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CENTRAL AMERICAN COMMON MARKET

Note by the Secretariat

In accordance with the reporting procedures on regional agreements and the calendar established for this purpose by the Council of Representatives (L/3682/Rev.1), the Secretariat of the General Treaty of Central American Economic Integration (SIECA) has sent a study entitled "The Integrated Development of Central America in the Present Decade".

In the note which accompanies this study, the SIECA feels that a summary of the study would be useful to the contracting parties to the General Agreement in that it would inform them of the present situation of the CACM and the views of the SIECA concerning the future development of the process initiated more than ten years ago.

The sections of the study which are of particular importance in the context of the forthcoming meeting of the CACM are annexed hereto - any delegation which might be interested can consult the full text of the study in Spanish at the Secretariat.

ANNEX

INTEGRATED DEVELOPMENT IN CENTRAL AMERICA IN THE 1960'S

The economy of the five Central American countries and of the region as a whole progressed considerably during the 1960's. This fact was attributable to the relative buoyancy of exports to third countries - particularly during the first five years of the decade - and to the significant impact of the economic integration progress on growth. While frequent emphasis has been laid on the divergent requirements of the traditional "outward-looking" development model and the new "inward-looking" growth model that commenced during the 1960's within the context of the integration movement[1], it is equally certain that the two growth incentive elements were mutually supporting: traditional exports facilitated the establishment of the Common Market by raising the level of aggregate demand and enabling savings to be made which eventually - and at least in part - financed new direct producing activities for participation in intra-regional trade; and intra-regional trade gave a new boost to the economic activity of the five countries - although with varying degrees of intensity - thus reducing in part the extreme vulnerability of Central America's external sector.

Indeed in the 1960's, real gross domestic product of the region as a whole grew at a cumulative rate of 5.6 per cent, representing per capita growth of 2.3 per cent. In respect of the individual countries, this growth developed as may be seen from the following table.

[1]See for example: Economic Commission for Latin America "Evaluación de la Integración Económica en Centroamérica" (New York: 66: 11.G.9, March 1966), pages 12-19, and Economic Commission for Latin America, "El Mercado Común Centroaméricano y sus Problemas Recientes", (Mexico City: E/CN. 12/CCE/363/Rev.1, March 1971) pages 3-6.

TABLE 1

CUMULATIVE GROWTH RATES OF GDP AT 1960 CONSTANT PRICES 1950-1970

	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Central America
Aggregate product						
1950/55	2.3	4.5	2.7	8.4	8.3	4.3
1955/60	5.3	4.8	4.1	2.3	6.0	4.8
1950/60	3.8	4.6	3.4	5.4	7.2	4.5
1960/65	5.2	6.8	4.3	10.2	4.3	5.8
1965/70	5.6	4.6	5.6	4.4	7.5	5.5
1965/68	5.2	5.2	7.5	3.7	7.7	5.6
1960/68	5.2	6.2	5.5	7.8	5.6	5.9
1960/70	5.4	5.7	5.0	7.3	5.9	5.6
Per capita product						
1950/55	-0.5	1.7	0.1	5.7	4.6	1.4
1955/60	2.3	2.2	1.0	0.6	2.2	1.7
1950/60	0.9	1.8	0.6	2.6	3.4	1.5
1960/65	1.8	3.0	0.9	6.8	0.9	2.5
1965/70	2.4	0.8	2.2	0.9	4.3	2.1
1965/68	2.1	1.5	4.0	0.1	4.3	2.2
1960/68	1.9	2.4	2.0	4.2	2.1	2.4
1960/70	2.1	1.9	1.5	3.8	2.5	2.3

Source: Central Banks of member countries.

The relatively more rapid growth of gross domestic product in the 1960's, as compared with the preceding decade, was particularly significant for Honduras and Nicaragua, and less important for Guatemala, El Salvador and Costa Rica.[1] This suggests that in the integration years there has apparently been a modest convergence of growth rates of the countries generally considered to be relatively less and more developed in Central America. This convergence - and in general the higher growth rates - should not, of course, be attributed solely to the Common Market. On the contrary, during the first five years of the decade exports to third countries undoubtedly contributed most to boost economic activity in the region. The evolution of these exports is shown in Table 2.

