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June 14, 1982

IMPACT OF THE CENTRAL AMERICAN COMMON MARKET  
(CACM) ON COSTA RICA

I will first briefly describe the basic legislation establishing the Central American Common Market (CACM) and its major institutions. I will then examine trends in the following key parameters since the establishment of the CACM in 1960: exports of manufactured goods, value added by manufacturing industry, private investment and net private capital inflow. Finally, I will review the benefits accruing to the region and to Costa Rica from integration according to the exhaustive SIECA/Brookings study.

I. THE BASIC LEGAL AND ORGANIZATIONAL FRAMEWORK OF THE CACM

The formal establishment of the Central American Common Market dates from the signing of the General Treaty for Central American Economic Integration in Managua on December 13, 1960. In that basic document, the five Central American countries agreed to the following:

a. Establish a common market or free trade area within a period of five years. Goods originating in any one of the CA countries would be permitted to move freely within the region.

b. Establish a common external tariff applying to all goods entering the region. The national tariff schedules would be harmonized over a five-year period. Sales taxes would not

discriminate against goods originating in another Central American country.

c. The central banks would cooperate closely to prevent currency speculation, maintain convertibility of currencies at stable exchange rates and, under normal conditions, guarantee freedom of foreign exchange transactions.

d. The countries agreed to adopt all the provisions of the agreement on the Regime of Central American Integration Industries, which is designed to promote the equitable distribution of manufacturing industry throughout the region to promote the region's "balanced" development.

e. The countries also agreed to harmonize fiscal incentives to prevent competition among them in granting tax concessions to foreign enterprises. To this effect, they agreed to sign a special protocol harmonizing the national fiscal incentives laws.

e. To administer the General Treaty, the countries created the Central American Economic Council comprised of the Ministers of Economy of the five countries which is in charge of supervision and policy formulation; an Executive Council consisting of the Vice-Ministers of Economy in Charge of Integration; and a Permanent Secretariat with responsibility for preparing the basic studies required for policy determination and with day-to-day administrative matters "to ensure the proper application of the integration treaties and the implementation

of the resolutions adopted by the Central American Economic Council and the Executive Council."

While a large number of other instrumentalities were created to administer the provisions of the General Treaty, only two others will be mentioned here owing to of their crucial importance: The Central American Bank for Economic Integration (CABEI) and the Central American Monetary Council.

CABEI's Charter was adopted at the same time as the General Treaty (on December 13, 1960) for the purpose of "promoting economic integration and the balanced economic development of the member countries." The Bank has been instrumental in raising substantial sums to provide long-term loans for the CA countries, primarily for the development of public infrastructure (roads, ports and airports, tourism infrastructure) and, to a lesser extent, housing and industrial development. Recently, the Bank has also begun to become active in other areas, such as agribusiness and the financing of private manufacturing activities through national financial intermediaries. AID has been a major contributor to CABEI's resources with cumulative loans amount to \$200 million since its inception.

Monetary cooperation has been another important aspect of the CACM and deserves special mention because the CA Monetary Council is one of the few integration institutions that is continuing to meet at regular intervals even today, in spite of

political tensions in the region. The Central American Monetary Council, consisting of the presidents of the five central banks, was set up in February 1964, as part of the Agreement for the Establishment of a Central American Monetary Union. This Agreement has as its primary purpose to promote the coordination and harmonization of the monetary, foreign exchange and credit policies of the CA countries and to progressively establish the basis for a monetary union. The Agreement directed the central banks to harmonize their foreign exchange systems, achieve stability and convertibility of the Central American currencies, strengthen the Central American Clearing House, provide mutual financial assistance to help correct balance of payments disequilibria and generally establish a permanent system of information and consultation to harmonize legislation and policies in the monetary area.

With the help of a \$10 million AID loan and an initial \$10 million capitalization, the five central banks set up the Central American Monetary Stabilization Fund in 1970 to provide mutual balance of payments assistance to any country in the region facing serious balance of payments difficulties. As of May 1981, the Fund's capital had grown to \$63 million, while total loans granted by the Fund to its members (mostly for one-year terms) had an outstanding balance of \$124 million. Along with the CA Clearing House, the CA Monetary Stabilization Fund

constitutes one of the two major instrumentalities administered by the CA Monetary Council.

## II. MAJOR REGIONAL DEVELOPMENTS SINCE 1960

Before discussing the impact of the CACM on Costa Rica, we will briefly review trends in some key macroeconomic variables in the region as a whole following the establishment of the CACM. Basic growth trends in intraregional and total exports, private investment spending, value added by manufacturing and real GDP are presented in Table 1. Note that total intraregional exports increased from only \$30.3 in 1960 to \$1,156 million in 1980, an average annual increase of 20%. As a proportion of total exports, intraregional exports increased from only 7% in 1960 to 25% in 1980.

Note that the most rapid growth of the CACM countries occurred during the eight-year period 1960-68. During that period, intraregional exports increased at an average annual compound of 30%; private investment spending increased in real terms by 7.6%; and value added by manufacturing (also in real terms) at 8.7% (see Table 1).

Beginning in 1969, the CACM growth slowed. Over 1968-75 the annual growth rate of real GDP declined from 6 to 5 percent, while the annual growth rate of private investment declined from 7.6 to 4.9%. Value added by manufacturing fell from 8.7 to 5.8%.

