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Achievements and Problems of the CENTRAL AMERICAN COMMON MARKET

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Achievements and Problems of the

CENTRAL AMERICAN COMMON MARKET

BY
ANDREW B. WARDLAW
THE CITADEL

A REPORT PREPARED
UNDER CONTRACT FOR THE
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Glossary of Acronyms

Acronyms used in this study are listed alphabetically below. The first title shown is the basis of the acronym and the translation into English or Spanish is given in parentheses. In cases where the translation is into Spanish and a Spanish version acronym is in common usage in Latin America, the latter is also given, even though it has not been used in the text of the paper.

CABEI—Central American Bank for Economic Integration (Banco Centroamericano de Integración Económico (BCIE)

CACM—Central American Common Market (Mercado Común Centroamericano (MCC)

CAUCA—Código Aduanero Uniforme Centroamericano (Central American Uniform Customs Code)

CIIU—Clasificación Indústrial Internacional Uniforme de todas las Actividades Económicas (Uniform International Industrial Classification of all Economic Activities)

COCESNA—Corporación Centroamericana de Servicios de Navigación Aérea (Central American Corporation of Air Navigation Services)

CSUCA—Cosejo Superior Universitario Centroamericano (Central American Superior University Council)

ECLA—Economic Commission for Latin America (Comisión Económica para América Latina (CEPAL)

EFTA—European Free Trade Association

ESAPAC—Escuela Superior de Administración Publica de América Central (Advanced School of Public Administration of Central America)

ICAITI—Instituto Centroamericano de Investigación y Tecnología Indústrial (Central American Institute of Industrial Research and Technology)

INCAP—Institute of Nutrition for Central America and Panama (Instituto de Nutrición para América Central y Panamá (INACP)

LAFTA—Latin American Free Trade Association (Asociación Latinoamericana de Libre Comercio (ALALC)

NAUCA—Nomenclatura Arancelaría Uniforme Centroamericana (Central American Uniform Customs Nomenclature)

NUECA—Nomenclatura Uniforme de Exportación para Centroamerica (Central American Uniform Nomenclature for Exports)

ODECA—Organización de Estados Centroamericanos (Organization of Central American States)

RECAUCA—Reglamento del Código Aduanero Uniforme Centroamericano (Regulations for the Central American Uniform Customs Code)

SIECA—Secretaría Permanente del Tratado General de Integración Económica Centroamericana (Permanent Secretariat of the General Treaty of Central American Economic Integration)

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This study was prepared under a contract with the Department of State. The author is solely responsible for its contents, including the accuracy of both statements of fact and interpretative comments. Publication by the Department of State does not imply official endorsement of the conclusions expressed.

Chapter I

Introduction

The Central American Common Market (CACM) is remarkable not only for its achievements but also for the very fact of its existence. Under it, trade among the five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) grew from $33 million in 1960 to a preliminary figure of $176 million in 1966, and this high rate of expansion continues. In 1960 Central America's intraregional trade was equal to 6.4% of the region's total imports, but by 1966 the proportion had climbed to 18.4%. Under stimulus of the area's increasing economic activity resulting from the operations of the Common Market and Central America's expanding export trade, Central American imports from abroad (that is, from outside the CACM area) rose by 60% between 1960 and 1966 and the composition of those imports tended to change, with imports of machinery and raw materials rising more rapidly than those of consumer goods.

There can be little doubt that the formation of the Common Market is an outstanding accomplishment. Nowhere else in the less developed world have so many countries achieved such a degree of economic unification in such a seemingly lasting manner. The achievement is also remarkable because it comes after 140 years of groping for the reestablishment of a unity which existed under the Spanish Crown. A significant advance toward unity has so far been made only in the economic area, and unity is far from complete even there. Hopes and expectations exist that economic unity will lead to political unity but Central America remains today five sovereign states, even though they are engaged in bringing their economies together and seeking to harmonize their foreign policies in dealing with the outside world.

Of course, the Central American authorities are faced with problems which must be solved to continue progress toward economic integration and development of the area and even to assure continued existence of the Common Market. Central Americans were led to seek economic integration primarily by their desire for industrial development and a realization that the national markets were too small for the needs of efficient industries. They now realize that even a united Central America constitutes only a small market and so they are faced with the problem of finding means for further expansion of their market. They must concern themselves with threats to the Common Market arising out of uneven economic development of the Central American countries and some recent tendencies toward balance-of-payments problems. They must face the problems of developing and guiding public and private investment. They must also perfect the mechanism of free trade within the area. For the Common Market to be a lasting success, the Central American authorities must find solutions to these problems which will be effective as far as the specific problems are concerned and at the same time allow levels of living to rise and exports to expand. These problems are vastly complicated by the necessity of attacking them through cooperative efforts of national governments rather than through a single centralized authority.

The purposes of this study are to describe the operations and achievements of the Central American Common Market and to discuss the more important problems which it confronts. The study covers developments up to the end of 1967, with limited references to certain events in early 1968. It updates and expands a study entitled "The Operations of the Central American Common Market" which the author prepared in 1966 for the Regional Office for Central America and Panama (ROCAP) of the Agency for International Development.

The trade statistics used here, unless otherwise specified, are drawn from the national foreign trade publications of the Central American Governments for 1960 and from compilations of those figures for later years made by SIECA, the Permanent Secretariat of the General Treaty of Central American Economic Integration. Trade data for 1966 are preliminary. The trade statistics shown as intraregional trade represent trade among the five Central American countries; data on "foreign trade" refer to commerce between Central America and the outside world. Central American import statistics are on a c.i.f. basis, while export values are f.o.b. The sources and organization of statistics used in this report are described in annex I.

Chapter II

Structure of the Common Market

Development of the Central American Common Market can be said to date from 1952, when the Committee on Central American Economic Cooperation was formed in Tegucigalpa, Honduras. This organization grew out of a resolution adopted at a meeting of the Economic Commission for Latin America (ECLA) in Mexico the preceding year, in response to expression by Central American delegates of "the interest of their governments in developing the agricultural and industrial production and the transportation system of their respective countries in a manner which would promote the formation of wider markets."

This Committee, an organ of ECLA, is composed of the five Central American Ministers of Economy. It directed preparation of studies which led to formation of the Common Market and founded the Advanced School of Public Administration of Central America (ESAPAC) in 1954 and the Central American Institute of Industrial Research and Technology (ICAITI) in 1956. The Committee also prepared in this period a Regional Agreement on Temporary Importation of Vehicles which was signed November 8, 1956.

TREATY BASIS OF THE CACM

Following these years of study, the first concrete step was the signing on June 10, 1958, of the Multilateral Treaty on Central American Free Trade and Economic Development and the Convention on the System of Central American Integration Industries. The first of these stated the intention of the signatories to perfect a free trade system within 10 years, but it actually provided for removal of tariffs on only a relatively small number of items of importance in Central American trade. Few manufactured goods were among the listed items. The companion agreement, the Convention on the System of Central American Integration Industries, was designed to stimulate industrial development of the area by protecting selected manufacturing operations from foreign and Central American competition. This treaty, which is dealt with at greater length in the chapter on "Integration Industries System," has so far had no significant impact on development of the Central American economy.

The effective dates of these agreements are determined by the deposits of instruments of ratification with the Organization of Central American States (ODECA). Ordinarily, each basic agreement or protocol becomes effective for the first three ratifying states on the date of deposit of the third ratification and for each of the others 8 days after it deposits its ratification. The Multilateral Treaty became effective for Guatemala, El Salvador, and Nicaragua on June 2, 1959; for Honduras on April 29, 1960; and for Costa Rica on September 23, 1963. The Convention on the System of Integration Industries became effective for Guatemala, El Salvador, Honduras, and Nicaragua on June 4, 1961, and for Costa Rica on September 23, 1963.

The next important agreement was the Central American Convention on Equalization of Import Tariffs, signed on September 1, 1959, and effective for Guatemala, Nicaragua, and El Salvador on September 29, 1960, for Honduras on August 16, 1962, and for Costa Rica on September 23, 1963. This and seven later protocols set common tariff rates on most of the products imported into Central America. This agreement is discussed in the chapter on "Free Trade and Tariffs." (A protocol to the convention, signed at the same time, provided for a 20% tariff preference on all regional commerce not subject to free trade; it was subsequently made inoperative by the General Treaty signed in December 1960.)

Impatient with the slow progress toward economic integration achieved under these initial agreements, Presidents of Guatemala, Honduras, and El Salvador on February 6, 1960, signed a new pact, the Treaty of Economic Association. Under its terms, free trade privileges were granted to all goods originating in the three countries, except for a relatively small number which were specifically excluded. The treaty also provided for establishment of a "Development and Assistance Fund" to facilitate public and private investment.

This bold agreement, carrying the free trade idea so much further than did the previous agreements and providing for financing of development, gave a new character to the program of economic integration and faced Nicaragua and Costa Rica with the choice of subscribing to this new approach or of being left outside of an effective common market.

Under stimulus of this development, the Central American states, with the exception of Costa Rica, on December 13, 1960, signed the General Treaty of Central American Economic Integration and the Convention Chartering the Central American Bank for Economic Integration. These largely replaced the Multilateral Treaty of 1958 and the Treaty of Economic Association of February 1960. The General Treaty provided for the present system of free trade within Central America and established the Economic Council, the Executive Council, and the Permanent Secretariat of the General Treaty of Central American Economic Integration (SIECA). It also recognized an agreement to establish the Central American Bank for Economic Integration (CABEI) and pledged negotiation of a Convention on Fiscal Incentives.

The General Treaty became effective for Guatemala, El Salvador, and Nicaragua on June 4, 1961, for Honduras on May 6, 1962, and for Costa Rica on September 9, 1963. Costa Rica did not sign the original Treaty but became party to it by a subsequent protocol. The Convention regarding CABEI became effective May 8, 1961, for all except Costa Rica, and for the latter on September 23, 1963. The Central American Convention on Fiscal Incentives for Industrial Development was signed July 31, 1962, but has not yet gone into effect. It sets limits on the concessions which the Central American Governments may make in attracting industrial investment. This agreement and its Protocol of September 23, 1966, are discussed in the chapter on "Approaches to Industrial Development."

Thus, the treaty foundation for the Common Market was laid between 1958 and 1960. Subsequently negotiated protocols have added to the items on which uniform tariffs are to be applied and have designated certain industries to come under the System of Integration Industries. Aside from these, the only major additions to the treaty structure since 1960 have been inclusion of the "Special System for the Promotion of Production" in the Protocol of January 29, 1963, to the Convention on the System of Integration Industries, and the previously mentioned Convention on Fiscal Incentives which is not yet in effect.

These various treaties and agreements were designed to set up an enduring structure; they generally have lives of 20 years and are automatically renewable. The General Treaty and the Convention Chartering the Central American Bank will each continue in effect indefinitely for all parties after the 20-year period, until one party has denounced it with 5 years' notice. It will continue in force for the remaining parties as long as two of them adhere to it. The Convention on the Equalization of Import Tariffs will be extended for periods of 10 years unless denounced at the time of an extension. The Convention on the System of Integration Industries also is to be extended for 10-year periods, but denunciation must be made 2 years in advance of the date of extension. The various protocols expire with their basic agreements, except in the case of the protocols to the Convention on the System of Integration Industries, which expire with the General Treaty. This provision was obviously designed to make it difficult for a country to withdraw its recognition, once granted, of integration status for an industry.

ECONOMIC ORGANIZATIONS

The principal Common Market economic organizations are:

1. The Economic Council
2. The Executive Council
3. The Permanent Secretariat of the General Treaty of Central American Integration (SIECA)
4. The Central American Bank for Economic Integration (CABEI)
5. The Central American Institute of Industrial Research and Technology (ICAITI)
6. The Central American Committee on Economic Cooperation

Organizations concerned primarily with agricultural problems are discussed in the chapter on "Agriculture and the CACM."

The organizational relationship among these six separate economic bodies is striking. Article 20 of the General Treaty provides that the Economic Council is "to direct the integration of the Central American economies and coordinate the economic policy of the contracting states." However, in the same article the Economic Council is charged with the responsibility of "facilitating the implementation of resolutions on economic integration adopted by the Committee on Economic Cooperation." In practice, the Economic Council, while giving serious consideration to recommendations of the Committee on Economic Cooperation, acts as the primary economic policymaking body of the Common Market. SIECA is subordinate to the Economic Council and the Executive Council, serving as permanent secretariat for both organizations. The other Central American economic organizations are formally independent of the others, each having its own separately appointed board of directors.

One might expect more confusion than progress from so many separate organizations, but actually they work closely together. The explanation for their harmonious operations lies in the overlapping character of their membership. The Economic Council and the Committee on Economic Cooperation are composed of the Central American Ministers of Economy. SIECA is directly responsible to these two organizations. The Board of Directors of ICAITI consists of these same Ministers and the Director of the Institute, who is named by ECLA. The Board of the Bank is made up of these Ministers and the Presidents of the five national Central Banks. The Executive Council is composed of the Vice Ministers of Economy. Thus, there is a general identity in controls over the organizations.

The fact that these organizations, with the partial exception of the Bank, are either made up of or controlled by the Ministers of Economy or their Vice Ministers also makes for close relations with the national governments. Major actions taken by these organizations should generally be acceptable to the national executives. The necessity for ratification of all formal agreements by the national legislatures also protects national positions in the framing of Central American economic policy.

There is no single headquarters for the Common Market. Each meeting of the Economic Council, the Executive Council, and the Committee is held in a different city of the area so that these bodies may see and be seen in all of them. SIECA and ICAITI are in Guatemala, and the Central Bank is in Tegucigalpa.

The Economic Council, created under article 20 of the General Treaty, meets as often as seems necessary, which was four times in 1965 and twice in 1966. At its meetings it reviews activities of the other Central American economic organizations, concludes formal agreements among Central American Governments, and handles matters of economic policy which cannot be decided by lower bodies. As final authority for negotiation of agreements, the Economic Council is often faced with difficult problems. These usually involve finding courses of action which are in the general interest of Central America but which are also acceptable to the five separate national governments. When agreements are reached and reduced to conventions and protocols, members of the Economic Council sign them as representatives of their governments. Article 21 provides that the Council's vote on resolutions may be either unanimous or by simple majority, but the decision as to manner of voting must be determined in each case by unanimous vote.

At times the Ministers of Economy hold joint meetings with other ministers to handle problems of mutual concern. For example, in August 1963 they met with the Ministers of Public Works, in April 1965 with the Ministers of Finance, and in October 1961 with the Ministers of Agriculture.

Below the Economic Council comes the Executive Council, composed of the Vice Ministers of Economy of the five governments or their delegates. This body met nine times in 1965 and four times in 1966. It prepares drafts of agreements or revises those prepared by SIECA and does a great deal of preliminary work on policy matters for the Economic Council. It also makes decisions on complaints brought before it regarding specific administrative violations of the free trade agreements. These operations are discussed in the chapter on "Free Trade and Tariffs."

Under the Economic Council also comes the Permanent Secretariat (SIECA), which was founded October 12, 1961. It advises the governments on correct interpretation of the General Treaty and related documents, does preliminary work for the Executive Council, and prepares and publishes statistics on the area's commerce and a variety of reports as well as summary minutes of meetings of the Economic and Executive Councils. The Economic and Executive Councils normally direct SIECA to prepare background material and recommendations on most of the serious questions facing the Common Market. With the assistance of ICAITI, the Executive Council determines the capacities of plants operating under the Special System and the System of Integration Industries. In short, it watches over general operations of the Common Market and makes recommendations about the future of the Market.

Another important economic organization is ICAITI. Its purposes are to act as a consulting body on technical and production problems for private industry, to make technical studies on utilization of the area's raw materials, and to advise other Central American economic organizations on technical matters. ICAITI was organized under a special agreement among the five countries, has its own budget, and is in a sense independent of other Central American organizations. However, it has certain responsibilities to the other organizations for technical services in connection with the System of Integration Industries and the Special System for the Promotion of Production.

The Central American Bank for Economic Integration is discussed in the chapter dealing with "Approaches to Industrial Development."

The oldest Central American economic organization is the Committee on Central American Economic Cooperation, which was mentioned at the beginning of this chapter. It now meets about once each year, in an advisory role, to review progress of the Common Market.

Another separate economic organization was the Central American Joint Planning Mission, which was designed to coordinate the national planning of the five countries and to make economic projections for Central America. It was formed in 1962 by the Organization of American States, the Inter-American Development Bank, ECLA, SIECA, and CABEI and was funded by them. On March 15, 1966, it was absorbed into SIECA as the Development Division.

ODECA AND ECONOMIC INTEGRATION

The Organization of Central American States (ODECA) has a formal, but rather imprecise, role in the economic integration of Central America. It was formed by a charter signed October 14, 1951, which was replaced by a new one signed December 12, 1962. The new charter describes ODECA as the highest organization of the Central American states and specifies its purpose to be promotion of economic-political integration of the area.

The principal organs of ODECA are the following, according to article 2 of the Charter:

1. The Meeting of the Chiefs of State
2. The Conference of Foreign Ministers
3. The Executive Council
4. The Legislative Council
5. The Central American Court of Justice
6. The Central American Economic Council
7. The Educational and Cultural Council
8. The Central American Defense Council

ODECA at its upper levels consists of the high bodies listed above, most of which meet from time to time to make decisions or recommendations on policies in their various fields of activities. By far the most important of these in practice has been the Conference of Foreign Ministers, which may meet as such or as the Executive Council of ODECA. In December 1967 the Foreign Ministers met at Managua in the two capacities. As Foreign Ministers they sought, without much success, to settle a border dispute between Honduras and El Salvador. As the ODECA Executive Council they dealt with various policy matters of a general Central American nature. The wide-ranging field of concern of the ODECA Executive Council is reflected by the following from among actions which that body took at Managua:

1. Reaffirmed the obligation under the ODECA Charter of the other Ministerial councils, meeting under ODECA authority, to submit annual reports to the Conference of Foreign Ministers.

2. Created the Central American Council of Infrastructure, composed of ministers and other high officials concerned with transportation, communication, highways, electrification, ports, and other phases of the economic infrastructure.

3. Provided for formation of the Central American School of International Relations to be developed from the existing Guatemalan School of Diplomacy.

4. Called for establishment of certain joint diplomatic and consular missions by the Central American states.

5. Requested SIECA to keep the ODECA Secretariat and the Foreign Ministers informed of the steps taken toward closer association between the Central American Common Market and LAFTA, and suggested a joint meeting of the Foreign and Economic Ministers of Central America to con-

sider CACM–LAFTA relations before decisions are taken on them.

6. Recommended a study on the advisability of establishment of a multiple tariff system for Central America for bargaining purposes in dealing with foreign governments.

7. Recommended establishment of a system of prior consultation to unify the positions of the Central American governments before entering international economic conferences.

8. Recommended that this prior consultation be extended to countries, especially those of the Caribbean area, which have economic interests similar to those of Central America.

9. Authorized creation of an *ad hoc* Commission of Jurists to make proposals for a Tribunal or Commission which would resolve disputes about interpretation and application of Central American agreements on economic integration.

10. Authorized the same *ad hoc* Commission to draft a statute for a Central American Court of Justice.

The other high-level organs of ODECA have real or potential importance to development of Central American integration. The Legislative Council was to be composed of representatives of the various national legislatures meeting from time to time to make recommendations on development of the Common Market. This body seems in practice to be replaced by a "Congress of Congresses" with a larger representation from the national legislatures than that contemplated in the ODECA Charter. This Congress met in December 1962 and in January and February 1968, and is scheduled to meet again in 1970. Its most useful purpose is probably to give to the national legislatures a feeling of closer participation in Common Market affairs.

The Economic Council, as has already been explained, is the highest economic organization.

The Central American Court of Justice is to be made up of the Presidents of the five national Supreme Courts and is to hear questions of conflict among member states submitted to it by agreement and to give advisory opinions on proposals for unification of legislation. It has not yet been established, although a resolution adopted by the Foreign Ministers in December 1967 had to do with the possibility of activating this Court.

The Cultural and Educational Council is composed of the national Ministers of Education, and the Council of Defense is made up of the Ministers of Defense.

The Secretariat of ODECA is established in San Salvador as a permanent office with a regular staff. It is concerned with a variety of programs of a social and technical nature, outside of the purely economic areas, exercises an administrative responsibility over them, and carries on statistical work and makes certain studies of its own. One of its most important functions is operation of a program for preparation and free distribution of textbooks in public schools of Central America and Panama. It is also concerned with combatting malaria throughout the area.

Operating on a more or less autonomous basis are other organizations which are actually or potentially of much importance to the integration movement. Among these are the following:

1. Institute of Nutrition for Central America and Panama (INCAP). This institute has conducted studies of nutritional problems of the area and has developed a cheap, basic food.

2. Central American Superior University Council (CSUCA). The object of this organization is to coordinate activities of the area's universities, but this has been found to be a difficult task.

3. Central American Corporation of Air Navigation Services (COCESNA). Operates the international air navigation aids in the area and has established a telecommunications system connecting the international airports and certain government offices throughout the area.

ODECA AND THE ECONOMIC ORGANIZATIONS

There are rather obvious possbilities of conflicts of responsibility between the well-established Central American economic organizations and other organizations which have rather recently taken on vigor in dealing with integration of the area. Such problems are to be expected since humans make up both types of organizations. They are also to be expected in the present Central American situation because economic integration has proceeded so far that it is changing the character of the area and economic problems are coming to have wide political and social implications. Economic integration creates needs for coordination among the five governments in their fiscal programs, in their immigration laws, and in labor and social security areas.

More specifically, a degree of overlapping and duplication seems to be developing between SIECA and the Secretariat of ODECA and between the Council of Foreign Ministers and the Economic Council. A glance at the above partial list of matters considered at the Conference of Foreign Ministers in December 1967 will confirm this. Some of the problems dealt with there are in the realm of international economic relations and thus seem to be matters of reasonable concern to both the Ministers of Foreign Affairs and those of Economy. The Foreign Ministers, however, seem to have wandered into some fields which had hithero been reserved for the economic organizations. The establishment of a Tribunal to interpret and apply Central American agreements on economic integration would deprive the Economic Council and its subordinate Executive Council of key functions which they have performed under authority of the General Treaty. These same resolutions contain other seeds of conflict.

There is something of an anomaly about the basic authority of the Economic Council and that of its Executive Council. These were set up and given well-defined authority under the General Treaty of 1960. They were made responsible for operations of the Common Market. Under the ODECA Charter of 1962, the Economic Council was charged with "planning, coordinating, and executing Central American economic integration." The Charter lists the Economic Council as one of the ODECA bodies, with the presumption that it is in some way inferior or subordinate to ODECA's Executive Council, which is composed of the Foreign Ministers.

However, the danger of serious administrative difficulties between ODECA and the economic organizations is not great. There may be some differences at times, but since the Economic Council and ODECA's Executive Council are composed of members of the various national cabinets, it seems likely that the national governments will seek to coordinate the positions of their representatives in these two organizations. Differences are bound to exist between national governments and they are likely to be reflected by their representatives in both of the two bodies, perhaps reinforcing conflicts in national points of view. On the whole, however, the administrative ambiguities between ODECA and the economic organization should not interfere seriously with operations of the Common Market.

Chapter III

Intraregional Trade

Trade among the Central American countries has increased with great rapidity during the years of the Common Market, reaching preliminary figures of $176 million in 1966 and $93 million in the first 6 months of 1967. The 1966 figure represents an increase of 439.4% over the total for 1960 and 30.2% over that for 1965. The increase of $40.9 million between 1965 and 1966 constitutes a substantial gain over the total intraregional trade of the previous year and surpassed the total volume of trade of 1961.

