	36.1	33.1	26.7	27.3	21.2	19.3
El Salvador	5.3	5.7	5.9	7.8	11.9	12.2	12.3	12.9	12.5	13.2
Guatemala	3.7	3.2	5.3	7.6	7.8	8.7	12.3	14.9	16.5	16.3
Honduras	8.2	8.6	10.6	14.4	22.4	16.4	15.8	16.2	15.5	16.5
Nicaragua	9.3	9.7	24.3	37.4	41.8	45.3	11.9	13.3	8.9	69.9
Regional Average (c)	7.3	8.0	12.8	19.0	24.0	23.1	15.8	16.9	14.9	27.0

TABLE 1: SOURCES AND NOTES

Sources: GDP and per capita GDP: U.S. Agency for International Development, based on official statistics and preliminary estimates for 1987 (Costa Rica, El Salvador, Guatemala, and Honduras); ECLAC (1987), and previous annual issues of this publication (Nicaragua).

Gross domestic investment: IDB (1987) and previous annual issues of this publication. Data for 1978-7 are based on 1980 prices; data for 1980-86 are based on 1986 prices.

Central government fiscal balance: IDB (1987) and previous annual issues of this publication.

Inflation: International Monetary Fund, International Financial Statistics, May 1988 and 1986 Supplement (No. 12) on Price Statistics.

Unemployment rates: Cespedes, Jimenez, and Lizano (1983:92) for Costa Rica (1978-79); Fundacion FADES, Analisis Economico 14, No. 666 (22 de octubre de 1987), p. 7, based on ECLAC data (1980-86).

External debt indicators: ECLAC (1987) and previous annual issues of this publication.

Notes: (a) Weights are based on average 1982-84 GDP in 1970 Central American pesos (U.S. dollars) as reported in SIECA (1987).

(b) Reflects new (lower) population growth figures taking into account the significant net emigration that has occurred in the last decade. See El Salvador (1986).

(c) Unweighted.

(d) For 1987, change in the first 9 months of the year compared with the same period in 1986.

(e) For 1987, estimate based on 11-month data.

(f) Unweighted. Excluding Nicaragua the average inflation rate fell in 1987 to 14.5% after rising from 7.9% to 21.3% between 1984 and 1986.

TABLE 2. CENTRAL AMERICA: BALANCE-OF-PAYMENTS SUMMARY, 1980-1987 (millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
COSTA RICA								
Exports, FOB	1001	1009	869	852	997	939	1086	1114
Imports, FOB	-1375	-1091	-805	-898	-997	-1005	-1043	-1248
Services, net	-305	-365	-340	-307	-296	-283	-265	-289
Private Transfers, net	20	27	30	23	32	43	35	37
Official Transfers, net	-5	0	6	46	109	176	115	151
Current Account Balance	-664	-420	-240	-284	-155	-130	-72	-235
Private Capital, net	-180	-71	16	97	24	105	62	102
Official & Banking Capital, net	367	20	-89	203	16	146	-74	-338
Other, net	22	5	0	34	-12	73	3	21
Capital Account Balance	209	-46	-73	334	28	324	-9	-215
Overall Balance (a)	-455	-466	-313	50	-127	194	-81	-450
EL SALVADOR								
Exports, FOB	1075	798	700	758	726	695	755	591
Imports, FOB	-897	-898	-826	-831	-914	-895	-873	-910
Services, net	-197	-196	-201	-231	-186	-180	-136	-71
Private Transfers, net	17	66	94	107	130	137	163	190
Official Transfers, net	32	15	113	164	173	194	230	355
Current Account Balance	30	-215	-120	-33	-71	-49	139	155
Private Capital, net	-421	-125	-5	-53	-2	13	-144	-37
Official & Banking Capital, net	148	224	200	174	76	70	-10	-67
Other, net	0	0	0	2	5	13	90	0
Capital Account Balance	-273	99	195	123	79	96	-64	-104
Overall Balance (a)	-243	-116	75	90	8	47	75	51
GUATEMALA								
Exports, FOB	1520	1291	1170	1092	1132	1060	1044	981
Imports, FOB	-1473	-1540	-1284	-1056	-1182	-1077	-876	-1353
Services, net	-333	-414	-354	-343	-356	-249	-268	-286
Private Transfers, net	110	91	63	31	29	20	51	72
Official Transfers, net	0	0	0	0	0	0	24	120
Current Account Balance	-176	-572	-405	-276	-377	-246	-25	-466
Private Capital, net	-272	-1	-221	-16	-3	228	105	421
Official & Banking Capital, net	124	228	312	320	167	76	-67	24
Other, net	4	-3	-2	3	0	0	0	0
Capital Account Balance	-144	224	89	307	164	304	38	445
Overall Balance (a)	-320	-348	-316	31	-213	58	13	-21