TABLE 2

ANNUAL CUMULATIVE GROWTH RATES OF THE VALUE OF EXPORTS TO THIRD COUNTRIES, AT CURRENT PRICES, 1955-1970

	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Central America
1955/58	0.8	1.6	13.0	-4.1	4.1	2.2
1958/60	2.9	-1.8	-6.3	-7.6	-3.5	-2.6
1955/60	1.7	0.3	4.8	-5.5	1.0	0.3
1960/62	-2.0	6.4	10.1	21.0	4.1	6.6
1962/65	13.4	6.6	16.3	16.9	0.7	10.6
1960/65	6.9	6.5	13.8	18.6	2.0	9.0
1965/68	0.6	-3.9	12.5	-0.9	12.7	3.5
1968/70	10.7	10.2	0.9	-2.6	16.4	7.3
1965/70	4.5	1.6	7.7	-1.6	14.2	5.0
1960/70	5.7	4.0	10.7	8.0	7.9	7.0

This recovery in the rate of exports to the rest of the world, coming after a period of stagnation between 1955-1960, was due partly to an increase in prices of the region's most important traditional exports, but mainly to an increase in export volumes and to growing - though still modest - export diversification.

[1] In the case of Costa Rica, the cumulative growth rate of GDP declined in the 1960's in comparison with the preceding decade, because of the substantial expansion recorded in the period 1950-1955.

For the region as a whole, three commodities - coffee, cotton and bananas - accounted for 81.4 per cent of exports to countries outside the region in 1960, but this share declined to 71.3 per cent in 1970. All in all, it is noteworthy that gross domestic product in Guatemala and Honduras grew more rapidly in the second half of the decade than in the first half, when the growth rate of exports to the rest of the world declined. This can only be accounted for in the light of other incentive factors that are directly or indirectly attributable to the integration process: in the case of Guatemala, the expansion of investment and of intra-regional exports; and in the case of Honduras, the appreciable increase in the level of public investment, partly financed with funds from the Central American Economic Integration Bank.

Indeed, the second cause of the buoyancy of economic growth in the 1960's - the establishment of the Common Market - constitutes a new element on the Central American scene. As a result of the elimination or easing of limitations to the size of national markets, and of the protectionistic policy in respect of industrial development, a vigorous import substitution process began which has definitely given a new dimension to regional development. In 1970, manufacturing activity contributed 17.5 per cent to gross domestic product of the region as compared with 13.2 per cent ten years earlier, with the country-by-country variations recorded in Table 3.

TABLE 3

SHARE OF INDUSTRIAL GDP IN AGGREGATE GDP
1960 CONSTANT PRICES

	Guatemala	El Salvador	Honduras[1]	Nicaragua	Costa Rica	Central America
1960	12.8	14.6	12.4	12.1	14.0	13.2
1961	12.9	15.3	12.2	12.6	14.0	13.5
1962	13.2	15.1	12.9	13.0	14.4	13.8
1963	13.2	15.7	12.9	14.7	15.4	14.3
1964	13.4	16.2	12.6	14.8	17.0	14.7
1965	13.9	17.4	12.8	15.5	17.3	15.3
1966	14.5	18.1	12.9	15.9	17.9	15.8
1967	15.1	18.6	12.9	16.3	18.4	16.3
1968	15.6	18.8	13.2	17.8	18.5	16.8
1969	15.9	18.9	13.8	18.3	18.7	17.1
1970	16.4	18.7	13.8	19.7	19.0	17.5

[1]The official figures of the Central Bank of Honduras differ slightly from the series published by ECLA. According to the latter source, the relative share of manufacturing added value in gross domestic product - at factor cost - increased from 12.4 per cent in 1960 to 14.4 per cent in 1970.

The substitution process is partly reflected in the strong upward trend in intra-regional trade, mainly in respect of manufactures. As may be seen from Table 5, the total volume of transactions increased from $CA 32.7 million in 1960 to $CA 258.3 million in 1968 and $CA 299.5 million in 1970.[1] To a considerable extent these exports represented sales that would not have taken place had there been no Common Market, and in the case of some countries they contributed considerably to easing disequilibrium in the balance of payments with the rest of the world. The increase in the percentage share of intra-regional exports in relation to total exports by countries of the region can be seen from Table 4.