The most spectacular growth in the area's intraregional trade has been in industrial goods, the trade in which rose an estimated 772.1% between 1960 and 1966, and 33.7% between 1965 and 1966. Trade in agricultural products during these years was up an estimated 145.2% and 20.0%, respectively. Industrial goods made up an estimated 74.4% of the total intraregional trade in 1966. Trade in other types of products also has had high rates of increase but, in absolute terms, has not been of great importance. The following table shows the growth in this trade by commodity groupings.

A discussion of the composition of the above classifications will be found in annex I. The designations were arbitrarily made by the writer and there is no established concordance between the Central American Uniform Customs Nomenclature (NAUCA) and these classifications. The term "Agricultural Products" as used in this table refers to the products of the fields, orchards, or pastures in their natural state or after simple processing. Industrial products are goods from the factories, chemical plants, and petroleum refineries, and in practice embrace all goods not included in the other classifications.

Of course, there were forces besides the CACM which stimulated trade among the Central American countries between 1960 and 1966. The area's population grew by about 3.1% annually, which meant more mouths to feed, more bodies to clothe, and more of all types of consumer wants to satisfy. It seems logical to suppose that, with or without the CACM, trade in basic foodstuffs, particularly corn and beans, would have increased somewhat because the Central American countries, especially El Salvador, have had a growing need for these products, which have been available in excess quantities in Honduras in types adapted to local tastes. The considerable increase in Central American export earnings over this period also stimulated the area's general economic activity.

However, after making allowance for these other forces, it must be assumed that the substantial removal of restrictions on Central American internal trade and the somewhat upward movement of external tariffs throughout the area were major forces in developing the intraregional trade of Central Americans. It also seems reasonable to assume that the operation of the CACM was an important factor in the increase in the area's prosperity between 1960 and 1966 and hence in its ability to absorb more products of the region.

Growth of Central American Intraregional Trade By Types of Commodities

(Thousands of dollars)

Products	1960	1964	1965	[1] 1966
TOTAL	32,675	106,399	135,370	176,250
Agricultural	16,344	27,618	33,422	40,075
Fishery	75	184	170	198
Forest	934	2,295	2,585	3,470
Mineral	140	490	960	1,123
Noncommercial	122	146	116	190
Industrial	15,060	75,666	98,117	131,194

[1] Preliminary.

COMMODITY COMPOSITION

The following tables show the intraregional trade of Central America by single digit commodity groupings of the NAUCA nomenclature system and that of the CIIU (a uniform system of economic classification developed by ECLA).

INDUSTRIAL PRODUCTS

A discussion of the Central American intraregional trade in industrial

Intraregional Trade of Central America 1960–1966—NAUCA Classification

(Thousands of dollars)

NAUCA No.	1960	1961	1962	1963	1964	1965	[1] 1966
TOTAL	32,675	36,802	50,407	72,098	106,399	135,370	176,250
0 Food products	14,938	14,617	22,240	23,212	29,476	35,946	39,665
1 Beverages & tobacco	1,134	914	969	1,088	1,422	1,903	2,525
2 Inedible raw materials	1,581	1,983	2,428	3,503	3,939	4,670	6,275
3 Fuels & lubricants	135	158	148	3,750	5,025	3,451	1,896
4 Fats & oils	1,570	1,727	1,782	1,761	1,603	2,447	5,189
5 Chemical products	2,431	3,483	5,191	8,471	19,066	21,197	26,447
6 Manufactures classed by materials	6,217	8,081	11,040	18,784	26,650	36,128	51,414
7 Machinery & transportation equipment	1,524	1,278	1,075	1,813	3,135	5,143	7,584
8 Misc. manufactures	3,044	4,382	5,360	9,616	15,880	24,062	34,553
9 Other transactions	101	179	174	101	198	423	703

[1] Preliminary.

goods is rather difficult since this trade is made up of a great many different types of goods which do not lend themselves readily to combination for the purpose of analysis. Table 1 (annex II) lists 37 commodities whose intraregional trade exceeded $1 million in 1965. A few of the textile items can be grouped together for the purpose of discussion, but otherwise the products generally are quite distinct. Therefore, reference will be made to certain of the largest items in the trade and the reader may consult the table for further details. It shows the principal manufactured goods entering into regional trade, value of the trade in 1960, 1964, and 1965 and, also, imports of competitive products from abroad in those years. Thus, the reader can compare fluctuations in intraregional trade in given commodities with those in imports from abroad. The items listed in this table made up 80.6% of the area's intraregional trade in 1965.

An outstanding characteristic of Central American manufacturing is that it is light industry. Its major products, as shown in table 1 (annex II), are prepared foods, medicines, cosmetics and toilet preparations, fertilizers, insecticides, tires and tubes, textiles, galvanized iron sheets and steel pipes, and garments. A few of these items might be classed as "heavy" but they are departures from the general pattern.

The most important industry in the area is textile manufacturing. In 1965 the total intraregional trade in goods coming under this classification

Intraregional Trade of Central America 1963–1965—CIIU Economic Classification

(Thousands of dollars)

CIIU Economic Classification	1963	1964	1965
TOTAL	71,681	105,356	135,249
1 Consumer goods, not durable	36,419	52,507	70,687
2 Consumer goods, durable	2,805	3,837	6,315
3 Fuel & lubricants	3,744	4,902	3,432
4 Raw materials & semimanufactures, metallic	858	1,355	2,018
5 Raw materials & semimanufactures, nonmetallic	21,195	33,645	39,849
6 Construction materials	4,861	6,199	8,275
7 Capital goods for agriculture	579	849	1,211
8 Capital goods for industry	759	1,148	2,306
9 Capital goods for transportation	211	355	280
0 Other	482	750	872

(NAUCA—650) was $16.2 million. The rapid growth of the textile trade is demonstrated by the data on the seven principal textile items listed in the table. Trade in these items reached $13.9 million in 1965 compared to only $2.8 million in 1960. Trade is concentrated in cotton products, but commerce in manmade fibers is increasing and promises to be of great importance in the future.

Textile manufacturing was the beneficiary of rate increases in most countries when common rates were adopted and these undoubtedly aided the growth of the industry. It is obvious from table 1 that the development of regional textile manufacturing has caused a decline in imports from abroad of certain products, especially cotton fabrics. Persons in the Central American textile trade indicate that the increase in regional trade and decline in imports have been sharpest in the less expensive fabrics. The volume of imported textiles is still large, but imports can be expected to decline relatively as time passes. The textile industry, while more developed in El Salvador than in the other countries, is expanding throughout the whole area.

Garment manufacturing is also a rapidly expanding industry in the area and can be expected to continue to grow. Table 1 (annex II) shows that intraregional trade in the hoisery and garment classifications in 1965 amounted to $8.9 million, up from $1.2 million in 1960. Garments were principally of cotton although the regional trade in fabrics of manmade fibers including hosiery is growing. El Salvador seems to have been the largest supplier of garments, with Guatemala second, and the other three countries active in the trade.

Shoes, both leather and rubber, are manufactured in Central America and are an important item of regional commerce. By 1965 regionally produced shoes had largely replaced imported footwear. This trade amounted to $576,000 in 1960 and to $5.4 million in 1965.

Trade in manufactured foods is also expanding rapidly and appears to be holding imports in competitive products to small gains. This trade amounted to $6.6 million in 1965. These items were "cereal products" (breakfast cereals and bakery products, principally, but not flour), "candy and chewing gum," and "miscellaneous prepared foods" (largely sauces, yeast, and gelatin). If certain goods classed as "Agricultural Products" are included, the total for the trade in manufactured foods would be $11.8 million. These possible additions would be canned fruit, vegetables, and meat; canned fruit juice; margarine; and shortening.

"Medical and pharmaceutical products," "toilet preparations and cosmetics," and "soap and other cleansing agents" are also new to regional trade. In 1960 trade in these items amounted to only $811,000, but in 1965 it had reached $9.7 million. Imports of the first two of these items were off sharply but those of "medical and pharmaceutical products" continued to increase rapidly. The area's drug industry is primarily devoted to mixing and packaging imported bulk products and to other simple operations.

Paper box and bag manufacturing is also new to the area with a trade, chiefly boxes, of $5.4 million and with a noticeable impact on imported products.

A review of the data in table 1 (annex II) shows a number of other items of light manufacture, whose intraregional trade exceeded $500,000 in 1965. These include cigarettes, paints, leather, plywood, electric batteries, insulated electric wire, furniture, phonographic records, and plastic goods. Trade in all of these items has developed from insignificant figures in 1960 and can be expected to grow; concomitantly, there has been a general decline in imports of similar items from outside the region.

As for heavier industry, fertilizer and insecticides are important in the chemical field. Fertilizer, which was insignificant in 1960 but expanded to $4.0 million in 1965, is chiefly from the new Fertica plant in Costa Rica. Regional trade in insecticides, which are largely mixed imported materials, had a value of $657,000 in 1960 and $3.1 million in 1965.

Trade in tires and tubes was up to $1.9 million, and imports were off slightly. Figures for 1966 and later will undoubtedly show a greater increase in intraregional trade in tires and tubes and a decline in imports. These changes are effected because the plant in Guatemala manufacturing these products began to receive the benefits of integration status in 1966.

Cement is another item in which intraregional trade has increased and imports have declined. A beginning has been made in a trade in galvanized iron sheets and steel pipe, but this has yet to affect import totals noticeably.

There is also some trade in refined petroleum products and lubricants. This reached its peak in 1964 but declined substantially in 1965 and 1966 and is likely to remain small as all of the countries have developed their own refining capacity.

AGRICULTURAL PRODUCTS

Although, as previously pointed out, the substantial increase in the intraregional commerce in agricultural goods has been overshadowed by the growth in the trade in industrial products, the rate of increase has been steady and the outlook is good for continued growth in the regional trade in agricultural products. Increasing population and rising per capita national purchasing power serve to explain the expanding Central American market for foodstuffs, and improvements in the transportation and distribution systems have made it feasible for Central Americans to deliver their food products throughout the area. The removal of barriers to regional trade has played an important role in stimulating this traffic, while the creation of uniform, higher external tariffs on imports of a few products has also made a small contribution to this growth. Also, more merchants and manufacturers are looking for sources of supply in Central America.

The increase in intraregional trade in agriculture has been greatest among products shown in the following table.

Agricultural Items Whose Intraregional Trade Showed Increases of Over $200,000 Between 1960 and 1965

(Thousands of dollars)

Agricultural items	1960	1965	Amount of increase
TOTAL	$8,949	$25,999	$17,041
1 Corn	1,271	6,201	4,930
2 Beans & Peas	1,054	3,981	2,927
3 Animal feeds	700	1,785	1,085
4 Fruit, fresh	1,042	1,682	640
5 Fruit juices	269	1,197	928
6 Rice	364	1,025	661
7 Shortening	1,077	1,737	660
8 Meat, canned & prepared	44	703	659
9 Vegetables, canned	131	758	627
10 Eggs	4	449	445
11 Margarine	366	801	435
12 Vegetables, fresh & dried	297	726	429
13 Cotton seed oil	977	1,377	400
14 Sorghum	102	488	386
15 Oil seed & nuts	66	429	363
16 Hides & skins	47	346	299
17 Animals, live, not for food	36	307	271
18 Poultry	62	325	263
19 Meat, fresh & frozen	63	296	233

It will be noted that the total increase in trade in these 19 items ($17.0 million) was greater than the net increase in trade in all agricultural goods ($16.8 million). The increase in trade in these and certain other items was offset to some extent by declines in trade in a few commodities, the most important of which was cattle.

Traditional goods of the area accounted for an important percentage of the increase in regional trade in agricultural goods. Thus, the increase in corn made up 26.9% of the total identified increases, beans 16.0%, and rice 3.6%. The long-term outlook for further increases in trade in these "basic grains," as they are called in Central America, is good, for in 1965 the Central American Ministers signed an agreement removing all internal barriers to their movement and calling for regionwide exchanges of market information on them and for a quota system designed to stimulate their production and exchange. Wheat and flour remained inconsequential in regional trade, and the Central American authorities have not come to an agreement on removing internal barriers to trade in them or on common external duties on them. The problem here lies in the fact that Guatemala is a producer of wheat, while the other countries are not. Consequently, the Guatemalans and other Central Americans have not reached an understanding on whether to protect Guatemala's high-cost producers or to keep prices low on wheat and flour for the benefit of general consumers. Trade in corn may decline as production increases in the area, especially in El Salvador. This could result in greater national self-sufficiency in corn.

The expanding trade in "Animal Feeds," to meet the needs of the growing livestock, dairy, and poultry production, made up 5.9% of the identified increase, while sorghum, also primarily an animal food, made up 2.1%. The growth of these branches of agriculture was reflected in the increases in trade in canned and prepared meat, which accounted for 3.6% of the identified increase; fresh meat, 1.2%; poultry, 1.4%; and eggs, 2.4%. Increases between 1960 and 1965 in regional trade in all these lines were several fold, while the movement of eggs in this trade was an almost completely new development. On the other hand, traffic in cattle decreased from $2.5 million in 1960 to $1.5 million in 1965, and commerce in swine remained essentially unchanged over the period. The poor showing of trade in livestock presumably reflects the increase in exports abroad of meat products and, more important, the rise in domestic demand for meat and the difficulties of livestock men in meeting it. Regional trade in livestock was almost entirely in animals for slaughter rather than for breeding purposes.

The small volume of trade in dairy products between 1960 and 1965 fails to reflect the increase which has taken place in production of dairy products, which through 1965 were generally consumed in the countries in which they originated. In 1965, an agreement was reached on increasing duties on powdered milk and on placing quota restrictions on imports from abroad. It is to be assumed that production of powdered milk will rise sharply in the future with this special protection and that, with existing protection, traffic in poultry, eggs, butter, and cheese will continue to increase.

An important area of increase in regional traffic was in canned vegetables (477.6%), fresh and dried vegetables (144.4%), fruit juices (344.9%), and fresh fruit (614.2%). These increases reflect in part the expansion of canning facilities, especially in Guatemala. With its ability to produce temperate-zone fruits and vegetables, Guatemala has also become an important supplier of fresh fruits and vegetables.

FOREST PRODUCTS

The one item of particular importance in intraregional trade, other than agricultural and industrial goods, is lumber. This trade rose from $914,000 in 1960 to $2.5 million in 1965. The trade consists largely of sawn lumber, a large part of which moves from Honduras to El Salvador. Imports of lumber from abroad remained small, amounting to only $346,000 in 1965, compared to $121,000 in 1960.

COUNTRY PARTICIPATION

Trade within the Common Market is unevenly distributed among member countries. Preliminary 1966 figures show that Salvadoran purchases and sales made up 62.1% of the intraregional trade, while those of Guatemala accounted for 51.8%. Honduras is in a middle position, accounting for 32.2%; Costa Rica came up with 27.9% and Nicaragua with 26.7%. (Those percentages are based on the two-way trade of each country, and hence double the value of total intraregional trade.) Trade between Guatemala and El Salvador alone made up 29.0% of the area's total commerce and that among Guatemala, El Salvador, and Honduras 53.9%. At the other extreme, trade between Honduras and Nicaragua made up 3.1% of the total and that between Honduras and Costa Rica 4.2%. Trade among these three countries was only 15.8% of the total.

In 1966 El Salvador sold somewhat more in the area than it bought. Its biggest imports were manufactured goods and food from Guatemala and Honduras. Its important sales were manufactured goods and chemical products.

Guatemala had a strongly favorable balance of trade within the Common Market in 1966. Its largest purchases were manufactured goods and food from El Salvador. Its sales were principally manufactured goods.

Honduras bought more than it sold in the CACM in 1966. Its principal purchases were manufactured goods from El Salvador and Guatemala and the greater part of its sales was food. Sales of lumber, chemical products, and manufactures were also of some importance.

Nicaragua purchased more than twice as much as it sold in the CACM in 1966. Its purchases were manufactured goods and chemical products from Costa Rica, El Salvador, and Guatemala. It sold manufactured goods, chemical products, and food.

Costa Rica bought slightly more than it sold within the area. Its imports were largely manufactured goods from Guatemala and El Salvador. Its sales were manufactured goods, chemical products, and food; fertilizer made up a large part of chemical products.

The tables on page 10 show the distribution of trade within the CACM in 1966, according to preliminary figures released by SIECA in its *Carta Informativa*, No. 67, May 12, 1967, Anexo Estadístico, No. 62.

National Participation in Intraregional Trade 1966[1]

(Millions of dollars)

Origin	Total	Destination: Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
TOTAL	176.3	34.2	52.0	35.2	32.0	23.2
Guatemala	55.9	.. ..	27.2	10.6	8.9	9.1
El Salvador	57.5	23.9	.. ..	16.0	10.0	.7
Honduras	21.5	4.0	13.3	.. ..	2.2	2.0
Nicaragua	15.3	2.1	5.5	3.3	.. ..	4.4
Costa Rica	26.1	4.3	5.9	5.3	10.6	.. ..

[1] Preliminary.

National Participation in Intraregional Trade 1966[1]

(Percentage of total)

Origin	Total	Destination: Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
TOTAL	100.0	19.4	29.4	20.0	18.0	13.2
Guatemala	31.7	.. ..	15.4	60.0	5.1	5.2
El Salvador	32.7	13.6	.. ..	9.1	5.7	4.3
Honduras	12.2	2.2	7.6	.. ..	1.2	1.2
Nicaragua	8.7	1.2	3.1	1.9	.. ..	2.5
Costa Rica	14.7	2.4	3.3	3.0	6.0	.. ..

[1] Preliminary.

These tables show a striking imbalance in the intraregional trade of Guatemala, Honduras, and Nicaragua. Guatemala sold a great deal more in the area than it bought, while Honduras and Nicaragua purchased much more than they sold. In 1966 Costa Rica and El Salvador showed export balances in their regional trade.

The following tables present country-by-country annual participation in regional trade since 1960. It will be noted from these that unequal sharing of this trade is no new development. They show the sizable deficit run by Nicaragua in recent years, the large export excess in Guatemala in 1966, and the heavy deficit in Honduran trade in the last year. The steady export balance registered by Costa Rica over the years supports the view that participation in the CACM is not a direct cause of the recent Costa Rican exchange difficulties.

Trade Within the CACM By Countries of Origin

(Millions of dollars)

Origin	1960	1961	1962	1963	1964	1965	[1] 1966
TOTAL	32.7	36.8	50.4	72.1	106.4	135.4	176.3
Guatemala	7.3	10.3	13.0	20.8	30.0	38.3	55.9
El Salvador	12.7	14.4	18.3	28.7	35.3	45.9	57.5
Honduras	7.4	8.3	13.8	14.0	18.5	22.2	21.5
Nicaragua	3.4	1.8	3.4	4.2	6.9	9.9	15.3
Costa Rica	1.9	2.0	1.9	4.5	15.8	19.1	26.1

[1] Preliminary.

Trade Within the CACM
By Countries of Destination

(Millions of dollars)

Destination	1960	1961	1962	1963	1964	1965	[1] 1966
TOTAL	32.7	36.8	50.4	72.1	106.4	135.4	176.3
Guatemala	7.6	8.9	11.2	19.7	26.4	31.2	34.2
El Salvador	13.5	14.6	22.1	27.9	39.2	42.4	52.0
Honduras	5.3	6.4	8.9	13.3	18.0	25.5	35.2
Nicaragua	2.8	2.9	4.7	7.4	14.5	21.6	31.7
Costa Rica	3.5	4.0	3.5	3.8	8.3	14.6	23.2

[1] Preliminary.

Chapter IV

Extraregional Trade

As stated in chapter I, the total foreign trade of Central America increased at an impressive rate between 1960 and 1965. During this period the value of the area's exports to destinations outside the CACM area rose 52.1% and that of its extraregional imports 56.9%. Preliminary figures for 1966 indicate that these exports and imports continued to rise to $667 million and $769 million, respectively. This chapter will examine present trends and the outlook for the future of the area's foreign trade in terms of value, commodity composition, and trading partners; the impact of Central American substitution programs on the area's import trade; and the area's trade with the United States and Latin America. An understanding of the area's foreign trade is essential to an appreciation of the Central American Common Market's progress and problems. The following table shows the growth of the area's foreign trade since 1960.

Foreign Trade of the Common Market
1955–1965

Year	Exports (*thousands of dollars*) Value	Exports % Increase over previous years	Imports (*thousands of dollars*) Value	Imports % Increase over previous years
1955	409,495	....	394,796	....
1956	428,220	4.6	447,473	13.3
1957	454,542	6.1	498,238	11.3
1958	434,526	−4.4	430,130	−13.7
1959	408,963	−5.9	436,914	1.6
1960	407,399	−0.4	481,465	10.2
1961	417,274	2.4	458,975	−4.7
1962	460,786	10.4	501,719	9.3
1963	520,379	12.9	580,484	15.7
1964	568,052	9.2	664,045	14.4
1965	619,903	9.1	755,220	13.7

Development of the Common Market has had a decided effect on the area's imports but little on its exports. The increase in Central American imports can be attributed to the quickening economic activity of the area, which appears to have been stimulated by increased foreign exchange earnings and by operations of the Central American Common Market. Furthermore, the Common Market has worked an important change in composition of the area's imports, with the inflow of construction materials, capital goods, raw materials, and semimanufactures rising sharply, but with that of consumer goods showing only a small gain. However, it seems clear that the important increase in the area's exports between 1960 and 1966 was not a consequence of the Common Market, since its program has included little in the way of effective measures for promoting production for export or for developing foreign markets. Improved foreign earnings of the area primarily reflect higher world prices for coffee and the private initiative of agriculturists in increasing their production of bananas and cotton.

EXTRAREGIONAL EXPORTS

While operations of the Common Market have produced a relatively large increase in industrial output of the area, they have left almost untouched the character of the region's exports to the rest of the world. The area continues its traditional dependence on agriculture for foreign exchange earnings. Fishery, forest, mineral, and industrial products as yet contribute little to the area's foreign exchange income. The table on page 12 shows the make-up of the region's exports.

Composition of Central American Extraregional Exports in 1965

Products	Thousands of dollars	Percent
TOTAL	619,903	100.0
Agricultural	575,024	92.8
Fishery	7,426	1.2
Forest	14,174	2.3
Mineral	18,681	3.0
Industrial	3,715	.6
Noncommercial	884	.1

Not only are the area's exports largely agricultural in character, but they are concentrated in a very few products. Coffee alone accounted for 45.4% of exports in 1965, cotton for 23.3%, and bananas for 13.7%. Thus, these three items made up 82.4% of the area's total exports. Adding meat (2.7%), sugar (2.5%), and oil seeds and nuts (2.1%) to the above, we find five products making up almost 90% of the total. Twenty-one products, whose exports amounted to over $1 million each, made up 98.6% of the area's exports. The following table lists exports of these leading products in recent years.

Coffee was the source of 45.4% of the area's export earnings in 1965, a decline from 57.4% in 1960. However the total value of coffee exports in 1965 was 20% more than in 1960 as a result of increases in both price and volume of exports. Despite the International Coffee Agreement however, coffee prices and export values sagged in 1966 and 1967, and the area's earnings from coffee may decline further in 1968.

Cotton, a relative newcomer to the area's commercial agriculture, in 1965 accounted for 23.3% of the area's exports. Cotton exports became important in the postwar years and rose to over $144.5 million in 1965. Exports of cotton seed and cotton seed meal and cake added a further $14.0 million to foreign exchange earnings from cotton. However, with the weakening of cotton prices on the world market and with mounting insect problems in the area, Central America's planting of cotton dropped sharply in 1966 and 1967. Nicaragua, El Salvador, and Guatemala, the chief cotton producers, are making efforts to restore output and the prospect of better prices was an encouraging sign early in 1968.

