THE OPERATIONS OF THE CENTRAL AMERICAN COMMON MARKET

By

Andrew B. Wardlaw

This is a study prepared at the termination of the writer's contract as Commercial Advisor to ROCAP. It is designed to be of assistance to anyone seeking a general introduction to this subject, but it deals in detail only with those phases of the operations of the Common Market with which the writer was concerned in his work with ROCAP. The opinions expressed in it are those of the writer and not necessarily those of ROCAP.

August 19, 1966

PN-ABI-420
122 95

TABLE OF CONTENTS

CHAPTER I

INTRODUCTION

The achievements of the Central American Common Market are indeed impressive. Between 1960 and 1965 trade among the countries of the area increased 316% to a total of about $136 million. Under the stimulus of the expanded market new industries have sprung up throughout the area and the region's trade in industrial goods leaped upward by 532% in these years. The area is beginning to move away from agriculture as the sole base of its economy. Under the impact of the Common Market, and other forces, the Central American way of life is changing. Despite a population growth of about 3.1% since 1960, the per capita GNP of the area has increased at about 6 - 7% annually over these years. Whereas in 1960, only 6.4% of the import trade of the Central American countries originated in the area, by 1964 that percentage had risen to 13.8%. The Central American producers of most goods can now look to a market of 12.4 million people. This represents a tremendous expansion of commercial horizons over those which existed before the Common Market was established.

In a way, the most remarkable aspect of the Central American Common Market was that it was created at all. The area had an ancient tradition of unity but it also had experienced one hundred and forty years of frustrations in attempting to recreate a union which had existed only under the Spanish Crown and for the first few short years of independence. The countries varied ethnically and culturally and were connected by indifferent transportation facilities. Their economies were competitive and there appeared to be little that they had to offer each others. Under the circumstances, the passing of the years seemed to solidify these separate existences.

Actually, the development which made the creation of the Central American Common Market possible was the birth of a desire for new industry in the area. In this desire Central America was merely sharing a feeling common to most of the under-developed world in the post war period. The reasons for it were the usualones of a wish for reduced dependence on foreign sources for manufactures and for escape from the helplessness of an economy geared to earnings from exports over whose prices the exporters had no control. There was also the desire to better employ available foreign exchange by using it primarily for articles which could not be produced in the area.

When each Central American state faced the problems of industrialization, it faced not only the usual ones of the under-developed areas, but also that of the minuscule size of its national market. Thus, the move toward economic unity offered the only practical means of enlarging that market. Of course, it was also realized that a broad Central American market would benefit the production of the type of agricultural goods consumed in the area, but would have little effect on agricultural exports to the rest of the world. However, the records of the early discussion of the Common Market deal principally with the need of an enlarged market for stimulating industrial development.

The Central American Common Market is a system for uniting and developing the economies of the Central American states. A more accurately descriptive name for it would be the "Central American System for Economic Integration and Development" for there is more to the system than the free trade area suggested by the term "Common Market". However, to avoid confusion by introducing a new name we shall throughout this study refer to the system as the "Central American Common Market".

Two principal types of activities have gone into the development of the Common Market. The first of these is the creation of a free trade area by the removal of barriers to the internal trade in goods of Central American origin and by the unification of the external tariffs of the five countries. The second involves efforts to strengthen the infra-structure of the area and to stimulate the founding of specific new industries and agricultural operations and expansion of existing ones.

It might be helpful to say a few words here about what the Common Market is not. First, while the establishment of a customs union is an announced goal of Central American economic integration, its achievement will undoubtedly be something for a rather distant future. Today, each government retains the right of customs inspection at its borders although this inspection has been simplified for Central American goods. Furthermore, each government levies import duties on goods of non-Central American origin even though their importation has already been taxed in another Central American country.

Essential to an understanding of the Common Market as it exists today is the realization that it does not involve a political union. Political union may some day evolve out of the Common Market but there has so far been no transfer of sovereignty by the five states to a central power. There are permanent Central American administrative and advisory bodies, but policy is laid down by representatives of the different governments meeting together, and major changes in policy must be put in the form of international agreements signed by these national representatives and ratified by the national legislatures. Furthermore, the Central American organizations depend upon contributions by the national governments and outside organizations for their revenues. They have yet to acquire the attributes of sovereignty.

The Common Market has now reached a stage of great importance in its development. It has largely completed the first of these activities. Internal barriers have been removed on all but a very few of the items in the tariff schedules of the countries and common rates have been put into effect or agreed upon for application within the next few years on a great majority of import items. Serious efforts are being made to reduce still further the number of pending items in both of these categories. This has been a tremendous accomplishment, has given a great stimulus to economic growth and is a sine qua non for the future economic development of the area.

However, this work is almost finished, and now the leaders of the Common Market may concentrate on the second type of operation, that of the development of the area's infra-structure and of specific industrial and agricultural operations. This will involve the already active Central American Bank for Economic Integration (CABEI), the renegotiation of external tariffs for protection, the System of Integration Industries, the Special System for the Promotion of Production, and various organizations affording technical assistance to industrial and agricultural enterprises. It may involve the creation of new instruments such as a System of Assembly Industries.

After this brief introduction we shall now move into a more detailed examination of the operations of the Central American Common Market. We shall first look into its treaty structure and organization. Following this we review the development of its internal and external trade. Then we shall consider the various instruments it might use for promoting industrialization in the future. Finally, we shall consider some of the problems facing the Common Market and say a few words about its future. A great deal more might be written on these subjects, but the present should give a general idea about them. It is hoped that this study will be useful to anyone wishing to familiarize himself with the operations of the Common Market before undertaking a more detailed study of it.

At the end of the study will be found a short appendix containing explanations about the sources and nature of the trade statistics used in the study. Rather than repeat these somewhat complicated statements with each table, we have presented them in a combined form in the appendix.

CHAPTER II

THE COMMON MARKET ORGANIZATION

The development of the Central American Common Market may be divided into three phases: (1) the formative period from 1950 through June 1958, (2) the organizational period from July 1958 through December 1960, and (3) the implementation period beginning in 1961 and still continuing. The first period was devoted primarily to the study of the basic problems of economic integration. In the second, the principal agreements establishing the Common Market were negotiated. The third is one of the actual economic development of the Common Market. This division of steps in the development of the Common Market was made by Joseph Pincus in his study in 1962 and is still applicable.

The first concrete step in the organization of the Common Market can be said to have been taken in 1952, with the formation in Tegucigalpa of the Committee on Central American Economic Cooperation. This organization grew out of a resolution adopted at a meeting of ECLA in Mexico the preceding year, in response to the expression by the 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." As a result, ECLA established within its organization, an Executive Secretariat for Integration and Reciprocity.

The Committee on Economic Cooperation guided the development of the Common Market between 1952 and 1961, and continues to exercise an important function in recommending and criticizing Central American economic policy.

It is organized under ECLA and is composed of the five Central American Ministers of Economy but its meetings are attended by representatives of other Central American organizations and of ECLA. It not only directed the preparation of the studies which led to the formation of the Common Market, but it also founded the Central American School for Public Administration (ESAPAC) in 1954, and the Central American Institute for Industrial Research and Technology (ICAITI) in 1956. It also prepared in this period the Regional Agreement on the Temporary Importation of Vehicles which was signed November 8, 1956.

TREATY STRUCTURE

The real beginning of the establishment of the treaty structure of the Common Market was made on June 10, 1958, with the signing of the Multilateral Treaty on Central American Free Trade and Economic Development and the Convention on the System of Central American Integration Industries, which 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. Its most important features were the establishment of a list of goods entitled to free trade in the area and the acceptance of a commitment by the governments to perfect a system of free trade and achieve a uniform tariff system within ten years. The free trade arrangements which were rather limited in scope and the other provisions of the treaty have been largely superseded by the General Treaty on Central American Economic Integration, but it was an important forerunner of the General Treaty. One provision of the Multilateral Treaty, which has not been touched on in the General Treaty and is therefore presumably fully in effect, is a guarantee of national treatment throughout the area to Central American investors and managements, including action on requests for authority to transfer out of the country the proceeds from investments.

The Convention on the System of Central American Integration Industries provided for the establishment of selected manufacturing operations enjoying special protection from foreign and Central American competition. This Convention and its two protocols are discussed in some detail in the chapter of this report dealing with the System of Integration Industries. It 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 the 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 Costa Rica on September 23, 1963. This and seven later protocols have established present or future common tariffs on most of the imports into Central America. This agreement is dealt with in the chapter on Free Trade and Tariffs. A protocol to this Convention signed at the same time as the Convention provided for a 20% tariff preference on all regional commerce not subject to free trade. This protocol was subsequently made inoperative by the General Treaty.

A Treaty of Economic Association among Guatemala, Honduras and El Salvador was signed February 6, 1960. Under its terms, free trade privileges were granted for all goods originating in the three countries, unless specifically excluded from this treatment in the treaty. This Treaty was soon superseded by the General Treaty but it served the important function of stirring all five countries into the action necessary for the negotiation of the General Treaty. Its approach to free trade was much bolder than that of the Multilateral Treaty, but it was limited to the three countries then prepared to take this plunge.

The General Treaty of Central American Economic Integration was signed December 13, 1960. This provided for the system of free trade within Central America and outlined other measures needed for economic integration. It too is discussed in the Chapter on Free Trade and Tariffs.

Also on December 13, 1960, the Convention Founding the Central American Bank of Economic Integration was signed. This became effective May 8, 1961, for all countries except Costa Rica, which did not adhere to it until September 23, 1963.

The last important agreement was the Central American Convention on Fiscal Incentives for Industrial Development which was signed July 31, 1962, but this has not yet gone into effect. It sets limits on the concessions which the Central American Governments may make in attracting industrial investment. It is discussed in the Chapter on Balanced Economic Development.

Thus, the treaty foundation for the Common Market was laid between 1958 and 1960. Protocols have been negotiated adding to the items on which uniform tariffs are to be applied and specifying industries to come under the System of Integration Industries. Aside from that, the only major additions to the treaty structure since 1960 have been the inclusion of the Special System on the Promotion of Production in the Protocol of January 29, 1963, to the Convention on the System of Integration Industries, and the previously mentioned negotiation of the Convention on Fiscal Incentives.

One might expect that the Common Market would be established through a single basic treaty, but this is not the case. The operations of the Common Market today draw their legal authority generally from the General Treaty, the Convention on Tariff Equalization, the Convention Founding the Central American Bank, and the Convention on the System of Integration Industries. The other agreements are important largely as preparing the way for these four. Among these four, the General Treaty serves as a constituent document for the various economic organizations, except as they are covered in the other agreements.

These various treaties and agreements were designated to set up an enduring structure, for they generally have lives of twenty years, automatically renewable. The General Treaty and the Convention Founding the Central American Bank will each continue in effect indefinitely for all parties after the expiration of the twenty years, until one party has denounced it with five 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 ten years unless denounced at the time of an extension. The Convention for the System of Integration Industries is to be extended in a similar manner, except that the denunciation must be made two 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 difficult the withdrawal by a country of recognition once granted of integration status for an industry.

An agreement, except as noted, goes into effect for the first three powers depositing their ratifications eight days after the deposit of the third ratification. For each of the remaining countries, the agreement becomes effective when it deposits its ratifications. The Convention on the System of Integration Industries originally required the deposit of five ratifications before it went into effect, but under the terms of the General Treaty, it became effective with that Treaty. The Convention on Fiscal Incentives requires the deposit of the five ratifications before it becomes effective. ODECA is the depositary for the ratifications.

The effective ratifications of an agreement can require a great deal of time. The ratification proposal must find its place on the legislative agenda, it must be studied by legislative committees and reported on, and it must be given the vote of approval required by the national constitution. Even after this legislative approval has been expressed, the executive may withhold the deposit of the instrument of ratification for as long as it wishes. The greatest delay in completing a ratification which has so far occurred has been with the Convention on Fiscal Incentives which was signed July 31, 1962, and still lacks the Honduran ratification which would allow it to go into effect.

ORGANS

The principal Common Market general economic organizations are the following:

1) The Economic Council.
2) The Executive Council.
3) The Permanent Secretariat for Central American Economic Integration - SIECA.

4) The Central American Bank for Economic Integration -CABEI.

5) The Central American Institute for Industrial Research and Technology - ICAITI.

6) The Central American Committee on Economic Cooperation.

7) The Central American Joint Planning Mission.

In addition to the above there are various technical organizations, organizations fitting into the ODECA structure, and semi-public bodies.

Not only is the number of those bodies rather large, but their organizational relationship is striking. The Executive Council was formed under Article 20 of the General Treaty but it is also recognized under Article 2 of the ODECA Charter as established under ODECA's authority. In practice the Economic Council submits an annual report to ODECA but otherwise functions separately. The General Treaty provides that the Executive 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 for Economic Cooperation". In practice, the Economic Council, while giving serious consideration to the recommendations of the Committee for Economic Cooperation, acts as the primary policy making body of the Common Market. SIECA is clearly subordinate to the Economic Council and the Executive Council, serving as the permanent secretariat for both organizations, otherwise each of the organizations is 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 their make-up. The Economic Council and the Committee on Economic Cooperation are composed of the Central American Ministers of Economy. 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 little likelihood of policy difference among these organizations.