TABLE 4

SHARE OF INTRA-REGIONAL EXPORTS IN TOTAL EXPORTS
OF GOODS AND SERVICES
1960-1970

(as percentage)

	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica	Central America
1960	5.5	10.9	10.2	4.3	1.8	6.5
1961	7.9	11.0	10.4	2.1	1.9	7.0
1962	9.9	12.2	15.7	3.0	1.7	8.5
1963	11.5	17.3	15.3	3.3	3.8	10.5
1964	14.7	18.3	17.6	4.6	11.4	13.5
1965	17.0	21.6	15.9	5.7	13.5	15.1
1966	20.7	27.2	13.5	8.6	15.7	17.9
1967	27.7	32.6	13.6	10.1	17.8	21.4
1968	28.5	35.8	15.8	13.8	18.1	23.3
1969	[illegible]	31.7	[illegible]	16.0	15.8	21.7
1970	[illegible]	29.3	9.3	22.9	17.8	[illegible]

[1] Intra-regional trade in 1972 and 1973 reached a total of $CA 305 million and $CA 350 million respectively.

TABLE 5

VALUE OF INTRA-CENTRAL AMERICAN TRADE[1], 1959-1971

- in $CA'000 -

EXPORTING COUNTRY AND YEAR		COMMON MARKET					
			IMPORTED BY:				
		TOTAL	GUATEMALA[2]	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA
CENTRAL AMERICA	1959	28,681	3,110	12,489	5,192	4,016	3,874
	1960	32,676	7,584	13,491	5,311	2,776	3,514
	1961	36,806	8,867	14,663	6,353	2,877	4,046
	1962	50,848	11,228	22,058	8,911	5,343	3,308
	1963	72,098	19,747	27,923	13,258	7,353	3,817
	1964	106,188	26,357	39,234	18,004	14,308	8,285
	1965	135,503	31,530	42,406	25,480	21,395	14,692
	1966	174,735	33,834	52,032	34,053	31,659	23,156
	1967	213,958	42,104	54,506	40,754	42,373	34,221
	1968	258,294	49,443	65,159	48,671	46,172	48,849
	1969	249,014	51,400	60,205	43,973	42,216	51,220
	1970	299,128	64,982	60,602	54,871	50,015	68,658
	1971	270,432	66,426	57,528	16,228	53,589	76,661
GUATEMALA	1959	5,165		4,284	374	237	270
	1960	7,265		5,189	1,101	489	486
	1961	10,315		6,786	1,554	922	1,053
	1962	13,383		8,472	2,985	1,600	326
	1963	20,773		12,653	4,604	2,943	573
	1964	29,971		16,341	5.807	5,106	2,717
	1965	38,377		18,510	8,059	6,487	5,321
	1966	55,071		27,227	9,809	8,932	9,103
	1967	65,690		29,952	11,768	12,647	11,323
	1968	77,525		34,546	14,197	12,965	15,817
	1969	86,378		38,106	17,752	12,880	17,640
	1970	106,441		40,637	28,528	15,729	21,547
	1971	91,584		37,533	8,122	18,867	27,062
EL SALVADOR	1959	9,207	2,212		4,299	2,005	691
	1960	12,673	3,887		4,124	1,737	925
	1961	14,448	6,789		4,644	1,406	1,609
	1962	18,505	7,660		5,734	3,095	2,016
	1963	28,684	16,116		7,851	2,415	2,302
	1964	35,178	19,116		8,956	4,198	2,908
	1965	46,159	22,428		12,264	6,679	4,788
	1966	57,470	23,317		16,335	9,965	7,653
	1967	75,172	29,331		19,872	13,626	12,343
	1968	84,882	30,763		23,236	14,869	16,014
	1969	71,756	33,242		12,415	11,856	14,243
	1970	74,972	39,474		-	15,426	20,072
	1971	80,080	42,532		-	16,061	21,487