TABLE 2 (continued)

HONDURAS								
Exports, FOB	850	784	676	699	753	790	891	863
Imports, FOB	-954	-897	-681	-756	-885	-879	-902	-894
Services, net	-235	-218	-283	-214	-211	-260	-253	-298
Private Transfers, net	8	9	9	10	10	12	13	16
Official Transfers, net	14	19	56	41	80	133	145	96
Current Account Balance	-317	-303	-223	-220	-253	-204	-106	-217
Private Capital, net	84	29	-31	-3	-86	-88	-37	79
Official & Banking Capital, net	161	151	107	182	304	234	118	24
Other, net	7	2	-17	-9	-9	-6	1	-3
Capital Account Balance	252	182	59	170	207	140	82	100
Overall Balance (a)	-65	-121	-164	-50	-46	-64	-24	-117
NICARAGUA								
Exports, FOB	450	500	406	423	386	301	243	251
Imports, FOB	-803	-922	-724	-778	-800	-878	-753	-745
Services, net	-222	-211	-248	-296	-342	-379	-325	
Private Transfers, net	2	13	8	3	2	14	13	
Official Transfers, net	122	57	44	76	88	68	80	
Current Account Balance	-451	-563	-514	-566	-666	-874	-742	
Private Capital, net	-176	-21	-76	-89	-37	-84	-166	
Official & Banking Capital, net	107	364	351	194	321	560	-134	
Other, net	9	25	3	0	0	0	0	
Capital Account Balance	-60	368	278	105	284	476	-300	
Overall Balance (a)	-511	-195	-236	-461	-382	-398	-1042	
REGIONAL TOTALS								
Exports, FOB	4896	4382	3821	3830	3994	3785	4019	3800
Imports, FOB	-5502	-5348	-4[illegible]0	-4319	-4778	-4734	-4447	-5150
Trade Balance	-1292	-1404	-1426	-1391	-1391	-1351	-1247	
Services, net	157	206	204	174	203	226	275	
Transfers, net	163	91	219	327	450	571	594	
Current Account Balance	-1578	-2073	-1502	-1379	-1522	-1503	-806	
Private Capital, net	-965	-189	-317	-64	-106	174	-180	
Official & Banking Capital, net	907	987	881	1073	884	1086	-167	
Undetermined Capital, net	42	29	-16	30	-16	80	94	
Capital Account Balance	-16	827	548	1039	762	1340	-253	
Overall Balance (a)	-1594	-1246	-954	-340	-760	-163	-1059	

Sources: U.S. Agency for International Development, based on official data and preliminary estimates for 1987.

Notes: (a) Changes in net international reserves; minus sign indicates decrease.

TABLE 3. CENTRAL AMERICA: COMPOSITION OF EXPORTS, 1980-1987 (millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
COSTA RICA - Total	1001	1009	869	852	997	939	1086	1114
Traditional [a]	567	582	535	526	597	591	690	642
Nontraditional-CACM	270	238	167	198	193	143	99	98
Nontraditional-Other	164	189	167	128	207	205	297	374
EL SALVADOR - Total	1075	798	700	758	726	695	755	591
Traditional [b]	725	537	482	550	499	520	586	382
Nontraditional-CACM	296	207	174	165	157	96	91	120
Nontraditional-Other	54	54	44	43	70	79	78	89
GUATEMALA - Total	1520	1291	1170	1092	1132	1060	1044	[illegible]91
Traditional [c]	851	726	698	660	706	725	731	576
Nontraditional-CACM	441	379	344	321	291	208	185	230
Nontraditional-Other	228	186	128	111	135	127	128	175
HONDURAS - Total	850	784	676	699	753	790	891	863
Traditional [d]	635	585	536	534	595	632	737	694
Nontraditional-CACM	84	66	52	61	48	20	19	25
Nontraditional-Other	131	133	88	104	110	138	135	144
NICARAGUA - Total	450	500	406	429	386	301	243	251
Traditional [e]	310	347	313	358	319	261	193	200
Nontraditional-CACM	75	71	52	34	37	24	15	14
Nontraditional-Other	65	82	41	37	30	16	35	37
CENTRAL AMERICA - Total	4896	4382	3821	3830	3994	3785	4019	3800
Traditional	3088	2777	2564	2628	2716	2729	2937	2494
Nontraditional-CACM	1166	961	789	779	726	491	409	487
Nontraditional-Other	642	644	468	423	552	565	673	819