The fact that these organizations are controlled, with the exception of the Joint Planning Mission and the partial exception of the Bank, by the Ministers of Economy also makes for close relations with the national governments. Certainly major actions taken by these organizations should generally be acceptable to the national executives, at least, at the time they are taken. The necessity for ratification of all formal agreements by the national legislatures also protects the national position in the framing of Central American economic policy.

There is no single headquarters for the operations of the Common Market. The Economic Council, the Executive Council, and the Committee meet in different cities of the area so that they may see and be seen in all of them. SIECA, ICAITI and the Joint Planning Mission are in Guatemala and the Central Bank is in Tegucigalpa.

The Economic Council was created by Article 20 of the General Treaty on Central American Economic Integration. It meets as often as seems necessary, which was four times in 1965. In its meetings it reviews the activities of the other Central American economic organizations, concludes formal agreement among the Central American governments and handles other matters of high economic policy which cannot be decided by the lower economic bodies. As the final authority for the negotiation of agreements, the Economic Council is often faced with problems difficult of decision. The problems usually involve finding courses of action which are in the interest of Central American Economic development but which are also acceptable to the five governments. When agreements are reached and reduced to conventions and protocols, the members of the Economic Council sign them as representatives of their governments. Voting in the Council may be either unanimous or simple majority on a given question but the decision as to the 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 concern to both. 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 met nine times in 1965. 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 charges brought before it regarding specific administrative violations of the free trade agreements. These are usually brought by the representative of one government alleging the denial of free entry privilege for certain types of merchandise entering another country. Often the question revolves around whether certain goods are of Central American origin or not. Its decisions are reached by majority vote, although a member may appeal them to the Economic Council and beyond that to arbitration. It has been the general experience that the Executive Council's decisions carry much weight and are usually accepted. In no ease has resort been made to arbitration. In this way it handles the many knotty problems arising in the application of agreements.

Under the Economic Council also comes the Permanent Secretariat (SIECA) which was founded October 12, 1961. It advises the Governments on the correct interpretation of the General Treaty and selected documents, does preliminary work for the Executive Council and makes studies for its consideration. It prepares and publishes statistics on the area's commerce and a great variety of reports as well as the summary minutes of the meetings of the Economic and Executive Councils. The Executive Council normally directs SIECA to prepare background material and recommendations on most serious questions facing the Common Market. Actually SIECA comes forward with studies and recommendations in preparation for every meeting of the higher economic bodies. With the assistance of ICAITI, it determines the capacities of plants operating under the Special System and the System of Integration Industries. In short, it is the permanent body watching over the general operations of the Common Market and making recommendations about the future of these operations.

Another important economic organization is the Central American Institute for Industrial Research and Technology (ICAITI). This was established in 1956 and is located in Guatemala. Its purposes are to act as a consulting body for private industry in Central America on technical and production problems, to make technical studies on the utilization of the area's raw materials, and to advise the other Central American economic organizations on technical matters. ICAITI was organized under a special agreement among the five countries and is in a sense independent of the other Central American organizations. It has its own budget. It also has certain responsabilities for technical services to the other organizations in connection with the System of Integration Industries and the Special System for the Promotion of Production.

Article 18 of the General Treaty called for the establishment of a Central American Bank for Economic Integration which was set up under a separte convention which serves as its charter. This is independent of the General Treaty organizations but has close practical ties with them. It is controlled by a Board of Governnors made up of the Ministers of Economy and the Presidents of the Central Banks of each country on their delegates.

The oldest of the Central American economic organizations is the Committee on Central American Economic Cooperation which was mentioned on the first page of this chapter.

Another organization in the economic fields is the Central American Joint Planning Mission. It is designed to coordinate the national planning of the five countries and to make general economic projections for Central America. This was formed in 1962 by the Organization of

American States, the Interamerican Development Bank, ECLA, SIECA, and CABEI and continuous to be funded by them. It is governed by an Advisory Committee composed of a representative of each of the founding organizations and is under the direction of a Chief of Mission. The Planning Mission was originally intended to have a separate existence for two years, after which time it would be merged into SIECA. This merger has not yet taken place although in August 1966 the Mission took up quarters in the building occupied by SIECA. So far, with its separate organizational structure, the planning function has not been as closely geared into Central American decision makeing as might be desirable. Planning will have much greater carry over into policy when the merger has been completed.

In addition to the organizations mentioned here there remains ODECA and the bodies answerable to it. These are important in themselves and some of them deal with matters affecting economic development. However, it would enlarge this study unduly if we attempted to review the work of ODECA.

CHAPTER III

REGIONAL TRADE

General Growth

Trade among the Central American countries has increased with great rapidity during the years of the Common Market, reaching a preliminary figure of $136 million in 1965. That figure was 316.2% above the total of 1960 and 27.8% above that of 1964. The increase of $30 million between 1964 and 1965 exceeded by a good margin the total regional trade in 1959. The rate of increase, although still very large, seems to be slowing somewhat, a development which undoubtedly reflects the attainment of a degree of maturity by the Common Market. The earlier gains were in part the easy ones following the substantial removal of the area's internal trade barriers. This allowed producers already operating in the area to sell throughout the region the production of their installed capacities. Now increased sales generally come from increased capacities.

The most spectacular growth in the area's trade has been in industrial goods the trade in which rose 531.6% between 1960 and 1965, and 29.2% between 1964 and 1965. Trade in agricultural products during these years was up 107.9% and 19.7%, respectively. While the increase in the movement of agricultural goods has been spectacular, it is far short of the rate of increase in industrial products. Trade in other types of products shows large rates of increase also but in absolute terms this trade is not of great importance. The following table shows the growth in this trade by commodity groupings:

GROWTH OF CENTRAL AMERICAN REGIONAL TRADE BY TYPES OF COMMODITIES
(Thousands of Dollars)

	1960	1963	1964	1965*
Total	32,675	72,098	106,399	135,976
Agricultural Products	15,872	24,014	27,549	33,000
Fishery Products	75	120	184	250
Forest Products	1,032	2,170	2,404	4,000
Mineral Products	139	443	379	400
Industrial Products	15,500	45,391	75,794	98,000

* Distribution estimated on basis of data on single digit group classification.

The NAUCA classifications represented by these groupings are shown at the end of this report. In general,"Agricultural Products" in the above table include products of the fields, orchards and pastures, whether edible or not and whether in their natural state or processed in a simple manner. The "Fishery", "Forest", and "Mineral" classifications are self-evident. "Industrial Products" cover all goods not included in the other groups. Thus, this last classification includes food manufactures, chemicals and refined petroleum products as well as the more usual types of factory goods.

Of course, there were forces besides the operations of the Common Market which influenced the development of trade between 1960 and 1964. There was the growth of the area's population by about 3.1% annually which meant that there were more mouths to feed, more bodies to clothe, and more of other wants to satisfy.. It seems logical to suppose that with or without the Common Market the trade in basic foodstuffs, particularly corn and beans, would have increased because the Central American countries, especially El Salvador, needed these products which were available in excess quantities in Honduras and were adapted to local tastes.

However, after making allowance for these other forces, it must be recognized that the substantial removal of restrictions on Central American internal trade and the somewaht upward movement of external tariffs throughout the area were the major forces in developing the tendency of Central Americans to increase their purchases from their sister republics. It seems reasonable to assume that the operations of the Common Market also were an important factor in the increase in the area's prosperity between 1960 and 1964 and hence in its ability to absorb more goods. This would account in part for the area's increased internal trade.

Commodity Composition

The following table shows the regional trade of Central America by single digit commodity groupings:

Regional Trade of the
Central American Common Market
(Thousands of Dollars)

	1960	1961	1962	1963	1964	1965
Total	32,675	36,802	50,407	72,098	106,399	135,976
0 Food Products	14,493	14,617	22,240	23,212	29,474	36,152
1 Beverages and Tobacco	1,134	914	969	1,038	1,418	1,882
2 Inedible Raw Mtrls.	1,581	1,983	2,428	3,503	2,891	4,606
3 Fuels & Lubricants	135	158	148	3,750	5,035	3,451
4 Fats and Oils	1,570	1,727	1,782	1,761	1,603	2,454
5 Chemical Products	2,431	3,483	5,191	8,471	18,829	21,102
6 Mfrs. Classed by Mtrls.	6,217	8,081	11,040	18,784	36,047	37,093
7 Machinery & Transp. Equipment.	1,524	1,278	1,075	1,813	3,137	4,967
8 Misc. Mfrs.	3,044	4,382	5,360	9,616	15,865	23,894
9. Other Transactions	101	179	174	101	198	375

This table bears out the earlier statements about the different ratio of growth of the various classification of commodities making up regional trade. The gains in trade in manufactured goods and chemical products were of a very large order. Only tobacco and beverages showed no significant response to the Common Market. However, trade is not carried on in classifications but in individual commodities. Therefore, we will discuss the principal commodities making up each of these classifications. At the end of this section is a table showing the regional trade in 1960, 1963 and 1964 in the commodities in which the trade was over $500,000 in 1964. The table also shows imports from abroad in those commodities. The year 1964 is the latest for which detailed data are available.

The Common Market's trade in "Food Products" in 1964 was made up of a considerable variety of goods, the most important of which were corn, beans, livestock, fresh fruit, fruit juice, vegetables, shortening, chewing gum and candy. It is of interest that of these leading food products, all but livestock showed a marked increase over 1960. This trade moved back and forth among the Central American states, with Honduras being the largest supplier of corn, beans, and livestock. Guatemala with its cooler climate and established canning industry, was the source of the greater part of the fresh fruit, fruit juice and vegetables. El Salvador was the principal buyer of food products.

The increase in regional production of foodstuffs did not prevent a rise of 21% in imports of them, but has produced a sharp decline in imports of certain items, especially among processed or manufactured foods such as shortening, flour, meat products, bakery products, canned vegetables and chewing gum and candy. The increase in internal trade in fresh vegetables and fresh fruit was also accompanied by declines in the imports of them. The increase in local trade in corn did not check a sharp increase in imports of corn, while imports of wheat, prepared cereals, powdered milk and animal feed, among other items, expanded rapidly in this period without serious local competition.

The classification "Beverages and Tobacco" contributed little to the growth in the area's trade between 1960 and 1964. The most important single item in this classification was leaf tobacco, almost all of which came from Honduras. Even where no restrictions on trade existed, Central American businessmen have made relatively little effort to sell beer and cigarettes outside of their countries of manufacture. Each country has its own producers, serving its own market. There are heavy restrictions on the movement of rum across the frontiers, as the governments obtain important revenues from its manufacture.

The bulk of the trade in "Indedible Raw Materials" is in lumber and the prospects are that this commerce will expand rapidly over the next few years. Lumber comes largely from Honduras. Trade in plywood is also increasing. Imports of lumber from abroad had virtually ceased by 1964.

Regional trade in Refined Petroleum Products was very important in 1964. This was principally in the form of gasoline ($1,184,000) and diesel and fuel oil ($2,220,000) moving from El Salvador to Guatemala. The volume of this trade was down in 1965 and will no doubt be still lower in 1966 since Guatemala now has a refining capacity, sufficient to supply its needs. Actually, each country, except Honduras, has its own refineries, and Honduras appears to be making plans for one, and in the meantime imports most of its petroleum fuels from abroad. While the area's imports of refined products were declining $10 million between 1960 and 1964, its imports of crude oil went up $13 million.

"Fats and Oils" have contributed little to the growth of the internal commerce of the region. The Central American production of cotton seed oil increased greatly over the five year period but with cotton production growing and crushing plants springing up in each country, there was actually a slight decline in trade in this oil. The trade in other oils, mostly coconut and palm, showed only a slight increase over the five years.

Between 1960 and 1964 the regional trade in "Chemical Products" expanded more rapidly than that in any of the other NAUCA classifications. The most important item here is fertilizer, with Costa Rica with its large "Fertica" plant, being the source of nearly all of this product. The area's internal commerce in toilet and laundry soap and detergents has developed rapidly, and the area is largely self-sufficient in soap, and is rapidly acquiring greater self-sufficiency in cosmetics and toilet articles. Its production of medicines is rising, but so are its imports of them. It is to be expected that locally prepared paints will more and more replace the imported products. The regional production of insecticides has grown at a fast rate and when the production of them begins in the next year or so as an integration industry, imports will probably decline.

Several of the more important items in the chemical classification involved primarily mixing, packaging or, other relatively simple operations. The biggest item here, fertilizer, along with paint, medicines, toilet and cosmetic preparations, soap, and insecticides, generally did not require advanced chemical operations for their production in 1964, but more complicated processes are coming to be employed in certain branches of the chemical industry in Central America. The local trade in the more important chemical products exceeded imports only in the cases of toilet and cosmetic preparations and soap, but it is to be anticipated that local production of most of these products will increase and that imports of them will decline or, at least, not grow as rapidly as might otherwise be expected.

As might be expected, regional trade in "Manufactures Classified by Materials" accounted for a large and growing percentage of the area's trade in 1964. This is in general a classification of finished goods and semi-manufactures produced from raw materials as distinguished from those produced from semi-manufactures. Textile yarns and fabrics make up just over $12 million of the $36 million in this category. It is rather surprising that with this large trade and, of course, the large quantities of textiles consumed in the countries of manufacture, that there was still room in 1964 for imports of textiles valued at $56 million. The quantity of yarn and fabric imports can be expected to decline as the Central American textile industry expands. The trade in cement has increased greatly, with Guatemala, Honduras and El Salvador being the suppliers, and the outlook is good for the area's becoming self-sufficient in this product. Trade in tires and tubes increased rapidly through 1964, and with this industry having attained integration status in 1965, imports from abroad are likely to dwindle to a limited number of special tires. Commerce in leather goods passed the million dollars mark in 1964. The regional trade in steel mill products was also more than $1 million but even so made no great dent in imports in general of these products. It is obvious that regional trade will continue to expand in a wide variety of goods in this general classification.