TABLE 5 (cont'd)

EXPORTING COUNTRY AND YEAR		COMMON MARKET					
			IMPORTED BY:				
		TOTAL	GUATEMALA[2]	EL SALVADOR	HONDURAS	NICARAGUA	COSTA RICA
HONDURAS	1959	8,771	780	6,470		1,048	473
	1960	7,435	925	6,299		111	100
	1961	8,294	1,224	6,577		92	401
	1962	13,799	3,032	10,414		179	174
	1963	13,972	2,702	10,772		353	145
	1964	18,337	3,635	13,016		951	735
	1965	22,200	3,776	15,682		1,327	1,415
	1966	21,486	3,946	13,343		2,166	2,031
	1967	23,526	5,415	12,369		2,544	3,198
	1968	31,266	7,134	14,838		4,109	5,185
	1969	23,882	6,034	7,339		4,739	5,771
	1970	19,075	7,058	-		4,926	7,091
	1971	5,416	1,766	-		2,081	1,569
NICARAGUA	1959	3,939	23	1,198	278		2,440
	1960	3,446	17	1,392	34		2,003
	1961	1,771	45	712	31		983
	1962	3,229	423	1,962	52		792
	1963	4,214	534	2,426	457		797
	1964	6,924	796	2,669	1,534		1,925
	1965	9,872	1,443	3,152	2,110		3,167
	1966	14,896	2,100	5,568	2,860		4,368
	1967	18,582	2,135	5,338	3,753		7,356
	1968	26,942	3,528	6,854	4,727		11,833
	1969	30,855	4,591	6,295	6,403		13,566
	1970	49,925	7,224	8,761	13,992		19,948
	1971	47,836	8,565	9,563	3,164		26,544
COSTA RICA	1959	1,599	95	537	241	726	
	1960	1,858	755	611	53	439	
	1961	1,978	809	588	124	457	
	1962	1,931	112	1,210	140	469	
	1963	4,455	395	2,072	346	1,642	
	1964	15,778	2,810	7,208	1,707	4,053	
	1965	18,895	3,883	5,063	3,047	6,902	
	1966	25,811	4,271	5,895	5,049	10,596	
	1967	30,988	5,223	6,848	5,361	13,556	
	1968	37,679	8,018	8,921	6,511	14,229	
	1969	36,143	7,533	8,464	7,403	12,742	
	1970	48,714	11,226	11,204	12,351	13,933	
	1971	45,518	13,563	10,432	4,942	16,581	

[1] The figures shown in this table correspond to the statistical register of imports.

[2] For the years 1962 and 1968, the data for Guatemala are estimates based on reports by the other four members of the CACM. These data do not coincide, therefore, with the official figures.

Source: Statistical Offices of the Central American countries, and Customs Administration and Central Bank of Nicaragua.

As may be seen, there were pronounced differences as between the five members of the Common Market in respect of the relative share of intra-Central American trade in total trade by the five countries as well as in the evolution of that share during the period under examination; this fact gave rise to the serious difficulties already mentioned.

The establishment of the Common Market also gave rise to some other particularly significant developments. First of all, reflecting the growing - though still limited - participation of the public sector in economic and social matters, considerable progress has been made in developing the physical infrastructure of the region, thus facilitating production of and trade in goods. Secondly, significant progress has been made in the mobilization of both public and private external resources, and this is reflected in particular in the $222 million loan contracted abroad by the Central American Economic Integration Bank.[1] In the third place, some progress has been made in the region's negotiating capacity vis-à-vis the rest of the world, mainly in respect of foreign trade. Lastly, mention should be made of the beneficial effects of changes of attitude, improvements in entrepreneurial capacity, and the growing urbanization and modernization of society - although in relatively limited sectors - which have accompanied the integration process.

All the foregoing, in conjunction with the increase and qualitative improvement of investment that can be contributed to this process, has had a considerable impact on growth rates of the economies of the five countries. This has already been shown in many studies[2] and quite recently on the basis of a quantitative analysis of the effects of integration or economic growth. This analysis evaluates

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[1] The governments have also significantly increased recourse to long-term external loans for the financing of development projects. The net annual total of loans paid out for the region as a whole increased from $12.2 million in the years 1958/1960 to $30.4 million in 1960/1965 and $50.3 million in 1965/1970.