Bananas brought in 13.7% of the area's export earnings in 1965, and exports of the fruit are expected to rise significantly in the future. After years of relative decline in Central American banana exports, new banana lands are being opened up, especially in Honduras, and prospects are good that this expansion will continue. The Panama disease at one time threatened commercial cultivation of bananas throughout the area and led to a great increase in production in the uninfested lands of Ecuador. However, with the increase in planting of the disease-resistant Vallery banana instead of the disease-prone Gros Michel type, banana production in Central America again becomes attractive. As a banana-producing area, Central America has the great advantage of nearness to U.S. markets. Central American authorities are concerned about the discrimination in the European Economic Community against Central American bananas. West European demand has been strong, however, especially in the Federal Republic of Germany, and the value of Central American exports of bananas to the EEC in 1966 was twice that in 1965.

The value of the area's exports of sugar and molasses declined sharply in 1965 as world prices fell. In 1966 production rose considerably and increased access to the premium U.S. market helped to restore earnings to around $24 million. So long as the U.S. market absorbs most of the area's sugar shipments, income from this commodity may remain relatively high.

Shipment of chilled and frozen meat amounted to 2.7% of Central America's exports in 1965 and showed a potential for considerable

Central American Extraregional Exports 1960, 1964, and 1965

(Thousands of dollars)

	Exports	1960	1964	1965	% of total in 1965
TOTAL		407,399	568,052	619,903	100
TOTAL LISTED ITEMS		404,355	554,179	611,164	98.6
071-00	Coffee	233,698	255,586	281,726	45.4
263-00	Cotton	37,148	124,863	144,536	23.3
051-03	Bananas	67,214	71,639	85,205	13.7
011-00	Meat, chilled	8,469	19,551	16,713	2.7
061-00	Sugar & molasses	6,038	22,286	15,542	2.5
220-00	Oil seeds & nuts	6,094	10,627	12,826	2.1
240-00	Lumber & logs	11,954	13,113	11,839	1.9
030-00	Fishery products	5,958	8,627	7,426	1.2
682-00	Copper metal	1,863	316	5,748	.9
999-97	Gold, not manufactured	6,919	5,217	4,890	.8
081-03	Oil seed meal & cake	1,074	3,146	4,292	.7
285-01	Silver ore & concs.	1,688	2,567	3,123	.5
001-00	Livestock	2,114	2,353	2,486	.4
283-04	Lead ores & concs.	1,721	1,385	2,413	.4
072-00	Cacao	6,116	4,206	2,317	.4
292-04	Plants, seed & flowers for medicines & perfumes	1,035	1,866	2,258	.4
292-02	Natural gums & balsams	2,612	2,313	2,154	.3
551-08	Essential oils	811	2,626	2,134	.3
283-05	Zinc ore & concs.	1,823	1,032	1,443	.2
561-00	Fertilizer, manufactured	6	185	1,054	.2
121-01	Tobacco, leaf	....	975	1,039	.2

growth, despite a decline from 1963 levels. In 1966 meat exports, sent chiefly to the United States, rose to nearly $25 million. A shortage of meat for local consumption has led to imposition of restrictions on meat exports, but in the long run, meat exports should expand considerably.

Other exports make up a mixed pattern. Shipments of cacao continued their substantial declines but other agricultural, forest, and fishery products showed few important fluctuations. The only spectacular increase, outside of the three major products, was in copper metal, which leaped from $0.3 million in 1964 to $5.7 million in 1965. Exports of cotton oil seed meal and cake, which rose in 1965, declined in the next 2 years as the local production of cotton dropped. Shipments may increase in the future, although a rising local demand for oil seed meal and cake for animal feed will probably absorb a relatively greater share of total output than in the past. A large mining operation recently undertaken in Guatemala by the International Nickel Company should lead eventually to considerable exports of that metal, beginning in a matter of 2 or 3 years.

The one industrial product which Central America exported in any quantity was fertilizer produced in the new Fertica plant in Costa Rica. Exports totaling almost $1.1 million went to Panama, Spain, Peru, and other countries.

Central America may be headed toward relative stagnation in its total exports outside the area for the next year or two. Exports abroad rose by only 1% between 1965 and 1966 and partial data indicate that they probably declined in 1967. Weak coffee prices seem likely to offset much of the increases that may occur in the value of cotton, bananas, and minor exports. In general, the outlook seems poor for sufficient growth in foreign exchange earnings to support a good rate of economic expansion without resort to increased foreign capital inflows.

DESTINATIONS OF EXPORTS

The industrialized countries are almost the only markets for Central American exports. The following data extracted from table 2 (annex II) show how heavily they are concentrated in the United States, Europe, and Japan.

Central American Extraregional Exports By Destination 1960 and 1965

Destination	1960		1965	
	Thousands of dollars	Percent	Thousands of dollars	Percent
TOTAL	407,399	100.0	619,903	100.0
United States	214,506	52.7	275,785	44.6
EEC	129,506	31.8	166,604	26.9
EFTA	16,813	4.1	24,305	3.9
Japan	28,759	7.6	104,731	16.9
Other	17,757	4.4	48,478	7.8

Central American exports to all principal destinations have risen substantially over this period, but in the case of Japan the increase has been spectacular. There has been a change in the distribution of exports by destination, with the shares of the United States and the European Common Market down and those of Japan and the remaining destinations up. The biggest factor in this change of destinations of Central American exports has been the rapid development of cotton exports, which increased from $37.1 million in 1960 to $114.5 million in 1965. In 1965 Japan took 61.1% of the area's cotton exports, while the United States took only about 0.5%.

Central America's trade with the United States is dealt with at greater length in the final sections of this chapter; that with Latin America is discussed in chapter VI.

EXTRAREGIONAL IMPORTS

By value, Central American imports increased 56.9% between 1960 and 1965. Agricultural imports rose 35.2% and industrial products 56.7%; by 1965 the latter made up 88.8% of the area's imports. The only other important increase was that of mineral products, made up largely of crude petroleum, which rose from $1.8 million in 1960 to $19.6 million in 1965. In the same period, refined petroleum products dropped from $14.7 million to $24.9 million. The table at the bottom of the page shows the distribution of Central American imports by types of commodities.

Central America's Extraregional Imports 1960, 1964, 1965

(Thousands of dollars)

Products	1960	1964	1965
TOTAL	481,465	664,045	775,220
Agricultural	42,635	53,164	57,603
Fishery	1,318	1,972	2,002
Forest	372	1,236	1,454
Mineral	6,568	20,122	21,900
Industrial	428,216	587,616	670,978
Noncommercial	2,356	935	1,283

The belief is sometimes expressed that the area's program of industrialization will cause a decline in its imports from abroad as local substitutes replace foreign products. Such a direct impact on the total volume of imports seems unlikely, for in the long run imports will be limited primarily by the area's income from exports and the drive toward industrialization in Central America has not so far been of such a character as to reduce exports. However, the growth of the industry is coming to have a great impact on the composition of Central America's imports. Thus,

Central America's Extraregional Imports By Economic Groups [1]

(Thousands of dollars)

	Imports	1963	1964	1965
TOTAL		579,554	663,512	755,341
1	Consumer goods, nondurable	120,629	131,042	135,806
2	Consumer goods, durable	63,999	71,379	81,638
3	Fuels & lubricants	43,653	42,672	43,075
4	Raw materials & semimanufactures, metallic	19,800	22,006	29,601
5	Raw materials & semimanufactures, nonmetallic	156,903	182,112	208,897
6	Construction material	35,645	41,842	58,022
7	Capital goods for agriculture	22,577	27,447	29,833
8	Capital goods for industry	83,592	103,256	122,100
9	Capital goods for transportation	29,911	39,139	49,204
10	Other	3,863	2,617	5,447

Calculated from Statistical Annexes to *Cartas Informativas*, No. 46, Aug. 12, 1965; No. 47, Sept. 12, 1965; and No. 62, Dec. 12, 1966, SIECA, Guatemala.

[1] These totals differ slightly from those used elsewhere in this study which are calculated from the *Anuario Estadística Centroamericana de Comercio Exterior*, 1965.

new and expanded factories are demanding more machinery and equipment, more raw materials and fuel, and more transportation equipment. On the other hand, imports of finished consumer goods are being restrained by higher tariffs and other competitive advantages enjoyed by local industry. The pattern of this increase between 1963 and 1965 can be seen in the above table.

Imports of the two classes of consumer goods increased 19.8%, while those of raw materials were up 35.5%, construction materials were up 62.8%, and capital goods were up 47.8%. "Fuels and lubricants" remained level over this period, reflecting an increased volume of imports of crude petroleum and a decline in the volume of refined fuels.

The impact of the expansion of local production to replace imports has been especially great among certain commodities. The following tables offer a comparison of growth in intraregional trade and in imports of selected items from other areas. The tables list selected items in which intraregional trade increased as much as $1 million between 1960 and 1965. These tables have been extracted from table 1 (annex II). This comparison, while significant, nevertheless offers an imperfect measure of the success of the substitution program, not only because it is limited to the larger items but also because it does not reflect larger quantities of local manufactures consumed in countries in which they were produced and which, therefore, did not enter into regional trade.

The tables show the considerable effect which the substitution program has had on certain products of light industry. Declines in the region's imports of $1 million or more are to be noted in "toilet and cosmetic preparations," "soap and cleansing agents," "cotton fabrics," "dry cell batteries," "hosiery," and "outer garments." It is in the area of these very light manufactures that substitution has gone farthest. Among all items in these two tables, only fertilizer, cement, and tires and tubes could be considered other than light industry.

The second table shows items in which an increase in intraregional trade was accompanied by an increase in imports from outside Latin America. It must be answered that, in general, without the increase in the intraregional trade, imports of these commodities from other areas of the world would have been even larger. The most important item here was "medical and pharmaceutical products." Undoubtedly, if data were available, they would show that the regional pharmaceutical trade is largely in standard, simply prepared products in which the manufacturing is often little more than packaging and that the Central American preparations have had an effect on directly competitive imported products, but not on products of a more complicated nature. The great increase in imports of fertilizer and insecticides from outside Central America reflects the growing demand for these products for agriculture. Among agricultural products, imports of corn and animal feeds registered important increases despite increased trade in these commodities within the region.

To weigh the substitution program's effects solely in terms of the decline in imports of directly competitive products from other areas would give a distorted picture of the program's

Central American Regional and Import Trade In Selected Items in Which the Regional Trade Increased and Imports Decreased

(Thousands of dollars)

	Items	Regional Trade		Imports from other areas	
		1960	1965	1960	1965
051–01	Fruit, fresh	1,042	1,682	661	613
054–02	Beans & peas	1,054	3,981	109	84
062–00	Candy & chewing gum	739	3,034	591	206
533–03	Paints, varnishes, etc., prepared	434	1,700	2,481	1,894
552–01	Toilet & cosmetic preparations	248	3,436	3,894	1,122
552–02	Soap & cleansing agents	326	3,714	2,587	836
611–00	Leather	262	1,085	3,217	2,509
629–01	Tires & tubes	467	1,859	7,535	6,880
631–02	Plywood	94	1,350	169	13
642–01–02	Paper boxes	33	4,747	1,611	1,057
652–00	Cotton fabrics	1,009	5,742	22,580	18,651
611–02	Cement	289	2,387	1,985	1,587
721–02	Batteries, dry cell	.. ..	1,911	2,416	1,444
821–00	Furniture	250	2,776	2,172	1,622
841–01	Hosiery	137	1,575	3,781	453
841–04 & 05	Outer-garments, except knit	268	3,005	2,700	1,220
851–00	Footwear	576	5,408	906	395

Central American Intraregional and Import Trades in Selected Items in Which Both Trades Increased

(Thousands of dollars)

	Items	Intraregional trade		Imports from other areas	
		1960	1965	1960	1965
044-00	Corn	1,271	6,201	69	1,784
081-00	Animal feeds	700	1,785	2,407	3,885
048-00	Cereal products	156	2,382	2,780	3,360
199-00	Misc. prepared foods	150	1,222	1,714	2,125
540-00	Medical & pharmaceutical products	237	2,554	22,413	33,803
561-00	Fertilizer	5	4,023	13,537	29,648
599-02	Insecticides	657	3,130	11,994	20,710
651-03 & 04	Cotton yarn	1,224	2,625	3,261	4,404
653-05	Synthetic fabrics	1	2,073	7,271	12,948
841-02 & 03	Knitwear	269	2,900	1,558	2,313

impact, for increased agricultural and industrial activities often demand larger imports of corollary products required for these operations. For example, the development of livestock and dairy industries in Central America brought a drop in imports of poultry, canned meats, and eggs, but imports of corn, animal feeds, and veterinary medicines rose. In the industrial area, declines in imports of certain consumer goods were offset in part by increases in imports of raw materials and machinery. This interrelation is important in determining the true measure of success of the substitution program in saving foreign exchange.

The table below shows as examples a few selected shifts from imports of finished products to raw materials.

Shifts in Central American Imports From Finished Products to Related Raw Materials

(Thousands of dollars; declines in parentheses)

Imports	1960	1965	Shift
Flour	9,992	6,134	(3,858)
Wheat	5,750	14,861	9,111
Petroleum products	34,707	24,910	(9,797)
Crude petroleum	4,766	19,613	14,847
Prepared paints	2,481	1,894	(587)
Pigments	572	1,011	439
Soap & other cleansing agents	2,587	836	(1,751)
Tallow, industrial	2,118	3,410	(1,292)
Fatty acids	231	617	386
Palm & coconut oil	121	235	114
Leather	3,217	2,509	(708)
Hides & skins	73	345	272
Tanning extracts	494	1,204	710
Tires & tubes	7,535	6,880	(655)
Rubber	416	1,311	895
Fiber bags	1,642	1,671	29
Jute fiber	172	542	370

These are only a few examples of the working of the substitution process when the new Central American industry is dependent on imported raw materials. They serve to demonstrate the limitations of the advantages of this type of manufacturing. Of course, these examples are not offered as exact measures, for some raw materials shown above may have been used for other products, and the finished products listed also have required raw materials not shown above. An example of the latter is paint manufacturing, which obviously used large quantities of imported solvents not listed above. In the case of the importation of machinery for manufacturing, only part of the imports are statistically identifiable on an industry-by-industry basis. Thus, in 1965, Central American imports of "machinery and accessories for the textile industry" totaled $9.8 million. However, import statistics make no separate listings, for example, of the power equipment, shop equipment, and trucks used by textile plants.

Some national substitution programs involve a few products which do not generally enjoy Central American free trade status or common external tariff protection. These products are given substantial protection within the national markets. The most important of these are petroleum fuels, flour, and cigarettes. Thus, increases in imports of crude petroleum and wheat are in no way matched by increases in intraregional trade in gasolines or flour, respectively.

In addition to products discussed above there are other goods whose local production has so far had little effect on imports from other areas but is likely to have much impact in the future. Some of these are listed below with the developments likely to affect local supply:

1. Insecticides—1965 imports $20,-710,000 (Integration plant to begin operation shortly in Nicaragua.)

2. Powdered Milk—1965 imports $6,421,000 (Tariffs are being raised and import quotas applied.)

3. Glass Bottles—1965 imports $6,-825,000 (Bottle factories have been erected in Guatemala and El Salvador.)

4. Plate Glass—1965 imports $1,-375,000 (Plant will eventually be erected in Honduras as integration industry.)

5. Electric light bulbs—1965 imports $1,107,000 (Industry granted special system status and a plant began operations in El Salvador in 1965.)

Central American Imports From Abroad By Major Areas—1960 and 1965

Areas	1960 Thousands of dollars	1960 Percent	1965 Thousands of dollars	1965 Percent
TOTAL	481,465	100.0	755,220	100.0
United States	249,440	51.8	359,446	47.6
EEC	101,384	21.1	152,529	20.2
EFTA	37,257	7.7	64,196	8.5
Japan	32,140	6.7	67,864	9.0
Other	61,244	12.7	111,185	14.7

Besides these items, imports of automobiles, buses, trucks, radios, televisions, refrigerators, and other goods will suffer if a special agreement to encourage assembly industries is negotiated and put into effect.

SOURCES OF IMPORTS

As previously pointed out, the total value of Central American imports has risen sharply since 1960. The sources of these imports, like the destinations of Central American exports, were concentrated among the industrialized nations of the world. The U.S. share in these imports decreased somewhat between 1960 and 1965 and that of the European Common Market was also down slightly, while the other parts of the world increased their share of the market. The table above shows this distribution.

A comparison of this table with table 2, annex II, on the destination of Central American exports shows that in 1965 Central America had a relatively heavy import balance in its trade with the United States, EFTA, and "other" countries, a relatively heavy export balance with Japan, and a small export balance with the European Economic Community. As will be brought out in chapter VI, nearly 50% of the imports from "other" countries came from Latin America, about half consisting of crude petroleum fuels from Venezuela.

TRADE WITH THE UNITED STATES

Central American trade with the United States increased greatly in value between 1960 and 1965, but, as previously shown, declined somewhat in terms of percentage of total Central American imports and exports. The tables below give the general composition of this trade.

The most striking feature of these tables is the great increase in volume of Central American trade with the United States since 1960. Central American exports to the United States were up \$61.3 million (28.6%) in the period, while its imports from the United States were up \$110.0 million (44.1%). Thus, since 1960 Central American imports from the United States have risen much more rapidly than its exports to the United States.

The United States is the principal buyer of the more important Central American exports other than cotton. The United States in 1965 took 51.1% of the area's coffee shipments, 84.8% of bananas, 83.3% of canned meat, and 98.7% of sugar. The relative decline in the U.S. share of Central American exports is explained by the development of important Central American cotton exports to Japan and Europe. In 1960 Central American exports of cotton to the United States amounted to only \$289,000, and in 1965 to only \$728,000. Aside from cotton, the U.S. share of Central American exports was the same: 57.9% in 1960 and in 1965.

Central American exports of "industrial products" to the United States were quite small and were spread among a fairly large number of items in none of which the trade has reached a significant commercial volume. The largest single "industrial" item seems to have been wood veneers (\$538,000). Exports to the United States of lumber, which is classed in this study as a "forest product," amounted to \$1,488,000 in 1965.

The increase in imports from the United States was greatest in industrial products. This covered the wide spectrum of chemicals, semimanufactures,

Central American Exports to the United States

(Thousands of dollars)

Products	1960	1964	1965
TOTAL	214,506	239,724	275,785
Agricultural	197,266	217,877	253,985
Fishery	634	8,434	7,379
Forest	1,620	2,825	3,102
Mineral	11,382	7,644	9,133
Noncommercial	1,214	249	423
Industrial	2,390	2,695	1,763

Central American Imports From the United States

(Thousands of dollars)

Products	1960	1964	1965
TOTAL	249,440	335,018	359,446
Agricultural	29,396	35,201	33,654
Fishery	789	889	786
Forest	198	383	1,177
Mineral	1,725	1,257	1,250
Noncommercial	2,536	647	493
Industrial	214,848	296,641	322,086

machinery, and transportation equipment, all of which were up sharply. The single digit NAUCA classification shown in the table below gives somewhat more detail about the composition of Central American imports from the United States. The table brings out the importance of machinery, chemical products, and other manufactures in this trade and the relative unimportance of other products.

While Central America's imports of agricultural products from the United States increased less spectacularly between 1960 and 1965 than its imports of "industrial goods," they nevertheless rose 27.8%. The table at the bottom of the page will give an idea of the principal Central American agricultural imports from the United States and of the manner in which trade is developing.

From these figures it appears not only that Central American imports of agricultural products from the United States increased considerably in total value between 1960 and 1965, but that the only single large decline was in leaf tobacco. Between 1964 and 1965 there was a slight decline in Central American imports of agricultural goods from the United States, principally in "evaporated, condensed or powdered milk," "unground wheat," "unground corn," "animal feed," and "leaf tobacco." There were offsetting increases in other products.

Central American Imports From the United States

(Thousands of dollars)

Imports	1964	1965
TOTAL	335,018	359,446
0 Foodstuff	33,972	31,269
1 Tobacco and beverages	1,399	1,225
2 Incdible raw materials	3,780	4,207
3 Fuels & lubricants	9,070	8,974
4 Fats & oils, animal & vegetable	3,801	4,644
5 Chemical products	57,803	64,363
6 Manufactures, classed by materials	82,157	89,135
7 Machinery & transportation equipment	116,332	127,717
8 Other manufactures	25,996	27,115
9 Miscellaneous	707	818

Central American Agricultural Imports From the United States

(Thousands of dollars)

	Imports	1960	1964	1965
TOTAL		29,107	34,922	34,278
001-01	Cattle	663	1,307	2,232
001-04	Poultry	820	620	617
022-00	Milk, evaporated, condensed, or powdered	201	1,788	1,048
023, 024, & 029	Milk products, other	1,061	924	1,154
041	Wheat, unground	5,672	8,245	7,657
042	Rice, unground	569	1,345	1,719
044	Corn, unground	66	1,627	988
046	Flour, wheat	3,903	3,965	3,065
051-01	Fruit, fresh	653	500	596
053-00	Fruit, preserved & juice	763	964	962
055-00	Vegetables, conserved	646	561	743
061-09	Sugar & molasses, special	460	637	671
081-00	Animal feeds	2,392	3,534	3,426
121-00	Tobacco, leaf	1,380	1,099	857
410-00	Fats & oils	2,746	3,801	4,644
Other		7,102	4,342	2,913

In weighing the impact of development of the Common Market on imports, it should be borne in mind that, in Central America, U.S. agricultural goods are exposed to competition from increased local production for sale in the country of origin and to competition from other foreign exporting countries, as well as to increased competition from products moving in regional trade.

The slight decline in imports of U.S. agricultural products between 1964 and 1965 is accounted for by decreases of more than $100,000 in six items as shown on page 18.

From these figures it appears that foreign, non-Central American competition had much to do with loss of the U.S. market for all of the above products, except flour and leaf tobacco. However, in the cases of corn and animal feed, the increase in regional trade was much greater than the increase in imports from foreign competitors of the United States. The decline in tobacco imports seems to have been brought about by increased production for use in the producing country. In the case of flour, the decline of imports from outside the Common Market was primarily the result of a shift to the milling of imported and, to some extent, local grain. Wheat and flour imports, taken together, indicate that imports from the United States were down while those from other foreign sources were up an even greater amount. The United States failed to share in the area's great expansion of wheat imports in 1965.

It is likely that Central American imports of corn will show a sharp decline when the figures are in for 1966 and 1967. The difficulties facing Central American cotton growers, especially a decline in world prices and a rising incidence of insect infestation, have caused a considerable shifting of acreage from cotton to corn. Consequently, Central American corn production can be expected to rise, not so much as a consequence of an increase in regional trade as of an increase in national production for national consumption. Thus, it seems unlikely that the heavy sales of Honduran corn to El Salvador which appeared in 1965 tabulations will be repeated in 1966 and 1967 statistics.

Changes in Value of Central American Imports and Intraregional Trade in Selected Agricultural Goods Between 1964 and 1965

(Thousands of dollars)

Products	Imports from U.S.	Imports, other foreign sources	Intraregional trade
Powdered milk	−740	+ 746	. . . .
Wheat	−588	+4,807	− 3
Corn	−639	+ 784	+1,801
Flour	−900	− 465	+ 77
Animal feed	−108	+ 235	+1,168
Leaf tobacco	−242	+ 18	− 67

Chapter V

Free Trade and Tariffs

At the heart of the Central American Common Market is the system of free trade for products of Central American origin. This system has made possible great growth of the region's internal commerce in recent years and has begun to create the expanded market so necessary for industrialization. An essential concomitant to the system of internal free trade has been development of a system of common external tariffs, for with divergent external rates the Central American countries would find it extremely difficult to remove internal trade barriers. This chapter deals with the nature and operations of these two systems.

The area's system of internal free trade is well along the road to completion; currently, 95.3% of all items in the Central American tariff schedule are exempt from duties or other restrictions in regional trade. These items accounted for 97.7% of the region's commerce in terms of the value of the 1965 trade. When the General Treaty went into effect in 1960, 74.2% of the items in the NAUCA were given free trade status, and under its operations another 19.4% obtained this status within the 5-year period ending June 4, 1966. The freeing of paper and bottles last year added a further 1.7% to the free list. (The calculations through June 4, 1966, were published in SIECA's Newsletter, No. 56, of June 12, 1966, page 2. The subsequent calculations are the author's.)