The area depends upon imports for most of its Transportation Machinery and Equipment. In 1964 the only large item of Central American origin in this category was dry cell batteries which were produced in Guatemala. The local production of these batteries seems certain to increase and imports to fall away. An increase is taking place in the manufacture of bus and truck bodies.

There remain the category of "Other Manufactures" which is made up of goods produced from semi-manufactures. The large items here are garments and footwear. The trade in garments, including hosiery, had by 1964 exceeded imports of these articles and it seems probable that the internal trade would slowly crowd out imports by restricting them more and more to luxury goods. The removal in June 1966 of all restrictions on the interchange of garments within the area should facilitate the further growth of this trade. The great expansion in the local production of footwear is reflected in the rapid growth of trade here as well as in the reduction of imports to less than one-tenth of the regional trade. In the future regional trade in many articles in this category is likely to expand and imports to decline.

CENTRAL AMERICAN REGIONAL TRADE IN PRINCIPAL PRODUCTS

(Thousands of Dollars)

		Regional Trade			Imports from Abroad
		1960	1963	1964	1964
NAUCA No.	Total	32,675	72,098	106,399	664,045
001-01	Cattle	2,839	2,380	2,671	1,324
001-03	Swine	1,366	1,728	1,381	15
042-00	Rice	347	717	622	1,346
044-00	Corn	1,130	2,364	4,400	1,639
048-04	Bakery Products	135	464	769	139
051-01	Fresh Fruit	509	1,794	2,002	500
053-04-02	Fruit Juice	247	641	1,074	39
054-01	Potatoes	169	704	648	9
054-02	Beans	1,123	2,478	3,458	97
054-ex 01 & 02	Other Fresh Vegetables	658	857	1,020	223
055-00	Canned Vegetables	26	218	616	820
061-01 through -04	Sugar and Molasses	857	503	941	2
062-00	Chewing Gum and Candy	703	1,769	2,823	251
091-01	Margarine	307	570	653	243
091-02	Shortenings	820	1,537	1,443	191
099-04	Sauces	--	295	541	298
121-01	Leaf Tobacco	470	503	685	1,125
243-00	Lumber	771	1,814	2,281	33
313-01 through -04	Petroleum Fuels	31	3,402	4,865	23,740
412-13	Cotton Seed Oil	975	981	925	119
533-03	Prepared Paints, etc.	435	1,230	1,700	2,019
541-00	Medicines, etc.	194	1,571	1,845	30,705
552-01	Toilet & Cosmetic Preparation	152	1,199	2,423	1,331
552-02	Soap & any other cleaning agent	305	2,378	2,564	960
561-00	Chemical Fertilizer	3	105	6,431	17,211

(continuation)

		Regional Trade			Imports from Abroad
		1960	1963	1964	1964
599-01	Plastics for further manufacture	74	303	500	7,680
599-02	Insecticides	594	1,105	2,441	27,172
611-01	Leather	155	948	1,144	2,311
629-01	Tire Tubes	236	1,009	1,438	7,983
631-02	Plywood	42	642	957	37
642-01-02	Paper Boxes		2,029	2,814	2,808
651-03-&04	Cotton Yarn	1,246	2,201	2,909	4,127
652-00	Cotton Fabrics	1,000	3,120	2,710	19,978
653-05	Synthetic Fabrics	1	659	1,490	10,929
656-01	Woven Bags for Packing	243	567	977	1,584
656-03	Blankets, etc.	269	810		
656-04	Bed sheets, towels, etc.	22	476	575	383
661-02	Cement	97	1,451	1,567	1,734
681-00	Steel mill products		268	1,196	34,164
699-21	Metal Containers		447	599	3,058
721-02	Dry Cell Batteries				

COUNTRY PARTICIPATION IN TRADE

Trade within the Common Market is unevenly distributed among the member countries. Preliminary 1965 figures show that 65.1% of the regional trade, purchases and sales, was with El Salvador and 51.8% with Guatemala. Honduras is in a middle position, accounting for 35.7% while Costa Rica accounted for only 24.6% and Nicaragua for only 22.9%. Actually trade between Guatemala and El Salvador made up 30.1% of the area's total commerce and that among Guatemala, El Salvador and Honduras 59.9%. At the other extreme, we find trade between Honduras and Nicaragua making up 2.6% of the total and that between Honduras and Costa Rica 3.2%. Trade among these three countries was only 13.1%.

In 1965 El Salvador sold somewhat more in the area that it bought. Its biggest imports were food and lumber from Honduras and manufactured goods and food from Guatemala. Its important sales were manufactured goods and chemical products.

Guatemala had an even more favorable balance of trade within the Common Market in 1965. Its largest purchases were manufactured goods from El Salvador and food products from El Salvador and Honduras. Its sales were principally manufactured goods and food.

Honduras bought more than it sold in the Common Market in 1965. Its principal purchases were manufactured goods from El Salvador and Guatemala and its sales were 60.2% food. Lumber, chemical products and manufactures were also of some importance.

Nicaragua purchased more than twice as much as it sold in Common Market in 1965. Its purchases were manufactured goods and chemical products from El Salvador and Guatemala, and to a lesser extent from Costa

Rica. It sold manufactured goods, food, and chemical products.

Costa Rica had a favorable balance of trade 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 following table shows the distribution of trade within the Common Market in 1965, according to preliminary figures released by SIECA:

REGIONAL TRADE OF CENTRAL AMERICAN COMMON MARKET BY COUNTRIES OF ORIGIN AND DESTINATION IN 1965

(thousands of Dollars)

		DESTINATION				
ORIGIN	TOTAL	Guat.	El Sal.	Hond.	Nica.	Costa Rica
Total	135,976	31,524	42,407	26,319	21,034	14,692
Guate.	38,923	--	18,511	8,695	6,395	5,321
El Sal.	46,074	22,428	----	12,337	6,521	4,788
Hond.	22,133	3,770	15,682	---	1,266	1,415
Nica.	10,060	1,443	3,152	2,299	--	3,167
C.R.	18,788	3,883	5,063	2,989	6,853	--

REGIONAL TRADE OF CENTRAL AMERICAN COMMON MARKET BY COUNTRIES OF ORIGIN AND DESTINATION - 1965

(Percentages of Total Trade)

	TOTAL	Guate.	El Sal.	Hond.	Nic.	C. R.
Total	100.0	23.2	31.2	19.4	15.5	10.8
Guate.	28.6	----	13.6	6.4	4.7	3.9
El Sal.	33.9	16.5	----	9.1	4.8	3.5
Hond.	16.3	2.8	11.5	---	0.9	1.0
Nic.	7.4	1.1	2.3	1.7	---	2.3
C.R.	13.8	2.9	3.7	2.2	5.0	----

Comparing the distribution of trade in 1965 with those of earlier years we discover that, despite the present inequalities in the participation of the various countries in the total trade of the Common Market, the differences are not quite as great as formerly, but the gaps remain large. In 1960 sales ranged from 5.7% for Costa Rica to 38.7% for El Salvador. In 1965 the range was from 7.4% for Nicaragua to 33.9% for El Salvador. Similarly in 1960 purchases from within the markets varied from 8.5% for Nicaragua to 23.2% from Guatemala, while in 1965 the range was 10.8% for Costa Rica to 41.3% from El Salvador. The disparities in the participation in the Commerce of the region remain great but the reduction which is taking place in them is important to the health of the Common Market.

Eventhough the general trend is towards better balance in the trade, the fall in the shares of Honduras and Nicaragua in regional sales and the rise in their share of purchases should be a cause of concern, if long continued.

From the following tables can be seen the trend in the distribution of trade among the Central American countries.

TRADE WITHIN THE CENTRAL AMERICAN COMMON MARKET BY COUNTRIES OF ORIGIN

(Percentages of Total)

	1960	1961	1962	1963	1964	1965
Guatemala	22.2	28.1	25.8	28.8	28.2	28.6
El Salvador	38.7	39.3	36.3	39.8	33.1	33.9
Honduras	22.7	22.5	27.3	19.4	17.4	16.3
Nicaragua	10.5	4.8	6.8	5.8	6.5	7.4
Costa Rica	5.7	5.4	3.8	6.2	14.8	13.8

TRADE WITHIN THE CENTRAL AMERICAN COMMON MARKET BY COUNTRIES OF DESTINATION

(Percentage of Total)

	1960	1961	1962	1963	1964	1965
Guatemala	23.2	24.1	22.3	27.3	24.8	23.2
El Salvador	41.3	39.9	43.7	38.7	36.9	31.2
Honduras	16.2	17.3	17.7	18.4	16.9	19.4
Nicaragua	8.5	7.8	9.4	10.2	13.6	15.5
Costa Rica	10.8	11.0	6.9	5.3	7.8	10.8

CHAPTER IV

FOREIGN TRADE

The foreign trade of the Central American Common Market has increased at an impressive rate in recent years, and particularly spurted forward between 1960 and 1964. During this period the value of the area's exports rose 39.4% and of its imports 37.9%, and both have since continued to advance. In 1964 the area's exports totaled $568 million and its imports $664 million. The exports remain concentrated among a small number of agricultural products, with coffee, cotton and bananas making up 80% of the total, but the imports are well diversified and under the impact of the import substitution program have begun a shift from consumer goods to raw materials and machinery. The United States supplied 54.1% of the area's imports and took 42.1% of its exports in 1964. West Germany and Japan greatly increased their trade with Central America in both directions in these four years, but the United States showed a noteworthy increase only in its exports to the area. The imbalance in the total foreign trade of thearea has been a matter of concern to Central American authorities for some time, but no reversal of it appears to be in sight. Actually, there are reasons to believe that the exports of the area will not expand significantly over the coming two or three years, and may possibly decline somewhat.

Expansion of Imports and Exports

The development of the Common Market has had a decided effect on the area's imports but little on its exports. The increase in the volume of imports can be attributed to the quickening economic activity of the area which has resulted in considerable part from the operations of the Common

Market. Beyond all doubt, the existence of the Common Market has worked an important change in the composition of the area's imports, with the inflow of machinery and raw materials rising sharply, but that of light consumer goods showing only a small gain and that of foodstuffs increasing unspectacularly. However, it is doubtful that the important increase in the area's exports between 1960 and 1964 is in response to the stimulus of the Common Market. The improved foreign exchange earnings primarily reflect higher world prices for coffee and sugar, and the greater activities of Central American agriculturists in the production of cotton and meat for export. The following table shows the growth of the area's foreign trade since 1955:

FOREIGN TRADE OF THE COMMON MARKET
1955-1964

	EXPORTS (Thousands of Dollars)		IMPORTS (Thousands of Dollars)	
Year	Value	% Increase Over Previous Years	Value	% 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	407,274	2.4	458,975	- 4.7
1962	460,786	10.4	501,719	9.3
1963	520,379	13.0	580,484	15.7
1964	568,054	8.4	664,049	14.4

Composition of Exports

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

COMPOSITION OF CENTRAL AMERICAN EXPORTS ABROAD IN 1964
(Thousands of Dollars)

Total	568,054	100.0
Agricultural Products	523,661	92.2
Fishery Products	8,627	1.5
Forest "	15,526	2.7
Mineral "	9,414	1.7
Industrial Products	10,826	1.9

Not only are the area's exports largely agricultural in character, but they are concentrated among a very few products. Coffee alone accounted for 45.0% of exports in 1964, cotton for 22.0%, and bananas for 12.6%. Thus, these three items made up 79.6% of the area's total exports. Adding sugar (3.9%) and meat (3.4%) to the above, we find that five products making up 86.9% of the total. Nineteen products whose exports amounted to over $1 million each produced 97.2% of the area's exports. The following table shows the exports of these leading products in recent years:

CENTRAL AMERICAN EXPORTS ABROAD 1960, 1963, 1964
(Thousands of Dollars)

		1960	1963	1964	Percent of Total in 1964
Total		407,399	520,379	568,054	100.0
Total Listed Items		392,661	497,799	552,217	97.2
071	Coffee	233,698	231,476	255,586	45.0
263	Cotton	37,148	105,138	124,863	22.0
051-03	Bananas	67,214	66,204	71,639	12.6
061	Sugar and Molasses	6,038	20,673	22,286	3.9
011	Meat, Frozen & Chilled	8,469	20,727	19,551	3.4

CENTRAL AMERICAN EXPORTS ABROAD 1960, 1963, 1964
(Thousands of Dollars)

		1960	1963	1964	Percent of Total in 1964
240	Lumber and Logs	8,900	9,899	13,113	2.3
221	Oil Seed and Nuts	5,739	11,422	10,627	1.9
03	Fishery Products	5,958	8,324	8,627	1.5
284-01	Non-ferrous Scrap	27	476	4,290	.8
072	Cacao	6,116	4,471	4,206	.7
081-03	Oil Seed Meal and Cake	980	3,521	3,146	.6
551	Essential Oils	811	3,059	2,626	.5
285-01	Silver ore and Concentrates	1,688	2,777	2,567	.5
001	Livestock	2,114	1,959	2,353	.4
292-04	Plants, Seeds and Flowers for Medicines and Perfumes	1,035	1,747	1,866	.3
292-02-01	Chicle	2,259	1,761	1,696	.3
283-04	Lead Ore and Concentrated	1,721	1,370	1,385	.2
026-01	Honey	923	1,243	1,062	.2
283-05	Zinc Ore and Concentrate	1,823	1,552	1,032	.2

Coffee was the source of 45.0% of the area's export earnings in 1964. Since 1960 the total value of coffee exports has risen 9.4%, but its percentage of total export earnings has declined. This increase seems to have been the result of an increase in coffee prices rather than of the volume of production. Despite the International Coffee Agreement, it seems rather likely that over the next few years the world's production of coffee will rise but the price will remain stable, provided the international controls continue to function.