Sources: U.S. Agency for International Development, based on official statistics and preliminary estimates for 1987. Some of the CACM export figures differ from those reported by SIECA (see Table 4).

Notes: [a] Coffee, bananas, beef, and sugar.

[b] Coffee, cotton, sugar, and shrimp.

[c] Coffee, cotton, bananas, sugar, beef, petroleum, and cardamom.

[d] Coffee, bananas, wood, beef, lead, zinc, silver, shrimp and lobster, sugar, and tobacco.

[e] Cotton, coffee, sugar, beef, seafood, and bananas.

TABLE 4. INTRA-CENTRAL AMERICAN TRADE, 1980-1987 (millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
COSTA RICA								
Exports, FOB	270	238	167	198	193	143	100	105
Imports, CIF	220	152	112	120	115	93	106	118
Balance (a)	50	86	55	78	78	50	-6	-13
EL SALVADOR								
Exports, FOB	296	206	174	165	156	94	87	117
Imports, CIF	320	305	261	233	251	217	157	179
Balance (a)	-24	-99	-87	-68	-95	-123	-70	-62
GUATEMALA								
Exports, FOB	404	356	320	309	285	205	192	231
Imports, CIF	155	186	220	229	187	99	102	132
Balance (a)	249	170	100	80	98	106	90	99
HONDURAS								
Exports, FOB	84	66	52	61	48	20	19	25
Imports, CIF	104	118	87	105	99	75	58	58
Balance (a)	-20	-52	-35	-44	-51	-55	-39	-33
NICARAGUA								
Exports, FOB	75	71	52	34	37	24	15	14
Imports, CIF	301	211	117	124	74	57	38	35
Balance (a)	-226	-140	-65	-90	-37	-33	-23	-21
REGIONAL TOTALS								
Exports, FOB	1129	937	765	767	719	486	413	492
Imports, CIF	1100	972	797	811	726	541	461	522
Balance (a)	29	-35	-32	-44	7	-55	-48	-30

Sources: SIECA (1985; 1987; and 1988). The 1986 data are preliminary and those for 1987 are estimates.

Note: (a) The regional balance is not zero in part because exports are recorded on an FOB basis and imports on a CIF basis. Other reasons for discrepancies between export and import data include differences in completeness of coverage and differences in the times at which imports and exports are recorded.

TABLE 5. U.S. IMPORTS OF MANUFACTURED GOODS FROM CENTRAL AMERICA, 1980-1987 [a]

	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	57.9	65.9	73.1	102.3	134.3	166.6	218.6	271.3
El Salvador	106.9	85.1	89.3	94.7	121.5	90.6	57.3	77.3
Guatemala	13.8	12.0	16.0	14.6	27.7	28.4	38.7	66.9
Honduras	30.6	37.2	39.0	37.4	39.4	45.8	55.5	70.2
Nicaragua	17.9	10.7	2.0	0.3	0.1	0.2	0.3	0.1
Regional Total	227.1	210.9	219.4	249.3	323.0	331.6	370.4	485.8

Source: U.S. Department of Commerce, Bureau of the Census, U.S. General Imports: World Area and Country of Origin by Schedule A Commodity Groupings, Publication No. FT155, December/Annual issues, and unpublished data.

Note: [a] SITC categories 5-8. These data include the full value of assembled goods entering the United States under the provisions of Sections 806.30 and 807 of the Tariff Schedule of the United States (TSUS). In the balance-of-payments statistics of the exporting countries, the value added (only) of these industries generally appears as an export of services.