This accomplishment has been made possible through the operation of the General Treaty. The great virtue of this treaty is that it allows free trade in all Central American products on which reservations were not specifically made in the Treaty, and it contains no escape clause. Thus the items remaining subject to duties or other restrictions were the exception rather than the rule. The specific commodities not accorded free trade treatment were stated in annex A to the Treaty and in the Protocol of July 23, 1962, by which Costa Rica adhered to the Treaty.

Exceptions to application of the principle of free trade appear in the Treaty by product and by pairs of countries continuing to apply restrictions. In some cases all countries apply restrictions to all trade in specific items. In other cases, restrictions are between only one or two pairs of countries. Thus, wheat remains subject to restrictions throughout Central America, while cheese is subject to restrictions only in trade between Nicaragua and Honduras. The annex to the General Treaty consists of six lists of items representing bilateral agreements among the four original signatories on items remaining under restrictions. The Protocol by which Costa Rica accepted the General Treaty contains four lists of exceptions, that is, one with each of the other states.

The excepted items were treated in various ways in the agreement. In some cases, no provision was made for the attainment of free trade. In others, the effective date of free trade was set at June 4, 1966, the end of the fifth year of the Treaty, or at an earlier specified time. On a third group, free trade was made dependent on the reaching of regional agreements on special controls over the trade and prices of certain articles or establishments of common external duties on them. Generally, when a specified date was set for attainment of free trade, rates of duty on the item were lowered annually and import quotas, when applied, were progressively enlarged so that the approach to free trade was gradual.

There follows a table showing the remaining restrictions, other than items subject to Integration Industry Agreements. These involve 25 items (62 *sub partidas*), restrictions on six of which are applied by all Central American countries and the remaining by one or more pairs of countries in their trade with each other.

Trade in items remaining under restriction seems likely to decline in the future. The 1965 value of intraregional trade in these items was $4.5 million. Of this, $3.2 million was in refined petroleum products, most of which moved from El Salvador to Guatemala. The regional petroleum trade in 1964 had amounted to $4.3 million. Because of recent enlargement of the petroleum refining capacity of Guatemala, this trade probably showed a sharp reduction by the end of 1966. The next most important item in intraregional trade which remains subject to restrictions is sugar, valued at $0.8 million in 1965, practically all of which was sold by Nicaragua to Honduras. As Honduras seems to have since achieved self-sufficiency in sugar production, it is probable that this trade has declined. In 1966 restrictions were removed from trade in paper (NAUCA 641) and bottles (NAUCA 665-01-01), a development which contributed to reduction in the volume of trade still under restrictions.

The Central American authorities wish to reduce further the list of items whose regional trade is still under restrictions, but some products on which restrictions remain are likely to continue in their present status for some time to come. Controls over regional trade in coffee and sugar will be needed as long as exportation of these products is subject to national quotas fixed by international agreements. Controls over trade in ethyl alchohol and in rum, the only important distilled alcholic beverage of the area, will presumably remain because of the importance of these products as sources of revenue to the national governments. Free trade in refined petroleum products would run counter to efforts being made by each government to develop and retain its own refining capacity. Finally, removal of restrictions on trade in wheat flour will depend on prior negotiation of a common external tariff on wheat, but views on the level of such a tariff vary greatly between Guatemala, which wishes to protect its wheat growers, and the other countries which produce no wheat. However, even though restrictions on movement of all or most items making up this hard core may be rather long-lived, their importance in relation to general trade of the area is not great.

Items Subject to Restrictions In Central American Internal Trade As of April 1968

(Restrictions apply only between countries listed after each item)

NAUCA No.	Items	1965 value of trade now subject to restrictions (Thousands of dollars)
001-01-2	*Cattle*—ex. breeding Nicaragua—Costa Rica	0
024	*Cheese* Nicaragua—Honduras	0
046-01	*Wheat flour* All countries	78
048-03	*Macaroni, etc.* Costa Rica—Honduras Costa Rica—Nicaragua	0
048-04	*Bakery products* Costa Rica—Honduras Costa Rica—Nicaragua	151
061	*Sugar* All countries	837
071-01	*Coffee-toasted* All countries	0
071-02	*Coffee-untoasted* All countries	0
071-03	*Coffee extract* Honduras—Guatemala Honduras—El Salvador Nicaragua—El Salvador Nicaragua—Honduras	59
112-02	*Cider & fermented fruit juices* Costa Rica—Guatemala	23
112-04	*Distilled beverages* All countries, although in the cases of Guatemala—Nicaragua and El Salvador—Nicaragua restrictions apply only to rum	58
121-01	*Leaf tobacco* Costa Rica—Nicaragua Costa Rica—Guatemala Costa Rica—El Salvador Costa Rica—Honduras	0
122-01	*Cigars* Nicaragua—Guatemala	0
122-02	*Cigarettes* Nicaragua—Honduras Nicaragua—Guatemala Costa Rica—Guatemala Costa Rica—El Salvador Costa Rica—Honduras Costa Rica—Nicaragua	33
263	*Cotton* Guatemala—El Salvador Nicaragua—Guatemala Nicaragua—El Salvador	9
313	*Petroleum products* All countries	3,187
512-02	*Ethyl alcohol* All countries	38
642-02-01	*Envelopes—with names* Costa Rica—Nicaragua	0
642-02-02	*Envelopes—without names* Costa Rica—Nicaragua	0
642-03-001-01	*Notebooks and accounting forms* Costa Rica—Nicaragua	12
653-09-02	*Jute and other textiles, n.e.s.* Costa Rica—El Salvador Costa Rica—Nicaragua	0

Table continued on page 20

Items Subject to Restrictions, etc.—(Continued)

NAUCA No.	Items	1965 value of trade now subject to restrictions (Thousands of dollars)
656-01-00-09	*Fiber bags except cotton* Costa Rica—El Salvador	5
921-09-02	*Birds, not for consumption* Costa Rica—Guatemala Costa Rica—El Salvador Costa Rica—Honduras Costa Rica—Nicaragua	0
921-09-03	*Live animals, n.e.s., not for consumption* Costa Rica—Honduras Costa Rica—Guatemala Costa Rica—El Salvador Costa Rica—Nicaragua	0
TOTAL		4,490

COMMON EXTERNAL RATES

Well advanced toward completion also is the schedule of uniform external tariffs. Today agreements have been reached on common rates on all but 26 items in the NAUCA, the common tariff schedule. These accounted for only 19.3% of the area's imports from abroad in 1965. By far the greater part of these agreed rates are already in effect and the remaining should be applied within 5 years. Efforts are being made to reach agreement on the outstanding 26 items.

Establishment of uniform rates among the Central American countries was begun by the signature of the Central American Convention on the Equalization of Import Duties on September 1, 1959. This established common rates on a large number of items in the NAUCA schedule, the rates to be aplied when the Convention went into effect. It also listed in an annex, 32 items on which specified uniform rates were to be reached through adjustments over a 5-year period. The technique of these adjustments was to specify the annual rate for each country on each of the 32 items over the 5 years, with the rates steadily moving toward each other and in each case reaching a common rate at the end of 5 years. This Convention has been followed by six protocols adding items to those on which common rates either would apply when the agreements went into effect or would be arrived at over 5-year periods.

The 5-year period of adjustments of national rates ended and common rates became effective on September 29, 1965, for items in the annex to the Convention. Common rates for items covered by the Protocol of Managua became effective on June 4, 1966. Thus, the number of items with common rates has grown considerably since the Convention became effective in 1960. The Protocol of San José became effective April 29, 1964, the first Protocol of San Salvador on October 11, 1964, that of Guatemala on May 8, 1967, and the second Protocol of San Salvador on October 5, 1967. The additional common rates provided in the first two protocols will be reached in 1969 and those in the third will be arrived at in 1972. One other Protocol has been negotiated but has not yet received the necessary ratifications to become effective. It is, therefore, impossible to state when its tariff adjustments will go into force.

The effective date of the Convention and each of its protocols is 8 days after deposit of the third ratification of the document. Their effectiveness, however, extends only to states which have made the deposit. Therefore, after a document has become operative for three states, a state which has not deposited its ratification is under no obligation to apply the rates provided in the document. On the other hand, once it deposits its ratification, it makes the annual adjustment on the same schedule as the first three states. For example, Costa Rica did not ratify until December 12, 1963, the Managua Protocol which had gone into effect on June 4, 1961, but Costa Rica thereupon adjusted its rates on the items covered in it to those specified for the third year of the Protocol. Thus, all states simultaneously reached the common rates contemplated in the Protocol.

Naturally, the Convention established common rates on items on which agreement on rates was easiest. These tended to be consumer items not produced in Central America and not of great importance as sources of revenue, items produced in various countries on which there was a general basis for agreement as to the need for protection against competition from abroad, and items on which national tariffs were reasonably close together. However in the succeeding protocols common rates were agreed upon for increasingly difficult items. The items on which no agreement has been reached have been reduced as shown in the table on page 21.

The uniform rates are frequently spoken of as "common external rates." Technically, this is not correct since the rates negotiated become the national rates on imports subject to duty, whether from abroad or from other Central American countries. Since the number of items of Central American origin subject to duty is quite small the rates generally apply in practice only to imports from abroad. An exception to application of uniform rates arises with the tariff concessions granted by the national governments to new industry. There are also the tariff concessions granted to integration plants on their imports of raw materials. These exemptions for industrial promotion are discussed in the chapters dealing with "integration industries" and "fiscal incentives."

The remaining items on which there is no agreement on common rates reflect a number of different types of problems. In some cases, it has not been possible to reconcile the interests of countries producing certain products with those which do not produce them. The problem of arriving at a common rate on wheat and flour was mentioned in the preceding chapter. Problems exist in the case of jute bags. Guatemala manufactures them and Guatemala and the other countries use them in large quantities for coffee and other commodities. A similar situation exists in the case of crown caps for soft drinks as plants manufacturing these are not spread evenly throughout the area. Petroleum products present major problems because each country wishes to have its own refining capacity and each derives considerable revenue from taxes on sales of gasoline, kerosene, diesel and fuel oil, and natural gas. The remaining items on which common rates have not been agreed are automobiles, trucks, refrigerators, radios, other electronic equipment, and parts for all of these. It is probable that common rates will not be fixed on these until agreement is reached on establishment of assembly industries in the area.

LEVEL OF TARIFFS

In reaching common tariffs, the negotiators do not appear to have set out to raise tariff rates. Their problem has been simply to find rates acceptable to the five countries. Therefore rates have tended to be between the highest and lowest of the national rates, but somewhat nearer the highest. This latter is not surprising since it would be easier to obtain agreements to lower rates. One preliminary analysis places the common rates at 6% higher than the average of the five national tariff rates which the new rates were designed to replace. This same analysis places the new tariffs at an ad valorem average of 48%.[1]

The average level of the Central American tariff was calculated in 1960 at roughly 36% ad valorem. This is rather low by Latin American standards. The Mexican level was roughly 50% in 1960 and the Colombian 71%. The EEC level was about 13%.

While the agreement upon common rates has generally not in itself led to increases much above the average of previous rates, there is now considerable pressure for rate increases for protection of specific industries. The "integration industry system" and "special system" and the proposed "assembly industries" all involve establishment of protective rates for industries benefiting from them. These will be discussed later in chapter VIII. The Executive Council devotes much time to consideration of recommendations for renegotiation of rates for specified industries. As an example, the Executive Council in its 23d meeting recommended rate increases on canvas and on underwear and nightwear of silk or synthetic fibers; in its 24th meeting approved increases on bicycles, Formica plastic sheets, paint brushes, and nuts and bolts; and in its 26th meeting approved increases on rods to be drawn into wire, spark plugs, and ribbons. These proposals are usually for significant increases; that on bicycles raised the existing rate equivalent from 25% to a new rate of 75%, on paint brushes from 18.2% to 50.6%.

Central American Imports in 1965 of Items on Which No Common Tariff Rates Were Agreed By the End of 1967

(Thousands of dollars)

NAUCA No.	Description	Imports from abroad in 1965
TOTAL		146,243
041-01-00	Wheat	14,861
046-01-01	Wheat flour	5,706
046-01-02	Other flour	427
312-01-02	Crude & partially refined petroleum	19,613
313-01 thru 03	Refined petroleum fuels	15,518
313-04	Lubricating oil & greases	6,685
314-01	Natural gas fuels	1,306
314-02	Artificial gas fuels	3
653-09-02	Textile & jute & similar fibers, n.e.s.	1,121
656-01-00-01	Bags for packing of jute, etc.	[1] 1,618
699-29-06-01	Crown caps	[1] 325
721-04-01 thru 05	Radios, loud speakers, transmitters & other electric equipment & parts	13,226
732-01-01	Jeep type vehicles	5,213
732-01-02	Passenger cars	20,601
732-03-02 (01) & (03)	Delivery & other special trucks	[2] 25,176
732-06-00	Chassis & parts, n.e.s. (i.e., except chassis for passenger cars & trucks)	9,059
899-08, except 06 & 07	Refrigerators, etc.	[2] 4,502
931-00	Noncommercial exports	952
999	Gold, silver, & bank notes	331

[1] For items 656-01-00-01 and 699-29-06-01, figures are based on reports from foreign countries, but Honduran imports are estimated as its data are not available beyond five digits.

[2] Figures shown for 732-03-02 (01) & (03) and 899-08 (ex. 06 & 07) are for the full seven or five digit classifications, respectively. Estimates made on the basis of a review of national data in 1964 suggest that only about half of the first group is pending agreement for common rates and that practically none of the second group is pending.

SOURCE: SIECA, *Carta Informativa*, No. 66, Apr. 12, 1967. Anexo Estadístico, No. 61

SIMPLIFICATION OF TARIFF NEGOTIATIONS

New tariff rates or adjustments to existing ones can be negotiated under existing conventions only through adoption of new protocols by unanimous action of the Economic Council. A new protocol in turn requires ratification by the Central American legislatures before it goes into force. Usually, upon deposit of the third ratification, the new agreement takes effect for the depositors and it becomes effective for each of the other states when it deposits its ratification.

This is a cumbersome procedure, for after lengthy negotiations in the

[1] Moscarella, Joseph, "Economic Integration in Central America," *Latin American Economic Integration*, ed., Wienczek, Miguel S., Paragon, N.Y., 1966, p. 271.

Economic Council the effective ratification of an agreement can be delayed months and even years by the national governments. For that reason proposals are being considered for facilitating adoption of new tariffs or adjustment of existing ones. The thought is generally to adopt a new protocol empowering the Economic Council to set tariff rates within limits to be specified, without the necessity of subsequent ratification. Should this proposal be adopted, Central American tariff rates could be changed much more readily than at present. The first meeting of the Central American Ministers of Economy and Finance held in Antigua, Guatemala, in April 1965, in its resolution No. 7 urged such an arrangement, and the Central American Committee on Economic Cooperation in January 1966 endorsed it. The proposal would, of course, involve a major surrender of power by the national legislatures, and Central America does not yet appear to be prepared to take this step.

A major concern behind the push to complete unification of tariff rates is a desire to use the procedure as a way to raise rates which have already been agreed upon. Higher tariff rates which would give protection to new industries are generally favored by those desiring rapid industrialization. The present unwieldy system of renegotiating rates is, however, an obstacle to fulfillment of this objective.

COMMON TARIFF CLASSIFICATION

Before either the establishment of common external rates or removal of internal trade restrictions could be systematically negotiated, it was necessary to end confusion created by the five national tariff schedules. Recognizing the need for this, the Committee on Economic Cooperation at its first meeting, in August 1952, declared that "The unification of foreign trade statistical classifications is indispensable to the realization of a policy of gradual and limited economic integration of the Central American countries." The Committee therefore recommended that the Governments of the Central American Republics form a subcommittee to prepare a proposed uniform tariff nomenclature and request the Executive Secretariat of ECLA to cooperate in this work. The subcommittee submitted a proposed system which the Committee approved at its second meeting, on October 16, 1953. This system, based upon the Uniform Classification for International Commerce, became known as the *Nomenclatura Arancelaría Uniforme Centroamericana* — Central American Uniform Customs Nomenclature (NAUCA). The Central American Governments have come to use the NAUCA in recording their trade statistics. Nicaragua, however, still adheres to its older system in its national publications on foreign trade.

At its second meeting, the Committee on Economic Cooperation also requested the subcommittee to prepare a "Central American Uniform Nomenclature for Exports" (NUECA). The Committee did so by adjusting the NAUCA classifications to meet the needs of Central American exports which are concentrated in a small number of products. The changes were not significant.

To unify customs practices as well as nomenclature, the Economic Council in December 1963 signed a Protocol setting forth a Central American Uniform Customs Code (CAUCA) as contemplated in article 29 of the General Treaty. This sets forth a uniform basic customs law for the five countries. On June 14, 1967, El Salvador deposited its ratification of the Protocol, the fifth state to do so. To carry the standardization of customs practices one step further, the Economic Council in November 1965 approved the Regulations for the Central American Customs Code (RECAUCA), which are to be applied by the Central American Governments in administering the CAUCA.

The next legal step in unifying the tariff structure of the Central American states might be establishment of a form of Customs Court with power to apply standard interpretations of the CAUCA and RECAUCA throughout the area. However the national governments do not appear ready to surrender such authority to a Central American body at this time.

SETTLEMENT OF DISPUTES

Commercial relations among the member states are governed by the various agreements and codes described previously, but, as is to be expected, there are constant differences about their application. On occasion one government will delay applying an agreement which another government believes should have been put into effect, and disputes arise. There are also frequent disputes about the origin of goods moving from one country to another, usually on the question of whether the value added to their foreign materials is enough to give the product a Central American character and entitle it to free trade rights. There are often differences about the propriety of one government's granting tariff concessions on imports of certain raw materials by its manufacturers. When concessions on imports of given raw materials are allowed in one country but denied in another, the manufacturers who enjoy the concessions are at a competitive advantage over those who do not. The number and variety of these problems are indeed great, and a failure to settle them with reasonable promptness would soon bring to a halt the functioning of the whole Common Market.

These matters are ordinarily settled by majority vote in meetings of the Executive Council, which occur every month or so. Sometimes serious differences are carried to the Economic Council, where decisions are usually unanimous, but the general desire is to handle differences in the less formal atmosphere of the Executive Council.

Chapter VI

Expansion of the CACM

The need to expand Central America's market area is obvious. The 13.4 million people of the area with their per capita income of $308, as of 1966, do not constitute a large market.[1] Therefore, Central American leaders are giving thought to the possibility of bringing the Republic of Panama into the Central American Common Market and to creating a place for Central America in the Latin American Free Trade Association (LAFTA). Both measures have the formal endorsement of the leaders of the areas involved, but both will be difficult to realize. Related in part to the problem of the Central American Common Market's future relations with LAFTA is that of its relations with Mexico, which has in the last 2 years displayed an interest in strengthening its economic ties with Central America.

PANAMA AND THE COMMON MARKET

The eventual entry of Panama into the Common Market has been contemplated for some years, although in the past the Central American and Panamanian leaders found it more feasible to concentrate on an approach through ODECA than on direct efforts at economic integration. Indicating their consciousness that Panama had a role to play in the organization of Central America, the Foreign Ministers of the area met in Panama City to sign the present ODECA Charter on December 12, 1962. The Panamanian Foreign Minister attended this meeting but did not subscribe to the Charter. Nevertheless, article 2 of the Transitional Section of the Charter provides that Panama can join the subsidiary organizations of ODECA without becoming a party to the Charter itself. Accordingly, the Central American and Panamanian Ministers on June 17, 1966, signed a Protocol to the Charter under which Panama is to become a member of ODECA's Councils on Labor and Social Welfare, on Public Health, and on Tourism. El Salvador, Nicaragua, and Costa Rica have deposited their ratifications of this protocol, which will go into effect when all signatories have made their deposits. On December 13, 1967, the Foreign Ministers signed another Protocol permitting Panama to join new ODECA organizations such as the Central American Councils on Agriculture and Livestock and on Law Enforcement, Police, and Migration (*Gobernación, Interior y Migración*). Thus, the association between Panama and ODECA is close at the general operational level, even though Panama has not subscribed to the Charter.

The first serious attempt at strengthening economic relations between Panama and Central America was the signing by representatives of Panama, Costa Rica, and Nicaragua on August 2, 1961, of the Treaty of Preferential and Free Trade. This Treaty provided that the parties would concede to each other free trade or preferential treatment on a limited list of products. This agreement has had little effect on the commerce of the signatory states and has been severely criticized within the Common Market as granting Panama tariff concessions in violation of the Convention on Tariff Equalization. No serious effort has been made to extend the list of commodities favored in the Treaty or to induce the Central American states to become parties to it.

More recently both the Panamanian Government and SIECA have completed, but not released, separate studies on the problems of the entry of Panama into the Common Market. On receiving the Central American study on May 15, 1967, the Secretary General of SIECA stated: "As far as Central America is concerned, the question regarding Panama's participation in economic integration is not whether Panama will participate or not, but rather how the participation will be accomplished and how far it will go.[2]

A Panamanian Commission, basing its action on a study directed by Dr. Ramón Tamanés Gomez, in 1966 recommended the participation of Panama in the Common Market[3] and called for the naming of a committee to prepare for negotiations with the Central American authorities. The Panamanian Minister of Agriculture, Commerce, and Industry declared in his report to the National Assembly in 1967: "We believe we are losing opportunities which with the passage of time will be more difficult to obtain. For a long time we have been convinced that Panama's inclusion in Central America's economic integration movement is advantageous and justified." The Panamanians have appointed a Special Ambassador to consult on the Common Market, who in a press conference in 1966 stated that the integration of the isthmian economy was "impostponable" and that Panama's participation was "inevitable." These are only a few examples of the displays of deep interest on the part of Panamanian officials in seeing their country enter into the Central American Common Market.

The present thinking of Central American economic leaders is reflected in the action of the Executive Council in August 1967 setting forth a list of possible ways in which Panama might

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[1] SIECA, *Statistical and Descriptive Data on Central America and Panama*, Guatemala, Mar. 22, 1966.

[2] SIECA, *Carta Informativa*, No. 68, June 12, 1967, p. 14.

[3] *Ibid.*, No. 59, Sept. 12, 1966, pp. 2–4.

Central American Exports to Panama 1965

(Thousands of dollars)

TOTAL		2,440
072-00	Cacao	262
221-09	Sesame seed	86
243-02	Sawn lumber	158
561-00	Fertilizer, chemical	575
891-00	Phonographs and record players	84
892-90	Miscellaneous printed matter	65
899-15	Toys and games	72
931-00	Merchandise returned and other special transactions	274
Other		864

come to participate in the Common Market:[4]

1. Panama to enter the CACM as a full member from the beginning.
2. Panama and the CACM to work out a schedule of progressive integration to be accomplished in fixed steps at fixed times.
3. Panama and the CACM to take steps from time to time to integrate their economies as seems fitting.
4. Panama and the individual members of the CACM to negotiate various agreements which would prepare the way for eventual entry into the CACM.

The council concluded that the second and third of these choices would be preferable, being neither too abrupt nor too indefinite.

There are obviously major obstacles to the integration of Panama into the Central American economy. These generally have to do with Panama's peculiar situation in relation to the Canal, the commercial nature of its economy, the fact that Central American tariffs are several times as high as Panamanian tariffs (see table 3, annex II), the fact that wage levels in Panama, being geared to the Canal, are considerably higher than in Central America, and the fact that Panama has little to sell to Central America and, if it entered the CACM, would have to buy many products from the area at prices much higher than it is now paying.

The present trade between Panama and Central America is of little importance to the economy of either area. According to SIECA's statistics, Central American exports to Panama proper in 1965 were as shown in the above table.