The reduction in the growth rate after 1968 may be attributed to a combination of the following factors:

a. The establishment of the CACM was followed by a spurt of investment spending as many firms established themselves in the region to take advantage of the CACM protective umbrella. Such investment spending could not continue at the same rate indefinitely.

b. A gradual reduction in easy import substitution opportunities.

c. The outbreak of the Salvador-Honduras war in 1969, followed by Honduras's departure from the CACM free trade area (though Honduras remained an active participant in the regional integration institutions), and the closing of the Pan American highway through Honduras to all traffic to and from El Salvador.

d. The impact of the increases in the price of petroleum in 1973 and following years, which gave rise to serious balance of payments difficulties.

e. Beginning in 1979, the region experienced additional severe shocks, including civil war in Nicaragua followed by the overthrow of the Somoza government; a coup d'etat followed by civil war in El Salvador; and the development of greatly increased political tensions in the region between Nicaragua on the one hand and Honduras, Guatemala and El Salvador on the other.

The development of the crisis in the Central American region since 1979 is reflected by the data in Table 2. Note that between 1979 and 1981, the regional balance of payments deficit

on current account increased from \$744 million to \$1.9 billion; the overall balance of payments deficit increased from \$320 million to \$744 million; latest available data on net international reserves show that they are negative by some \$550 million; the budget deficits of the five CA central governments over 1979-81 increased from \$640 million to \$1.5 million; the region's real GDP is now declining by some 3 to 4%; while inflation has become a major problem in both Nicaragua and Costa Rica (Table 2).

### III. IMPACT ON TARIFF RATES

A careful examination of the impact of the CACM on the height of the tariff schedule in each of the Central American countries was undertaken by the Secretariat for Economic Integration of Central America (SIECA) in close collaboration with the Brookings Institution.\* The results for industrial products are summarized in Table 3. Part A of the table shows the average height of the tariff weighted on the basis of import value, while part B shows the average tariff ratio based on the value of consumption of industrial products. I consider B to be more meaningful because, when import value is used as the basis for determining weights, results are distorted to the extent

\*William R. Cline and Enrique Delgado, Editors, Economic Integration in Central America, The Brookings Intitution, 1978.

that high tariff rates discourage imports, and hence may depress total tariff receipts and lower the ratio of duties collected to import value. Note, however, that regardless of the concept used in weighting, Costa Rica's average tariff on manufactured products declined significantly between 1958 (pre-CACM), 1968 and 1972. This outcome is true for all countries of the region with the exception of El Salvador (Table 3).

Of greater relevance than the "legal tariff" is the "adjusted tariff" which calculates the weighted average tariff after allowance for exemptions on the importation of raw materials and intermediate goods. Note that, for Costa Rica, the adjusted tariff, with weights based on the value of consumption, declined from 59.4% in 1958 to only 19.8% in 1972. In evaluating these rates, the SIECA/Brooking Study notes that "in terms of general level of protection, these tariffs appeared quite modest -- especially the rates adjusted for exemptions. In 1972, legal tariff rates on the order of 30% and adjusted rates on the order of 12% in the region represented very modest protection compared with that typical for most developing countries."\* The study attributes the sharp drop in the adjusted tariff between 1968 and 1972 to the incidence of exemptions which had only a limited impact in 1958, but a very substantial one by 1972 "when actual tariff collections were between one-third and one-half of the legal duties hypothetically due in

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\*Ibid., Page 80.

the absence of exemptions."\* The SIECA/Brookings study also notes that "legal tariffs converged from their 1958 level among the five countries to a uniform common intermediate level by 1968; the tariffs were reduced substantially in the process for Guatemala and Costa Rica."\*\*

The "effective rate of tariff protection" is a more meaningful concept than either the legal tariff or even the adjusted tariff because effective rates of protection measure the degree of protection given to a particular manufacturing process as a percentage of total value added domestically, after taking full account of the degree of protection given to both the finished and intermediate goods involved. The adjusted rates of effective protection for all five Central American countries are presented in the first section of Table 4. Note that average rates of effective protection are higher for Costa Rica and Honduras than for the other three countries, particularly in relation to Guatemala and Nicaragua. Note also that by far the highest rates of protection are provided for the "traditional products," i.e. mostly finished consumer goods that compete with products produced in the region. In Costa Rica, this category enjoys about 85% of effective protection (after adjustment for exemptions). A comparison of Tables 4 and 5 shows that the level of effective protection in Central America is much lower

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\*Ibid., P. 81.

\*\*Ibid., P. 79.

than that prevailing in some other LDCs, including Argentina, Brazil, India and Pakistan; is roughly in line with the Philippines; and is significantly higher than in Mexico and Taiwan.

Finally, it should be noted that while the establishment of the CACM has resulted in some degree of harmonization and convergence of the five national tariffs, this harmonization is far from complete. A study undertaken by H. Brewster\* notes that the tariff structures of the five CA countries still differ substantially owing to a multitude of tariff exemptions which not only differ among products but also among countries for the same products; the haphazard application of the San Jose Protocol (30% imports surcharge) of 1968; the importance of specific duties prevalent in the CACM tariff structure; and a rather important list of excluded goods. Still, the weight of the evidence supports the conclusion that for all countries of the region except El Salvador, the level of protection declined significantly between 1958 and 1972.