TABLE 6. U.S. IMPORTS OF HORTICULTURAL PRODUCTS FROM CENTRAL AMERICA, 1980-1987
(millions of U.S. dollars) [a], [b]

	1980	1981	1982	1983	1984	1985	1986	1987
COSTA RICA - Total	13.4	11.7	13.0	15.0	21.8	23.9	33.9	42.1
Fruits and Vegetables	5.3	5.9	6.7	8.9	10.8	11.9	20.8	26.9
Plants, Flowers, etc.	8.1	5.8	6.3	6.1	11.0	12.0	13.1	15.2
EL SALVADOR - Total	3.3	2.0	2.6	2.3	3.2	3.9	5.3	6.8
Fruits and Vegetables	1.8	0.8	1.6	1.6	2.4	3.3	4.8	5.9
Plants, Flowers, etc.	1.5	1.2	1.0	0.7	0.8	0.6	0.5	0.9
GUATEMALA - Total	12.0	15.3	17.9	16.1	21.4	23.2	26.6	37.1
Fruits and Vegetables	5.5	8.0	10.9	10.0	13.2	15.0	18.4	27.2
Plants, Flowers, etc.	6.5	7.3	7.0	6.1	8.2	8.2	8.2	9.9
HONDURAS - Total	12.7	12.6	12.8	12.4	15.6	17.8	17.6	29.1
Fruits and Vegetables	10.1	10.6	10.8	10.8	13.4	16.3	16.4	27.4
Plants, Flowers, etc.	2.6	2.0	2.0	1.6	2.2	1.5	1.2	1.7
CENTRAL AMERICA - Total [b]	41.4	41.6	46.3	45.8	62.0	68.8	83.4	115.1
Fruits and Vegetables	22.7	25.3	30.0	31.3	39.8	46.5	60.4	87.4
Plants, Flowers, etc.	18.7	16.3	16.3	14.5	22.2	22.3	23.0	27.7

Source: U.S. Department of Commerce, unpublished data.

Notes: [a] Excludes bananas.

[b] Excludes Nicaragua.

TABLE 7. PRICES OF CENTRAL AMERICA'S MAJOR EXPORTS, 1980-1987

A. UNIT VALUES

	1980	1981	1982	1983	1984	1985	1986	1987
Bananas (US cents/lb.)	17.01	18.20	15.99	19.46	16.76	17.25	17.93	17.09
Beef (US $/MT)	125.19	112.12	108.39	110.67	103.11	97.67	94.98	108.18
Coffee (US cents/lb.)	154.20	128.09	139.72	131.69	144.17	145.56	192.74	112.29
Cotton (US cents/lb.)	93.73	83.97	72.51	84.10	80.94	59.92	47.94	74.77
Sugar (US cents/lb.)								
World Market	28.67	16.89	8.41	8.47	5.20	4.05	6.05	6.76
U.S. Import Price	30.03	19.73	19.92	22.04	21.74	20.35	20.96	21.84

B. PRICE INDICES (1980 = 100)

	1980	1981	1982	1983	1984	1985	1986	1987
Bananas	100.0	107.0	99.9	114.4	98.5	101.4	105.4	100.5
Beef	100.0	89.6	86.6	88.4	82.4	78.0	75.9	86.4
Coffee	100.0	83.1	90.6	85.4	93.5	94.4	125.0	72.8
Cotton	100.0	89.6	77.4	89.7	86.3	63.9	51.1	79.8
Sugar								
World Market	100.0	58.9	29.3	29.5	18.1	14.1	21.1	23.6
U.S. Import Price	100.0	65.7	66.3	73.4	72.4	67.8	69.8	72.7

Source: International Monetary Fund, International Financial Statistics.

TABLE 8. LOAN APPROVALS, WORLD BANK AND IDB, 1980-1987 [a]
(millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	162.9	58.2	61.4	61.0	86.6	83.5	173.9	145.8
World Bank	30.0	29.0	0.0	25.2	0.0	83.5	0.0	26.0
IDB	132.9	29.2	61.4	35.8	86.6	0.0	173.9	119.8
El Salvador	63.4	47.4	121.4	13.5	100.5	21.0	23.0	166.0
World Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IDB	63.4	47.4	121.4	13.5	100.5	21.0	23.0	166.0
Guatemala	93.5	112.5	46.0	186.4	33.9	236.6	146.8	66.8
World Bank	17.0	0.0	0.0	18.5	20.0	44.6	81.0	23.0
IDB	76.5	112.5	46.0	167.9	13.9	192.0	65.8	43.8
Honduras	220.6	35.5	79.0	174.2	60.6	75.4	159.8	4.4
World Bank	153.0	28.0	30.0	45.0	19.6	6.9	37.4	4.4
IDB	67.6	7.5	49.0	129.2	41.0	68.5	122.4	0.0
Nicaragua	122.6	46.7	50.4	30.7	0.0	0.0	0.0	0.0
World Bank	52.0	38.7	16.0	0.0	0.0	0.0	0.0	0.0
IDB	70.6	8.0	34.4	30.7	0.0	0.0	0.0	0.0
Regional Totals	663.0	300.3	358.2	465.8	281.6	416.5	503.5	383.0
World Bank	252.0	95.7	46.0	88.7	39.6	135.0	118.4	53.4
IDB	411.0	204.6	312.2	377.1	242.0	281.5	385.1	329.6