SIECA's figures on imports from Panama throw little light on the trade between the two areas because they combine goods from the Republic of Panama, the Canal Zone, and the Colón Free Zone. The total was $8.8 million in 1965 and obviously contained a great deal of merchandise not of Panamanian origin.

Panamanian figures on trade in both directions differ considerably from SIECA's. According to preliminary data published in *Comercio Exterior*, 1965, *Estadística Panamena*, Year 25, *Dirección de Estadística y Censo*, Panama 1967, Panama, excluding the Canal Zone and the Colón Free Zone, had the following trade (see table below) with Central America in 1965.

The Panamanian figures also show that in 1965 exports to Central America accounted for 1.4% of Panama's total exports, and imports from Central America made up 0.8% of her total imports.

Thus an abrupt entry by Panama into the CACM would mean a sudden reorientation of the country's economy. Under the circumstances, it is hardly conceivable that it would be undertaken. Nevertheless, both sides seem to desire closer ties and they may work out some form of association short of full integration. This could mean a system of tariff preferences and establishment of Panamanian relations with the various Common Market organizations. Negotiation of even this first agreement between Panama and the Common Market and subsequent ratifications by the national legislatures would undoubtedly require several years.

THE CACM AND LAFTA

Besides the possible limited extension of the Common Market by inclusion of Panama within its boundaries or by some other arrangement with that country, there remains the larger possibility of the entry of the CACM into an integrated Latin Amercian economy. This would, of course, involve a tremendous readjustment of the Central American economy. Central American leaders are on record as favoring the eventual entry of the CACM into a Latin American Common Market. The Central American Presidents were among the signers of the 1967 Declaration of Punta del Este in which the area's Presidents agreed to form a Latin American Common Market based on the improvement of the two existing integration systems, LAFTA and the CACM. Efforts directed toward integration of Central America into an organized Latin American economic community led to formation of a permanent LAFTA–CACM Coordinating Commission at a meeting at Asunción, Paraguay, in September 1967.

Some specified ideas on the problem of integrating the CACM with the rest

Panamanian Trade With Central America 1965

(Thousands of dollars)

Countries	Exports	Imports
Total	1,000	1,668
Guatemala	33	103
El Salvador	284	232
Honduras	79	370
Nicaragua	119	156
Costa Rica	485	807

[4] *Ibid.*, No. 71, Sept. 12, 1967, pp. 24–25.

of Latin America are to be found in a speech delivered by Dr. Carlos Castillo, Secretary General of SIECA, in San Pedro Sula, Honduras, on June 7, 1967.[5] Dr. Castillo declared: "a Latin American economic integration is fittting and proper for Central America. However, it is fitting and proper only in principle, because its practical and specific advantages will depend upon the form in which it is applied." He stated that there are the following four "indispensable conditions" of Central American participation in Latin American economic integration:

1. The preservation of the personality of the CACM and its possibilities of internal growth and progress toward a higher degree of integration.

2. The increase of the investments proceeding from outside of the Central American area and the strengthening of the position of the Central American investor.

3. The ability of Latin America to count on additional financial resources to carry out the integration of its economies . . . and in the case of Central America . . . not only for the development of national economies but also for that of Central American integration.

4. Extension to the less developed countries, in concrete and effective terms, of preferential treatment. . . . It is here that the great problem of Latin American integration is to be found.

Dr. Castillo also stated that the General Treaty of Central American Economic Integration was suited to the special needs of Central America and that the Treaty of Montevideo establishing LAFTA "reflected Latin American realities of a decade ago." Hence, neither document is suited to the present common needs of Central America and the rest of Latin America. Integration of the two "will depend in part on the form and rapidity with which LAFTA is able to convert itself into a common market. But also it will depend on the effectiveness and timeliness with which Central America acts to make workable a General Treaty on Latin American Economic Integration."

It is evident from this that Dr. Castillo, while favoring Latin American integration in principle, sees it as something which will not be speedily achieved and as something which must not be allowed to disrupt the CACM. The problem of according special treatment to the relatively less developed economies has, however, diminished in scope. LAFTA has already agreed to give special status to its less developed members and the principle would extend to the CACM in the eventual Latin American Common Market.

Nonetheless, statistics on recent trade between Central America and the other Latin American countries disclose the size of the commercial realignments which would be involved in any undertaking to integrate the Central American economy into that of the rest of Latin America. In 1965 only 0.9% of Central American exports went to the present LAFTA countries, while only 5.9% of its imports came from them. Nonpetroleum imports from Latin America made up only 2.9% of the Central American total.

Central American exports to the LAFTA countries are summarized in the table below.

The export figures indicate that Central America does not have an established market among the LAFTA countries. Peru seems an unlikely country to be Central America's principal Latin American market, yet this was the case in 1965. Since 61.2% of Central America's exports to Latin America consisted of cattle to Peru, a new item of trade, it seems probable that this represented special transactions which will not necessarily be repeated in the future. Mexico, which one might expect to be the area's best Latin American customer, actually trailed Peru, Colombia, and Venezuela as a recipient of Central American exports. The total of $82,000 going to Mexico indicates that, as of 1965, Central America had no regular commercial relations with its northern neighbor.

In 1965 Central American imports from LAFTA countries greatly exceeded its exports to them. However, of imports of $44.6 million in 1965, $21.8 million was in petroleum and its products, almost all of which came from Venezuela. In addition, Central America imported from the Netherlands West Indies petroleum products valued at $12.6 million, which were, of course, produced from Venezuelan crude. Mexico and Colombia were relatively important among Latin American suppliers. There follows a breakdown of Central American imports from the LAFTA countries. See page 26.

MEXICO AND THE CACM

The Mexican Government has shown considerable interest in strengthening the country's weak economic ties with Central America. As shown in the following tables, Central American imports from Mexico in 1965 amounted to $13.4 million and its exports to Mexico totaled to $82,000. Mexican export trade with Central America thus has been small and her imports trade almost nonexistent. Mexican investment in Central America has also been quite small.

The most spectacular action taken by Mexico to improve its economic relations with Central America was the visit of President Diáz Ordaz in

Central American Exports in 1965 To LAFTA Countries

(Thousands of dollars)

Exports	Total	Colombia	Mexico	Peru	Venezuela	Other
TOTAL	2,508	409	82	1,780	169	17
072–Cacao	239	231	. . . .	8	. . . .	. . . .
001–Cattle	1,537	. . . .	3	1,534	. . . .	. . . .
242–Timbers	47	. . . .	. . . .	. . . .	47	. . . .
561–Fertilizer	183	. . . .	. . . .	183	. . . .	. . . .
559–Insecticides	110	. . . .	. . . .	. . . .	110	
931–02–Personal effects of tourists, etc.	45	9	. . . .	32	1	3
Other	347	169	78	23	11	14

[5] *Ibid.*, No. 68, June 12, 1967, pp. 19-27.

1966 to Central America and Panama, with the primary purpose of discussing economic relations. In each country the Mexican and national President issued a joint press statement which was in the nature of an informal agreement.[6] The Guatemalan statement pledged a study to lead to an agreement to correct the commercial imbalance between the two countries. In the other countries President Diáz Ordaz was more specific and stated that his Government would promote imports from El Salvador, Honduras, Nicaragua, and Costa Rica. In El Salvador, the Mexican President undertook to improve the country's balance of payments with Mexico. In regard to Costa Rica, Mexico promised to "give preference to those articles which Costa Rica could supply profitably and in which Mexico was deficient."

In all statements except that issued in Guatemala, the Presidents involved undertook to promote joint venture investments, to promote tourism, to develop technical exchange, to cooperate in defense of the market for exports, and to improve transportation and communication between Mexico and the country involved. On this trip President Diáz Ordaz announced that the Bank of Mexico would open a credit for the Central American Bank in the amount of $5 million and would buy Central American Bank bonds in the amount of $1 million. This loan is for 10 years, with a 3-year grace period, at interest rates of 6% on non-Mexican procurement and 5% on Mexican.

A curious clause in certain of these statements set forth Mexican willingness, "as among the objectives of Latin American economic integration," to grant unilaterally tariff preferences to jointly selected products "which can be purchased competitively and are manufactured by companies whose capital is Central American in its majority." This wording appeared in the communique issued in San Salvador. To a similar clause in the Honduran statement was added: "Moreover, the Governments of Mexico and Honduras agree to authorize reciprocally customs preferences for those products whose manufacture results from agreements on industrial complementation or joint investment." The Costa Rican statement is similar to the Honduran except that this privilege is extended to Costa Rica "just as to the other members of the Central American Common Market." A generally similar provision is found in the statement issued in Panama.

So far as is known, Mexico has not attempted to apply this policy on imports, nor have the Central American Governments entered into agreements for selecting the products to be favored or for identifying the nationality of the owners of plants which might wish to sell in Mexico.

As follow-up measures, the Agreement on International Payments between Mexico and Central America was negotiated in March 1967 and the Central American Bank sent an investment promotion mission to Mexico in 1966 and a second mission in 1967. In June 1967 the Central American Bank sponsored a Mexican Industrial and Commercial Mission to Central America. The Mexican National Tourist Council has established an office in Managua and is planning to arrange tours from the United States to the Mayan ruins of Yucatán and Central America, and sent a Mexican-Central American Caravan of Friendship of 200 persons to Guatemala in May 1967.

It is to be expected that as a result of this activity there will be some increase in trade between Mexico and Central America, but this trade is likely to remain limited by the nature of the economies of the two areas. Central America produces little in the way of raw materials or manufactured goods that Mexico does not also produce, while Mexico probably produces relatively little in the way of manufactured goods that it can sell competitively in Central America. Perhaps the real key to the future of trade lies in the actions, if any, which Mexico will take to facilitate imports of Central American products.

The Central Americans seem pleased with the Mexican credits to the Central American Bank, but they also seek financial assistance to the Bank from a number of sources. The Central Americans' welcome to Mexican investors will presumably depend much on the type of industries in which the Mexicans wish to invest, and there is no indication that the Central American attitude toward Mexican private investment will be very different from its attitude toward other foreign investment.

Principal Central American Imports in 1965 From Present LAFTA Countries

(Thousands of dollars)

Imports	Total	Colombia	Mexico	Venezuela	Other
TOTAL	44,617	6,732	13,395	22,155	2,335
0. Foodstuffs	1,665	267	1,166	5	227
041-01 Corn	788	.. ..	788	.. ..	.. ..
081-00 Animal feed	257	154	21	.. ..	82
1. Beverages & tobacco.	21	1	14		6
2. Incdible raw materials	433	22	168	124	119
3. Fuels & Lubricants	21,840	183	105	21,547	.. ..
312-C0 Petroleum, crude	17,672	.. ..	.. ..	17,672	.. ..
313-00 Petroleum products	3,289	188	94	3,007	.. ..
4. Fats & oils	9	.. ..	1	.. ..	8
5. Chemical products	7,459	2,524	4,005	175	755
541-00 Medicines	3,472	205	2,812	102	353
561-00 Fertilizer	2,302	2,248	54	.. ..	.. ..
599-01-01 Cellophane	342	5	337	.. ..	.. ..
6. Manufactures classed by materials	7,744	2,935	4,394	95	320
651-00 Yarn	1,332	1,105	205	22	.. ..
652-00 Fabric, cotton	629	590	31	.. ..	8
661-02 Cement	322	300	.. ..	22	.. ..
665-01 Bottles	1,027	.. ..	1,027	.. ..	.. ..
699-13, 14 & 15 Utensils, domestic	325	1	324	.. ..	.. ..
699-21 Stoves, kitchen, & water heaters	346	1	345	.. ..	.. ..
7. Machinery & transp. equip.	3,192	475	2,058	88	571
8. Misc. manufactures	2,192	307	1,466	108	311
891-C2 Phonograph records & tapes	263	63	184	13	3
892-01 Books & pamphlets	448	10	282	31	125
9. Other transactions	62	13	18	13	18

[6] *Comercio Exterior,* Banco Nacional de Comercio Exterior, S.A., Mexico City, Jan. 1966, pp. 10–14.

Chapter VII

Agriculture and the CACM

The Central American Common Market has since its inception worked primarily for industrial development of the area and has proved to be of limited benefit to agriculture. This might be viewed as surprising in an agricultural area such as Central America, were it not characteristic of the efforts of most of the less developed areas to modernize their economies. This focus of emphasis on industry is understandable in the Isthmus, as elsewhere in the less developed world, in terms of the difficulties of bringing about rapid changes in agriculture and the relative ease with which the first quick results can be obtained in industrialization. There is also the peculiarly Central American problem of the Common Market's not having the political power to deal effectively with some of the basic agricultural problems, since these problems occur in areas reserved for action by the national governments.

Despite this focus on industry, there should be no loss of perspective as to the relative importance of agriculture and industry in the Central American scene. Central America is basically agricultural in its economy and is likely to remain so for a long time to come. In 1965 the contributions of agriculture, forestry, and fishing to the GNP's of the five countries ranged from 28% in Guatemala to 43% in Honduras. Those of manufacturing varied from only 11% in Honduras and Nicaragua to 17% in El Salvador. The ratio of employment in agriculture to that in industry in recent years ranged from 1.5 to 1 in Costa Rica to 7.1 to 1 in Honduras. According to calculations of foreign trade in chapter IV, agricultural products made up 92.8% of the area's exports in 1965 while industrial products accounted for only 0.6%. These few statistics should suffice to demonstrate the agricultural nature of the region's economy.

Chapter III on Intraregional Trade provides data for the following comparison of the growth in regional trade in agricultural and industrial goods. See table below.

Not only has agriculture lagged far behind industry in its participation in the growth of the regional trade of the area, but the development of the Common Market has made no significant contribution to that great segment of Central American agriculture devoted to the production of crops for export.

LIMITED BENEFIT TO AGRICULTURE

Perhaps the principal immediate reason for agriculture's failure to benefit proportionately from the operations of the Common Market is that regional free trade and regional tariff protection, which are the principal tools employed for the development of the Common Market, are not adjusted to the needs of agriculture as they are to those of industry. In the first place, these tools can be of little value to producers of goods sold on the world market. The demand and price for such goods are beyond the control of the Central American authorities. In the second place, these authorities cannot completely disregard the needs of the population for low cost foodstuffs. The point at which rising food costs create serious political problems naturally is reached earlier than is the case with other products. Furthermore, imports from abroad of food products susceptible to economical regional production have not been in sufficient volume to permit the development of a wide substitution program in the agricultural field.

The inelastic nature of the regional market for many agricultural products and the fact that all Central American states produce more or less the same crops have also added to the difficulty of a rapid expansion of trade in agricultural goods. While Honduras in past years regularly sold large quantities of corn and beans to El Salvador, this trade may have been checked in 1967 by increased production of these products in El Salvador. In general, no lasting pattern of trade in basic foodstuffs can now be said to exist in Central America.

Another and very important reason why the Common Market has been of much less benefit to agriculture than to industry is that many of the problems of Central American agriculture are in areas reserved for national action. Extension work, agricultural credit (except possibly for large-scale export agriculture), agricultural education, and agricultural experimentation are all approached as national

Regional Trade in Agricultural and Industrial Goods

Goods	Trade (*thousands of dollars*)			Percentage increase over 1960	
	1960	1965	1966	1965	1966
Agricultural	16,344	33,422	40,075	*104.5*	*145.2*
Industrial	15,060	98,117	131,194	*551.5*	*772.1*

NOTE: 1966 figures are preliminary.

problems. Agrarian reform is also seen as a national, political problem. Perhaps the most basic of all measures needed for the improvement of Central American agriculture is that of raising the level of literacy in the rural areas, but this is clearly a national problem.

The possibility of the assumption of a central responsibility in certain areas, experimentation and higher agricultural education especially, is being given serious consideration by Central American leaders, and they have organized a Permanent Commission for Central American Agricultural Research and Extension. In other areas, the Central American organizations could perhaps assume an important advisory role. However, with the best of intention and greatest of enthusiasm, certain of the basic problems of Central American agriculture must remain in national hands until there is a transfer of certain sovereign powers of the states to a central authority, a development not to be expected in the near future.

The manner in which the Common Market is organized gives it a strong bias toward industry. It was almost inevitable that Central American organizations would be oriented more toward industrial than agricultural. Such an orientation is characteristic of ECLA, and ECLA has exerted a strong influence on the development of the Central American Common Market. More important, the Common Market policy is formed by the Ministers and Vice Ministers of Economy, who are concerned with industry and general economic development. In the national governments, agriculture is reserved for the Ministers of Agriculture. The Ministers of Agriculture from the five countries met in February 1964 and held a joint meeting with the Ministers of Economy in November 1965. However, the Agricultural Ministers concern themselves with agricultural policy, and they do not participate in the meetings in which decisions are made on other economic policy—the granting of integration status to the insecticide plant, for example—which may have an important bearing on agricultural costs.

AIDS RENDERED

The Common Market authorities have taken certain actions of specific benefit to agriculture beyond the removal of regional trade barriers and the establishment of common external tariffs and they are studying various other measures which should be of value to the agriculture of the area. Chief among these actions already taken are the following:

1. The negotiation of the special Protocol on Basic Grains, which are corn, beans, rice, and grain sorghum. This Protocol provides for the establishment of national agencies to stabilize prices of these "basic grains," national controls over imports of them, and the recognition of a Central American agency to coordinate the activities of the national agencies. This Protocol became effective for Guatemala, Honduras, and El Salvador in October 1967, for Nicaragua in December 1967, and for Costa Rica in February 1968.

2. The Protocol of July 31, 1962, to the Convention on Tariff Equalization provides for the progressive raising over a 5-year period of national tariffs on powdered whole milk to a uniform rate of $.15 per gross kilo plus 10% ad valorem. The Protocol directs the Executive Council to establish import quotas in such a way that Central American production and the total amount of authorized imports "will insure total satisfaction of the existing demand."

"To protect the interests of the consumer and to promote competitive conditions in the dairy products market" the Protocol provides that, even when Central American production is sufficient to cover the total market demand, an import quota of not more than 15% "of total commercial consumption of powdered milk in each country shall be allowed." The quotas are subject to semiannual revision. These quotas apply to "commercial imports" of milk.

Actually, the imposition of this new duty was delayed by El Salvador until the latter part of 1966 because that country is a heavy consumer and small producer of powdered milk. In 1965 Central American imports of powdered milk (NAUCA 022) amounted to $6.1 million and its regional trade in the product amounted to $37,000. The tariff and quota system should eventually greatly reduce imports and promote regional production of this product.

3. The general tendency in fixing uniform tariff rates on agricultural products was to raise them somewhat over the national rates. The table below shows some of these new uniform rates and the national rates (except those for Nicaragua, which were not available) which they replaced.

4. The Central American authorities are beginning to give some attention to possible future joint actions to promote or protect the area's exports. For example, the Third Conference of Foreign Ministers recommended that efforts be made by the Central American governments to appoint commercial attachés to watch over the area's commercial interests abroad, possibly with a single attaché serving more than one Central American country.[1]

[1] SIECA, *Carta Informativa*, No. 75, Jan. 12, 1968, p. 9.

	Fresh fruit		Canned vegetables	
	Per gross kg.	Ad valorem	Per gross kg.	Ad valorem
Uniform Rates	$ .30	25%	$ .60	25%
National Rates				
Guatemala	.20	10%	.55	20%
El Salvador	.10	12%	.12	10%
Honduras	.15	none	.50	none
Costa Rica	.003	25%	.60	25%

	Selected fresh vegetables		Margarine	
	Per gross kg.	Ad valorem	Per gross kg.	Ad valorem
Uniform Rates	$ .50	10%	$ .60	10%
National Rates				
Guatemala	.30	10%	.50	10%
El Salvador	.30	10%	.24	10%
Honduras	.50	none	.50	none
Costa Rica	.45	10%	.64	4%

The Executive Council in September 1967 undertook a study of a project for protesting before members of the European Common Market discrimination against its restrictions on the importation of bananas from Central America. This protest was proposed as a joint action by the Central American Common Market, not as separate actions by the Central American states.[2] These actions promise some future benefits to agriculture.

CONFLICT WITH INDUSTRY

While the Central American Common Market has this record of positive action on behalf of agriculture, there is a danger that Central American industrialization will be pushed with such zeal that the area's agricultural interests will be sacrificed. This threat could take the forms of favoritism to industry in the development of the transportation system, of the channeling of credits, or of the character of taxation. The greatest danger to Central American agriculture is in the imposition of protective tariffs to encourage the regional manufacture of goods essential to agriculture. This process has already begun and, if long continued, could force up agricultural costs, thus raising the cost of living in Central America and hampering agricultural production for export. The area could not afford either of these developments. Of course, almost all tariff increases have some impact on farm costs even when the product involved is not primarily for agricultural use. Thus, tariff measures which raise the cost of truck tires, building materials, or textiles raise agricultural costs somewhat. However the following are examples of the direct sacrifice of agricultural interests to industrial development.

1. *Insecticides*—as an Integration Industry, chlorated camphene derivatives of turpentine manufactured as insecticides will be subject to import duties of $.10 per kilo plus 10% and other insecticides to duties of 15%. National rates replaced by these range from 0% to 5%. A great part of the insecticides used in Central America are of types affected by these new rates.

2. *Fertilizer*—The Protocol of August 1, 1964, to the Convention on the Equalization of Import Duties provides for a 10% duty on fertilizer, whereas the national rates were generally 5%. The Government of Costa Rica is pressing for a rate of 15% on fertilizer to protect the Fertica plant in that country.[3]

3. *Barbed wire*—The Protocol of November 1965 raised the duty on barbed wire to 35% or 40%.

4. *Machetes*—The Protocol of San Salvador of January 23, 1963, to the Convention on the System of Integration Industries provided for an import duty of 20% instead of the former rate of 10%.

There are other instances, no doubt, of the sacrifice of agricultural interests to industrial ones in the development of the Central American Common Market. If the process stops where it is today, the damage to agriculture will be slight. If it is continued, a serious distortion would be introduced into the economy of the region. The type of decision which must be made here is not a spectacular one, but it is rather the constant weighing of the interests of agriculture against those of industry, a remembrance that a steady nibbling at the agriculture structure over a long period can be as damaging to it as a few large bites. Perhaps, if serious damage is done to agricultural production in Central America, the blame should lie more with the agriculturalists who have not shown an alertness in defending their interests than with the industrialists who have pushed their own interests. In the agricultural economy of Central America, the agricultural sector may be assumed to have the force to defend itself but does not appear to have the alertness.

[2] *Ibid.*, No. 72, Oct. 12, 1967, p. 16.

[3] *Ibid.*, No. 70, Aug. 12, 1967, p. 9.

Chapter VIII

Integration Industries System

Although the System of Integration Industries was developed with the expectation that it would provide the driving force for industrialization in Central America, its achievements so far have been limited and controversial. Its purpose, as stated in article I of the Convention on the System of Integration Industries, is "to promote the establishment of new industries and the specialization and expansion of existing ones." The system is based upon the recognition of the relatively small size of the Central American market, in terms of both population and purchasing power, and the belief that there are certain industries which could be developed in the area to supply the whole or a large part of that market but which could not produce economically on a smaller scale. In the words of article 2 of the Convention, Integration Industries are to be "made up of one or more plants whose minimum capacity requires them to have access to the Central American market to operate under reasonably economic and competitive conditions." The purpose of the system is not only to assure this access to the Central American market for selected plants in selected industries but also to shelter these plants from general competition from within and without the Common Market. These selected plants enjoy free trade for their products throughout Central America, while competitive manufacturers not so designated must pay duties on their products sold across Central American frontiers. In addition, the system provides for increasing the duties on imports of competitive products from abroad and for affording some safeguards to the community against the monopolistic character of the plants set up under the system.