#### IV. COSTA RICA: TRENDS IN MAJOR MACROECONOMIC FACTORS SINCE 1960

In this section, we shall analyze basic trends in Costa Rica's key macroeconomic variables, including exports of industrial products to the CACM and to outside the region, GDP, private and public investment, value added by manufacturing and net

\*"The Choice between Efficiency and Industrial Balance: Protection and Employment in the Central American Common Market," mimeographed (Guatemala City, SIECA, 1972).

private capital inflow. The analysis does not suggest that these growth trends are attributable to the establishment of the CACM. Obviously, a number of other factors, including changes in the prices of Costa Rica's export products and of POL and other imports, improvements in technology and trends in capital formation that would have occurred in the absence of the CACM, and external shocks such as the El Salvador-Honduras war, had a profound impact on Costa Rica's general economic situation. The SIECA/Brookings study that will be summarized in Section V attempts to isolate the welfare effects resulting from integration from these other factors. In the present section, no attempt to establish a simple cause and effect relationship between the CACM and these growth trends will be made. However, we believe that the impact of the CACM on Costa Rica's foreign trade, investment and capital inflow is substantial -- and apparent -- particularly during the decade of the 1960's.

a. Trends in Costa Rica's Exports of Manufactured Products

Costa Rica's exports of manufactured products to the CACM increased from a mere \$2.4 million in 1960 to \$33.6 million in 1968, an average annual rate of growth 39% during this eight-year period (see Col. 1 of Table 6). Growth slowed considerably thereafter -- to 15% over 1968-73, then rose back

slightly to 17% over 1973-79. A surprising 48% growth occurred between 1979 and 1980, almost entirely as a result of a substantial spurt of exports to Nicaragua fueled by that country's substantial reconstruction needs and by the generous credits provided to Nicaragua by Costa Rica, Guatemala and other countries and donor institutions. A 12% decline in Costa Rica's intraregional exports occurred in 1981 as a result of the general contraction in the level of real income of the CA region.

The impact of the establishment of the CACM is certainly apparent in the 14-fold expansion of Costa Rica's exports to the region during the formative years of 1960-68 (Table 6). The growth of intraregional exports is particularly significant because of its impact on the development of the manufacturing sector. An analysis of the composition of intraregional trade recently undertaken by ROCAP shows that about 87% of the region's (and Costa Rica's) total intraregional exports consists of manufactured goods (see Table 7).

The last two decades also witnessed a tremendous explosion in Costa Rica's exports of manufactured products to new extraregional markets (see Column D of Table 6). However, while the period of rapid growth for intraregional exports was the decade of the sixties, the explosion of Costa Rica's exports to the rest of the world took place in the seventies. In 1969,

Costa Rica total exports of manufactured products to the rest of the world were only \$2.5 million. This increased by nearly 800% by 1975 (to \$22.3 million) and to \$80.3 million by 1981 (Column D of Table 6). Thus, over the eleven-year period 1970-81, exports to outside the region increased at a stunning average annual compound rate of 34%! Of particular interest is the fact that in 1981, while Costa Rica's industrial exports to the CACM declined by 12%, its exports to the rest of the world increased by 38%,\* a truly astounding performance in light of recession abroad and the foreign exchange, credit and confidence crisis that Costa Rica went through during this period. These data suggest that, given provision of foreign exchange credits for the importation of essential raw materials for the export manufacturing sector and some easing of domestic credit to provide working capital depleted by Costa Rica's crushing debt servicing requirements,\*\* the country's manufacturing sector is likely to continue to expand its exports to outside the CACM, though probably not at the rate experienced in recent years.

b. Trends in Costa Rica's GDP, Investment and Value Added by Manufacturing Industry

Growth trends in GDP, private and public investment, and value added by manufacturing industry expressed in constant dollars are presented in Table 8. The private net capital inflow (expressed in current dollars) is presented in Table 9. Note the following:

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\*Based on data in Table 6.

\*\*As a result of the substantial devaluation of the Colon which greatly increased the cost of servicing debt contracted abroad.

(1) The period 1960-68 is the period of most rapid growth. Costa Rica's real GDP increased at an average annual compound rate of 6.8% during this period. It declined to 5.4% over 1968-78 and to only 1% over 1978-81 (Table 8). The 1960-68 period is also the period of most rapid growth for private investment (which increased at an average annual rate of 6.9% in real terms) and of value added by manufacturing industry (annual growth rate of 9.0%). Public investment also increased rapidly during this period (average annual rate of 8.5%), though it increased even more rapidly during the following five-year period 1968-73 (Table 8).

(2) During the decade of the sixties, Costa Rica also experienced a substantial increase in net private capital inflow from abroad. The latter increased from only \$8 million in 1960 to \$61 million in 1970, an average annual growth rate of 22% (see Table 9). While the growth rate of net private capital inflow slowed considerably during the 70's, it continued to grow and reached a peak of \$175 million in 1977 (Table 9).

(3) A dramatic turn-around in growth trends occurred after 1978 (see Table 8). The average annual real GDP growth rate over 1978-81 fell to only 1.0%. In 1981, GDP is estimated to have actually declined by 3.6%. A decline of 1.2% was experienced by value added in manufacturing industry. Over the three-year period 1978-81, private investment declined at an average annual rate of 12.4%. Between 1979 and 1981, private investment fell from \$317 million to \$190 million, or by nearly

40% (Table 8). The net private capital inflow which had grown so rapidly over 1960-78, turned negative in each of the three following years, climaxing at minus \$1.87 billion in 1980 (Table 9).