[2] See, <u>inter alia</u>, the following: Economic Commission for Latin America, "Evaluación de la Integración Económica en Centroamérica", (New York, Publication 66.11.G.O., United Nations 1966); Donald H. McClelland, "The Common Market Contribution to Central American Growth", (Guatemala City: Mimeographed, 1967); Roger Lawrence, "Protection in the Central American Common Market in 1966", (New York, Columbia University, Mimeographed, November 1968); Jeffrey B. Nugent, "A Study of the Effects of the Central American Common Market and of the Potential Benefits of Further Integration", (Los Angeles, University of Southern California, 1969); Walton T. Wilford, "Trade Creation in the Central American Common Market", (New Orleans, Louisiana State University, April 1969); Salvatore Schiavo-Campo, "Import Structure and Import Substitution in the Central American Common Market", (Boston: University of Massachusetts, June 1971).

the particular characteristics of the economic structures of the Central American countries in two sub-periods, 1950-1961 (without integration) and 1961-1968 (with integration). The purpose of the study is to examine whether or not integration has generated a structural change and, in the affirmative, what its effects have been on levels of economic activity. On the basis of the results of the examination, one can conclude that integration has contributed positively and in a very significant way to growth of the economies of the member countries of the Central Common Market; as can be seen from Table 6, it has allowed the region as a whole to develop at a rate approximately 1.5 per cent each year in excess of what would have been the case without integration.

TABLE 6

REAL AND HYPOTHETICAL GROWTH RATE OF GROSS DOMESTIC PRODUCT WITH AND WITHOUT ECONOMIC INTEGRATION, 1960 CONSTANT PRICES[1] 1962-1968

	Real growth with integration	Hypothetical growth without integration	Difference
Guatemala	6.1	4.3	1.8
El Salvador	5.8	4.6	1.2
Honduras	6.6	6.0	0.6
Nicaragua	7.2	4.5	2.7
Costa Rica	7.3	6.6	0.6
Central America	6.5	4.9	1.6

Some other significant conclusions can also be drawn from this analysis. In the first place, the model reveals a more coherent and consistent functioning of the economic system and of the investment decision-making process in the 1960's than in the preceding decade. This suggests decisions based to a greater extent on economic considerations and an extension of the "modern" sector of the economy. In the second place, it shows that the integration process has caused a fundamental

[1]The parameters for the model were established on the basis of statistical data prepared by ECLA, covering the period 1950-1971. In some cases, these data series do not coincide with the official data used in the other parts of the present study, which only covered the period 1960-1971.

change in the dynamics of economic growth in Central America by reducing the relative importance of the external sector - and augmenting that of the public sector - as an explanatory variable in determination of gross domestic product. In the third place, according to the model, integration has had a positive impact on the savings and investment capacity of the five countries. Lastly, reflecting the growing interdependence of the economies of the region, the model shows that the dominant variable affecting the value of intra-regional trade was Central American gross domestic product, having regard to the very considerable elasticity of exports by each country to the rest of the Common Market in relation with variations in GDP.

Despite the very favourable effects that integration has had on the economic growth of the five countries of the region, the integrated development of Central America was hampered by a series of obstacles and restrictions in 1960, and some of these are briefly examined below.

(1) External disequilibria

Although growth in the 1960s was vigorously boosted by exports to third countries, it is equally certain that for the region as a whole, and more particularly for some of the member countries, the growth was irregular and subject to pronounced fluctuations. With the exception of Costa Rica, exports to third countries developed at a much more rapid rate during the first five years of the decade than during the second; furthermore, there was stagnation of the exports of Guatemala, El Salvador and Nicaragua from 1966 to 1969.

On the other hand, the growth of exports was equalled - and in some cases exceeded - by growth of imports over the period considered. This is attributable partly to growing needs for inputs and capital goods on the part of Central American's rapidly expanding industry, and to a greater extent to the well-known adjustment of small export economies for which imports cover the difference between the increase in demand and the inadequacy of domestic supply. Similarly, according to the information available, there was a general weakening of the terms of trade in four of the countries between 1963 and 1970, and for all five countries the net balance in the account of tourism, transport and insurance deteriorated appreciably in the course of the decade.