There is a basic conflict between the concept of Integration Industries and that of regional free trade. As previously mentioned, when the Convention on the System of Central American Integration Industries was signed on June 10, 1958, it was a companion document to the Multilateral Treaty. This latter extended free trade to a rather small list of products, most of which were agricultural. Thus, the granting of free trade privileges to the products of designated Integration Industries was in effect an extension of free trade. However, with the subsequent great expansion of regional free trade under the General Treaty, the assignment of Integration status to an industry came to mean generally that free trade for competitive products manufactured within Central America would be delayed for 10 years. It is conceivable that within a few years the most significant restrictions on the free trade of the area will be on the products of Integration Industries.

When the first protocol to the convention was negotiated in January 1963, an attempt was made to place a limitation on the conflict between the free trade principle embodied in the General Treaty and the guarantee of internal protection contemplated in the Convention on Integration Industries. Article 1 of the Protocol states:

> The benefits of the Convention on the System of Central American Integration Industries will not restrict or limit the commercial interchange taking place under the protection of the General Treaty of Central American Economic Integration.

It should be noted that the above restriction applies to "commercial interchange taking place under the protection of the General Treaty." Thus, when there has been no manufacture of an article in Central America and, hence, in practice no interchange of it under the protection of the General Treaty, a prospective producer apparently could properly seek Integration status for a plant to manufacture that article. Caustic soda, insecticides, and plate glass, although not excepted from free trade under the General Treaty, were eligible for Integration status because there was no regional trade in these articles of Central American origin.

Although the Convention on the System of Integration Industries became effective in 1961, until late 1967 there was only one plant operating under it. This was the GINSA Company (*Gran Indústria de Neumáticos Centroamericanos, S.A.*), which was founded in 1956 to supply the Guatemalan market but is now selling throughout Central America. Caustic soda and insecticide plants, designated for Integration status in Nicaragua, entered into production in November 1967 and January 1968, respectively. A plate glass plant was designated for Honduras in a second Protocol. So far Honduras has not deposited its ratification of the first Protocol covering the tire, caustic soda, and insecticide plants and, therefore, the benefits of the system are not extended to these products in Honduras.

The System of Integration Industries has its legal basis in three documents, all of which required considerable time to become effective. The first of these is the Convention on the System of Central American Integration Industries, which was signed in Tegucigalpa on June 10, 1958, and became effective for Guatemala, El Salvador, Honduras, and Nicaragua on June 4, 1961, and for Costa Rica on September 23, 1963. The second important document is the first Protocol signed in San Salvador on January 29, 1963, and effective for Guatemala, El Salvador, and Costa Rica on February 26, 1965, and for Nicaragua on August 31, 1965. Honduras has not yet ratified this document. The third document is the second Protocol signed on November 5, 1965, in San Salvador. It has been ratified by Honduras, Nicaragua, and Costa Rica and went into effect on January 27, 1968, for these three countries.

There is a rather interesting relationship among these three documents. The first outlined the system but did not designate any industry as coming under it. Therefore it did not put the system into operation. The second designated as Integration Industries the already existing tire and tube plant in Guatemala and caustic soda and insecticide plants to be built in Nicaragua. The third designated a plate glass manufacturing plant for Honduras. The protocols not only designated the industries but also set out various rules for their operation. Since protocols go through the same procedures of negotiation and ratification as the original Convention, the Convention serves only as a point of departure for the preparation of protocols.

BENEFITS TO DESIGNATED PLANTS

The benefits offered by the system were originally expected to lead to the founding of numerous important factories serving the whole of Central America. Among these benefits are the following:

1. *Tariff protection against imports*—As contemplated in article 5 of the Convention, the two protocols have set protective tariff rates on imports of competitive goods from abroad.

2. *Protection from competition within the Common Market*—The products of an Integration Industry enjoy free trade within the Common Market, while competitive products of undesignated plants are subject to duties for 10 years when sold in Central America, outside of the country of manufacture. Article 4 of the Convention provides that the duties to be paid on the products of undesignated plants will be reduced annually by 10% of the rate provided in the protocols, so that these competitive products will be free traded after 10 years. The first Protocol (article 3) fixes the date for beginning those reductions for plants already in operation (the tire and rubber plants in this case) as 1 year after the date on which the Protocol becomes effective and for other plants (caustic soda and insecticide) as the date on which the Protocol specifies that they are to enter into production. The second Protocol (article 11) sets the date as 1 year after that on which the Protocol requires the plant (plate glass) to enter into production. Accordingly, the first reduction on the internal tariff for tires was due on February 26, 1966, and the first reduction in the internal tariffs on insecticides and caustic sodas was to become effective August 26, 1968.

3. *Tariff advantages on importation of raw materials*—Integration plants are entitled for 10 years to exemption

from duties and other levies on the importation of raw materials or semimanufactures used by them and also to exemption from taxes on the production or consumption of these raw materials or semimanufactures (articles 6 and 13, respectively, of the first and second Protocols). This treatment is more generous than that allowed in the Convention on Fiscal Incentives for industries of types likely to be chosen for integration. That Convention allows complete exemption from duties on raw materials and semimanufactures for only 5 years and a decreasing exemption for the next 5 years.

4. *Other benefits*—Integration plants may be granted other related benefits. Article 18 of the second Protocol authorizes the Executive Council to fix quotas on the importation of plate glass prior to the beginning of production by the designated plant, should this seem necessary to prevent speculative importation of foreign glass. The purpose here is to prevent the importation of large quantities of glass in anticipation of the increase in tariffs. In addition to the tariff protection afforded by new rates, the Protocols provide for special measures against the dumping of foreign products competitive with those produced by an Integration Industry (article 8 and 9 of the first Protocol and 19 of the second). To date no resort to this action has been made.

OBLIGATIONS OF DESIGNATED PLANTS

While the Integration Industries are granted the special advantages described, they are subject to the following special requirements and restrictions, which could be a major reason for the small number of applications for integration status which have been made.

1. *Initial capitalization*—The firm must have the initial capitalization specified in the Protocol. This would presumably be in line with the size of the plant contemplated, and this requirement in itself should not create a problem for investors.

2. *Central American participation*—The firm must offer to Central American investors a certain percentage of its equity capital. In the case of the GINSA tire plant whose stock is issued in "bearer" shares, article 21 of the first Protocol stated that a majority of the firm's equity capital was of Central American origin and stipulated that, upon any future increase in equity capital, a majority of the new shares should be offered to the Central American public for a period of 180 days. Article 13 of the first Protocol provides that at least 40% of the equity participation in the caustic soda and insecticide plants must be offered to Central American investors during the period of 180 days prior to the formation of the company. Article 3 of the second Protocol fixes the Central American participation in the plate glass plant as 60%.

3. *Initial plant capacity*—ICAITI must certify that an Integration Industry plant have a specified minimum initial capacity (articles 14 and 21 of the first Protocol and 4 of the second) before the special protective tariff for the industry goes into effect. This is intended to insure the plant's ability to meet the needs of the market. It must continue to make available an adequate and constant supply of the product; should it fail to do so, the Executive Council may authorize the importation of sufficient quantities of the product to supply the needs of the area. This importation could be made at a tariff rate about equal to that generally applied in the area before the special Integration rates were applied (articles 14, 15, 16, 22, 23, and 24 of the first Protocol and 6 and 7 of the second Protocol).

4. *Price controls*—Articles 17 and 25 of the first Protocol specify maximum prices at which the designated manufacturer of caustic soda and insecticides can sell these products, subject to modification by the Executive Council as a result of changes in costs of production. They state that the selling price of tires and tubes to the final consumer shall "not exceed the lowest list price in effect in any of the contracting countries as of December 1, 1962" and that the Executive Council shall fix detailed selling prices for tires and tubes and modify them as warranted by fluctuations in costs of production. Article 8 of the second Protocol merely provides that the Executive Council will fix the prices of plate glass to distributors and consumers on the basis of a study to be made by SIECA which will "take into account" warehouse prices of glass on a date within 6 months after the signing of the Protocol.

5. *Quality controls*—The manufacturer must maintain satisfactory standards of quality for his product. Article 4 of the first Protocol states that ICAITI will lay down the standards in each case, subject to approval by the Executive Council, and will check on the quality of the products from time to time and report its findings to SIECA. ICAITI must certify that the product meets these standards before the special protective tariff rate goes into effect. In the event the products do not come up to the standard, the Executive Council will determine the measure it should take, including the authorization of imports at special low tariff rates.

6. *Channels of distribution*—The manufacturers of Integration Industry products are not allowed to act as distributors but must sell to all who seek to buy them unless some good reason exists for not doing so (first Protocol, article 7).

DESIGNATION PROCEDURES

Perhaps equal to the prospects of official restrictions on operations as a discouragement to investors tempted to seek the Integration route have been the prospects of long delays in the many steps required to obtaining decisions on applications for Integration status, and the strong possibility that the decisions will be unfavorable. According to article 9 of the Convention, a company seeking Integration status must first apply to SIECA which, when it considers the application well documented, presents it to the Executive Council, which asks for studies of it by ICAITI. When the Executive Council approves the application, it drafts a protocol incorporating it and submits the draft to the Economic Council. If all members of the Economic Council sign the protocol, it goes to the Central American legislatures for ratification, and, in the cases of protocols negotiated so far, becomes effective for the first three states upon the deposit of the third ratification and for each of the remaining when it deposits its ratification. Actually, a group or company seeking Integration status would first obtain the support of a Central American national government.

MONOPOLISTIC CHARACTER

Much of the opposition to the System of Integration Industries has centered on its monopolistic character.

This is, of course, the feature which makes the system particularly attractive to prospective manufacturers but it also makes the system suspect to many observers. Those who favor it believe that, with proper controls, the abuses of monopoly may be avoided, but those who oppose it are skeptical.

To avoid the abuse of monopoly, the system provides the previously described measures for the regulation of the price, quality, and capacity of the Integration Industries, but such regulation is in practice a difficult task. The experience so far with the GINSA tire plant offers a good example of the problems likely to arise in such operations. In establishing prices for GINSA tires, SIECA officials carefully checked the prices at which imported tires of various qualities and sizes were being sold throughout Central America after payment of shipping charges and duties, and the Executive Council converted these findings, with some adjustments, into list prices for some 300 sizes and styles of tires and some 22 tubes. By resolution No. 68 of December 5, 1966, the Executive Council amplified this list to 568 sizes and styles and fixed a minimum discount of 25% from these list prices for distributors with a further minimum discount of 10% for cash.

The scale of prices bears no necessary relation to the cost of producing tires in Central America. In fact, SIECA does not have an accounting staff which could review the company's books to check its costs and, therefore, cannot determine whether the company is making a reasonable or a generous profit or is being squeezed.

A limited departure from the status of monopoly for Integration Industries was provided in article 27 of the first Protocol. This states that the Executive Council may, by a majority vote, designate for Integration status a second plant in an Integration Industry. The second plant must offer 60% of its capital to Central American investors and at least 30% of the capital must actually be subscribed by them. This article does not specifically state that it applies only to companies manufacturing tires, but its appearance in the section of the protocol dealing with tires suggests this intent.

This provision was introduced as a means of bringing into the Integration system a plant to be built by the Firestone Company in Costa Rica. It is of interest in that it grants the Executive Council authority to designate a second plant without the necessity of a special protocol for this purpose. Its stipulations about the nationality of the capital of the second plant are also of interest. The Firestone Company has not taken advantage of this means of incorporating itself into the system, possibly because of the requirement about the large offering of capital to Central American investors. The Firestone plant went into operation in May 1967 without benefit of Integration status.

Another limitation on the monopolistic character of the system is that it does not preclude the establishment of a plant under national law which could compete with a plant with Integration Industry status. If a national government so wished, such a plant could receive the benefits of the national industrial incentive laws which will eventually be limited by the Convention on Fiscal Incentives. Such a new company would, of course, benefit from the external tariff established for the protection of the designated company. Its principal disadvantage, vis-a-vis the designated plant, would be that its products would be subject to normal duties, reduced each year by 10% of the original amount, when sold in Central America outside the country of manufacture. When sold in the country of manufacture no question of duty would arise.

The effectiveness of these various price and quality controls is, in the opinion of the writer, likely to be limited. As mentioned above, the procedures for the determination of reasonable prices for the products of designated plants and for the verification of the quality of their output are complex. Decisions on these points as well as on the adequacy of the volume of production by an Integration plant are likely to be difficult, and those on the authorization of competitive imports when the standards are not met could be sensitive matters that could involve the national governments in serious disagreements. A second designated plant in an Integration Industry might have some usefulness in limiting monopoly, but it must be recognized that a second plant would not necessarily lead to keen competition. The establishment of plants to serve a national market could produce competition on a national scale, but if a plant so constituted could compete throughout Central America this would suggest that Integration status was not needed by the first plant.

PROMOTION OF PRODUCTION

Included in the first Protocol to the Convention on the System of Integration Industries, signed in San Salvador on January 29, 1963, is the "Special System for the Promotion of Production." This is sometimes spoken of in Spanish as the *Etereo* because the Salvadoran representative, at the meeting with no advance notice, introduced the proposal "out of the thin air." It is viewed by some as an alternative to the System of Integration Industries, but so far little use has been made of it and its place in the integration of the Central American economy has not been fixed.

Under the Special System the Economic Council may, by means of protocols subject to ratification by the national legislatures, designate industries for Special System status and grant them additional tariff protection. A selected industry must be one which will produce goods not at the time manufactured in the area. The increased duty does not go into effect until SIECA, in collaboration with ICAITI, determines that the production of the new articles has begun and that there exists in the area sufficient capacity to supply at least 50% of the area's demands. Technically the new tariff rate does not go into effect until 30 days after SIECA notifies the Central American Governments of its findings.

The fundamental difference between the Special System and the system of Integration Industries is that the former does not set up legal monopolies. Under it there is no limitation on the establishment of competitive plants in Central America enjoying free trade within the area. Consequently, there is no control over prices and quantity, except, as explained below, a reservation by the Executive Committee of a right to remove or lower the special tariffs in case of need. The Special System is essentially one for granting selective tariff increases to infant industries.

A major attraction of the Special System over the System of Integration Industries is the presumably greater ease with which it may be applied. This is in part a consequence of the reduced threat which it poses to consumers. Since any number of firms may manufacture an article given Special System status, the way is left open to competition. The grant of power to the Executive Council to withdraw the special protective tariffs seems to offer a further safeguard to the consumer against excessively high prices for the protected articles. Special System status for an industry should also be easier to negotiate because the Executive Council, in considering a request for this treatment, does not have to require the lengthy study which must precede the recognition of an Integration Industry. Hence, it is fairly obvious that Special System status should be easier for an interested party to obtain than Integration Industry status.

The first San Salvador Protocol approved Special System status for sheet glass, beer and soft drink bottles, machetes, and light bulbs and set protective tariffs for them, provided their manufacture met certain tests. The second Protocol, signed November 5, 1965, in San Salvador, granted similar status for sulphuric acid, toilet paper, thin aluminum sheets and foil, and cylinders for compressed gas. As noted before, the first Protocol has been ratified by all Central American countries except Honduras and is now legally in effect for the four; the second Protocol is in effect for Honduras, Nicaragua, and Costa Rica. The Economic Council, meeting in Managua, November 9 to 11, 1967, concluded a Protocol to the Convention on the System of Integration Industries which added polyvinal chloride, picks, shovels, axes, silver jewelry, and fluorescent tubes to the list of industries eligible for Special System status.

After the increased tariff becomes effective for a given item, the tariff is considered subject to withdrawal should the area's manufacturing capacity not remain equal to 50% of the demand for the articles. In such a situation, the duty would drop to the uniform rate established in the Central American Tariff Equalization Convention or, in the absence of such a rate, to those provided in the various national tariff schedules.

An important feature of the Special System is that, if the Executive Council is convinced that prices for an article enjoying this status are unreasonably high, it may authorize importation of the article in whatever quantities it feels necessary at the rates provided in the Convention on Tariff Equalization. It should also be noted that the Executive Council may authorize the importation, at the uniform rates, of the quantities of a product enjoying the Special System status needed to satisfy the demands of the Central American market when local production fails to do so.

There are many important and complicated problems to be worked out if the Special System is to be given wide application. The judgment of how adequately Central American plants supply the market could be a sticky one. Will the size of the market be measured in terms of sales before the protective tariff is applied, or will it be in terms of a calculated demand for the product at the higher protected price? The elasticity of demand for the product will be a factor of great importance here. There is also the question of the quality of the article to be produced. The Protocol makes no mention of this, but in the normal operation of the economy questions of quality and quantity can become inseparable. Delicate decisions will be required on whether the local product is indeed the same as that being imported, whether it will serve as well, and whether it will be available in the same range of sizes and types. The application of quotas for imports at the normal uniform rate to meet part of the local demand could pose serious administrative problems. Decisions on these matters, with the conflicting interests involved, could be difficult.

The Special Tariff on electric light bulbs went into effect on April 21, 1965, following the beginning of production of bulbs by a new plant in El Salvador. This plant was established by the *Industria de Productos Electricos Centroamericanos, S.A.* (IIELCA), a company in which the Phillips company has an important participation. The new rate, which applies initially to all light bulbs with a rating of 15 to 300 watts and of 110 to 250 volts, is $1 per net kilo plus 10% ad valorem. This represents a sizable increase over the normal rates in each country, which are as follows:

GUATEMALA

$.20 per kg. plus 10% ad valorem

EL SALVADOR

$.10 per 100 kgs. plus 6% ad valorem

NICARAGUA

$.10 per kg. plus 10% ad valorem

COSTA RICA

$.23 per kg. plus 4% ad valorem

HONDURAS

20% ad valorem

FUTURE OF THE SYSTEMS

The future of the System of Integration Industries is a subject of considerable discussion in Central America. For some time it appeared that the system was falling into disuse. After the signing in January 1963 of the first Protocol designating the manufacture of tires, caustic soda, and insecticides as Integration Industries, there was a lapse of nearly 3 years before another designation was made, that for plate glass, in a protocol signed on November 5, 1965. The Special System for the Promotion of Production, which was also included in the first Protocol, was viewed by many as a workable substitute for the System of Integration Industries. The dispute between the GINSA Company and the Industria Firestone de Costa Rica, S.A., has added nothing to the prestige of the System of Integration Industries.

The proponents and opponents of the System differ sharply over the degree of danger of abuses of the monopolies likely to arise from its operations. There is, however, general agreement on the cumbersomeness of its implementation, and it is clear to all that a prospective investor must be prepared for several years of negotiations and delay before he can hope to see his application for Integration status translated into concrete benefits.

A major impediment to the extensive use of the System of Integration Industries has been the insistence of the U.S. Government that the funds it makes available to the Central American Bank not be used to finance Integration Industries. The U.S. Government has expressed concern over the system because of the privileges of monopoly which it confers on the favored plant. The U.S. Government did not oppose a decision by the Inter-American Development Bank in 1966 to finance the Firestone tire plant in Costa Rica as an Integration Industry, apparently reasoning that the establishment of a second plant would weaken an existing monopoly rather than create a new monopoly. However Firestone has not accepted the proposal of the Executive Council under which it could come under the Integration shelter.

There has been other recent evidence of interest in the system. ICAITI has undertaken technical studies on applications for integration status for nylon fiber plants in Guatemala and El Salvador, for pulp and paper plants in Honduras, Guatemala, and Nicaragua, and for steel mills in Honduras and Costa Rica. The initiation of these studies does not mean, however, that Integration status will necessarily be granted to any of these projects.

Perhaps the future of the System of Integration Industries will depend upon how it can be revised. Without major revision, it is probable that only limited use will be made of it in the future, not only because of the U.S. unwillingness to finance projects coming under it, but, more important, because there is strong dislike in Central America for the creation of monopolies. The monopolistic character of the Integration Industries and the cumbersome, drawn-out way in which the industries are approved for Integration status will, in the writer's opinion, prevent extensive use from being made of the system. If used extensively, the system, with its possibilities for abuse, could affect costs in the area unfavorably and lower support for the Common Market among Central Americans.

Actually, it should be feasible to stimulate the founding of desired industries by granting them tariff protection and financing. The argument that legal monopoly is necessary to prevent duplication of investments and waste of capital rests on the assumption that the Common Market authorities would make wiser decisions on investments than would the actual investors, and that it would be possible for the authorities to police effectively the monopolies created. The Special System is a move in the direction of industrial promotion through tariff increases; it involves no provision for Central American Bank financing, although it does not preclude such financing. Central American Bank financing could be used, when desired, as a means of encouraging the locating of plants in the less developed countries.

Chapter IX

Approaches to Industrial Development

In developing the Common Market, the leaders of the area are following several distinct policies regarding the locating of industry. *First*, acting as national leaders, the authorities of each country offer incentives to investors to found new industries or expand existing ones in their country. These inducements take the form of tax and tariff concessions. *Secondly*, Central American leaders are promoting industrialization of the area as a whole through the perfection of the system of free trade and the erection of common external tariffs. This second approach leaves to the investor the determination of the location of his industry, presumably on the basis of comparative advantage. *Thirdly*, leaders seem originally to have undertaken a policy of "equality" in the designation of Integration Industries, that is, assigning industries evenly among the states. *Finally*, the leaders seek to grant special facilities to encourage investment in those Central American countries which have made least progress in the development of manufacturing. This last approach is known as "balanced economic development." Thus, there are four more or less conflicting policies in regard to the location of industry in the countries of Central America.

Various documentary bases exist for these four approaches to industrial development in Central America. The national investment incentives are based upon national laws, most of which date from the 1950's. The Convention on the System of Integration Industries embodies the principle of "equality," in the sense that it stipulates that no country shall receive a second Integration Industry until each of the other countries has received one such industry, but it is recognized that the Protocol authorizing Integration Industry status could be used to facilitate the industrial development of more backward areas. The theory of comparative advantage, as the determinant of industrial location, seems to be contemplated in the free trade system established by the General Treaty of 1960. This same idea of comparative advantage was at the heart of the Convention of Fiscal Incentives of July 31, 1962, for its primary purpose was to place the Central American states on an equal footing in bidding for industry. This Convention did, however, make some special, but limited, concessions to Honduras and Nicaragua in the name of "balanced economic development," and the Protocol of September 23, 1966, to that Convention was specifically designed to allow Honduras to grant concessions to investors on a more liberal scale than the other countries. The Charter of the Central American Bank, signed December 13, 1960, requires the Bank to treat "balanced economic development" as one of the guiding rules for its operation.

However, while "balanced economic development" is one of the accepted operating principles of the Central American Common Market, there has been considerable disagreement about how much the states with more advanced industrial development are obligated to assist the less developed, particularly Honduras, although the signing of the Protocol of September 23, 1966, has ended the current controversy over the issue. Nevertheless, such controversies can be expected to recur from time to time as long as the levels of industrial development vary

Capital Invested in Industry in Central America in 1962

Countries	Millions of dollars	Per capita
TOTAL	774	
Guatemala	293	73
El Salvador	172	69
Honduras	67	36
Nicaragua	114	71
Costa Rica	128	97

SOURCE: Joint Programming Mission for Central America, Statistical Survey of Manufacturing in 1962, Tegucigalpa, Honduras, 1964.

significantly among the Central American countries.

NATIONAL LEVELS OF INDUSTRIALIZATION

The variations in the national levels of industrial development are great. The table above gives a view of the capital investment in Central America as it is spread among the five countries.

Industrial investment in Guatemala was over four times that in Honduras and more than 2.5 times that in Nicaragua. Guatemala and El Salvador together accounted for 60% of the area's total investment in industry. Viewed on a per capita basis, national industrial investment followed a somewhat different order, and the variations were not so great as was the case with total investment. On a per capita basis, Costa Rica was decidedly in advance of the other countries, with Guatemala, El Salvador, and Nicaragua bunched closely together in the middle area, and Honduras lagging well behind.

The variation in the degree of industrialization is further reflected in the table below, which shows the regional commerce of the area in 1965 in terms of type of commodities and countries of origin. From this table it can be seen that Honduran industry was able to supply only a relatively small part of the industrial goods which entered into Central American regional trade and that Nicaragua did not make a much better showing.