In conclusion: There is little doubt that the formation of the Common Market played a significant role in contributing to Costa Rica's rapid growth during the 1960's. A significant slowdown occurred during the seventies as a result of the various factors described in Section II. The magnitude of the crisis that Costa Rica is traversing since 1978 is dramatically reflected in the macroeconomic indicators presented in Tables 8 and 9. That crisis is attributable to a combination of factors, including the sharp adverse shift in the terms of trade, the cut-off of foreign credit lines, cessation of foreign investment, depressed market conditions both within and outside the CACM, the impact of successive devaluations on the working capital of Costa Rican firms, and the high external debt that Costa Rica is no longer able to service.

#### V. BENEFITS TO COSTA RICA FROM INTEGRATION

The comprehensive evaluation of the benefits from integration was the subject of an exhaustive SIECA/Brookings Study.\* The major welfare benefits were found to consist of the following:

- a. "Trade creation" which results directly from the elimination of tariffs on imports from partners, thus enabling all

William R. Cline and Enrique Delgado, Editors, Economic Integration in Central America, The Brookings Institution, 1978.

countries of the region to increase their total level of imports and attain a higher standard of living;

b. a "labor opportunity cost effect" which results from a fuller and more effective utilization of underemployed labor as a result of expanded exports and opportunities for specialization generated by the CACM;

c. an "economies of scale" effect as greater specialization, resulting in lower costs, can be achieved as a result of the expanded market;

d. and a "foreign exchange savings" effect resulting from the fact that the region as a whole saves foreign exchange (i.e. convertible or "hard" currencies) to the extent that it is able to increase its exports to partners at no expense to its exports to the rest of the world, and while replacing goods imported from the rest of the world with goods supplied by its CACM partners.

In addition to the above effects which the study describes as "static," there is a significant "dynamic" effect associated with the expansion of real investment taking place in the CACM to take advantage of the expanded market and the increased availability of investment funds.\*\*

The study concludes that the welfare effects from these various sources are substantial. Total welfare effects from integration for the region as a whole were estimated to fall between 3 and 4% annually of Central America's GDP.\* Half of

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\*For a full description of these effects, see pages 62-70 of the SIECA/Brookings study cited above.

\*\*Ibid., Page 110.

this impact is attributed to the "dynamic" effect which was found to be particularly important. In the case of Costa Rica, the total welfare impact of integration as a proportion of GDP was found to be significantly less than for the region as a whole -- viz 1.3% for Costa Rica versus 3 to 4% for the region as a whole. Still, the integration benefits to CR must be considered significant, amounting to some \$15 to \$16 million annually by 1972.\*

#### VI. CONCLUSION

The weight of the evidence suggests that the creation of the Central American Common Market has contributed significantly to the economic development of the region -- particularly to its manufacturing industry and infrastructure. Substantial welfare benefits accrued as a result of establishment of a free trade area which promoted specialization according to comparative advantage, the fuller utilization of the labor force, savings in foreign exchange and "dynamic" benefits resulting from the substantial acceleration of both private and public investment expenditures. Formation of the CACM induced a substantial inflow of private capital while the formation of the Central American Bank for Economic Integration attracted a significant amount of capital from the US and, to a lesser degree, from the IDB, to finance the development of the region's infrastructure, particularly the regional road network. AID's cumulative loan contribution to CABEI amounted to \$200 million. In the case of

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\*Based on Table 16, Page 111 of SIECA/Brookings report.

Costa Rica, establishment of the CACM led to a significant expansion of exports of manufactured products to the CACM during the sixties, and resulted in a substantial acceleration in the growth of real GDP and of private investment during the decade. The 1960's also witnessed a substantial increase in value added by Costa Rica's manufacturing industry and in the country's net private capital inflow.

Annual welfare benefits by 1972 were estimated by the SIECA/Brookings Institution at a substantial 3 to 4% of the GDP for the region as a whole. For Costa Rica, annual welfare benefits were estimated to be a much more modest but still significant 1.3% of the 1972 GDP.

In view of the importance that intraregional trade has assumed (it now amounts to about 25% of the region's total exports), and particularly because of the close interrelationship between intraregional trade and value added by the manufacturing sector (some 85 to 90 percent of intraregional trade consists of manufactured products), the region has an important stake in maintaining the Central American Common Market and to prevent a further reduction in the level of intraregional trade. Still, most observers agree that the region must depend for much of its future growth on exports to outside the CACM and on the investment that such exports would generate. This conclusion is equally valid for Costa Rica. The nine-fold expansion of Costa Rica's exports of manufactured products to outside the CACM

registered between 1973 and 1981 suggests that Costa Rica has the potential to produce and market its manufactured products outside the region if only it can surmount the obstacles arising from the present crisis. These consist primarily in the acute shortage of foreign exchange for the purchase of essential raw materials, intermediate and capital goods; and in the decapitalization of Costa Rican firms aggravated by the general shortage of bank and supplier credit.