If the level of exports of goods and services is compared with that of imports, including transfers, all the countries recorded an increasing deficit in their current account from 1960 to 1970. Indeed, for the region as a whole this negative balance increased in absolute terms from $CA 31.4 million in 1961 to $CA 233.5 million in 1967, and reached $CA 196.9 million in 1970.

In order to cover this deficit balance, the countries had increasing recourse to mobilization of external resources, whether in the form of loans or direct foreign investment. The net capital inflow for the region as a whole increased from $55.4 million in 1960 ($36.2 million of private capital, of which $20.7 million represented direct investment) to $216.7 million in 1970 ($127.1 million of private capital of which $80.0 million of direct investment). The foregoing gave rise to a cumulative process of payments for net services at factor costs and debt reimbursement. Consequently a stronger flow of capital was necessary in order to cover the growing deficit on current account and the increasing financial needs for the servicing of existing foreign commitments. For the region as a whole, for example, payments on investments increased from $14.1 million in 1960 to $131.7 million in 1970, representing respectively 2.8 and 10.1 per cent of exports.

Fortunately, capital inflow was maintained within manageable limits during the 1960s, though with appreciable differences from one country to another. Nevertheless, annual allocations for the servicing and repayment of external indebtedness, in relation to exports of goods and services and to gross domestic product, tended to rise in all the countries (see Table 7).

TABLE 7

INDICES OF EXTERNAL INDEBTEDNESS

	Servicing and repayment of total external indebtedness as a percentage of exports of goods and services (average for the 5-year period)		Servicing and repayment of total external indebtedness as a percentage of gross domestic product (average for the 5-year period)	
	1961/1965	1966/1970	1961/1965	1966/1970
Guatemala	13.1	23.0	2.0	4.4
El Salvador	5.8	6.2	1.5	1.6
Honduras	9.7	14.3	2.3	4.3
Nicaragua	8.0	16.5	2.6	4.6
Costa Rica	13.6	19.1	3.4	5.4

TABLE 8

RELATIVE SHARE OF MEMBER COUNTRIES IN INTRA-REGIONAL TRADE, 1960-1970

(current prices in $CA million)