NATIONAL FISCAL INCENTIVES

Aside from the general development of regional free trade and common external tariffs, the means of encouraging industrial development which have had greatest impact on Central America have undoubtedly been the national investment incentive laws. To encourage investment in industry and guide it along lines considered desirable, each Central American state has enacted laws granting tariff and tax incentives to new and expanding industries. These laws differ somewhat from state to state, and there is even greater variation in the way in which they are applied, with some states granting exemptions readily and some with much delay and questioning. These concessions, as extracted from the various industrial incentive laws, are, with some slight national variations, approximately total duty exemptions for 10 years or longer on imports of building materials, machinery, equipment, maintenance needs, fuels (except gasoline), and raw materials and semimanufactures, and total exemptions on income and capital taxes for from 5 to 10 years. The exemptions on raw materials and semimanufactures usually run from 5 to 10 years but are subject to withdrawal when similar materials become available in the country in which the concession is granted.

It has been recognized for some time that this system of national fiscal incentives, which became important in the 1950's, has important drawbacks. It has caused the Central American Governments to forego the collection of significant amounts of custom and other revenues which they badly need. It has also meant that the Central American states compete with each other in offering concessions to prospective investors, many of whom are foreigners, without necessarily adding to the volume of investment being made in Central America as a whole. This system has worked to the principal advantage of the investors and possibly of certain states, but not to the advantage of the area.

This difference in policies in the granting of tariff concessions has also introduced serious problems into the operation of the system of free trade within the area. Thus, when Honduras has been more generous than the other governments in granting tariff reductions on the importation of broadcloth, shirtmakers in the other countries have complained about the competitive advantage enjoyed by the Honduran manufacturers who sell their shirts throughout Central America. One type of trade problem coming before the Executive Council with great frequency has had to do with the propriety of tariff concessions which have been granted by national governments. The Executive Council's resolution 26 calls upon the national governments to regard semimanufactures and raw materials, produced anywhere in Central America in adequate quantity, quality, and at reasonable prices, as "available" in any other country in the area. The possibilities for dispute over the

Central American Regional Trade 1965 By Countries of Origin

(Thousands of dollars)

Products	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
TOTAL	38,264	45,866	22,227	9,872	19,141
Agricultural	6,843	8,018	14,081	2,288	2,184
Fishery	....	....	....	....	....
Forestry	261	61	2,017	215	31
Mineral	77	499	244	124	17
Noncommercial	16	18	14	....	67
Industrial	31,067	37,270	5,871	7,245	16,842

quantity, quality, and price of such products are, of course, limitless.

CONVENTION ON FISCAL INCENTIVES

To end the worst of this competition, the Central American Ministers of Economy on July 31, 1962, signed a Convention on Fiscal Incentives which set limits on tariff and tax concessions to be granted by the national governments. This Convention will go into effect when all five governments have deposited their instruments ratifying it; thus far, all but Honduras have done so. The Honduran legislature ratified the Convention and its companion Protocol on December 20, 1967, but the Honduran Foreign Office is delaying the deposit of the ratification, presumably until the other governments have deposited their ratifications of the Protocol of September 23, 1966, which modifies the terms of the convention in a manner more to the liking of Honduras.

The limitations on the granting of investment incentives, as provided in the Convention and modified in the Protocol, are summarized in annex II. In general they provide to industries of types "new" to the country total or substantial duty exemptions on imports of machinery, equipment, raw materials, semimanufactures, and containers for a period up to 10 years, and on industrial fuel, except gasoline, for 5 years. They also allow to those industries total exemptions from income and profit taxes for 8 years and from asset and net worth taxes for 10 years. The limits on incentives are considerably less for "existing" industries. The Protocol allows Honduras to grant these same exemptions for 2 years longer than the other states, except for imports of raw materials, semimanufactures, and containers; exemptions which may be granted by Honduras in these cases are for the same 10-year period but are 20% larger for most of the period. Finally, Honduras is allowed to provide buildings to new industry on attractive terms and to allow full credit for income tax purposes on reinvestments in industry.

While the advantages granted Honduras under the Protocol appear real, it is unlikely that they will go far toward solving the problems of the lag in Honduras' industrial development. It is not to be supposed that the additional 2 years of tariff or tax exemptions or the more immediate 20% differential in certain duties will overcome those disadvantages in the Honduran economic and political scene which have held back Honduras' industrial development in past years. The Convention and the Protocol will presumably both go into effect eventually, probably at the same time. Although the Convention will continue in effect as long as does the General Treaty, the Protocol will have a life of 5 years, extendable by the Economic Council. It would be surprising if, after 5 years, the Honduran Government would be content to allow the Protocol to lapse, and it is quite possible that it will make further demands for special treatment.

Nicaragua has also advanced claims to special treatment so as to obtain the benefits of "balanced economic development." Nicaragua was granted as a transitional benefit under the Convention on Fiscal Incentives the right to grant an exemption to investors in industries of Groups A and B (see annex II) from taxes on income, profits, assets, and net worth during the first 10 years of the life of the Convention. However, the Nicaraguan representation at the meeting of the Economic Council at which the Protocol to the Convention was signed asserted that Nicaragua also was entitled to preferential treatment of a much wider scope. This claim was referred to ECLA for a special study of the effects of the Common Market upon the Nicaraguan economy.[1] Such a study will presumably require several months, at least, for completion. It is unlikely that the other three countries would readily agree to the granting of significant benefit to Nicaragua as well as to Honduras.

Article 13 of the Protocol contains provisions of possibly great importance for the development of the Common Market, since it offers a possible means of negating certain of the benefits allowed Honduras in the Protocol and grants to SIECA an important possibility of decision in commercial matters. This latter could be the beginning of a trend toward the bestowal of real economic power on SIECA. The article provides that, when a company in one country believes it has been put at a disadvantage in competing with a company in another country because the latter has been granted exemptions from duties on imports of raw materials, semimanufactures, and containers, the company may request its government to allow it compensating concessions. The government may take the matter to SIECA, which must prepare an opinion on the merit of the request within 30 days and then call a meeting of the Executive Council to consider it. If the Executive Council does not render a decision within 90 days, the complaining government shall be guided by SIECA's finding. Article 13 specifically provides that the right of complaint extends to concessions granted to Honduras under the Protocol as well as to concessions granted among other governments. The company initiating the complaint would presumably be one which could not normally qualify for concessions as a "new" industry in the country in which it is located.

[1] SIECA, *Carta Informativa*, No. 60, Oct. 12, 1966, p. 8.

CABEI AND BALANCED ECONOMIC DEVELOPMENT

In the case of the Central American Bank for Economic Integration (CABEI) there is a clear recognition of the principle of "balanced economic development." Article 2 of the Charter of the Central American Bank states that "the purpose of the Bank shall be to promote the economic integration and balanced economic development of the member countries." The article then continues that "in fulfilling this objective" the Bank's activities shall be primarily designed to meet the needs of the investment sectors which include "infrastructure projects for completion of existing regional systems or which compensate for disparities in basic sectors which hinder the balanced development of Central America. Thus, the Bank shall not finance infrastructure projects of purely local or national concern which do not contribute to the completion of such systems or to the compensation for significant imbalances among the member countries."

The Central American Bank has taken seriously its special obligation for the balanced economic development of the area and has demonstrated a decided disposition to assist Honduras. The following table will bear out this assertion.

These figures show that Honduras has done outstandingly well in the

Summary of Allocations by CABEI From the Central American Fund For Economic Integration

(As of February 18, 1967)

Countries	Thousands of dollars	Percent
TOTAL	60,000	*100.0*
Guatemala	11,500	*19.2*
El Salvador	10,830	*18.0*
Honduras	15,107	*25.2*
Nicaragua	11,333	*18.9*
Costa Rica	11,230	*18.7*

receipt of allocation of funds by the Central American Bank. On a per capita basis, the allocations to Honduras would be considerablv larger than the above table indicates. These allocations have been primarily for infrastructure development, but some have been directly for investment in industry.

INTEGRATION SYSTEM AND BALANCED DEVELOPMENT

The other frequently suggested method for seeking the balanced economic development of the area is through the operation of the System of Integration Industries. An example of this approach is to be found in the resolution on the Balanced Development of Honduras within the Framework of Economic Integration, adopted by the Central American Committee of Economic Cooperation in Guatemala in January 1966. [2] This resolution reads as follows:

> To recommend to the Economic Council:
>
> A. That it proceed to name the industries which should be established under the Convention on the System of Central American Integration Industries and those which should come under the Special System for the Promotion of Production.
>
> B. That it determine after studies on the part of technical organizations for Integration Industries which, with regard for their proper economic location, should be assigned to Honduras under the System of Integration Industries to accelerate that country's industrial development.

Such a use of the System of Integration Industries seems contrary to the intent of the framers of the Convention establishing the system who required in article 1 of that document that the assignment of Integration Industries be on "bases of reciprocity and equity (*reciprocidad y equidad*) so that each Central American state may progressively derive economic advantages therefrom." The Transitional Article of the Convention gives an idea of what was intended by providing that "in order to promote the equitable distribution of plants under the System of Central American Integration Industries, the contracting states shall not designate a second plant for a country until each of the five Central American countries has been assigned a plant."

This wording seems to indicate an initial intent to distribute Integration Industries equally among the countries of Central America. Nevertheless, as shown above, it is frequently suggested that Integration Industries be assigned to Honduras in a preferential manner so as to speed its industrial development. In practice, the Economic Council can adopt new protocols designating integration plants for any countries it wishes. Such protocols would, if properly ratified by the national legislatures, have full legal effect, overriding any restrictions in the Convention. Hence the System of Integration Industries is available as an instrument for the promotion of balanced economic development, if the Economic Council cares to use it for that purpose.

In the protocols to the Convention on the System of Integration Industries so far negotiated, Honduras has been assigned only a plate glass plant. The effective ratification of the relevant Protocol by three Central American Governments seems some time off, although plans for the plant are progressing. For the reasons explained in the chapter on the System of Integration Industries, the writer believes that there is no great future for the system and consequently that it can make no significant contribution to the balanced economic development of Central America.

OUTLOOK

As for the future, it can be assumed that the Central American Bank will continue to favor Honduras in its lending operations. It is also likely that the Convention on Fiscal Incentives and its Protocol will be ratified so that Honduras will be allowed to grant greater incentives to industrial development than the other countries. In addition, it is possible that one or two additional industries will be assigned to Honduras under the System of Integration Industries.

These efforts, while useful, cannot solve Honduras' problems of economic development. The task of bringing the Honduran economy more into line with the general Central American level will presumably require many years. The problem of the imbalance in the area's economic development will, therefore, be a long-term one for the Common Market. The ratification of the Convention on Fiscal Incentives will no doubt cause a cessation of the present complaints by Honduras about neglect of its special needs by the Common Market, but Honduras may well wish to reopen the whole question when the Protocol approaches the end of its 5-year life. Actually, assistance of the type being rendered Honduran development, particularly its economic infrastructure, by the Central American Bank seems the most feasible method for Central America to give special aid to Honduras, for it does not threaten to interfere with the smooth operations of free trade within the area as does the grant of a privileged position on fiscal incentives. Perhaps even greater emphasis can be placed on this type of assistance to Honduras in the future.

[2] *Ibid.*, No. 52, Feb. 12, 1966, pp. 16–17.

Chapter X

Conclusions

The progress of the Central American Common Market from the time it was first formally suggested 15 years ago has been remarkable, and the structure of the market appears to become more solid with each passing year. Nevertheless, those directing the market are still engaged in the task of shaping the character of the institution and their decisions over the next few years will go far toward determining its long-term success or failure. The problems facing the Common Market are varied but there is a basic interplay among them.

EXPANSION OF THE COMMON MARKET

Despite the creation of the five-nation free trade area, the regional market for Central American manufactures and agricultural goods remains small. The market is comparable to that of Peru in terms of population and purchasing power and is smaller in these terms than the markets of all other Latin American countries except Ecuador, Paraguay, Bolivia, Panama, the Dominican Republic, Haiti, and Uruguay. The Central American leaders, therefore, face the problem of how, if at all, they can expand the protected market for the region's products.

As discussed in chapter VI, "Expansion of the CACM," the inclusion of Panama in the Central American Common Market offers one possibility for expanding the market, but there are several major difficulties here. Panama is quite removed in terms of transportation facilities from most of Central America. The Panamanian economy and fiscal system are so different from those of the Common Market countries that it would be difficult to mesh their economies. The changes required of Panama would be of a fundamental nature. However, because of the desire of both Central American and Panamanian leaders for closer economic ties, it seems reasonable to assume that some form of economic association between Panama and the Common Market will eventually be worked out, but this will be considerably short of full membership by Panama in the Common Market. Even the full incorporation of Panama into the Common Market would afford only a limited expansion of the market for Central American goods, since Panama as of 1966 had a population of only 1.3 million with a per capita GNP of $546.

There is also the possibility of expanding the protected market for Central American goods through Central America's entry into a Latin American trading bloc or through the establishment of some special system of direct trade with individual Latin American countries, especially Mexico. As indicated in chapter VI, any effective association of the Common Market with a Latin American bloc is likely to be something for the rather distant future. LAFTA in its present form would present serious problems for Central America. The Isthmian leaders would undoubtedly see advantages in entering a Latin American trading area which offered an opportunity for a significant increase in sales of Central American goods. It is hard to envisage how such an opportunity would exist in the present LAFTA organization, however, since Central America's exports are largely tropical agricultural products and the other Latin American countries either are producers of these products or are much nearer geographically to other producers than they are to Central America.

Central American manufacturers would like to export their finished products to Latin America, but all other Latin American countries already have developed or are attempting to develop exactly the types of industry which are to be found in Central America. Furthermore, Central American manufacturers would undoubtedly find competition from goods imported from elsewhere in Latin America as troublesome as competition from goods imported from any other source. In summary, while it is not to be asserted that an arrangement for Central American participation in a Latin American trading bloc would be impossible, it is rather obvious that before such an arrangement could be made, LAFTA or some successor organization would have to provide special treatment for Central America. Acceptance by the CACM of more than a nominal alignment with an area-wide Latin American trading bloc seems to be some years off at best.

As was pointed out in chapter VI, the Mexican Government has recently taken steps to strengthen its economic ties with Central America, but through 1966, trade between the two was inconsequential. This trade is on the rise and is likely to continue at an expanded rate in the future. However the basic problems of trade between Central America and Mexico are the same as those between Central America and the rest of Latin America. Mexico must find Central American goods that it needs and is willing to take, and Central America must find Mexican goods, especially industrial ones, which do not offer too much competition to the region's own products and which could be imported from Mexico on terms relatively competitive with those from leading industrial countries. It seems reasonable to suppose that the Mexican Government will continue to advance some credits to Central America and take other special measures to create and sustain a market for some Central American products in Mexico, but this effort would have to be a major one on Mexico's part were it to have much impact on the Central American economy.

It is sometimes suggested that Central America might increase its trade somewhat and even enter in to some special commercial relations in the Caribbean islands, especially the British colonies and associated states. Central America already sells some cattle, lumber, and various miscellaneous products to the area and possibly could increase such sales, but it is difficult to see what Central America would buy in return for these products. In any case, the islands could offer only a small market for Central American products.

TRADE AND PAYMENTS PROSPECTS

Essential to the continued development of the Central American Common Market will be the solution over the next few years of the joint problems of insuring a constantly expanding flow of imports into the area and maintaining a control over deficits in the area's balance-of-payments position. The anticipated growth of the Central American industrial capacity will require larger and larger quantities of imported machinery and industrial raw materials as the years pass. Without these, new manufacturing capacity cannot be installed and new industries, not utilizing largely local raw materials, cannot be operated. While some of the imports to meet the needs of industrial growth can be financed out of foreign exchange savings achieved by substituting local manufactures for certain imported goods, there are obvious limits to this possibility.

Not only must these imports be paid for, if the area's momentum of economic growth is to be maintained, but deficits in payments must be kept manageable. This promises to be a severe test for Central American leaders since the deficits can be expected to grow rapidly. The deficit in the area's goods and services accounts amounted to $164 million in 1966 and showed a tendency to rise in 1967. If the payments situation gets out of hand, Central American capitalists will cease to invest in new industry and private foreign capital will not come into the area. This in turn will put a further strain on the payments position. Inflows of official credits can meet certain developmental needs and it is essential to the progress of the Common Market that crises in foreign exchange be avoided.

Since each of the Central American countries maintains its own central banking system and its own currency, a payments crisis would be primarily a national, rather than a regional, matter. Presumably in such a crisis, the government involved would first seek to tighten its controls over imports from abroad, but if the crisis were serious it would probably wish to extend its controls to imports from the other Central American countries. John Parke Young has discussed this matter at some length. [1] A country in payments difficulties might find it desirable to devalue its currency. Obviously either the placing of restrictions on imports from other Central American countries or the devaluation of currency would constitute a serious interference with the operations of the Common Market.

How seriously such a payments crisis would affect the Common Market would depend upon various conditions, especially upon whether more than one country was experiencing serious difficulties at a given time. That such crises might arise was foreseen by the drafters of the General Treaty, who in article X provided that, in the event of foreign exchange difficulties which threatened payments among the member countries, the Executive Council should study the problem in collaboration with the central banks so as to recommend to the governments a solution compatible with the maintenance of the system of multilateral free trade. In December 1966 the Costa Rican Government found itself facing serious balance-of-payments difficulties and contemplated the imposition of exchange restrictions on goods from the Common Market as well as from abroad. The other Central American countries reacted with alarm, and after consultations with its CACM partners Costa Rica refrained from taking such steps.

To deal with crises arising in the future, the Economic Council, meeting jointly with the Monetary Council and the Ministers of Finance, in November 1967 directed the Monetary Council to prepare projects for the creation of a Stabilization Fund and for a Protocol to the General Treaty which would obligate the Central American Governments to insure liquidity in intrazonal payments.[2] The effectiveness of such projects, if accepted by the Central American Governments, would presumably depend upon the willingness and ability of those governments to practice restraint in their fiscal policies and upon the vagaries of world markets for tropical products.

The view was expressed in chapter IV that Central America may experience a decline in exports in the near future. Or the problem may be confined to certain countries as in 1967 when exports stagnated or declined in Costa Rica, Guatemala, and Nicaragua, but rose sufficiently in El Salvador and Honduras to boost the area total by 8% over 1966 levels. Over the long term, exports should tend upwards. However, the area's imports exceeded its exports in every year between 1959 and 1965, and the gap could widen in the next few years. As stated in chapter IV, the Common Market can do relatively little to aid exporters, even though the success of the Common Market depends to such an important degree on the area's ability to export. As noted previously, 92.2% of Central America's total exports in 1965 went to the leading industrial nations, the United States, the EEC, EFTA, and Japan. These countries import tropical agricultural products and some minerals from Central America, but they also import similar products from the many other tropical sources. Central America's ability to increase its export earnings will depend upon fluctuations in world prices, over which it has no control, and the ability of its exporters to sell competitively on the world markets. Central America cannot at this time look to the export of the products of its new manufacturing industries to make a worthwhile contribution to foreign exchange earnings. In 1965 such exports accounted for only 0.6% of the area's total exports and growth in the trade will probably be slow, particularly if costs of production rise.

The area is moving toward greater coordination of its efforts in the direction of protecting exports and of assuming joint positions in defense of its trade at international economic conferences. Thus, the Economic Council and the Conference of Foreign Ministers have recommended the sending of a Central American mission to Europe to protest EEC discrimination against imports of bananas from Central America. The Central American Governments also plan to appoint joint commercial attachés to promote the exports of two or more

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[1] *Central American Monetary Union*, U.S. Department of State, Regional Office for Central America and Panama, 1965, pp. 8–9.

[2] SIECA, *Carta Informativa*, No. 74, Dec. 12, 1967, pp. 10–15.

Central American countries.[3] In addition, the Central American Governments now consult prior to international economic conferences such as those of the General Treaty on Tariffs and Trade (GATT) and the U.N. Conference on Trade and Development (UNCTAD) to coordinate their positions there.[3]

LEVEL OF TARIFF PROTECTION

Another major unresolved problem of the Central American Common Market is the question of the amount of protection Central America shall allow its industry. As brought out earlier, the urge to industrialize has been the primary drive for the development of the Common Market. However, until the presumably distant date when the Common Market can enter a Latin American trading bloc on satisfactory terms, there appears to be relatively little that the organization can do to expand the area of the protected market for Central American industry. The work of the Central American Bank in financing the development of the area's economic infrastructure and in making available funds for investment in industry is important but is held within rather narrow bounds by the limits on the volume of funds available to the bank. For reasons previously explained, the promotion of industry through the creation of legal monopolies under the System of Integration Industries seems to the writer, at least, to have no great future. Because of the limitations on these other methods of aid to industrial development, the principal further assistance which the Central American authorities can render industrial development seems to be that of greater tariff protection. However, a decision to place heavy dependence on a system of deliberately protective tariffs would be difficult to implement, and, if implemented in other than the most carefully considered manner, could jeopardize the future of the Common Market.

As discussed in chapter V, "Free Trade and Tariffs," the present agreed levels of tariffs were reached through negotiations in which the primary purpose was to arrive at rates acceptable to all governments, and these agreed rates generally were somewhere between the highest and lowest of the national rates. As stated in that chapter, the agreed rates are variously estimated at ad valorem levels of 48% and 36%, and, even though such protection would be high by U.S. or European standards, it is on the low side as compared with other Latin American tariff schedules. Perhaps more important than the question of the relative level of the area's tariffs is the currency of a feeling among Central Americans that the tariff protection accorded the area's industries should be substantially increased.

The decision to embark upon a deliberately protective tariff policy in Central America presents certain legal difficulties, since it would require a change in the procedures for common tariffs. At present, tariff rates once agreed upon can be changed only through their renegotiation or the establishment of Integration Industries or Special System industries. All of these procedures require the negotiation of protocols by the five Ministers of Economy and their ratification by the national legislatures. These are difficult procedures and can require years for completion. In efforts to simplify the procedures various suggestions have been advanced, especially one for allowing the Economic Council to adopt new rates at will, within certain percentage ranges of the formally negotiated rates.

There is also the proposal for the negotiation of a convention on assembly industries. Under this, certain industries would be designated to receive the benefits of high tariffs on imports of competitive goods and low rates on imports of components of the goods to be produced by the designated industry. The system would also include some arrangement for requiring an increasing use of components of Central American origin by the assembly industries. While no decision has been reached on a means for simplifying the procedure for negotiating new rates, the quest for one continues and it would not be surprising if some such system should be devised and incorporated into a formal agreement. Since such an agreement would require ratification by the national legislatures, it is to be assumed that it would not be adopted and enter into effect for several years.

A shift of the tariff system from one primarily for revenue to one primarily for protection would make it necessary for a Central American Government to find new sources of revenue to replace those lost as a result of a change in the composition of imports from the highly taxed consumer goods to the much more lightly taxed capital goods and raw materials. This problem has become a vexing one because of the granting of fiscal incentives to industry under present national laws. It would become even more serious should present tariffs be adjusted to accelerate this shift in the pattern of imports. While this loss of revenue is already important and, as stated, would become more acute upon a change in the Common Market's tariff system, it would be one which the national government could manage. Studies of the needs of the national governments for revisions of their tax systems are being made and it should be possible to find other sources of revenue.

The basic question of how much protection is to be allowed Central American industry remains an open one. The settlement of the question may take the form of a single broad decision, or, as is much more likely, of a pattern of individual decisions. If a high tariff policy is adopted, perhaps in the name of the protection of infant industry, Central America may develop a tight little economy in which a number of small-scale, high-cost industries produce for the local market and in which exporting becomes more and more difficult and the cost of living becomes higher and higher. Such a stagnation could defeat the industrial expansion the high tariffs would be designed to promote and could lead to much popular discontent.