TABLE 1

TRENDS IN INTRAREGIONAL TRADE IN RELATION TO TOTAL EXPORTS,  
PRIVATE INVESTMENT, VALUE ADDED BY MANUFACTURING AND GDP OVER 1960-80

|  | (1) (2)<br>In Millions of Current Dollars |                  | (3)<br>(1) as %<br>of (2) | (4) (5) (6)<br>In Millions of Constant 1960 Dollars |                                    |   |
|--|---|------------------|---------------------------|---|------------------------------------|---|
|  | Total<br>Intraregional<br>Exports         | Total<br>Exports |                           | Private<br>Investment<br>Spending                   | Value<br>Added by<br>Manufacturing | Real GDP<br>(Millions<br>of Constant<br>1960\$) |
| 1960   | 30.3                                      | 440.1            | 6.9                       | 275.0   | 379.4                              | 2700.9  |
| 1965   | 132.1                                     | 761.3            | 17.4                      | 426.2   | 578.2                              | 3690.5  |
| 1968   | 246.9                                     | 947.3            | 26.1                      | 495.9   | 739.5                              | 4314.5  |
| 1972   | 204.7                                     | 1328.8           | 22.9                      | 548.6   | 933.7                              | 5270.3  |
| 1975   | 536.4                                     | 2298.7           | 23.3                      | 691.4   | 1095.4                             | 6070.1  |
| 1978   | 862.7                                     | 3855.3           | 22.4                      | 949.4   | 1352.2                             | 7179.1  |
| 1980   | 1156.0                                    | 4641.8           | 24.9                      | 887.6 (1979)  | 1750.8                             | 7327.1  |
| Average<br>Annual<br>Compound<br>Growth<br>Rates | %   | %                |                           | %   | %                                  | %   |
| 1960-68  | 30.0                                      | 10.1             |                           | 1.6   | 8.7                                | 6.0   |
| 1968-75  | 11.7                                      | 13.5             |                           | 4.9   | 5.8                                | 5.0   |
| 1975-80  | 16.6                                      | 15.1             |                           | 6.4*  | 4.3                                | 3.8   |
| Twenty-<br>Year<br>Period                        |   |                  |                           |   |                                    |   |
| 1960-80  | 20.0                                      | 12.5             |                           | 6.4**   | 6.6                                | 5.1   |

\*For the four-year period 1975-79.

\*\*For the 19-year period 1960-79.

Sources: SIECA, VI Compendio Estadístico Centroamericano, 1975; SIECA, Series Estadísticas Seleccionadas de Centro América y Panamá, Guat. Nov. 1980; and SIECA, Estadísticas Macroeconómicas de Centro América 1970-80, July 1981.

TABLE 2

SELECTED KEY MACRO-ECONOMIC INDICATORS  
(In Millions of Current U.S. Dollars as of Mar. 1982)

|             | (1)<br>Deficit (-) or Surplus (+)<br>on Current Acct. |       |                    |                     | (2)<br>Overall Balance of<br>Payments Deficit |                    |                    |                    | (3)<br>Net Int'l. Reserves |                  |                                   | (4)<br>Gross Int'l. Reserves,<br>incl. Gold <sup>10/</sup> |                  |                        |
|-------------|---|-------|--------------------|---------------------|---|--------------------|--------------------|--------------------|----------------------------|------------------|-----------------------------------|--|------------------|------------------------|
|             | 1979  | 1980  | 1981<br>(Proj.)    | 1982<br>(Proj.)     | 1979  | 1980               | 1981<br>(Proj.)    | 1982<br>(Proj.)    | Dec. 31,<br>1979           | Dec. 31,<br>1980 | Latest Date                       | Dec. 31,<br>1979   | Dec. 31,<br>1980 | Latest Date            |
|             | Guatemala   | -206  | -163               | -601                | -583  | -15                | -250               | -423 <sup>1/</sup> | -305 <sup>2/</sup>         | 691.6            | 413.1                             | 70.0<br>(Feb. 28, 82)                                      | 718.4            | 466.8                  |
| El Salvador | 132   | -86   | -227               | -344                | -108  | -196               | -59                | -237 <sup>3/</sup> | 126.3                      | -69.9            | -128.5 (Dec. 31,<br>81 projected) | 161.7  | 99.5             | 95.6<br>(Jan. 31, 82)  |
| Honduras    | -192  | -321  | -299               | -354 <sup>4/</sup>  | -17   | -61                | -97                | -76 <sup>4/</sup>  | 116.2                      | 55.2             | 31.9<br>(Aug. 31, 81)             | 210.0  | 150.8            | 101.0<br>(Dec. 31, 81) |
| Nicaragua   | 124   | -387  | -293               | (-293)              | -80 <sup>6/</sup>                             | -172 <sup>6/</sup> | -105 <sup>6/</sup> | (-10)              | -192.6                     | -362.8           | (-363.0) <sup>11/</sup>           | 87.3   | 81.0             | N/A                    |
| Costa Rica  | -602  | -661  | -511 <sup>7/</sup> | -526 <sup>8/</sup>  | -100  | -456               | -155 <sup>6/</sup> | -150 <sup>8/</sup> | 117.0                      | -95.3            | -163<br>(Mar. 31, 81)             | 154.6  | 199.5            | 141.6<br>(Feb. 26, 82) |
| TOTAL       | -744  | -1618 | -1931              | -2100 <sup>9/</sup> | -320  | -1135              | -744               | -778 <sup>9/</sup> | 858.5                      | -59.7            | -552.6                            | 1332.0   | 997.6            | 523.5 <sup>9/</sup>    |

<sup>1/</sup>Counts as part of the 1981 deficit the assistance received from the IMF and the CA Monetary Stabilization Fund, and commercial bank borrowing by the Bank of Gua.

<sup>2/</sup>Assumes a 4% decline in imports in real terms; hence, is consistent with some decline in the real GDP.

<sup>3/</sup>Assumes no significant change in real imports between 1981 and 1982; and excludes (in 1982) all IMF and US/ESF assistance.

<sup>4/</sup>Assuming zero real GDP growth in 1982. The current account deficit corresponding to a 3-4% real GDP growth assumption in 1982 is estimated at \$398 million; and the overall balance of payments deficit (on that same assumption) at \$121 million.