Cotton is the great newcomer commercial agriculture, but in 1964 accounted for 22.0% of the area's exports. Cotton exports which became commercially important only in the post war years rose to nearly $125 million in 1964 and were undoubtedly still higher in 1965. Exports of cotton seed, cotton seed oil, and cotton seed cake added

$10.8 million to foreign exchange earnings from the cultivation of cotton. However, with the pressure put on cotton prices by the change in U.S. cotton policy Central America's earnings of foreign exchange from cotton are likely to decline in the future.

Bananas brought in 12.6% of the area's export earnings in 1964. After years of relative decline as a Central American export crop, new banana lands are being opened up, especially in Honduras, and the 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 uninfected lands of Ecuador. However, with the increase in the 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 its nearness to the U.S. markets.

The area's exports of sugar and molasses is hardly likely to expand beyond its 1964 rate of 3.9% of total exports. The value has more than tripled since 1960 but has probably more or less levelled off. The international controls on sugar exports as well as the abundant world supply do not offer encouragement to an expansion of sugar production for export.

Shipment of chilled and frozen meat amounted to 3.4% of Central America's exports in 1964. Meat shipments registered a slight decline from 1963 but a substantial advance from 1960. A shortage of meat for local consumption in Guatemala and Honduras has led to the imposition of restrictions on meat exports and these shipments can be expected to continue downward in the near future. In the long-run, meat exports should expand considerably.

Glancing through the other more important exports we find relatively large increases in shipment of logs and lumber, oil seed and nuts, fishery products non-ferrous scrap, and livestock. The increases in exports of most of these and of other lesser products promises to continue to expand. The only important decrease has been in earnings from cacao whose production is steadily declining in the area. The sharp expansion in non-ferrous scrap is likely to be a one time affair, and the shipment of oil seed meal and cake which were down from 1963 may continue to decline as the local production of cotton seed drops and the local demand from this meal for animal feed continues to expand.

Central American seems almost certain to experience at best a sluggist growth in total exports for the next few years. With a leveling off in coffee earnings and some decline in those from cotton, it seems doubtful that enough increase in exports of bananas and the minor products can occur to produce the growth in foreign exchange earnings to which the area is accustomed or which is needed for a good rate of economic expansion. Coffee and cotton are the keys here.

COMPOSITION OF IMPORTS

The belief is sometimes expressed that the area's program of industrialization will cause a decline in its imports from abroad. This is an unlikely development, for the area's volume of imports in the long run is controlled primarily by its volume of exports, and the drive toward industrialization in Central America has not so far been of such a character as to lessen exports. The growth of area's industry has however had a great impact on the composition of Central America's imports. Thus, new and expanded factories are demanding more machinery and equipment, more raw materials and more fuel, and are increasing the demands for transportation equipment at a faster and faster rate. On the other hand, imports of finished consumer goods are being restrained by higher tariffs and the competitive advantages given local industry. Imports of the raw materials and semi-manufactures included in the NAUCA groups, "2", "4", "5" and "6" and the machinery in group "7" increased spectacularly during this period. On the other hand, group "8" which is generally made up of consumer goods is showing a very limited increase despite the growth of the area's population over the period. Group "6" actually includes some consumer goods, such as automobile tires, so that the imports within this group have not followed an even pattern. The make-up of group "3" has changed in recent years with imports of crude oil rising and refined products dropping sharply.

The pattern of this increase can be seen in the following table:

CENTRAL AMERICAN IMPORTS FROM ABROAD 1960, 1963, 1964
(Thousands of Dollars)

NAUCA GROUP		1960	1963	1964	% Increase 1960-1964
	Total	481,465	580,484	664,049	43.1
0	Foodstuffs	42,801	47,961	52,075	21.7
1	Beverages and Tobacco	3,848	3,932	3,835	.3
2	Inedible Raw Materials	3,792	5,716	6,850	80.6
3	Fuels and Lubricants	40,345	45,620	45,256	12.3
4	Fats and Oils	3,491	4,588	5,045	44.5
5	Chemicals	78,342	98,622	114,209	45.5
6	Manufactures Classified by Materials	138,038	160,548	182,036	31.9
7	Machinery and Transportation Equipment	127,832	170,387	207,095	62.0
8	Misc. Mfrs.	41,144	41,169	46,161	12.2
9	Miscellaneous	1,832	1,304	1,487	18.8

The impact of the program of the encouragement of the local production of goods to replace imported products has been especially great among certain selected commodities. These are generally items of light manufacture, but they also include some agricultural products and even heavy items such as fertilizer and cement. A comparison of the growth of the internal trade of selected items with the trend in imports of those items appears below. This comparison, while significant, nevertheless offers an imperfect measure of the success of the substitution program since it does not reflect the large quantity of local manufactures consumed in the countries in which they were produced and which, therefore, did not enter into regional trade.

CENTRAL AMERICAN IMPORTS FROM ABROAD AND REGIONAL TRADE IN SELECTED PRODUCTS IN 1960 and 1964 (Thousands of Dollars)

NAUCA GROUP		Imports		Regional Trade	
		1960	1964	1960	1964
013-00	Meat Products	1,049	659	35	447
024-01	Cheese	252	411	134	309
042-00	Rice	588	1,346	347	511
044-00	Corn	211	1,639	1,130	4,400
048-04	Bakery Products	382	139	135	769
051-01	Fresh Fruit	1,194	500	509	2,002
053-04	Fruit Juice & Concentrates	225	429	247	1,086
054-02	Beans and Peas	192	97	1,123	3,458
054-09	Other Fresh Vegetables	70	223	658	1,020
055-02	Canned Vegs., Soups, Juices	944	675	26	506
062-00	Chewing Gum and Candy	627	251	703	2,823
091-02	Lard and Other Shortening	2,428	191	820	1,370
121-01	Leaf Tobacco	1,670	1,125	470	685
243-00	Lumber	213	32	771	2,223
313-01 to 03	Petroleum Fuels	27,927	17,936	48	4,865
533-03	Prepared Paints, Vanishes, etc.	2,480	626	435	1,700
541	Medicines	20,363	30,704	194	1,845
552-01	Toilet and Cosmetic Preps.	3,989	1,331	152	2,423
552-02	Soap and Other Cleaning Agents	2,608	960	305	2,564
561	Fertilizer	14,641	17,211	3	6,431
599-01	Plastic Semi-Mfrs.	4,394	7,680	74	500

(Continued) NAUCA GROUP		Imports 1960	Imports 1964	Regional Trade 1960	Regional Trade 1964
611-01	Leather	3,109	2,312	155	1,144
629-01	Tires and Tubes	7,725	7,983	236	1,438
651	Yarn	7,789	11,666	1,224	2,907
652	Cotton Fabrics	24,588	19,978	1,000	4,589
653-05	Synthetic Fabrics	7,271	10,929	1	1,490
656-01	Fiber Bags for Coffee,etc	1,786	977	243	1,584
661-02	Cement	2,178	1,734	97	1,567
699-21	Metal Containers	1,440	3,058	193	599
642-01	Paper Bags and Boxes	3,524	9,300	272	3,463
721-02	Dry Cell Batteries	2,416	1,587	---	1,372
821-01	Wood Furniture	367	227	134	580
821-02	Metal Furniture	1,477	983	70	713
841-01	Hosiery	1,666	789	135	1,020
841-02 & 03	Knitted Garments	1,558	1,860	268	2,005
841-04 & 05	Other Garments	2,704	1,705	265	2,146
851	Footwear	858	332	626	3,669
899-07	Plastic Household Articles	496	449	11	3,601
899-11	Other Plastic Goods	1,113	1,682	236	790

The success in the substitution program is most clearly evident in the instances of products in which an increase in regional trade was accompanied by a decline in imports from abroad. Outstanding among such products are fresh fruit, chewing gum and candy, shortening, lumber, petroleum fuels, prepared paints, toilet and cosmetic preparations, soap and other cleansing agents, leather, cotton fabrics, fiber bags, cement dry cell batteries, hosiery, garments other than knit wear, and footwear. Important increases in regional trade also took place in a number of items in which a corresponding decline in imports did not occur. Presumably, these increases were also brought about by the circumstances created by the Common Market but the demand for the products in the area left room in 1964 for both important imports and regional trade in them. Fruit juice, fresh vegetables, medicines, fertilizers, yarn, synthetic fabrics, paper bags and boxes, knit garments, and plastic household and other articles are examples of these products. The case of medicines is interesting in that a sharp increase in regional trade took place in medicines of simple preparation, such as pills compressed from imported powders, while a larger increase in import of more complicated medicines was registered.

Increases took place in the regional trade in corn and beans but it is probable that such increases would have occurred with or without the Common Market since they involved foods needed for the consumption and readily obtainable in Central America.

The above table by no means exhausts the list of products which are already affecting imports. There are countless items whose increase in regional trade has been less spectacular, than in the instance listed above, but which added together are of much importance.

The substitution program will have increasing impact on imports in the future. It is to be supposed that in general the trend towards increasing local production and decreasing imports of the products in the above list will continue until eventually imports of them will have been reduced to specialized products. However, continued large imports or corn, medicines, fertilizer appear likely.

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

1. Insecticides - 1964 imports $27,172,000.
(Integration Plant to be erected shortly in Nicaragua).

2. Powdered Milk - 1964 imports $6,494,000.
(Tariffs are being raised and import quotas applied).

3. Glass Bottles - 1964 imports $4,545,000.
(Bottle factories being erected in Guatemala and El Salvador).

4. Plate Glass - 1964 imports $1,263,000.
(Plant will eventually be erected in Honduras as integration industry).

5. Electric light bulbs - 1964 imports $1,170,000.
(Industry granted special system status and plant begun operations in El Salvador in 1965).

Besides these items, imports of automobiles, buses, trucks, radios, televisions, refrigerators and other goods will at some later date suffer if special agreement to encourage assembly industries is negotiated and put into effect. The eventual establishment of such a system is in line with much Central American thinking and seems a strong probability.

CHAPTER V

FREE TRADE AND TARIFFS

At the heart of the operations of the Central American Common Market is the system of free trade for products of Central American origin. This system has made possible to the great growth of the region's internal commerce in recent years and has created an expanded market so necessary for industrialization. An essential concomitant to the development of the system of internal free trade has been the fashioning 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. In this chapter we shall examine briefly the nature and operations of these two systems and add a few words about the development of a common tariff nomenclature and customs code.

The area's system of internal free trade is well along the road to completion and as of today, for purposes of internal trade, 93.6% of all items in the Central American tariff schedule are exemp from duties or other trade restrictions. These items accounted for 95.1% of the region's commerce in terms of the value of the 1964 trade.

This great accomplishment has been made through the operation of General Treaty on Central American Economic Integration. This treaty was signed on December 12, 1960 and 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. The great virtue of this treaty is that it granted the rights of free trade to all Central American products on which reservations were not specifically made in the Treaty. Thus, the items remaining subject to duties or other restrictions were the exceptions, rather than the rule. The exceptions to the free trade priciple were stated in Annex A to the Treaty and in the Protocol by which Costa Rica adhered to the Treaty. According the SIECA's calculations, 74.2% of the items in the NAUCA became entitled to free trade when the General Treaty went into effect and 19.4% of these became entitled to it within five years from that date. This period of five years ended June 4, 1966 for all Central American countries, regardless of when they formally became parties to the General Treaty, so that today there are only 6.3% of the NAUCA items subject to tariffs or other internal trade restrictions.

Exceptions to the principle of free trade appear in the Treaty and Protocol by product and by pairs of countries continuing to apply restrictions on it. In some cases all countries apply restrictions to all trade in the items. In other cases, the restrictions may be 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 the 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. On some no provision was made for the attainment of free trade. On others, the effective date of free trade was set at some specific time before the end of the fifth years of the Treaty. 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 the establishment of common external duties on them. Generally, when a specified date was set for the attainment of free trade, the rates of duty on the item were lowered annually and import quotas, when applied, progressively enlarged so that the approach to free trade was gradual.

There follows a table showing the restrictions which survive after June 4, 1966. These involve 27 items, 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. In its calculations, SIECA treats these as 82 items, counting separately each restriction between each pair of countries.