	Guatemala		El Salvador		Honduras		Nicaragua		Costa Rica		Central America	
	$CA	%	$CA	%	$CA	%	$CA	%	$CA	%	$CA	%
Exports												
1960	7.3	22.3	12.7	38.9	7.4	22.6	3.4	10.4	1.9	5.8	32.7	100.0
1961	10.3	28.0	14.4	39.1	8.3	22.6	1.8	4.9	2.0	5.4	36.8	100.0
1962	13.4	26.4	18.5	36.4	13.8	27.2	3.2	6.3	1.9	3.7	50.8	100.0
1963	20.8	28.9	28.7	39.8	14.9	19.4	4.2	5.8	4.4	6.1	72.1	100.0
1964	30.0	28.2	35.2	33.2	18.3	17.2	6.9	6.5	15.8	14.9	106.2	100.0
1965	38.4	28.3	46.1	34.0	22.2	16.4	9.9	7.3	18.9	14.0	135.5	100.0
1966	51.1	31.5	57.5	32.9	21.5	12.3	14.9	8.5	25.8	14.8	174.8	100.0
1967	65.7	30.7	75.2	35.1	23.5	11.0	18.6	8.7	31.0	14.5	214.0	100.0
1968	77.5	30.0	84.9	32.9	31.3	12.1	26.9	10.4	37.7	14.6	258.3	100.0
1969	86.4	34.7	71.8	28.8	23.9	9.6	30.8	12.4	36.1	14.5	249.0	100.0
1970	106.4	35.5	75.0	25.0	19.1	6.4	50.2	16.8	48.7	16.3	299.4	100.0
Imports												
1960	7.6	23.2	13.5	41.3	5.3	16.2	2.8	8.6	3.5	10.7	32.7	100.0
1961	8.9	24.2	14.7	39.9	6.3	17.1	2.9	7.9	4.0	10.9	36.8	100.0
1962	11.2	22.1	22.1	43.5	8.9	17.5	5.3	10.4	3.3	6.5	50.8	100.0
1963	19.7	27.3	27.9	38.7	13.3	18.4	7.4	10.3	3.8	5.3	72.1	100.0
1964	26.4	24.9	39.2	36.9	18.0	16.9	14.3	13.5	8.3	7.8	106.2	100.0
1965	31.5	23.3	42.4	31.3	25.5	18.8	21.4	15.8	14.7	10.8	135.5	100.0
1966	33.8	19.3	52.0	29.8	34.1	19.5	31.7	18.1	23.2	13.3	174.8	100.0
1967	42.1	19.7	54.5	25.5	40.8	19.0	42.4	19.8	34.2	16.0	214.0	100.0
1968	49.4	19.1	65.2	25.2	48.7	18.9	46.2	27.9	48.0	18.9	258.3	100.0
1969	51.4	20.6	60.2	24.2	44.0	17.7	42.2	16.9	51.2	20.6	249.0	100.0
1970	65.0	21.7	60.5	20.2	54.9	18.3	50.0	16.7	69.0	23.1	299.4	100.0
Balance												
1960	-0.3		-0.8		2.1		0.6		-1.6		-	
1961	1.4		0.3		2.0		-1.1		-2.0		-	
1962	2.2		3.6		4.9		-2.1		-1.4		-	
1963	1.1		0.8		0.7		-3.2		0.6		-	
1964	3.6		-4.0		0.3		-7.4		7.5		-	
1965	6.9		3.7		-3.3		-11.5		4.2		-	
1966	21.3		5.5		-12.6		-16.8		2.6		-	
1967	23.6		20.7		-17.3		-23.8		-3.2		-	
1968	28.1		19.7		-17.4		19.3		-11.1		-	
1969	35.0		11.6		-20.1		-11.4		-15.1		-	
1970	41.4		14.5		-35.8		0.2		-20.3		-	

OUTLINE FOR A PLAN OF ACTION

This Note includes a series of proposals on policies, mechanisms, instruments, programmes and projects to be adopted during the remainder of the 1970's, together with specific suggestions in the institutional field.

Care has been taken to schedule and organize the proposals in terms of time, emphasizing the graduality and progressivity that are to characterize the process of remodelling integration. In addition, in a separate Note, some short-term measures are suggested, which, if adopted could facilitate the transition from the situation prevailing in 1972 to an integration scheme more in depth than that envisaged in the present study.

The proposals set forth below are designed to cover the fundamental aspects of integrated development, and are in no way considered as part of a comprehensive plan. Some will have to be supplemented or developed by later studies - as for example the specific tasks to be undertaken in order to establish a complete customs union in the region - and others will undoubtedly have to be formulated in the light of negotiations at governmental level on the restructuring of the Common Market. Nevertheless, it is a complete and coherent plan that fits in with the elements outlined in the strategy for the integrated development of Central America in the coming years.

(1) Completion of the free-trade area and establishment of a full customs union

The importance of the principle of unrestricted free trade is reaffirmed in the present study as a dynamic element for regional development and an appropriate condition for completing and developing the economic integration movement.

It is recognized that during the period of transition leading to the formation of an economy of truly regional dimensions, circumstances could arise requiring transitional and supervised régimes of exception. Until such time as a normal situation of free trade is achieved and to this end it is recommended that certain clauses be adopted to safeguard regional trade. These clauses would solely be applied in the event of serious balance-of-payments problems for one or more of the member countries, or a serious disruption of markets at regional level in respect of certain products, provided that full recourse has already been had to all the instruments available to the national and regional authorities for dealing with the problem at hand. In no case would it be permissible to apply safeguard clauses to free trade for reasons of structural disequilibrium affecting development - as such aspects would be covered by the instruments described below - nor to invoke such clauses to nullify the benefits of integration resulting from the re-allocation of resources at regional level in accordance with optimum efficiency criteria. In each case the application of the clauses would be a matter for decision by the regional authorities, as would the concrete measures involved. As already stated, the safeguard clauses would solely be applied in justified cases of serious global balance-of-payments problems or of serious imbalances between regional supply of and demand for certain products, whether agricultural or manufactured. Any temporary measures adopted to regulate trade in goods could in no case have a discriminatory effect for central American supply in relation to substitute products originating in the rest of the world. Lastly, the exceptions provided from the normal régime of free trade would be progressively reduced over a period of time, until such time as development policies are fully co-ordinated and the safeguard clauses therefore become unnecessary.