<sup>5/</sup>Assumes a 20% decline of imports in real terms, and interest payments of \$127 million.

<sup>6/</sup>Excludes most debt service charges estimated at some \$500 to \$600 million in 1980. These were simply not paid in 1979 and "renegotiated" in 1980.

<sup>7/</sup>Assumes a 14% decline in 1981 imports in real terms, no net private capital flows and no repayment of arrears. Since this deficit most likely cannot be covered, imports may have to decline by more than 14% in real terms.

<sup>8/</sup>Assumes an increase in imports (in current prices) of only 4.6% in 1982, which means a reduction of 4 to 5% in real terms. The overall deficit figure abstracts from private capital inflows and repayment of arrears.

<sup>9/</sup>In totalling, it was assumed that the 1982 figure for Nicaragua is the same as for 1981.

<sup>10/</sup>Gold is valued at the old official price of \$42.22 per ounce. Source for gross international reserves: IMF Int'l. Financial Statistics, Dec. 1981.

<sup>11/</sup>No data for Nic. are available. Net international reserves were assumed to be same as at the end of 1980 in summing.

TABLE 2

|             | (5)<br>Central Govt's Overall<br>Budget Deficit (-) |       |                     |                      | (6)<br>Real GDP Growth Rate |              |                         | (7)<br>Debt Service<br>Ratio <sup>11/</sup> in 80 | (8)<br>Estimated Annual<br>Inflation Rate |        |
|-------------|---|-------|---------------------|----------------------|-----------------------------|--------------|-------------------------|---|---|--------|
|             | 1979  | 1980  | 1981<br>(Proj.)     | 1982<br>(Proj.)      | In 1979<br>%                | In 1980<br>% | In 1981<br>(Proj.)<br>% | Mid-1980<br>%                                     | Mid-1981<br>%                             |        |
|             | Guatemala   | -148  | -368                | -698                 | -453                        | 4.5          | 3.5                     | 1   | 4.2                                       | 15     |
| El Salvador | -24   | -199  | -191                | -297                 | -1.5                        | -9.6         | -9.5                    | 4.0   | 20  | 13     |
| Honduras    | -74   | -193  | -196                | -352                 | 6.7                         | 2.4          | 0 to -2.0               | 15.1  | 15-20                                     | 10     |
| Nicaragua   | -125  | -189  | -275*               | N/A                  | -24.0                       | 10.7         | 5-7 <sup>16/</sup>      | 37.7 <sup>12/</sup>                               | 35  | 20     |
| Costa Rica  | -269  | -328  | -105 <sup>13/</sup> | -109 <sup>14/</sup>  | 4.9                         | 1.2          | -3.6                    | 25.6  | 18-20                                     | 35-40* |
| TOTAL       | -640  | -1277 | -1465               | -1411 <sup>15/</sup> |                             |              |                         |   |   |        |

<sup>11/</sup>On external public debt. Ratio of interest plus amortization payments to merchandise exports. Data used are for 1981 (if available) or for 1980.

<sup>12/</sup>After debt renegotiation.

<sup>13/</sup>Converted into dollars at £20 to \$1. Note that the Central Government's budget deficit contracted significantly in real terms between 1980 and 1981.

<sup>14/</sup>Converted into dollars at the free market rate of £40 to \$1 (for 1982).

<sup>15/</sup>Nicaragua's 1982 deficit was projected at \$200 million in totalling, though no data for Nicaragua are available at this time.

<sup>16/</sup>The Government of Nicaragua claims real GDP growth rate of 7% in 1981, but that claim is questionable.

\*At the official exchange rate of £\$10 to \$1.

\*\*The Consumer Price Index in CR increased by 21% over the first quarter of 1982 alone. The increase in the wholesale price index during the first quarter was 27%.

TABLE 3

Weighted Average Industrial Tariffs, 1958, 1968, and 1972  
(percent)

| Tariffs                                      | 1958   | 1968   | 1972   |
|--|--------|--------|--------|
| <b>A. Based on Import Value Weights</b>      |        |        |        |
| • Legal Tariffs                              |        |        |        |
| Guatemala                                    | 53.8   | 28.1   | 27.9   |
| El Salvador                                  | 25.2   | 28.9   | 26.2   |
| Honduras                                     | 34.4   | 28.5   | 36.0   |
| Nicaragua                                    | 30.7   | 25.5   | 34.5   |
| Costa Rica                                   | 52.9 ✓ | 28.9 ✓ | 28.1 ✓ |
| Adjusted Tariffs <sup>a</sup>                |        |        |        |
| Guatemala                                    | 48.8   | 19.5   | 10.4   |
| El Salvador                                  | 13.3   | 23.4   | 12.6   |
| Honduras                                     | 28.7   | 22.9   | 14.2   |
| Nicaragua                                    | 15.4   | 14.9   | 12.0   |
| Costa Rica                                   | 47.4 ✓ | 15.2   | 8.5    |
| <b>B. Based on Consumption Value Weights</b> |        |        |        |
| Legal Tariffs                                |        |        |        |
| Guatemala                                    | 79.5   | 59.6   | 60.9   |
| El Salvador                                  | 27.7   | 57.4   | 53.0   |
| Honduras                                     | 56.7   | 60.4   | 59.3   |
| Nicaragua                                    | 52.5   | 54.9   | 61.9   |
| Costa Rica                                   | 69.5 ✓ | 54.8 ✓ | 58.1 ✓ |
| Adjusted Tariffs <sup>a</sup>                |        |        |        |
| Guatemala                                    | 70.8   | 36.7   | 15.6   |
| El Salvador                                  | 10.3   | 49.3   | 23.5   |
| Honduras                                     | 45.2   | 49.1   | 27.7   |
| Nicaragua                                    | 34.8   | 39.0   | 16.6   |
| Costa Rica                                   | 59.4 ✓ | 40.7   | 19.8 ✓ |

Source: W.R. Cline and Enrique Delgado Editors, Economic Integration in CA, The Brookings Institution, 1978, Table No. 4, P. 80.