Sources: World Bank and Inter-American Development Bank, Annual Reports.

Note: [a] Data for the World Bank are based on fiscal years ending June 30; includes IDA credits.

TABLE 9. NET USE OF IMF RESOURCES, 1980-1987 (millions of SDRs) [a]

	1980	1981	1982	1983	1984	1985	1986	1987
Costa Rica	13.5	43.5	-4.0	104.8	-24.3	12.6	-30.7	-47.7
Purchases	22.9	52.6	0.0	116.5	0.0	34.0	0.0	0.0
Repurchases	-9.4	-9.1	-4.0	-11.7	-24.3	-21.4	-30.7	-47.7
El Salvador	19.0	32.3	59.8	21.6	-5.4	-26.6	-45.8	-31.2
Purchases	19.0	32.3	59.8	21.6	0.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	-5.4	-26.6	-45.8	-31.2
Guatemala	0.0	116.7	0.0	38.3	27.0	-47.8	-48.0	-15.5
Purchases	0.0	116.7	0.0	38.3	27.0	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	0.0	-47.8	-48.0	-15.5
Honduras	21.9	20.7	61.7	45.9	2.6	-16.7	-41.4	-32.4
Purchases	21.9	20.7	61.7	45.9	4.2	0.0	0.0	0.0
Repurchases	0.0	0.0	0.0	0.0	-1.6	-16.7	-41.4	-32.4
Nicaragua	-0.6	-17.5	-3.6	-4.3	0.0	-9.0	0.0	0.0
Purchases	0.0	0.0	0.0	0.0	4.3	0.0	0.0	0.0
Repurchases	-0.6	-17.5	-3.6	-4.3	-4.3	-9.0	0.0	0.0
Regional Totals	53.8	195.7	113.9	206.3	-0.1	-87.5	-165.9	-126.8
Purchases	63.8	222.3	121.5	222.3	35.5	34.0	0.0	0.0
Repurchases	-10.0	-26.6	-7.6	-16.0	-35.6	-121.5	-165.9	-126.8

Source: International Monetary Fund, International Financial Statistics.

Note: [a] U.S. dollar/SDR conversion rates are as follows (dollars per SDR, rounded to two decimal points):

1980	1.30	1984	1.03
1981	1.18	1985	1.02
1982	1.10	1986	1.17
1983	1.07	1987	1.29

TABLE 10. U.S. ECONOMIC ASSISTANCE TO CENTRAL AMERICA, FISCAL YEARS 1980-87 (millions of dollars)