The danger is a real one, for the pressure to raise Central American tariffs is strong and the opposition is not vocal. Higher tariffs have been imposed on fertilizer and insecticides and on powdered milk, canned vegetables, and a variety of other foodstuffs. There is constant talk in the area of the need for tariff protection. The economic policy of the area is set primarily by the Ministers of Economy, who because of the nature of their positions are likely to be much more concerned with the needs of industry than with those of agriculture or of the consumer. There seem to be few spokesmen for agricultural or consumer interests in the press when tariffs for industrial promotion are under consideration.

[3] *Ibid.*, No. 75, Jan. 12, 1968, p. 10.

PROBLEMS OF POLITICAL UNITY

As previously pointed out, the Central American leaders have wisely restricted to the economic field their major efforts to promote the unification of the area. It seems clear that a continued economic consolidation will require greater uniformity of legislation and centralization of authority. The logic of the system of common external tariffs demands a centralized interpretation of tariff regulations. Progressive integration of the economies will make necessary an increasing uniformity in tax laws. There is need for greater standardization of sanitary regulations as they affect commerce. Competition among manufacturers in different countries will create a demand for standard labor legislation throughout the area and for much greater freedom of movement for labor from country to country. Should the area ever develop into a true customs union in which goods of foreign as well as Central American origin enjoyed free trade when once admitted into the area, tariff collection would have to take on much more of a Central American character.

Assuming the continued strengthening of the economic bonds among the Central American countries, it must be assumed also that the handling of these and many similar matters must involve institutional changes of a political nature. The strengthening of the political bonds between the Central American countries theoretically could take the form of a major abrupt transfer of sovereignty to a central authority, but it is much more likely that the uniform policies will be arrived at step by step as specific problems are dealt with. A far-reaching political union of Central America still appears something for the distant future.

SUMMARY

One can contemplate the general future of the Central American Common Market with much confidence. The expansion of trade within the region has given a large number of Central Americans a direct interest in the continuation of the Common Market, and the industry and, to a lesser extent, the agriculture of the five countries are being geared to the regional market. The newspapers of the area accept the continuance of the Common Market without question, and Central American Government and business circles seem to take for granted that the Central American Common Market will continue to stimulate the economic growth and integration of the area. The Central American Common Market is a reality, and it is reasonable to expect the area to become more integrated economically and politically as time passes.

Despite the reasons for confidence in the continued existence of the Central American Common Market, the area's leaders are obviously facing problems of great importance to its future. Some of these problems depend upon decisions to be made by these leaders, but others are beyond their control.

The continued growth of the Central American economy, especially of its industry, would be greatly facilitated by an expansion of the protected trading area available to Central American producers, for the present Central American area is a small one. Special trading arrangements with Panama and Mexico may develop, but neither offers significant relief to the cramped Central American producer; effective Central American participation in a Latin American Common Market appears to be at least a good many years away. In short, for some time to come, Central American producers will be forced to look to their present area for their protected market.

The expansion of imports, especially of capital goods and raw materials, over the next few years will be necessary if the Isthmus is to develop its industries. Exports, however, are likely to lag behind imports in volume. Therefore, the projected economic development of the area will be impossible without a sizable inflow of official and private funds. Foreign exchange crises in the area could produce a disruption of the internal trade of the Common Market and could check domestic and foreign investment, thus compounding the crises. It therefore appears that the proper development of the regional Common Market over the next few years will depend, among other things, upon a combination of the abilities of the Central American national leaders to control imports, the abilities of the area's exporters to sell abroad, world prices of export commodities, and the willingness of outside sources, especially official ones, to provide the financial assistance which will fill the gap in the goods and services accounts of the area.

The author is much concerned about the ability of the Common Market to manage its affairs in such a way as to encourage industrial development within the framework of a small regional market without placing a destructive burden on agricultural exports and without denying the Central American people reasonable satisfaction of their expectations of better standards of living. One of the difficulties in striking a balance between protection of industry and protection of exporting and of standards of living is that the impact of ill-advised protection is likely to build up slowly, so that the harmful effects will not reveal themselves until a crisis develops some years after the protection has been granted. The Central American leaders still have the choice before them, for the program of industrial protection has not so far interfered noticeably with exports and probably has not raised the cost of basic essentials appreciably. The future well-being of the area will be greatly affected by the cumulative decisions made over the years on the industries selected for protection and the amount of protection to be granted to them.

ANNEX I

Sources and Interpretation of Trade Statistics in This Study

Statistics on the regional and foreign trade of Central America are drawn from the following sources.

> 1960 and 1961, regional and foreign, the separate foreign trade annuals of the five republics.
>
> 1962, regional and foreign, *Cuarto Compendio Estadístico Centroamericano*, Volumen I, SIECA, Oct. 12, 1964.
>
> 1963, foreign, *ibid.*
>
> 1963, regional, data on individual commodities, *ibid.*
> Data on total regional trade and trade by countries, *Anuario Estadístico de Comercio Exterior*, 1964, SIECA, Guatemala, Oct. 12, 1965. (SIECA in its 1965 publication revised the earlier released country totals of regional trade of 1963, but not the commodity figures. The revisions were significant only in the case of Guatemalan imports from El Salvador.)
>
> 1964, regional and foreign, *Anuario Estadístico Centroamericano de Comercio Exterior*, 1964, SIECA, Guatemala, Oct. 12, 1965.
>
> 1965, regional and foreign, *Anuario Estadístico Centroamericano de Comercio Exterior*, 1965, SIECA, Guatemala, Oct. 12, 1966.
>
> 1966, regional, by countries with a commodity breakdown to one digit. Preliminary figures. *Anexo Estadístico, Carta Informativa*, No. 67, SIECA, Guatemala, May 12, 1967.

All import data are c.i.f. and export data are f.o.b.

Regional figures are in terms of imports, as SIECA has found these to be somewhat more accurate than export data in regional trade.

Foreign trade figures in this report are for the five countries combined, but exclude quantities originating in intraregional trade. For this reason, the foreign trade figures given in this report differ from the usually published Central American export and import totals, since the latter include trade among the Central American countries as well as Central America's trade with the rest of the world. The system of presentation of foreign trade employed in this study is designed to focus on the development of the Central American Common Market as a unit and to distinguish its trade with countries outside of Central America from the trade among the members of the Common Market.

The figures on trade with the United States exclude trade with Puerto Rico. This is in accord with the manner in which these data are presented in Central American statistics.

Central American data are recorded by the Customs Services of the region and presented by the national governments and by SIECA in terms of the *"Nomenclatura Arancelaría Uniforme Centroamericana"* (NAUCA) for imports and the *"Nomenclatura Uniforme de Exportación para Centroamerica"* (NUECA) for exports. Differences in these classifications are slight.

Certain data in this report have been converted by SIECA from NAUCA figures to the *"Clasificación Indústrial Uniforme de Actividades Económicas"* (CIIU), which was edited by the Joint Planning Mission for Central America in accordance with a guide prepared by ECLA. This CIIU classification is useful in showing the development of Central American intraregional trade and imports from abroad in terms of raw materials, semimanufactures, construction materials, capital goods, and consumer goods. This throws more light on the type of industrial development taking place in the area than does the NAUCA classification.

These CIIU data, which are single-digit classifications, have been published as follows:

> 1963 and 1964—*Carta Informativa*, No. 47, *Anexo Estadístico*, No. 42, SIECA, Guatemala, Sept. 12, 1965.
>
> 1965—*Carta Informativa*, No. 62, *Anexo Estadístico*, No. 57, SIECA, Guatemala, Dec. 12, 1966.

A third classification, developed and used in this report, is designed to show whether goods are of agricultural, industrial, mineral, forest, or fishery origin. This classification is useful in studying the relative development of these economic sectors in the Central American Common Market and in showing their impact on the different types of imports. In general, the grouping "Agricultural Products" in this system includes products of the fields, orchards, and pastures, whether edible or not and whether in their natural state or processed in a simple manner. For example, it includes "flour," "canned fruit and vegetables," "powdered milk," and "cheese," but excludes "baking and other cereal products for human consumption" and "candy and chewing gum." The "Fishery," "Forest," "Mineral," and "Noncommercial" classifications are self-explanatory. "Industrial Products" cover all goods not included in the other groups. Thus, this last classification includes manufactured foods, chemicals and refined petroleum products as well as the more usual types of factory goods. The divisions among groupings are necessarily arbitrary, but the system should serve to give a general idea of the Common Market developments as they affect these different fields of economic activity. This system is converted from NAUCA classifications as listed on the next page.

Commodity Groupings Used in This Study

As Based on the NAUCA Classifications

Agricultural products

0		Foodstuffs
	Less 03	Fishery products
	Less 048	Cereal products except flour
	Less 062	Chewing gum and candy
	Less 073	Prepared chocolate & products
	Less 099	Miscellaneous prepared foods
121		Leaf tobacco
210		Hides & skins
220		Oil seeds & nuts
260		Textiles fibers
	Less 266	Synthetic fibers
	Less 267	Textiles wastes
290		Miscellaneous vegetable products
	Less 292-01	Dye & tanning woods
	Less 292-02	Natural gums & resins
410		Fats & oils of animal and vegetable origin
	Less 411-01	Fish oil
551.01		Essential oils
920		Animals, live, (not for food)

Fishery products

03	Fishery products

Forest products

240	Lumber
250	Pulp & paper
292-01	Dye & tanning woods
292-02	Natural gums & resins

Mineral products

270	Natural fertilizers & nonmetallic minerals except petroleum & precious stones
280	Metallic minerals & scrap
311	Coal & coke
312	Crude petroleum
[1] 671-01	Silver metal
[1] 671-02	Platinum metal
[1] 682	Copper metal
999-97	Gold

Industrial products

All others.

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[1] Tabulated as mineral products when exported since they are products of the local mines. When imported they are likely to be more highly refined and are treated as industrial products.

ANNEX II

Limits on Exemptions From Import Duty and From Taxes and Other Concessions Which Central American Governments May Grant as Incentives for Investment in Industry Under the Convention on Fiscal Incentives of July 31, 1962, as Amended by the Protocol to that Convention of September 23, 1966.

For the purposes of granting of fiscal incentives for investment, manufacturing operations are classified as follows:

GROUP A Production of industrial raw materials, capital goods, consumer goods, semimanufactures, and containers, but with the stipulation in the case of the last three that more than 50% of their total value be represented by Central American raw materials, consumer goods, containers, or semimanufactures.

GROUP B Production of other consumer goods, containers, or semimanufactures which yield important net benefits to the balance of payments and have a high added-value from their manufacture, but use a high proportion of non-Central American raw materials in terms of value.

GROUP C Production of other goods, including assembly and packaging operations.

Industries of each group are divided into "new" and "existing" industries.

Other incentives Honduras may grant to investors in industry:

1. For Groups A & B, New Industries, the free use for 10 years of industrial buildings belonging to the state or the sale of such buildings to such investors for 50% of their value.

2. For any industry, or investor, full deduction from taxable income of sums reinvested in buildings, machinery, and equipment in the course of industrial expansion.

Groups	Central America except Honduras	Honduras
GROUP A—NEW DUTY		
Machinery & equipment	100% for 10 yrs.	100% for 12 yrs.
Raw materials, semimanufactures, & containers	80% for 5 yrs. 50% for next 5 yrs.	100% for 5 yrs. For next 5 yrs., see note 1.
Fuel for industrial use, except gasoline	100% for 5 yrs.	100% for 5 yrs.
Income & Profit Tax	100% for 8 yrs.	100% for 10 yrs.
Asset & Net Worth Tax	100% for 10 yrs.	100% for 12 yrs.
GROUP A—EXISTING DUTY		
Machinery & equipment	100% for 6 yrs.	100% for 8 yrs.
Income & Profit Tax	100% for 2 yrs.	100% for 4 yrs.
Asset & Net Worth Tax	100% for 4 yrs.	100% for 6 yrs.
GROUP B—NEW DUTY		
Machinery & equipment	100% for 8 yrs.	100% for 10 yrs.
Raw materials, semimanufactures, & containers	80% for 3 yrs. 50% for next 2 yrs.	See note 2.
Fuels for industrial use, except gasoline	100% for 3 yrs. 50% for next 2 yrs.	100% for 3 yrs. 50% for next 2 yrs.
Income & Profits Tax	100% for 6 yrs.	100% for 8 yrs.
Asset & Net Worth Tax	100% for 6 yrs.	100% for 8 yrs.
GROUP B—EXISTING DUTY		
Machinery & equipment	100% for 5 yrs.	100% for 6 yrs.
Income & Profits Tax	None	100% for 2 yrs.
Asset & Net Worth Tax	None	100% for 3 yrs.
GROUP C—NEW & EXISTING DUTY		
Machinery & equipment	100% for 3 yrs.	100% for 5 yrs.
Income & Profits Tax	None	100% for 2 yrs.
Asset & Net Worth Tax	None	100% for 2 yrs.

NOTE 1: Limits on duty exemptions to be allowed by Honduras on imports of raw materials, semimanufactures, and containers by Group A, new industries, after first 5 yrs. a concession has been in effect, depending upon the year in the life of the Protocol in which the concession is granted:

If granted in first yr.—70% for next 5 yrs.

If granted in second yr.—70% for next 4 yrs., and 50% for following 1 yr.

If granted in third yr.—70% for next 3 yrs., and 50% for following 2 yrs.

If granted in fourth and fifth yrs.—70% for next 2 yrs. and 50% for following 3 yrs.

NOTE 2: Limits on duty exemptions to be allowed by Honduras on imports of raw materials, semimanufactures, and containers by Group B, new industries, depending upon year in life of Protocol in which the concession is granted:

If granted in first yr.—100% for first 3 yrs. and 70% for next 2 yrs.

If granted in second yr.—100% for first 3 yrs. and 70% for next yr. and 50% for final yr.

If granted in third yr.—100% for first 3 yrs., 50% for next 2 yrs.

If granted in fourth yr.—100% for first 2 yrs., 80% for third yr., and 50% for fourth and fifth yrs.

If granted in fifth yr.—100% for first yr., 80% for next 2 yrs., 50% for fourth and fifth yrs.

TABLE 1.—Central American Imports of Selected Items Intraregional and From Other Areas, 1960, 1964, and 1965

(Thousands of dollars)

NOTE: This listing is designed for reference to trade in specific items of importance in Central American Economic Development. It contains items identified as having a regional trade of more than $1.0 million in any of the years covered or judged to be of special interest otherwise.

NAUCA No.	Commodity	Intraregional imports			Imports from other areas		
		1960	1964	1965	1960	1964	1965
	TOTAL, ALL TRADE	32,675	106,399	135,370	481,465	664,045	755,220
001-01	Cattle	2,457	2,672	1,856	682	1,324	2,258
001-03	Swine	1,592	1,381	1,555	10	16	56
013-00	Meat, canned & prepared	44	447	703	1,005	660	631
022-01	Milk, condensed & evaporated	.. ..	3	23	987	1,132	1,210
022-02	Milk, powdered	55	34	14	5,306	6,494	6,421
023-00	Butter	123	96	276	13	173	105
024-00	Cheese	141	319	329	244	411	284
029-00	Milk products, other except butter & cheese	3	8	13	1,198	1,453	1,504
041-00	Wheat	3	6	3	5,750	10,643	14,861
042-00	Rice	364	623	1,025	570	1,347	1,729
044-00	Corn	1,271	4,400	6,201	69	1,639	1,784
046-00	Flour, wheat	.. ..	1	78	6,992	7,499	6,134
048-00	Cereal products, except flour	156	972	2,382	2,780	4,132	3,360
051-01	Fruit, fresh	1,042	2,002	1,682	661	506	613
053-04	Fruit, juices & extracts	269	1,085	1,197	203	430	425
054-02	Beans & peas	1,054	3,458	3,981	109	99	84
054-03 & 09	Vegetables, fresh & dried	297	1,021	726	221	222	164
055-00	Vegetables & juices, canned	131	617	758	775	819	1,048
061-01 & 02	Sugar	856	707	808	23	23	21
061-09	Sugar, special & molasses	.. ..	.. ..	.. ..	495	702	760
062-00	Candy & chewing gum	739	2,824	3,034	591	251	206
081-00	Animal feeds	700	617	1,785	2,407	3,758	3,885
091-01	Margarine	366	653	801	48	243	9
091-02	Shortening	1,077	1,370	1,737	2,169	191	187
099-00	Miscellaneous prepared foods	150	1,056	1,222	1,714	2,054	2,125
121-00	Tobacco, leaf	542	685	618	1,598	1,125	901
240-00	Lumber	914	2,281	2,523	121	134	346
260-00	Textile fibers	245	232	358	602	1,051	1,056
312-00	Petroleum, crude or partially refined	.. ..	49	234	4,766	17,941	19,613
313-00	Petroleum, fuels & lubricants	81	4,956	3,186	34,707	26,254	24,910
411-02-02	Tallow, industrial	57	232	260	2,118	2,918	3,410
412-03	Cotton seed oil	977	925	1,377	56	119	402
413-03	Fatty acids	3	28	9	231	525	617
533-03	Paints, varnishes, etc., prepared	434	1,701	1,700	2,481	2,085	1,894
540	Medical & pharmaceutical products	237	1,845	2,554	22,413	30,708	33,803
552-01	Toilet & cosmetic preparations	248	2,424	3,436	3,894	1,332	1,122
552-02	Soap & other cleansing agents	326	2,564	3,714	2,587	960	836
561	Fertilizer	5	6,431	4,023	13,537	17,211	29,648
599-02	Insecticides	657	2,441	3,130	11,994	27,172	20,710
611	Leather	262	1,153	1,085	3,217	2,326	2,509
629-01	Tires & tubes	467	1,438	1,859	7,535	7.945	6,880
631-02	Plywood	94	957	1,350	169	37	13
642-01-01	Paper bags	291	354	663	1,580	1,836	1,506
642-01-02	Paper boxes	33	2,814	4,747	1,611	2,808	1,057
651-03 & 04	Cotton yarn	1,224	2,909	2,625	3,261	4,127	4,404
652-00	Fabrics, cotton	1,009	4,590	5,742	22,580	19,978	18,651
653-05	Fabric, synthetic	1	1,494	2,073	7,271	10,929	12,948
653-07	Knit fabrics	.. ..	81	544	213	473	782
656-01	Bags, fiber	244	977	976	1,989	1,584	1,671
656-03	Blankets, & bed covers	289	937	1,251	1,233	734	531
656-04	Towels, sheets, etc.	23	575	674	819	383	386
661-02	Cement	289	1,567	2,387	1,985	1,734	1,587
681-07-02	Galvanized iron sheets	2	293	766	4,973	4,654	3,971
681-13	Pipes, steel	3	345	590	4,891	4,552	6,312
721-02	Batteries, dry cell	.. ..	1,372	1,911	2,416	1,587	1,444
721 13	Wire, insulated	10	7	741	2,003	2,956	3,959
821	Furniture	250	1,556	2,776	2,172	1,354	1,622
841-01	Hosiery	137	1,020	1,575	3,781	789	453
841-02 & 03	Knitwear	269	2,005	2,900	1,558	1,860	2,313
841-04 & 05	Outer garments, except knit	268	2,146	3,005	2,700	1,705	1,220
841-06 thru 19	Garments, other	487	1,025	1,312	2,740	3,393	3,321
851-00	Footwear	576	3,669	5,408	906	332	395
891-02	Phonographic records & tape	120	359	832	676	961	652
899-07 & 11	Plastic articles	292	1,238	2,002	1,565	2,043	2,204
	Other	8,422	18,352	26,265	261,494	407,209	485,297

SOURCE: *Anuario Estadistico Centroamericano de Comercio Exterior*, 1965, SIECA, Guatemala, 1966.

TABLE 2.—Central American Exports By Destination in 1965

(Thousands of dollars)

Exports		Total	U.S.	EEC	EFTA[1]	Japan	LAFTA[1]	Panama	Mexico[2]
	Total	619,903	275,785	166,604	24,305	104,731	2,508	2,440	82
001-00	Livestock	2,486	15	14	. . . .	. . . .	1,537	1	. . . .
011-00	Meat, frozen & chilled	16,713	13,929	25	. . . .	. . . .	5	. . . .	. . . .
030-00	Fishery products	7,426	7,379	. . . .	. . . .	36	. . . .	2	. . . .
051-03	Bananas	85,205	72,241	11,182	438	. . . .	2	45	. . . .
061-00	Sugar & molasses	15,542	15,343	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
071-00	Coffee	281,726	143,877	115,168	8,652	2,047	. . . .	. . . .	. . . .
072-00	Cacao	2,317	1,572	100	6	112	239	262	. . . .
081-03	Oil seed, meal & cake	4,292	6	2,391	1,808	. . . .	. . . .	6	. . . .
121-01	Tobacco, leaf	1,039	908	132	. . . .	. . . .	. . . .	. . . .	. . . .
220-00	Oil seeds & nuts	12,826	2,281	138	444	9,716	132	87	. . . .
240-00	Lumber & logs	11,839	1,488	3,814	520	27	54	236	2
263-00	Cotton	144,536	728	24,789	10,693	92,561	52	45	. . . .
283-04	Lead ore & concentrates	2,413	2,413	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
283-05	Zinc ore & concentrates	1,443	1,405	38	. . . .	. . . .	. . . .	. . . .	. . . .
285-01	Silver ore & concentrates	3,123	3,123	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
292-02	Natural gums & balsams	2,154	1,015	. . . .	. . . .	. . . .	. . . .	3	. . . .
292-04	Plants, seed for medicines & perfumes	259	785	700	. . . .	. . . .	. . . .	. . . .	. . . .
551-01	Essential oils	2,134	1,126	308	435	10	15	. . . .	14
561-00	Fertilizer, chemical	1,054	. . . .	. . . .	. . . .	. . . .	183	575	. . . .
682-00	Copper metal	5,748	1	5,747	. . . .	. . . .	. . . .	. . . .	. . . .
999-97	Gold metal	4,890	1,973	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
	Other	8,739	4,703	1,713	509	222	289	1,178	63

[1] Includes Venezuela.
[2] Included in LAFTA.

TABLE 3.—Incidence of Panamanian Tariff and Common Central American Tariff By Branches of Activity and Economic Classification of Products [1]

(In percentages of c.i.f. unit value of import)

Branch of activity	Consumer goods				Raw materials and intermediate goods		Capital goods	
	Nondurable		Durable					
	Panama	Central America	Panama	Central America	Panama	Central America	Panama	Central America
1. Food products	24	133	. . . .	. . . .	17	23	. . . .	. . . .
2. Beverages & tobacco	114	229	. . . .	. . . .	28	174	. . . .	. . . .
3. Chemical products & industrial chemicals	14	39	. . . .	. . . .	11	16	. . . .	. . . .
4. Textiles (except clothing)	9	102	. . . .	. . . .	6	22	13	20
5. Clothing	13	117	. . . .	. . . .	. . . .	. . . .	. . . .	. . . .
6. Leather products, including shoes	54	273	. . . .	. . . .	7	186	4	5
7. Rubber products	. . . .	. . . .	. . . .	. . . .	14	19	. . . .	. . . .
8. Paper, cardboard & printed materials	2	41	. . . .	. . . .	8	36	4	5
9. Construction materials	. . . .	. . . .	. . . .	. . . .	14	26	4	15
10. Base metals & metal manufactures	. . . .	. . . .	. . . .	. . . .	12	26	. . . .	. . . .
11. Manufactures & industrial products	10	90	14	47	15	44	6	14
12. Machinery (not included in above groups)	9	39	13	25	. . . .	. . . .	7	11
13. Raw materials (not included in above groups)	. . . .	. . . .	. . . .	. . . .	12	23	. . . .	. . . .

[1] The sampling used covered 53% of Panamanian imports in 1960.

SOURCE: ECLA, *Study of the Possible Incorporation of Panama in the Central American Common Market*, Table I. Mexico, 1962, p. 62.

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