ITEMS SUBJECT TO RESTRICTIONS IN
CENTRAL AMERICAN INTERNAL TRADE AFTER JUNE 4, 1966
(RESTRICTIONS APPLY ONLY BETWEEN COUNTRIES LISTED AFTER EACH ITEM)

NAUCA No.		1964 Value of Trade Subject to Restrictions After June 4, 1966 (Thousands of Dollars)
001-01-02	Cattle - ex-breeding Nicaragua - Costa Rica	-
024	Cheese Nicaragua - Honduras	-
046-01	Wheat Flour All Countries	1
061	Sugar All Countries	532
071-01	Coffee-Toasted All Countries	
071 02	Coffee Untoasted All Countries	1
071 03	Coffee Extract Honduras-Guatemala Honduras - El Salvador Nicaragua - El Salvador Nicaragua - Honduras	20

ITEMS SUBJECT TO RESTRICTIONS, etc.(cont'd) NAUCA No.		1964 Value of Trade Subject to Restrictions After June 4, 1966 (Thousands of Dollars)
048-03	Macaroni, etc. Costa Rica - Honduras Costa Rica - Nicaragua	-
048-04	Bakery Products Costa Rica - Honduras Costa Rica - Nicaragua	53
112-04	Destilled Beverages All Countries, although in cases Guatemala-Nicaragua and El Salvador-Nicaragua restrictions apply only to rum.	5
112-02	Fermented Fruit Juices & Wine Costa Rica-Guatemala	39
121-01	Leaf Tobacco Costa Rica-Nicaragua Costa Rica-Guatemala Costa Rica-El Salvador Costa Rica-Honduras	1
122-01	Cigars Nicaragua-Guatemala	-
122-02	Cigarettees Nicaragua-Honduras Nicaragua-Guatemala Costa Rica-Guatemala Costa Rica-El Salvador Costa Rica-Honduras Costa Rica-Nicaragua	17
263	Cotton-Guatemala - El Salvador Nicaragua-Guatemala Nicaragua-El Salvador	-
313	Petroleum Products All Countries	4260
512-02	Ethyl Alcohol - All Countries	4
641	Paper Nicaragua-Costa Rica Nicaragua-Guatemala Nicaragua-El Salvador Nicaragua-Honduras	272

ITEMS SUBJECT TO RESTRICTIONS, etc.(cont'd) NAUCA No.		1964 Value of Trade Subject to Res trictions After June 4, 1966 (Thousands of Dollars)
642-02-01	Envelopes - With Names Costa Rica- Nicaragua	-
642-02-02	Envelopes - Without Names Costa Rica - Nicaragua	-
642-03-001-01	Notebooks and Accounting Forms Costa Rica-Nicaragua	4
653-09-02	Jute and Other Textiles n.e.s. Costa Rica-El Salvador Costa Rica-Nicaragua	-
656-01-00-09	Fiber Bags ex Cotton Costa Rica-El Salvador	-
665-01-01	Bottles-Glass Nicaragua-Costa Rica Nicaragua-Guatemala Nicaragua-El Salvador Nicaragua-Honduras	5
921-09-02	Birds, Not for Consumption Costa Rica-Guatemala Costa Rica-El Salvador Costa Rica-Honduras Costa Rica-Nicaragua	-
921-09-03	Live Animals, n.e.s., Not for Consumption Costa Rica-Honduras Costa Rica-Guatemala Costa Rica-El Salvador Costa Rica-Nicaragua	-
Total		5,214

Not included in the above are items subject to Integration Industry Agreements.

Trade in the items remaining under restrictions seems likely to decline in the future. The 1964 value of the regional trade in these items was $5,214,000. Actually, $4,260,000 of this was in refined petroleum products, most of which moved from El Salvador to Guatemala. Because of the recent enlargement of the petroleum refining capacity of Guatemala, this trade will probably show a sharp reduction by the end of 1966. The next most important item which remains subject to restrictions is sugar, valued at $532,000 in 1964, practically all of which having been sold by Nicaragua to Honduras. In addition Honduras imported $139,000 of sugar from El Salvador but this was well within the duty free quota between these two countries. As Honduras seems to have achieved self-sufficiency in sugar production, it is probable that this trade will decline. The only other item of significance in terms of 1964 trade still under restriction is paper, of which Guatemala sold $272,000 worth to Nicaragua.

The Central American authorities wish to hold negotiations later this year to reduce further the list of items whose regional trade is still under restrictions, and it is reasonable to suppose that the reaching of agreements on most of the remaining ones will be feasible this year or next. Most of the remaining restrictions apply to only a few countries, and the total volume of trade affected by them is not large.

There are, however, a few products on which restrictions are likely to remain for some time. Controls over regional trade in coffee and sugar will be needed as long as the exportation of these products is subjec to national quotas fixed by international agreements. Controls over the trade in rum, the only important distilled alcoholic beverage of the area, and ethyl alcohol will presumably remain because of their importance as sources of revenue to the national governments. Free trade in refined petroleum products would run counter to the efforts being made by each government to develop and retain its own refining capacity. Finally, the removal of restrictions on the trade in wheat flour will depend on the prior negotiation of a common external tariff on wheat, but the 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 the movement of all or most of the items making up this hard core may be rather long-lived, their importance in relation to the general trade of the area will not be great.

UNIFORM 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 of the items in the NAUCA, the common tariff schedule. These accounted for only 17.8% of the area's imports from abroad in 1964. By far the greater part of these agreed rates are already in effect and the remaining should be applied within about six years. Efforts are being made to reach agreement on the outstanding 26 items.

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

The five year period of adjustments of national rates ended and common rates became effective on September 29, 1965 for the items in the Annex to the Convention. The common rates for the items in the Annex to 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 and that of San Salvador on October 11, 1964. Therefore, additional common rates will be applied throughout Central America in 1969. Two other protocols have been negotiated but do not yet have the necessary ratifications to become effective. It is, therefore, impossible to state when the tariff adjustments provided in them will go into force.

The effective date of the convention and each of its protocols is eight days after the deposit of the third ratification of the document. Their effectiveness, however, extends only to those states which have made the deposit. Therefore, even 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 at the same time 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, Costa Rica thereupon adjusted its national rates on the items covered in the Annex to the Protocol to those specified for the third year of the life of the Protocol. Thus, all states reached the common rates contemplated in the Protocol at same time.

Naturally, the Convention established common rates on the items on which agreement on rates was easiest. These tended to be consumer items not produced in Central America but not of great importance as sources of revenue, items produced in various countries on which these was a general basis for agreement as to the need for protection against competition from abroad, and items on which the national tariffs were reasonably close together. However, in the succeeding protocols common rates have been agreed upon on increasingly difficult items and, as of July 1966, the items on which no agreements had been rached were reduced to the following:

CENTRAL AMERICAN IMPORTS IN 1964 OF ITEMS ON WHICH NO COMMON TARIFF RATES AGREED (Thousands of Dollars)

NAUCA No.	DESCRIPTION	IMPORTS FROM ABROAD IN 1964
Total		118,364
041-01-00	Wheat	10,642
046-01-01	Wheat Flour	7,105
046-01-02	Other Flour	394
312-01-00	Crude & Partially Refined Petroleum	17,941
313-01 thru 03	Refined Petroleum Fuels	17,936
313-04	Lubricating Oil and Greases	5,804
314-01	Natural Gas Fuels	975
314-02	Artificial Gas Fuels	3
653-09-02	Textile & Jute & Similar Fibers n.e.s.	784
656-01-00-01	Bags for Packing of Jute etc.	1,190*
699-29-06-01	Crown Caps	317*
721-04-01 thru 05	Radios, Loud Speakers, Transmitters and Other Electric Equip. & Parts	11,392
732-01-01	Jeep Type Vehicles	4,566
732-01-02	Passenger Cars	15,845
732-03-02-01	Delivery and Special Trucks	8,159**
732-03-02-03	Cargo Trucks, Assembled	2,099**
732-06-00	Chassis & Parts, n.e.s. (i.e. ex Chassif for Passenger Cars and Trucks)	8,003
899-08	Refrigerators etc. (ex 06-07-408)	3,809
931-00	Non-Commercial Exports	858
999	Gold, Silver & Bank Notes	542

* Honduran imports estimated as its data not available beyond five digits.
** Salvadoran, Honduran & Nicaraguan imports estimated as these data not available beyond five digits.

Source: SIECA - Carta Informativa No. 54, April 12, 1966. Anexo Estadístico No. 49 (Adjusted by reference to preliminary national import statistics).

In reaching common tariffs, the negotiators have not set out to raise tariff rates. Their problem has been simply to find rates acceptable to the five countries. Therefore, the 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 is naturally easier to obtain agreements to raise rates than to lower rates.

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, but of course, the number of items of Central American origin still subject to duty is quite small. An exception t o the application of these general rates arises with the tariff concessions granted by the national governments to promote new industry. There are also the tariff concessions granted to integration plants on their imports of raw materials. The matter of these exemptions for industrial promotion is discussed elsewhere in this report.

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. Guatemala grows wheat, but the other countries do not. Therefore, Guatemala wishes much more protection for wheat than do the others. Once an agreement is reached on rates on wheat, there should be no difficultry in agreeing on rates on flour. 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. Honduras and Nicaragua are large importers of this product, Guatemala a small importer, and Costa Rica and El Salvador in between. There is considerable production of the caps in Guatemala and El Salvador and some in Costa Rica.

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. National rates tend to be low on crude oil and high on refined products. The following table gives an idea of these national rates:

	CRUDE	GASOLINE
Guatemala	1%	.18 per gal. + 14%
El Salvador	.0035 per gal. + 6%	.25 per gal. + 6%
Honduras	None	34%
Nicaragua	10%	.03 per gal. + 30%
Costa Rica	.008 per gal	.26 per gal. + 2%

National rates are designed to force the importation of crude petroleum to be refined in the country. Under the stimulus of this rate structure, each country, except Honduras, has its own refineries. When the proposed establishment of refinery in Honduras is accomplished, common rates may be negotiated, even though prospects for the establishment of internal free trade in petroleum products are dim, since each country will still wish to protect its own refining capacity.

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.

SIMPLIFICATION OF TARIFF NEGOTIATIONS

New tariff rates or adjustments to existing ones can be negotiated under the existing conventions only through the adoption of new protocols by the unanimous action of the Economic Council. A new protocol in turn requires ratification by the Central American congress before it goes into force. Usually, upon the 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 extremely cumbersome procedure, for after lengthy negotiations in the Economic Council, the effective ratification of an agreement can be delayed months and even years by the various governments. For that reason proposals are being considered for facilitating the adoption of new tariffs or the 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. Of course, it must be realized that the proposal would involve a major surrender of power by the national legislatures and Central America does not yet appear to be prepared to take this step.

While there is great interest in completing the unification of tariff rates, the major concern back of the proposal for this new procedure is a desire to facilitate the raising of rates previously agreed upon. Higher tariff rates would obviously give an impetus to the development of new industries and, therefore, are generally favored by those desiring rapid industrialization. However, the present system of renegotiating rates is extremely unwieldy.

SYSTEM OF COMMON TARIFF CLASSIFICATIONS

Before either the establishment of common external rates or the removal of internal trade restrictions could be systematically negotiated, it was necessary to end the confusion created by the five national tariff schedules. Recognizing the need for this the Committee on Economic Cooperation at its first meeting, which was 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 sub-committe to prepare a proposed uniform tariff nomenclature and request the Executive Secretariat of ECLA to cooperate in this work. This subcommittee submitted a proposal which the Second Meeting of the Committee approved on October 16, 1953. This proposal based upon the Uniform Classification for International Commerce became known as the Nomenclatura Arancelaria Uniforme Centroamericana -- Central American Uniform Tariff 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 sub-comittee 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.

To unify customs practices as well as nomenclature, the Economic Council in December 1963 signed a protocol setting forth a Uniform Central American Customs Code (CAUCA) as contemplated in Article 29 of the General Treaty. This sets forth a uniform basic customs law for the five countries. By February 6, 1965, three countries had ratified this protocol. To carry the standardization of customs practices one step further the Economic Council in November 1965 approved the Regulations of the Uniform Central American Customs Code (RECAUCA) which are to be applied by the Central American Governments in administering the CAUCA.

The legal next step in unifying the tariff structure of the Central American states would possibly be the 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 yet appear to be ready to surrender such authority to a Central American body at this time.

CHAPTER VI

INTEGRATION INDUSTRIES

Nature of 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 1 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 system is one for sheltering selected plants in selected industries 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 as they cross 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, a considerable proportion of which were agricultural. Thus, the granting of free trade priviledges 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 ten 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, a limitation was attempted on the conflict between the free trade principle embodied in the General Treaty and the guarantee of internal trade protection for integration industries. Article 1 of the protocol states that:

> "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, the article may be considered for integration status. Therefore, through the operations of the system of integration industries a right to free trade established under the General Treaty may be withdrawn, as long as it has not been utilized. Caustic soda, insecticides, and plate glass, although not excepted from free trade under the General Treaty, were elegible for integration status because there was no actual regional trade in them. This limitation leaves the way open for the designation for integration status of a rather large number of industries not now operating in Central America.

Although the system of integration industries is relatively old in concept, there is only one plant operating under it. This is the GINSA Company (Gran Industria de Neumáticos Centroamericanos, S.A.) which was founded in 1956 to supply the Guatemala Market but is now selling throughout Central America. Caustic Soda and insecticide plants have been designated for integration status in Nicaragua but have not yet been built. A plate glass plant has been designated for Honduras in a Protocol which has not been ratified by any Central American Government and the construction of the plant is obviously several years away. So far Honduras has not ratificated the Protocol covering the tire, caustic soda, and insecticide plants and therefore the benefits of the system are not extended to these products in Honduras. Thus, only the GINSA plant is now receiving integration benefits, and that, only in four countries.