	1980	1981	1982	1983	1984	1985	1986	1987
COSTA RICA - Total	14.0	13.3	50.6	212.4	168.0	217.1	159.5	174.8
ESF [a]			20.0	157.0	130.0	169.6	126.0	142.5
DA [b]	13.6	11.5	11.5	27.2	15.5	25.9	13.2	17.1
PL-480 [c]	0.4	1.8	19.1	28.2	22.5	21.6	20.3	15.2
EL SALVADOR - Total	57.8	113.6	182.2	245.6	215.9	433.9	322.6	446.2
ESF [d]	9.1	44.9	115.0	140.0	120.2	285.0	181.9	331.5
DA	43.2	33.4	39.6	58.8	41.2	91.1	86.3	82.4
PL-480	5.5	35.3	27.6	46.8	54.5	57.8	54.4	32.3
GUATEMALA - Total	11.1	16.6	13.8	27.7	17.7	103.9	113.8	172.7
ESF				10.0		12.5	52.8	115.0
DA	7.8	9.1	8.2	12.3	4.5	63.2	37.0	34.9
PL-480	3.3	7.5	5.6	5.4	13.2	28.2	24.0	22.8
HONDURAS - Total	51.0	33.9	78.0	102.8	91.2	224.0	131.4	188.6
ESF			36.8	56.0	40.0	150.2	66.5	131.8
DA	45.8	25.7	31.1	31.3	31.0	54.4	45.3	41.7
PL-480	5.2	8.2	10.1	15.5	20.2	19.4	19.6	15.1
NICARAGUA - Total	37.4	59.6	6.2					
ESF	1.1	56.6	5.1					
DA	18.3	1.8	0.7					
PL-480	18.0	1.2	0.4					
REGIONAL - Total	4.2	10.6	13.1	19.4	15.5	106.6	62.9	56.4
ESF		0.9				70.9	15.4	7.7
DA	4.2	9.7	13.1	19.4	15.5	35.7	47.5	48.7
PL-480								
CENTRAL AMERICA - Total	175.5	247.6	343.9	607.9	508.3	1085.5	790.2	1038.7
ESF	10.2	102.4	176.9	363.0	290.2	688.2	442.6	728.5
DA	132.9	91.2	104.2	149.0	107.7	270.3	229.3	224.8
PL-480	32.4	54.0	62.8	95.9	110.4	127.0	118.3	85.4

Sources: A.I.D. (1987), previous annual issues of this publication, and Congressional Presentation, Fiscal Year 1989 (February 1988).

Notes: [a] Economic Support Fund.

[b] Development Assistance.

[c] Food assistance.

[d] The 1987 figure includes $50 million in disaster assistance related to the October 1986 earthquake.

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TABLE 11. COMMODITY PRICE TRENDS AND PROJECTIONS, 1980-2000 (constant 1985 dollars) [a]

	Actual		Projections					
	1980	1906	1987	1988	1989	1990	1995	2000
Bananas (US$/MT)	363	323	304	312	303	310	335	321
Beef (US¢/kg.)	265	177	196	199	174	151	250	240
Coffee (US¢/kg.)	330	363	204	216	212	220	240	245
Cotton (US¢/kg.)	196	89	136	130	115	121	160	155
Sugar (US$/MT)	606	113	123	175	210	225	242	242

Source: World Bank, September 17, 1987 memorandum for external distribution.

Note: [a] Current dollar projections deflated by the World Bank's Manufacturing Unit Value Index (1985 = 100), which reflects actual and projected exchange-rate as well as price movements.

TABLE 12A. CENTRAL AMERICA: GDP AND PER CAPITA GDP: TRENDS AND PROJECTIONS, 1977-2000 (1980 = 100)

A. BASE SCENARIO

1. GDP (growth rates of 3.5%, 1987-89; 4.5%, 1989-2000)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Costa Rica	89.0	94.6	99.3	100.0	97.7	90.6	93.2	100.7	101.7	106.3	109.5	113.3	117.3	122.6	128.1	133.9	139.9	146.2	152.8	159.6	166.8	174.3	182.2	190.4
El Salvador	104.7	111.4	109.5	100.0	91.7	86.6	87.3	89.3	91.0	91.6	94.0	97.3	100.7	105.2	110.0	114.9	120.1	125.5	131.1	137.0	143.2	149.6	156.4	163.4
Guatemala	87.7	92.1	96.4	100.0	100.6	97.1	94.6	95.1	94.1	94.5	97.5	100.9	104.4	109.1	114.1	119.2	124.6	130.2	136.0	142.1	148.5	155.2	162.2	169.5
Honduras	86.7	93.1	99.4	100.0	101.0	98.3	99.4	102.3	105.6	108.5	113.0	117.0	121.0	126.5	132.2	138.1	144.4	150.8	157.6	164.7	172.1	179.9	188.0	196.4
Nicaragua	131.5	122.0	90.9	100.0	105.4	104.5	109.4	107.7	103.3	102.8	104.3	108.0	111.7	116.8	122.0	127.5	133.2	139.2	145.5	152.0	158.9	166.0	173.5	181.3
Regional Avg.	95.2	99.0	98.8	100.0	99.2	95.2	95.5	97.7	97.8	99.3	102.3	105.9	109.6	114.6	119.7	125.1	130.7	136.6	142.8	149.2	155.9	162.9	170.2	177.9