TABLE 4

## Effective and Nominal Protection: Adjusted Rates

| Sector                                 | Guatemala | El Salvador | Honduras | Nicaragua | Costa Rica |
|--|-----------|-------------|----------|-----------|------------|
| Adjusted Rates of Effective Protection |           |             |          |           |            |
| Dynamic                                | 23.76     | 27.90       | 42.41    | 20.64     | 20.48      |
| Traditional I                          | 23.57     | 59.75       | 64.00    | 34.59     | 84.53      |
| Traditional II                         | 24.23     | 61.30       | 64.85    | 35.05     | 86.31      |
| Intermediate                           | 21.56     | 25.49       | 49.90    | 21.68     | 20.00      |
| Metal-mechanic                         | 26.77     | 30.40       | 13.03    | 14.74     | 21.14      |
| Total Sector                           | 23.64     | 48.78       | 56.89    | 31.06     | 58.61      |
| Nominal Final Protection               |           |             |          |           |            |
| Dynamic                                | 16.29     | 20.23       | 14.97    | 13.17     | 12.08      |
| Traditional I                          | 17.65     | 39.11       | 45.88    | 26.78     | 54.98      |
| Traditional II                         | 18.15     | 40.07       | 46.89    | 27.02     | 56.23      |
| Intermediate                           | 15.34     | 19.88       | 15.69    | 13.87     | 12.09      |
| Metal-mechanic                         | 15.99     | 16.89       | 9.43     | 10.30     | 11.30      |
| Total Sector                           | 17.18     | 32.61       | 35.70    | 23.34     | 37.63      |
| Intermediate Protection                |           |             |          |           |            |
| Dynamic                                | 6.70      | 10.57       | 6.50     | 3.75      | 4.19       |
| Traditional I                          | 10.01     | 19.24       | 25.75    | 15.32     | 29.48      |
| Traditional II                         | 10.18     | 19.53       | 26.27    | 15.40     | 30.19      |
| Intermediate                           | 6.93      | 11.89       | 6.13     | 3.64      | 4.76       |
| Metal-mechanic                         | 4.97      | 4.25        | 6.82     | 4.32      | 2.69       |
| Total Sector                           | 8.87      | 16.25       | 19.41    | 12.39     | 19.25      |

Source: Ibid., Table K-4, P. 703.

TABLE 5

## RATES OF EFFECTIVE PROTECTION IN SELECTED COUNTRIES

| Goods         | Argentina | Brazil | Mexico | India | Pakistan | Philippines | Taiwan |
|---------------|-----------|--------|--------|-------|----------|-------------|--------|
| Consumption   | 164       | 230    | 22     | NA    | 883      | 94          | NA     |
| Intermediates | 167       | 68     | 34     | NA    | 88       | 65          | NA     |
| Capital       | 133       | 31     | 55     | NA    | 155      | 80          | NA     |
| All Sectors   | 162       | 118    | 27     | 313   | 271      | 49          | 33     |

Source: Ibid., Table K-6, P. 705.