The system of integration industries has its legal basis in three documents. 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 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 protocol signed on November 5, 1965 in San Salvador which none of the Central American states has ratified, but which they probably will ratify in the course of the next year or two.

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 operations. The second designated as integration industries tire and tube manufacturing with a plant in Guatemala and caustic soda and insecticide manufacturing with plants in Nicaragua. The third designated plate glass manufacturing with a plant in 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 did the original convention, the convention serves only as a point of departure for the preparation of protocols, but cannot limit their provisions.

It might be useful to explain certain of the terms employed with much frequency in discussions of the system under consideration here.

The system is sometimes referred to as that of "integrated industries" rather than of "integration industries." The phase "integrated industries" is not a fortunate choice because the industries in question are not necessarily "integrated" in the usual sense of involving a merging of various stages of production. The fact that in Spanish they were referred to as "industrias de integración" rather than as "industrias integradas" also indicates that they are thought of as filling a role in the economic integration of Central America and, therefore, are "integration industries" rather than "integrated industries." A review of the history of the development of the system brings out that it was the Central American economy which was to be integrated and not the industries. Confusion sometimes develops over whether the word "industry" refers to a particular plant or has a wider application. Actually an "integration industry" comprises the one or more designated plants manufacturing a designated product. In popular speech, a designated plant is often referred to as an "integration industry".

BENEFITS TO DESIGNATED PLANTS

The benefits offered by the system are considerable and the system should, if it were free of certain drawbacks, prove extremely attractive to prospective manufacturers. It was these attractive features which were originally expected to lead to the founding of numerous important factories serving the whole of Central America. Among the benefits conferred on designated manufacturers are the following:

1. Additional Tariff Protection Against Imports - Article 5 of the Convention in a general way and the two protocols specifically have provided for protective tariffs on the items covered by them. This protection would, of course, benefit not only the integration plants, but also any subsequently established Central American manufacturer of a competitive product, whether or not designated for integration status. Before these special rates are levied ICAITI must determine that the designated plant has the required productive capacity and that its product meet required standards of quality. Actually, according to Articles 5 and 16 of First and Second Protocols, respectively, the higher tariff rates go into effect thirty (30) days after SIECA issues notifications that the company has met these standards of quality and capacity. Under Article 16 of the Second Protocol, the new rates go into effect 30 days after SIECA publishes in a newspaper in each country an announcement that the company has met the required standars.

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 ten 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 would be free traded after ten years. The First Protocol (Article 3) fixed the date for beginning those reductions as one year after that

on which the protocol became effective for plants already in operation and for other plants as that on which they are required to enter into production. The Second Protocol (Article 11) set the date as one year after that on which the plant is required 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 should go into effect August 26, 1968. Since the Protocol has not been ratified, it is not possible to state when the internal tariff reduction on plate glass will begin.

3. Tariff Advantages on Importation of Raw Materials - Integration plants are entitled for ten years to exemption from duties and other levies on the importation of raw materials or semi-manufactures used by them and also from taxes on the production or consumption of these raw materials or semi-manufacturers. (Article 6 and 13, respectively, of the First and Second Protocols.) This treatment is more generous than that contemplated in the Convention on Fiscal Incentives for industries of types likely to be chosen for integration. That Convention would allow complete exemption from duties on raw materials and semi-manufactures for only five years and a decreasing exemption for the next five.

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 its production in Central America, 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 products competitive with those produced by an integration industry. (Articles 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 just described, they are subject to certain special requirements and restrictions which could be a major reason for the small number of applications for integration status which have been made. In fact, these requirements and restrictions apparently did discourage the FIRESTONE Company in 1965 from obtaining the integration status then open to it. A company which obtains integration status will be subject to restrictions and will be exposed to the danger of becoming a subject of political controversy about its operations. The following are some of the requirements and restrictions:

1. Initial Capitalization- The firm must have a specified initial capitalization. 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, Article 21 of the First Protocol recognized 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 insecticides 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%. While the First Protocol makes no mention of the type of shares to be issued, Article 3 of the Second Protocol requires that they show the names of the owners. When the stock is made out to bearer, as in the case of the tire company, there appears to be no way to verify the nationality of the share holders.

3. Initial Plant Capacity - The plants must 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 enable it to meet the needs of the whole market. It must continue to make available an adequate and constant supply of the product and 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 - Article 17 and 25 of the First Protocol specified maximum prices at which the designated manufacturer of caustic soda and insecticides could sell these products, subject to modification by the Executive Council as a result of changes in costs of production, and

stated 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 would 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 the 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 six months after the signing of the protocol.

5. Quality Controls - The manufacturers 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. 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 of them but must sell to all who seek to buy them unless some good reason exists for not doing so. (First Protocol, Article 7). In the case of tires, the Executive Council ruled that the GINSA Company must maintain in each country stocks of tires equal to the demand for two months.

DESIGNATION PROCEDURES

Perhaps equal to the prospects of official restrictions on operations as a discouragement to investors tempted to seek the integration route, has been the prospects of long delays and great frustrations in obtaining integration status. A company seeking integration status must be prepared to proceed in its quest with the greatest of patience and persistence. An estimate of from three to five years from the time a company decides to seek integration status until, if succesful, it obtains it should be in line with past experience. There is also the distinct possibility that several years of negotiating and waiting might lead only to a rejection.

According to Article 9 of the Convention, a company seeking integration status must first apply to the designated organization. This was the predecessor of SIECA although now the application would be made to SIECA. When SIECA considers the application well documented it 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 protocol to the Economic Council for its consideration. Each of these stages can require months of study and discussion. If all members of the Executive Council sign the protocol, it goes to the Central American legislatures for ratificatinn, and under the protocols negotiated so far becomes effective for the first three states upon the depositing of the third ratification and for each of the remaining when it deposits its ratification. This process of ratification may require several years.

Actually, a group or company seeking integration status would first obtain the active support of its national government and it would need this support in all stages of the study and negotiation of the protocol. The opposition to the granting of integration status for an industry is likely to be so strong that without governmental pressure the project would fail. Certainly, the industries so far designated have had the support of the interested national governments.

The process of designation has so far been a long one. The Convention on the System of Integration Industries was signed on June 10, 1958, but it was not until June 4, 1961 that it became effective, while Costa Rica did not complete its ratification until September 23, 1963. The Guatemalan Government sought integration status for the GINSA tire plant from the time the convention went into force, while the Government of Nicaragua on August 7, 1962 presented to SIECA the application for the caustic soda and insecticide plants. The protocol approving status for those plants was not signed until January 29, 1963 and did not become effective for Guatemala, El Salvador, and Costa Rica until February 26, 1965, and for Nicaragua until August 31, 1965. Honduras has yet to ratify it. The Protocol of November 5, 1965 providing for integration status for a plate glass plant to be erected in Honduras has received no ratifications so far.

INTEGRATION INDUSTRIES AS MONOPOLIES

Much of the opposition to the system of integration industries has centered on its inherent monopolistic or semi-monopoly character. This is, of course, the feature which makes the system particularly attractive to certain prospective manufacturers but it also makes the system suspect to many observers. Those who favor the system believe that with controls, the abuses of monopoly may be avoided, but those who oppose it are skeptical.

To avoid the abuse of monopoly, the system provides previously described measures for the regulation of the prices and qualities of the products of 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. These findings, with some adjustments, were then converted into list prices for some 300 sizes and styles of tires and some 22 tubes, and a minimum discount of 22% from these list prices was set for distributors with further discount of 15% for cash.

The protocol provided that the price fixed for each size and style of tire must not exceed the lowest list price for that tire in any country of Central America on December 1, 1962. It will be noted that the above system might serve reasonably well as a starting point but it 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 a company's books to check its costs, and therefore cannot determine whether a company is making a reasonable profit, a generous profit or is being squeezed.

The determination of quality is also exceedingly important. ICAITI made its first determinations of the quality of the GINSA tires by sending samples to the United States Bureau of Standards for testing. The Bureau submitted its results to ICAITI which declared the tires to be of satisfactory quality. The Bureau has stated, however, that it can not continue to test tires for ICAITI and, therefore, ICAITI has for some months searched for a private firm to conduct the type of analytical tests it requires. Of course, it would be extremely expensive for ICAITI to set up its own laboratories for testing tires.

A limited departure from the status of monopoly for integration industries was provided for 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 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 dealing with the situation created by the plans of the Firestone Company to erect a tire plant in Costa Rica. As a means of bringing that plant into the system, this provision was included in the First Protocol. 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. It is also of interest in its stipulations about the nationality of the capital of the second plant. The Firestone company did not avail itself this means of incorporating under the system, possibly because of the requirement about the large offering of capital to Central American investors.

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 designated plant in an integration industry. If a national government so wished, such a plant would receive the benefits of the national industrial incentive laws which will eventually be limited by the Convention on Fiscal Incentives. Such a plant would not be bound by the First Protocol's requirement regarding the percentage of Central American participation in the new company, for the national government would set the rules regarding such participation. Such a new company would, of course, receive the same external tariff protection as the designated company. It's principal disadvantage vis-a-vis the designated plant would be that its products would be subject to normal duties, reduced by ten per cent of the original amount each year, when sold in Central America outside the country of manufacture. Within the country of manufacture, the products of the national plant would compete on equal terms with those of the Integration Industry as far as duties were concerned. It would also be at some disadvantage in connection with the importation of raw materials.

The effectiveness of these various checks on prospective monopolies is, in the opinion of the writer, likely to be limited. As suggested, the determination of reasonable prices for the products of designated plants and the verification of their quality promises to be difficult.

Border-line decisions on these points and on the adequacy of the volume of production by an integration plant and on the taking of measures to permit greater imports could be very sensitive matters and could involve the various national governments in serious disagreements. Actually, there has been no formal question raised on these points regarding the GINSA tires, and so there is no experience to indicate how such a question would be handled. 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 competion. The establishment of plants to serve a national market could produce competition on a national scale, but actually, if a plant so constituted could compete, then this would suggest that the manufacture of the product should not have been granted integration status in the first place, since the efficient production of the product would obviously not require that it be on such a scale as to supply the whole or a large part of the Central American market.

FUTURE OF SYSTEM

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 on January 29, 1963, of the First Protocol designating the manufacture of tires, caustic soda, and insecticides as integration industries, there was a lapse of nearly three years before another designation was made, that of plate glass whose protocol was signed on November 5, 1965. A 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. This Special System is discussed in the next chapter of this study. The acrimonous and well published dispute between the GINSA Company and the Industria Firestone de Costa Rica, S.A., added nothing to the prestige of the system.

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

Certain of the proponents of the system urge that it be used to promote the balanced economic development of the area. More specifically they assert that through it, new plants should be assigned to the less industrialized Central American countries, especially Honduras. This matter is discussed in the chapter on Balanced Economic Development.

The Committee on Central American Economic Cooperation in January 1966 passed resolutions which urged various simplifications in procedures for implementing the system. Since these resolutions represent thin.ing already common among those who wish to inject new life in the system, it is to be supposed that these resolutions will be the basis for any future negotiations about alterations in it. These resolutions proposed the appointment of a Central American Commission on Industrial Coordination, working with SIECA under the Economic Council, to select industries to be considered for integration status and to hasten the preliminary studies on them to be put before the Executive and Economic Councils. More important, the proposals call for the negotiation and ratification by the national legislatures of a formal Protocol authorizing the Economic Council to award integration status to industries, without the necessity of ratification by the different legislatures.

Actually, there should be no great obstacle to finding methods to facilitate preliminary studies, and some progress may possibly be made in speeding up negotiations on new designations. However, it would be surprising if the national legislatures would in the reasonably near future agree to waive their right to ratify each designation of a new integration industry, and it will be difficult to find a practical method of removing the possibilities of abuse of the monopolistic character of integration industries. Even though, there may be some additional designations of integration industries in the course of the next few years, the writer believes that the system will eventually be allowed to fall into disuse, even though the convention establishing it remains on the books.

CHAPTER VII

SPECIAL SYSTEM FOR THE 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 a Special System for the Promotion of Production. This is sometimes spoken of in Spanish as the "Etereo" because the Salvadoran representative, with no great advanced notice, introduced at the meeting 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 additional tariff protection to these industries. 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 article 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 thirty 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 the same rights of 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 system is essentially one for granting selective tariff increases to infant industries.

The Special System was given its first application on April 21, 1965 when a protective tariff went into effect on the importation of the more usual types of electric light bulbs. It is expected that protective rates will in the next few months also be applied on bottles used for beer and soft drinks, and on machetes and later on other products. The light bulbs are now being produced by only one plant but there will be at least two producers of bottles and several of machetes.

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 persons can manufacture an article given Special System status, the way is left open to competition in pricing. The grant of power to the Executive Council to withdraw the special high tariffs is thought to offer a further safe-guard 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 much 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, provided of course, that the product meets the Special System requirements.

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 of San Salvador to the same Convention granted similar status for sulphuric acid, toilet paper, thin aluminum sheets and foil, and cylinders for compressed gas. The First Protocol has been ratified by all Central American countries except Honduras and is now legally in effect for the four. The Second has not been ratified by any of the countries.

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.

The Executive Council is also empowered to set special import restrictions or quotas to be applied by the Governments to prevent speculative imports prior to the beginning of Central American production of the products.