2. PER CAPITA GDP (growth rates averaging 0.9%, 1987-89; average of 1.9%, 1989-2000 [a])

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Costa Rica	96.6	99.9	101.7	100.0	95.1	85.8	85.9	90.4	88.9	90.6	90.8	91.7	92.6	94.5	96.4	98.3	100.3	102.3	104.3	106.4	108.5	110.7	112.9	115.2
El Salvador	110.8	115.4	111.3	100.0	90.6	84.7	84.7	85.8	86.4	85.5	86.2	87.1	87.9	90.0	92.0	94.1	96.3	98.5	100.8	103.1	105.5	107.9	110.4	112.9
Guatemala	95.3	97.3	99.1	100.0	97.9	91.9	87.1	85.1	82.0	80.2	80.5	81.2	82.0	83.5	85.1	86.7	88.4	90.0	91.8	93.5	95.3	97.1	98.9	100.8
Honduras	96.4	99.7	102.8	100.0	97.5	91.8	89.6	89.3	89.2	88.9	89.9	90.5	91.2	92.7	94.3	95.9	97.5	99.2	100.9	102.6	104.3	106.1	107.9	109.7
Nicaragua	145.2	130.4	94.0	100.0	101.8	97.7	98.8	94.2	87.3	84.1	82.7	83.1	83.5	84.8	86.1	87.3	88.7	90.0	91.3	92.7	94.1	95.5	96.9	98.4
Regional Avg.	103.5	104.6	101.5	100.0	96.6	90.2	88.1	87.9	85.7	84.8	85.0	85.8	86.6	88.2	89.9	91.6	93.3	95.1	96.9	98.8	100.6	102.5	104.5	106.5

Source: Table 1 (1977-87).

[a] Assumed country-specific per capita GDP growth rates for 1989-2000, and associated population growth rate assumptions for 1987-2000, are as follows (percent per year):

	Population	Per Capita GDP
Costa Rica	2.5	2.0
El Salvador	2.2	2.3
Guatemala	2.6	1.9
Honduras	2.8	1.7
Nicaragua	3.0	1.5
Regional Average	2.6	1.9

TABLE 12B. GDP AND PER CAPITA GDP PROJECTIONS, 1987-2000 (1980 = 100)

B. HIGH-GROWTH SCENARIO

1. GDP (growth rates of 4.0%, 1987-89; 6.0%, 1989-2000)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Costa Rica	109.5	113.9	118.4	125.5	133.1	141.1	149.5	158.5	168.0	178.1	188.8	200.1	212.1	224.8
El Salvador	94.0	97.8	101.7	107.8	114.2	121.1	128.4	136.1	144.2	152.9	162.0	171.8	182.1	193.0
Guatemala	97.5	101.4	105.5	111.8	118.5	125.6	133.1	141.1	149.6	158.6	168.1	178.2	188.9	200.2
Honduras	113.0	117.5	122.2	129.6	137.3	145.6	154.3	163.6	173.4	183.8	194.8	206.5	218.9	232.0
Nicaragua	104.3	108.5	112.8	119.6	126.8	134.4	142.4	151.0	160.0	169.6	179.8	190.6	202.0	214.1
Regional Avg.	102.3	106.4	110.6	117.3	124.3	131.8	139.7	148.1	157.0	166.4	176.4	186.9	198.2	210.0

2. PER CAPITA GDP (growth rates averaging 1.4%, 1987-89; average of 3.3%, 1989-2000)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Costa Rica	90.8	92.2	93.5	96.7	100.0	103.4	106.9	110.6	114.3	118.2	122.2	126.4	130.7	135.1
El Salvador	86.2	87.8	89.3	92.6	96.1	99.6	103.3	107.1	111.1	115.2	119.5	123.9	128.5	133.2
Guatemala	80.5	81.6	82.8	85.5	88.3	91.2	94.2	97.4	100.6	103.9	107.3	110.9	114.5	118.3
Honduras	89.9	91.0	92.1	94.9	97.9	100.9	104.0	107.3	110.6	114.0	117.5	121.2	124.9	128.8
Nicaragua	82.7	83.5	84.4	86.8	89.3	91.9	94.6	97.3	100.1	103.1	106.0	109.1	112.3	115.5
Regional Avg.	85.0	86.2	87.4	90.3	93.3	96.3	99.5	102.8	106.2	109.7	113.3	117.1	120.9	124.9