TABLE 6

COSTA RICA:  
EXPORTACION DE PRODUCTOS INDUSTRIALES 1/

POR ZONA ECONOMICA

- en miles de dólares -

| Años               | (A)               | %<br>Crec. | (B)      | %<br>Crec. | (C)                        | %<br>Crec. | (D)             | %<br>Crec. | (E)       | %<br>Crec. |
|--------------------|-------------------|------------|----------|------------|----------------------------|------------|-----------------|------------|-----------|------------|
|                    | Centro<br>América |            | Panamá   |            | Centro América<br>y Panamá |            | Resto del mundo |            | Total     |            |
| 1960               | 2.421.0           |            |          |            |                            |            |                 |            |           |            |
| 1966               | 23.365.5          |            | 2.106.2  |            | 25.471.7                   |            | 2.013.4         |            | 27.485.1  |            |
| 1967               | 25.377.0          | 8.6        | 3.320.1  | 57.6       | 28.697.1                   | 12.6       | 1.205.1         | 0.6        | 29.902.2  | 8.8        |
| 1968               | 33.638.3          | 32.5       | 4.547.9  | 37.0       | 38.186.1                   | 33.1       | 2.063.4         | 71.2       | 40.249.5  | 34.6       |
| 1969               | 35.479.6          | 5.5        | 4.169.5  | -8.3       | 39.649.1                   | 3.8        | 2.491.3         | 20.7       | 42.140.4  | 4.7        |
| 1970               | 44.014.3          | 24.1       | 6.258.4  | 50.1       | 50.272.7                   | 26.8       | 3.198.7         | 28.4       | 53.471.4  | 26.9       |
| 1971               | 44.217.6          | 0.5        | 6.592.2  | 5.3        | 50.809.8                   | 1.1        | 7.795.7         | 143.7      | 58.605.5  | 9.6        |
| 1972               | 48.394.8          | 9.4        | 9.359.2  | 42.0       | 57.754.0                   | 13.7       | 6.781.5         | -13.0      | 64.535.5  | 10.1       |
| 1973               | 66.463.5          | 37.3       | 11.868.1 | 26.8       | 78.331.6                   | 35.6       | 8.652.0         | 27.6       | 86.983.6  | 34.8       |
| 1974               | 98.622.4          | 48.4       | 15.101.9 | 27.2       | 113.724.3                  | 45.2       | 16.883.5        | 95.1       | 130.607.8 | 50.2       |
| 1975               | 99.949.5          | 1.3        | 14.398.7 | -4.7       | 114.348.2                  | 0.5        | 22.276.5        | 31.9       | 136.624.7 | 4.6        |
| 1976               | 125.065.1         | 25.1       | 17.621.2 | 22.4       | 142.686.3                  | 24.8       | 30.362.1        | 36.3       | 173.048.4 | 26.7       |
| 1977               | 161.603.1         | 29.2       | 19.970.0 | 13.3       | 181.573.1                  | 27.3       | 26.157.3        | -13.9      | 207.730.4 | 20.0       |
| 1978               | 162.833.1         | 0.8        | 25.599.6 | 28.2       | 188.432.7                  | 3.8        | 35.710.8        | 36.5       | 224.143.5 | 7.9        |
| 1979               | 166.850.0         | 2.5        | 33.104.4 | 29.3       | 199.954.4                  | 6.1        | 52.556.6        | 47.2       | 252.511.0 | 12.7       |
| 1980               | 247.751.6         | 48.4       | 38.117.3 | 15.1       | 285.868.9                  | 43.0       | 58.119.9        | 10.6       | 343.988.8 | 36.2       |
| 1981 <sup>2/</sup> | 210.120.2         | -11.9      | 43.141.8 | 13.2       | 261.262.0                  | -8.6       | 80.256.3        | 38.1       | 341.518.3 | -0.7       |

1/ Excluye las exportaciones de azúcar, café, carne refrigerada y camarones.

2/ Cifras preliminares del Departamento de Transacciones Internacionales.

FUENTE: Dirección General de Estadísticas y Censos.

TABLE 7

|             | Manufactured Products*<br>Traded Intraregionally<br>as % of Total<br>Manufactured Exports<br>in 1978 | Manufactured Products*<br>Traded Intraregionally<br>as % of Total<br>Intraregional Trade<br>in 1978 |
|-------------|--|---|
| Guatemala   | 67   | 85  |
| El Salvador | 84   | 93  |
| Honduras    | 26   | 83  |
| Nicaragua   | 64   | 82  |
| Costa Rica  | 60   | 87  |
| All CA      | 63   | 87  |

\*Only 35% of the gross value of foodstuff production was included under "manufactured products" in view of the high proportion of value added by agriculture in this category (which should not be credited to the manufacturing sector).

Source: Detailed Computer Printouts for 1978 provided by SIECA.

TABLE 8

COSTA RICA: GDP, PRIVATE AND PUBLIC INVESTMENT  
AND VALUE ADDED BY MANUFACTURING INDUSTRY  
1960-81

|  | <u>GDP</u> | <u>Private<br/>Investment</u> | <u>Public<br/>Investment</u> | <u>Value Added by<br/>Manufacturing<br/>Industry</u> |
|--|------------|-------------------------------|------------------------------|--|
| <u>In Millions of Constant 1960 Dollars:</u> |            |                               |                              |  |
| 1960   | 417.6      | 66.3                          | 12.9                         | 67.7   |
| 1963   | 501.2      | 83.6                          | 20.5                         | 85.3   |
| 1966   | 617.9      | 87.7                          | 30.8                         | 112.0  |
| 1968   | 706.1      | 112.7                         | 24.7                         | 135.0  |
| 1973   | 910.5      | 150.9                         | 51.7                         | 193.2  |
| <u>In Millions of Constant 1970 Dollars:</u> |            |                               |                              |  |
| 1970   | 984.8      | 148.0                         | 43.7                         | 179.9  |
| 1973   | 1,225.2    | 181.8                         | 71.5                         | 236.7  |
| 1976   | 1,393.2    | 218.2                         | 121.4                        | 290.7  |
| 1978   | 1,612.3    | 282.6                         | 130.4                        | 354.2  |
| 1979   | 1,691.9    | 315.1                         | 161.0                        | 363.2  |
| 1980   | 1,721.1    | 224.1                         | -                            | 370.0  |
| 1981 Proj.                                   | 1,659.1    | 189.8                         | -                            | 365.9  |
| <u>Average Annual Compound Growth Rates:</u> |            |                               |                              |  |
|  | %          | %                             | %                            | %  |
| 1960-68                                      | 6.8        | 6.9                           | 8.5                          | 9.0  |
| 1968-73                                      | 5.2        | 6.0                           | 15.9                         | 7.4  |
| 1973-78                                      | 5.6        | 9.2                           | 12.8                         | 8.4  |
| 1978-81                                      | 1.0        | -12.4                         | -                            | 1.1  |

Sources: For 1968-70, SIECA, VI Compendio Estadístico Centroamericano, 1975, Table 198. For 1970-80, SIECA, Estadísticas Macroeconómicas de Centroamérica 1970-80, July 1981, Table 12. For 1980-81 private investment figures, I used rates of change based on unpublished data from Central Bank. The GDP for 1981 is based on the rate of change estimated by COUNSEL, Repertorio Económico, May 1982.