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 Tariff Equalization Convention. It should also be noted that the Executive Council may authorize the importation at the Uniform Rates of the quantities of a product enjoying 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 judgement 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.

Of particular significance, because of its bearing on the functioning of the Special System, was a discussion which took place in the meeting of the Executive Council in February 1965. At this meeting the representative of Honduras expressed the opinion that requests for incorporation of new items into the Special System should be accompanied by full studies of the implications of the proposals for the various sectors of the Central American economy, and particularly its effect on consumer prices. He referred especially to the need for information on the price of the product to be manufactured. He stated that the application of the Special System deserved the most careful consideration, since it could distort the balance sought by the System of Integration Industries. The representative of El Salvador replied that the Special System was necessary to give a dynamic character to the application of the Central American tariff as an instrument for industrial development since the simple renegotiation of tariff rates does not afford the protection which certain industries need. He concluded that if a technological study were required before Special System status could be given to an industry it would become difficult to achieve the purpose for which the System was established. The Executive Council at length decided that, in view of the varying importance of the products proposed for inclusion in the Special System, it should decide in each case whether to require a study before acting upon the proposal.

The Special Tariff on electric light bulbs went into effect on April 21, 1963, following the beginning of production of bulbs by a new plant in El Salvador. This plant was established by the "Industria de Productos Eléctricos Centroamericanos, S.A.". (IPELCA), a company in which Phillips has an important interest. The new rate, which initially applies to all light bulbs with a rating of 15 to 300 watts and of 110 to 250 volts, is $1.00 per net kilo plus 10% ad valorum. This represents a sizeable increase over the normal rates in each country which are as follows:

Guatemala	$.20 per Kg plus 10% ad val.
El Salvador	$10.00 per 100 Kgs plus 6% ad val.
Nicaragua	$.10 per Kg plus 10% ad val.
Costa Rica	$.23 per Kg plus 4% ad val.
Honduras	20% ad val.

CHAPTER VIII

BALANCED ECONOMIC DEVELOPMENT

General Concept:

In the program for integrating the economies of Central America, there have been two general approaches to the distribution of benefits among the five countries. These approaches are those of "reciprocity" and of "balanced development". Under the first the emphasis is on the distribution of benefits equally. Under the second, a special effort is made to grant greater benefits to the less developed countries. There is sometimes evident a tendency to confuse these two terms and to equate them, but they should be used in quite different senses.

The word "reciprocity" was used with frequency in the early discussions of the way in which the Central American economy should be integrated. The Preliminary Report of the Director of ECLA's Executive Secretarial General on Integration and Reciprocity in the Central American Isthmus in 1952 stated:

> "A principal feature of reciprocity is that each country will be willing to have established in the others certain industries of adequate size, in exchange for which other countries agree that in the first there be established other selected industries. An integrated development, with industries related to each other and related by reciprocal markets would assure great economy in investment and total profits.
>
> "A second aspect of a policy of reciprocity is in the commercial and customs policy. In a plan for integratinn, activities with this status should be established for the Central American market and should enjoy free trade without the payment of duties in any countries of the area."

From the above it seems that the original idea of reciprocity had to with the distribution of selected industries among the countries as economic considerations should dictate, but with each country receiving some industries. There is no suggestion here that the distribution favor the less developed countries.

The framers of the Convention on the System of Integration Industries seem to have been guided by this same philosophy when they provided in Article 1 of that document that the assignment of operations under it shall 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 "equity" when it provides 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." Further discussions of this article will be found in the section of this chapter dealing with integration industries.

The various treaties and protocols dealing with free trade within the area and with common external tariffs approach these matters on a basis of reciprocity. The purpose in them is to secure uniform tariff and free trade structures without special treatment for any one county. These documents do not formally set forth guiding principles for trade practices, but they are clearly designed to standardize tariffs and intra-regional trade regulations, and do not provide special treatment for any country.

However, in the case of the Central American Bank and the pending Convention on Fiscal Incentives there is a clear recognition of the principle of "balanced economic development" as contrasted with "reciprocity or equity" in economic development. The Charter of the Central American Bank for Economic Integration in Article 2 states "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 "infra-structure 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 infra-structure projects of purely local or national concern which do not contribute to the completion of such systems or to the compensation of significant imbalances among the member countries."

While the present formal treaty obligation to give special assistance to the less developed countries of the area seemslimited to only certain documents and therefore to certain types of operations, the necessity for doing so is recognized. In a narrow sense, this necessity rests on the reluctance of Honduras to ratify the Convention on Fiscal Incentives and the Protocols to the Convention on the System of Integration Industries. Honduras appears determined not to act on these documents until it receives the special assistance it feels it is entitled to. There is a distinct possibility that Honduras might similarly withhold its ratification of future agreements for the same purpose.

In a broader sense there is an awareness of an obligation to attempt to remove the obvious disparities in the economic development of the area, and in the degree of benefits derived by the different countries from the operations of the Common Market. Honduras entered the Common Market with less manufacturing than the other countries and with tariffs generally lower than those elsewhere in Central America. Many Hondurans believe that because of the Common Market they now pay more for products manufactured elsewhere in Central America than they formerly did for products imported from abroad. At the same time they are concerned because they believe there has been no corresponding increase in the sale of Honduran manufactures throughout the area. A glance at some of the statistics on the expansion of the industry and regional trade of the area will confirm the lag in Honduran development. They will show why discussions of balance in the economic development of the area have to do largely with the Honduran rate of growth as compared with that of the rest of Central America.

The discussions of Honduran problems in the Economic and Executive Councils is evidence of a desire in those bodies to render some special assistance to Honduras. The Central American Committe on Economic Cooperation in January 1966 adopted a series of resolutions on the subject of assisting Honduras to obtain a balanced development within the framework of economic integration. There is general agreement that assistance must be given to Honduras but the amount and form of this assistance is the subject of much discussion.

While various devices might be developed for aiding Honduras, most of the present discussion has to do with the possibilities offered by the Central American Bank, the pending Convention on Fiscal Incentives, and the System of Integration Industries. There follows a discussion of these possibilities:

Special Assistance by CABEI to Less Developed 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:

Summary of Status of Loans by
CABEI as of June 30, 1966
(Thousands of Dollars)

	Approved	Disbursements	Under Negotiation
Total	77,615	26,721	31,442
Guatemala	13,210	6,393	5,337
El Salvador	15,874	7,985	5,610
Honduras	19,324	5,240	11,957
Nicaragua	16,295	2,533	3,838
Costa Rica	12,863	4,522	4,700

Source: ROCAP Airgram

These figures show that Honduras has done outstandingly well in the matter of loans approved and under negotiation but ranks in a middle position on disbursements made. Honduras has been particularly favored on loans for highway construction, receiving an allocation of $9.5 million of the total of $35 million from the AID loan to the Bank for infra-structure. The Bank has lent Honduras $2.1 million of a total of $3.3 million which it has advanced for feasibility studies with the expectative that these studies will be followed by applications for additional loans. Even in terms of disbursements, Honduras has been favored on a per capita basis. Of course, the Bank has obligations in all of Central America and its funds are limited. Therefore, while what it does for Honduras is important, its possibilities with its present funds are limited. The Bank cannot by itself speed the development of the Honduran economy as Honduras would wish.

Convention on Fiscal Incentives

The Convention on Fiscal Incentives offers another possible avenue for special aid to the less developed countries, but this is not its primary purpose. It was signed on July 31, 1962, has been ratified by four countries and lacks only the Honduran ratification to go into effect. The Convention fixes limits on the tariff and tax concessions which the Central American Governments may make to encourage industrial investments. In its present form it is in practice much more a product of the philosophy of reciprocity than of balanced economic development, although its Article 1 sets forth the agreement of the contracting states "to establish a uniform Central American system of fiscal incentives to industrial development, in accordance with the needs of the integration and balanced economic development of Central America."

The implementation of the Convention is widely desired in Central America as a means of restricting competition among Central American states in attracting new industries. This competition leads to a loss of revenues needed by the governments and introduces complications into the development of free trade within the area when different countries follow different practices in making tariff concessions on the importation from abroad of materials and machinery used by manufacturing industries which sell in the general Central American market.

The Convention divides manufacturing operations into the following three general classifications:

A. Producers of industrial raw materials, capital goods and, if made 50% of Central American raw materials, consumer goods, containers or semimanufactures.

B. Producers of other consumer goods, containers or semimanufactures with yield net benefits to the balance of payments and a high added value in their manufacture.

C. Other Industries, including assembling and packaging operations.

Industries in each group are further divided into categories of "new" or "existing" types of industries.

The maximum benefits which a government may allow under the Convention vary according to the classification of the industry and whether it is new or existing, with a new group "A" industry being elegible for maximum benefits which would be total exemption from import levies for ten years on machinery and equipment; total exemption from such levies on raw material semi-manufactures for five years, sixty percent exemption for three and forty percent for two years; total excemption from import levies for five years on industrial fuel; total exemption from income taxes for eight years; and total exemption from property and assets taxes for ten years. The general purpose of this Convention is to make equal the consessions which Central American countries grant to attract new industry. This, of course, is contrary to the principle of balanced economic development. There are, however, two features of the Convention which would favor the less developed countries. The first of these is that under its Article 25, during the first seven years of the life of the Convention an industry may be classed as new if no similar plant is operating in the country in which the plant is to be located. Thus, the existence of an industry of a certain type in El Salvador would not preclude the granting of a classification as "new" to an industry of the same type in Honduras. This should be of value to the less industrialized countries since they have fewer types of industries operating in them and therefore should have more opportunities for granting classifications to new industries. However, according to Article 24, the test of newness after the convention has been in force for seven years will be whether that type of industry exists in Central America, not whether it exists in the country in which classification is sought. Therefore, this advantage to the less developed countries would disappear at the end of seven years.

The other special benefit to the less developed countries is contained in the Fifth Transitional Article of the Convention which reads as follows:

> "With the purpose of applying the principle of balanced development among the Central American countries, the signatory states agree that the national Administrative Authority of the Republic of Honduras may concede during two years, and that of the Republic of Nicăragua may concede during one, exemption from taxes on income or profits, assets and capital for two years in addition to time to which enterprizes classified under this convention as new industries of Groups A and B are entitled. These benefits may be granted during the first ten years of the life of this convention."

These two benefits do not appear to be likely in themselves to make it possible for the less developed countries to attract enough new industries to allow them to go far toward closing the gap in industrial development which separate them from the other Central American countries. Actually, the Honduran Minister of Economy, Sr. Manuel Acosta Bonilla in an "Exposition of Honduras Regarding The Central American Convention on Fiscal Incentives to Industrial Development" dated January 11, 1966, declared:

> "The Government of Honduras believes that the ratification of this Convention would add to the unfavorable effects on the Honduran economy observed between 1958 and 1968, and certain clauses of the Convention would clearly retard and lessen the possibilities of the industrial growth of Honduras in the short, medium and long terms."

Negotiations are now being carried on for the preparation of a Protocol which would allow Honduras to grant greater concession to investors than would be allowed under the Convention itself. While there is a general willingness to allow Honduras to grant special concessions on imports of machinery, there seems to be less willingness to agree to concession on raw materials. There have also been other proposals, such as the granting of special tax credit to Central Americans who invest in Honduras. Whatever the final arrangements, and reaching them may be difficult. The expectation is that with it Honduras would ratify the Convention and thereby allow it to go into effect throughout Central America. Honduras, however, would probably by agreement or the timing of ratifications of the Convention and the protocol arrange to have the two instrument go into effect at the same time.

Even with a satisfactory solution to the problem of the Convention on Fiscal Incentives, the obstacles to the balanced economic development of the area will be great. The granting of fiscal incentives except of the most extreme kind are unlikely to cause a great upsurge of industry in Honduras for there are numerous other forces affecting the development of manufacturing there.

INTEGRATION INDUSTRIES 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 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. 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.

Although there exists this desire in some quarters to use the integration system for giving special support to the economic development of Honduras, it would not seem to be in line with the requirement of the Convention on the System of Integration Industries, quoted earlier in this chapter, that no second plant be assigned to one country until a plant has been assigned to each of the other countries.

This wording shows initial intention, at least, to distribute integration industries equally among the countries of Central America. The Second Protocol perhaps departed technically from the wording of this article when it granted integration status to caustic soda and insecticide plants in Nicaragua but there was strong economic logic to linking these two plants together. Certainly, no serious objection was raised on the ground that this involved two industries.

The Economic Council at a meeting on April 28, 1964 stated its interpretation of the transitional article of the Convention in the following sense: The Economic Council "cannot assign a second plant within the same industry to a country until a plant in the same industry has been assigned to each of the other countries. Consequently, there may be assigned plants of different industries to one country without the necessity that each of the other countries have an integration plant." This interpretation does not seem to adhere to the obvious meaning of the original Article 1. In any case, the significance of the Economic Councils interpretation is perhaps not too important, except as an indication of a type of action which it might take in the future. Actually, with or without this interpretation, the Economic Council could adopt new protocols designating integration plants for any countries it wished. Such protocols would, if properly ratified by the national legislatures, have full legal effect, over-riding the respective wording of the Convention. On the other hand, without new protocols, new designations of new industries could not be made.