TABLE 12C. GDP AND PER CAPITA GDP PROJECTIONS, 1987-2000 (1980 =100)

C. LOW-GROWTH SCENARIO

1. GDP (growth rate of 3.0%, 1987-2000)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Costa Rica	109.5	112.8	116.2	119.7	123.2	126.9	130.7	134.7	138.7	142.9	147.2	151.6	156.1	160.8
El Salvador	94.0	96.8	99.7	102.7	105.8	109.0	112.2	115.6	119.1	122.6	126.3	130.1	134.0	138.0
Guatemala	97.5	100.4	103.4	106.5	109.7	113.0	116.4	119.9	123.5	127.2	131.0	135.0	139.0	143.2
Honduras	113.0	116.4	119.9	123.5	127.2	131.0	134.9	139.0	143.1	147.4	151.9	156.4	161.1	165.9
Nicaragua	104.3	107.4	110.7	114.0	117.4	120.9	124.5	128.3	132.1	136.1	140.2	144.4	148.7	153.2
Regional Avg.	102.3	105.4	108.5	111.8	115.1	118.6	122.2	125.8	129.6	133.5	137.5	141.6	145.9	150.2

2. PER CAPITA GDP (growth rates averaging 0.4%, 1987-2000)

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Costa Rica	90.8	91.3	91.7	92.2	92.6	93.1	93.6	94.0	94.5	95.0	95.4	95.9	96.4	96.9
El Salvador	86.2	86.9	87.6	88.3	89.0	89.7	90.4	91.1	91.9	92.6	93.3	94.1	94.8	95.6
Guatemala	80.5	80.8	81.1	81.5	81.8	82.1	82.5	82.8	83.1	83.4	83.8	84.1	84.5	84.8
Honduras	89.9	90.1	90.3	90.4	90.6	90.8	91.0	91.2	91.3	91.5	91.7	91.9	92.1	92.3
Nicaragua	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7	82.7
Regional Avg.	85.0	85.3	85.7	86.0	86.4	86.7	87.1	87.4	87.8	88.1	88.5	88.8	89.2	89.5

TABLE 13. BASE SCENARIO: REQUIRED GROWTH OF NONTRADITIONAL EXTRAREGIONAL EXPORTS

	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	20[illegible]
A. BASE SCENARIO														
Imports [a]	4798	4983	5175	5431	5700	5982	6278	6588	6915	7257	7616	7993	8389	88[illegible]
Exports -- Total [a]	4026	4244	4474	4717	4972	5242	5526	5826	6141	6474	6825	7195	7585	79[illegible]
Less: Traditional	2720	2797	2876	2957	3042	3130	3219	3313	3409	3508	3612	3719	3829	39[illegible]
Less: Nontraditional-CACM	487	519	552	588	627	667	711	757	806	858	914	974	1037	11[illegible]
Equals: Nontraditional-Other	819	929	1046	1171	1304	1445	1596	1756	1926	2108	2299	2502	2719	29[illegible]
B. MODIFIED BASE SCENARIO: HIGHER IMPORT REQUIREMENTS														
Imports	4798	5000	5209	5491	5787	6100	6429	6776	7142	7528	7935	8363	8815	92[illegible]
Required Nontraditional-Other	819	945	1081	1232	1392	1563	1748	1944	2154	2379	2617	2872	3145	34[illegible]
C. MODIFIED BASE SCENARIO: HIGHER CAPITAL INFLOWS														
Required Nontraditional-Other	819	879	996	1121	1204	1345	1496	1606	1776	1958	2149	2302	2519	27[illegible]
D. MODIFIED BASE SCENARIO: FASTER TRADITIONAL EXPORT GROWTH														
Traditional Exports	2720	2815	2914	3016	3121	3231	3344	3461	3582	3707	3837	3971	4110	42[illegible]
Required Nontraditional-Other	819	910	1008	1113	1225	1344	1472	1608	1754	1909	2074	2250	2438	26[illegible]

Notes: [a] Import figures for "1987" are actually averages of the 1986 figures and preliminary estimates for 1987, a year in which there were significant import surges in Costa Rica and Guatemala, probably reflecting some speculative stockpiling. For exports, the traditional export figure is an average for 1985-87, to reflect sharp swings in coffee prices. For nontraditional exports to regional and extraregional markets, the figures are estimates for 1987 only.

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