In the protocols to the Convention on the System of Integration Industries, so far negotiated, Honduras has been assigned only a plate glass plant. This protocol has not been ratified by any of the Central American Governments and so even this plant is far from an actuality. For the reasons explained in the Chapter on the System of Integration Industries, the writer believes that there is no particular future for the system and so 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 can also be assumed that a settlement will be reached on the matter of fiscal incentives to investment and that Honduras will be allowed to grant greater incentives to industrial development than the other countries. It is possible that one or two additional industries will be assigned to Honduras under the System of Integration Industries.

However, these efforts, while useful, cannot solve the problem of Honduras' lag in economic development. This lag has its roots in the attitudes of management, labor, and government, in the size of the local market; in the availability of funds for investment in the transportation and power facilities of the area; and in the value of the natural resources of the country. Most of the conditions can change but they change slowly.

These changes are not so likely to be brought about by the special facilities granted Honduras by the Common Market as by the general economic development of the area. Wage differentials, if not accompanied by a corresponding lower productivity of labor, could be a great spur to economic development and wages in Honduras are generally lower than in other countries of Central America. The central location of Honduras, especially the southern section, offers a potential advantage to firms manufacturing for sales in the other countries of the Common Market. The forests of the country could offer a basis for important industries.

Since the processes which could bring the Honduran economy more into line with the general Central American will take a long time to work out, the problem of imbalance in the area's economic development will be with the Common Market for some time. The settlement of the differences over the terms of the Convention on Fiscal Incentives will by no means end the matter.

CHAPTER IX

PROSPECTS AND PROBLEMS

The glow with which the progress of the Common Market was described in the first Chapter of this study is warranted by its achievements. The Common Market as an institution is off to an excellent start and has already made an important contribution to the economic development of Central America. Nevertheless, there are limitations on its accomplishments, and it is faced with difficult decisions. It was earlier suggested that the Common Market had strengthened the economic ties among the Central American nations but had not made them indissoluble. In this Chapter, we shall attempt to put the Market's accomplishments into perspective and say a few words about the problems facing it.

By far, the most important accomplishment of the Common Market has been its great progress toward the establishment of a free trade area in Central America. However, the Central American market when completely unified will still be a small market. The area's 12,450,000 population (1964) had a _per capita_ GNP of $276. (SIECA's study "Statistical and Descriptive Data on Central America and Panama" of March 22, 1966) This combination of small population and low per capita GNP does not afford a basis for large scale industrialization. It offers a market roughly comparable to that of Peru, which in 1964 had a population of 11.1 million and a _per capita_ GNP, adjusted to 1962 prices, of $251.

(AID's Latin America, Trends in Economic Growth, June 1965.) Once the consolidation of the Central American free trade area is completed, the region's manufacturers should have about same possible national sales as do Peruvian manufacturers. Thus, the major contribution of the Central American Common Market so far has been to create a market with a purchasing power such as most Latin American nations already possess.

The Central America manufacturers can hardly expect to find an outlet for a significant quantity of their goods in foreign markets in the near future. We have seen that there were no manufactured goods among the listed products making up 97% of the area's exports in 1964. It is quite possible that some goods manufactured from the area's agricultural or forest products may be sold abroad eventually, but for the next few years Central Americans must look to their own market for the sale of their manufactures.

In order to enlarge this domestic economic unit somewhat, the Central American countries have left the door open for Panama to join the Common Market. According to the same AID document already cited, this would add to the market 1.2 million people with a per capita GNP of $435 which would constitute a worthwhile small addition to the area's total purchasing power. Panama is a member of certain of the ODECA organizations and on August 2, 1961 signed a Treaty of Preferential and Free Trade with Costa Rica and Nicaragua. At this time SIECA and the Panamanian Government are attempting to determine a possible basis for a closer association between Panama and the Common Market. However, Panama seems to have little to sell in the Common Market, and the Common Market can offer her little which she cannot obtain more cheaply elsewhere. For Panama to raise her tariffs to Central American levels and to look to Central America as a major source of her imports would involve a readjustment of her whole economy. More probable than Panama's full entry into the Common Market at this time is the possibility of some form of preferential trade arrangement between her and the Common Market. This, however, would hardly expand significantly the market for Central American goods.

The principal tasks of the Common Market over the next few years are likely to be those of strengthening of the area's economic infrastructure and the development of specific industrial and agricultural operations. The problem of financing these undertakings is not dealt with in this study, but, particularly in the private sector should not be insurmountable.

In aiding specific industrial and agricultural developments the Common Market will have certain credit facilities at its disposal, but its chief instrument will be tariff manipulation, that is, the raising of tariffs on consumer goods and the lowering of them on machinery and raw materials. This adjustment can be accomplished in various ways. It can be done through simple tariff renegotiations. It can be attempted through the Special System for the Promotion of Production. The System of Integration Industries could also be used to raise tariffs as well as to stimulate selected manufacturing operations through granting them monopolistic or semi-monopolistic positions in the Central American markets. The proposed system of Assembly Industries is likely to become a reality in the next few years and would operate primarily through tariff adjustments. There are also the national systems of tariff incentives to industrial investments. These instruments vary somewhat in their characteristics but tariff adjustment is essential to all of them.

Although the stimulation of the establishment of various industries under the shelter of tariff protection is quite feasible, the difficult task will be to accomplish this while allowing standards of living to rise and agricultural production for export to continue profitable. An upsurge in industrial production not accompanied by an improvement in the living conditions of the people would in the long run create a wide-spread disillusionment with the Common Market and put a strain on its continued existence. In recent years, living standards in the area have apparently risen, but this should not cause forgetfulness of the danger to living standards from small, uneconomic industries.

It is also essential that the area protect its ability to export agricultural products, and yet a beginning has been made at imposing burdens on agriculture for export and local sale. In November 1965 the Economic Council signed a protocol raising duties on, among other things, barbed wire which is much used by cattle raisers. The Protocol of

January 23, 1963 to the Convention on the System of Integration Industries provided for granting integration status to a manufacturer of insecticides and for raising tariffs on insecticide imports, even though cotton production in Central America demands the heavy use of insecticides. That same protocol authorized Special System status for the manufacture of machetes and the raising of tariffs on their importation. The burden so far placed on export agriculture by these measures seems to be one which it can bear. However, the continuance of the placing of additional burdens on the producers of agricultural export crops could cause these producers to seek more profitable forms of investments, much to the injury of the Central American economy.

Aside from this key problem of the balance between the stimulation of industrial growth, on the one hand, and the raising of standards of living and encouraging of exports on the other, there are further difficult problems facing the Common Market. As pointed out in the Chapter dealing with foreign trade, the area's export earnings may more or less level off over the next few years. Should this occur and the area's imports continue to rise, a difficult situation could be expected. It would be a situation with which the national governments, rather than the Common Market, would have to deal, for the Common Market has no power to impose import controls. It would, of course, affect the ability of the area to import the machinery and raw materials needed for industrial progress.

A serious imbalance in the payments of any member country could cause problems for the Common Market. If one country found itself in a serious crisis, it might wish to impose import controls, not only on goods coming from abroad but also on those from Central America. The General Treaty in Article 10 provides that in such a situation the Economic Council will consult with the Central Banks to recommend a solution compatible with the maintenance of free trade. It seems probable that even though as an extreme measure it might be necessary to accept one country's imposition of temporary controls of imports of Central American goods, such a crisis could be tided over without permanent damage to the structure of the Common Market. The rendering of financial assistance from Central America and, perhaps, abroad might be important in such a situation.

There is also the possibility of political developments in one country which might strain its relations with the rest of the Common Market. Guatemala withdrew from ODECA in 1953 and remained outside of that organization during the remainder of the Arbenz administration. On the other hand, the longer the Common Market functions the firmer should be the economic base of the member countries and this should contribute to political stability.

The organizational problems facing the Common Market are very great. One of the greatest of these is the task of devising a system under which Central American policy decisions can be made without the negotiation and ratification of formal agreements. It has been separately suggested that the Economic Council be authorized to renegotiate tariffs, within certain limits, and designate integration industries without legislative ratification. This or some similar device will be necessary if tariff adjustments are to be made with any rapidity. On the other hand, attractive as this procedure could be for speeding up the work of the Common Market in these areas, it would involve a transfer of important powers by the national governments to the Economic Council. It may be some time before the national governments, particularly the legislatures, will be ready to agree to such a transfer.

The continued growth of the Common Market will also create more problems which overlap into the political field. These will be the problems of freedom of movement for labor, of coordination of taxes, of technical training and many similar ones. These are usually thought of as political problems much more in the field of ODECA than in that of the Common Market organizations. Some further adjustments in the structural relations between ODECA and the Common Market organizations will eventually be desirable for the better handling of them. However, it is to be hoped that in making these adjustments, the remarkable effectiveness of the operations of the Common Market organizations in the economic field will be preserved.

There remains among major problems facing the Common Market that of achieving greater balance in the economic growth of the members of the

Common Market. This problem was the subject of a full Chapter of this study and so will not be reviewed here. Nevertheless, for the harmonious operations of the Common Market it will be essential that all of the member states be reasonably content with the benefits which they receive from it.

The writer views the future of the Central American Common Market with optimism. With its fine record of achievement, the prospects are excellent that it will continue as a functioning and growing institution, drawing the countries of Central America closer and closer together. From it may gradually develop a form of political union in the area, and the free trade area should be able to survive severe strains in the future.

The small size of even the consolidated Central American Common Market has been pointed out. This market can be expected to grow with the rapid expansion of the Central American population and, according to estimates in the Study "La Población de Centroamérica y sus Perspectivas" published by the University of San Carlos in 1966, the population of Central America should be 21 million by 1980. This will mean a larger local market, but this population explosion will also bring its own well known economic, social and political problems. Perhaps a more effective LAFTA will later offer Central America an export market for some of its industrial production, but Central American manufacturers will first have to become competitive in some lines with those of the already more advanced Latin American countries. In the writer's opinion, the area's manufacturers must look to their own markets for the sale of their goods, except possibly some of those produced from the area's own raw materials. Central America will for a long time earn most of its foreign exchange from its exports of agricultural products.

In dealing with Central American economic development, the Central American authorities will be confronted with problems similar to those facing the national authorities of other Latin American countries but will lack the powers of those national authorities. This may save them from sone of the mistakes which have been made elsewhere, particularly the fostering of uneconomic industries, but it will limit their ability to take constructive actions. Under the circumstances, the pressures for the greater concentration of Central American economic power should be continuous and should be successful in series of large and small steps. However, there will for a long time exist the braking force of national sovereignty.

In summary, the writer looks forward to the continued progress of the Central American Common Market, the preservation of the free trade area, and the growth of its agriculture and industries. Central America should be able to develop as an economic unit comparable to other national ones in Latin America but with the special advantage of the impetus for economic growth given it by the successful launching of its move toward economic integration.

APPENDIX

COMMENTS ON TRADE STATISTICS USED IN THIS STUDY

The following are the sources of the statistics on trade used in this study:

1965 - Regional Trade of the Common Market - Carta Informativa de SIECA No. 56, June 12, 1966 - Anexo Estadístico No. 51. These are preliminary figures.

1964 - Regional and Foreign Trade of the Common Market - Anuario Estadístico Centroamericano de Comercio Exterior, 1964 - SIECA. October 12, 1965.

1963 - Regional trade by single digit classifications compiled by SIECA.

Foreign Trade Totals - Anuario Estadístico Centroamericano de Comercio Exterior, 1964. SIECA, October 12, 1965.

Regional and Foreign Trade by Commodities - Foreign trade returns of national governments.

1962, 1961 and 1960 - Regional and Foreign Trade totals and single digit classifications - Cuarto Compendtio Estadístico Centroamericano - SIECA, March 1965.

1960 - Regional and Foreign Trade by Commodities - National Foreign Trade Publications.

The Cuarto Compendio Estadístico Centroamericano was not used for 1963 figures because those which it contained were preliminary and were subsequently corrected by SIECA.

The figures published by SIECA are compiled from the national returns of the Central American countries. The published figures show the total Central American trade each way with the world and the total of the Central American countries with each other. It has therefore been necessary to subtract the figures on Central American regional trade from those on Central American world trade to determine Central America's trade with non-Central American countries. An exception to this practice was possible in the case of commodity data for 1964 since the Anuario Estadístico Centroamericano did make a commodity separation for that year.

The figures on Central American trade are import figures because SIECA has determined that these are more reliable than export figures.

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

In the division of trade into the groupings of agricultural, fishery, forest, mineral and industrial products the following NAUCA classifications were used in each:

COMMODITY GROUPINGS USED IN THIS STUDY,
AS BASED ON THE NAUCA PRODUCT CLASSIFICATION

Agricultural Products

0	Foodstuffs
Less 03	Fishery Products
Less 048-04	Bakery Goods
Less 062	Chewing Gum and Candy
Less 073	Prepared Chocolate and Products
Less 099	Miscellaneous Prepared Foods
121	Leaf Tobacco
210	Hides and Skins, Untanned
220	Oil Seeds and Nuts
260	Textiles Fibers
Less 266-01	Synthetic Fibers
290	Misc. Vegetable Products
Less 292	Rubber, Gums and Laquers
410	Fats and Oils of Animal and Vegetable Origin
Less 411-01	Fish Oil
551-01	Essential Oils

Fishery Products

03	Fish
410-01	Fish Oil

Forest Products

230	Rubber
240	Lumber
250	Pulp and Paper
292	Rubber, Gums and Laquer

Mineral Products

270	Natural Fertilizers and Minerals Except Petroleum and Precious Stones
280	Metalic Minerals and Scrap

Industrial Products

All others