During the coming stage of integration, on the other hand, free trade would be maintained only in respect of products originating in the region and accordingly, until such time as a full customs union is established, legal provisions will have to be established to determine the criteria for free trade in order to minimize the problems arising as regards the principle of origin. It is suggested that the criteria already approved by the five governments during the negotiations for the modus operandi be adopted; these criteria include a precise definition of products regarding whose origin there is no doubt and others where the status is determined by the incorporation of original inputs in the production process, representing 40 per cent of the total value of the product at ex-factory prices.

Regarding inclusion in the free-trade régime of the fifty-five products still subject to restrictions of various kinds in accordance with the annexes to the General Treaty, specific proposals are made at the product level which should, in the first stage, make it possible to eliminate the restrictions gradually or forthwith, on more than half of these products, the remainder being left for later stages of completion of the free-trade area. These stages would have to include the establishment of a full customs union and a common external trade policy for some of the traditional products included in the lists of exceptions (coffee and sugar).

Lastly, in the separate Note already referred to in which the secretariat considers short-term problems, a transitional régime is proposed for the incorporation of Honduras in the free-trade area through the progressive lifting over a period of not more than three years, of Decree No.97 of the National Congress of Honduras, in order to facilitate the readjustment of the producing apparatus of that country to the trade régime.

In connexion with the gradual transition from the free-trade area to a full customs union, consideration is being given to the advantages and possible disadvantages of this stage through which integration will inevitably have to be effected if the economic union is to be achieved. The conclusion reached is that, if the establishment of a full customs union is supplemented with other co-ordinated development policies in order to avoid any concentration of tertiary activities in the more developed countries, this could yield substantial benefits for the region. These include greater fluidity in trade in goods, greater efficiency at less cost in collecting import duties on a regional basis, the establishment of a tax equalization mechanism in the context of the establishment of a Central American customs administration and the establishment of an automatic and continuous financing mechanism for the maintenance of the integration bodies and institutions. Likewise, economies of scale would be achieved as a result of optimum localization, not only of secondary but also of tertiary activities.

(2) Common tariff and tariff policies

The tariff policy will continue to be one of the mainstays of industrial development during the 1970's and will take on an increasingly important rôle in the region's common tariff policy, vis-à-vis, the rest of the world. In addition, the possibility is being borne in mind of using the external tariff to promote greater efficiency of Central American industry - having regard to the interests of consumers and to the need to improve that industry's competitive capacity in third markets - and to some extent as an instrument to protect the balance of payments. Although its rôle will be less important from the fiscal aspect, as in the past - as described in greater detail in connexion with the tax harmonization programme - the tariff will be designed to meet many purposes, making it a complete instrument, and it will therefore be necessary to take account of objectives that are frequently conflicting.

In order that the tariff may best meet the requirements of integrated development strategy in Central America during the 1970's, the following points are recommended *inter alia*:[1]

(a) that the Central American Uniform Nomenclature (NAUCA) be substituted by a version of the Brussels Tariff Nomenclature, adapted to the special circumstances of the region, this would allow articles obtained from the same raw material to be classified up until their most elaborate form, within a range of further processing, and in addition would facilitate the harmonization process and the establishment of comparable statistics with other countries or regions. It is recommended that the conversion from the NAUCA to the Brussels Tariff Nomenclature be made prior to the revision of tariffs, although an alternative, possibly more complex, would be to revise the Nomenclature and the customs tariff simultaneously;

(b) that the basis of calculation for most duties should be the c.i.f. value, using a regional valuation mechanism and retaining specific duties only in respect of certain specified products; this would considerably facilitate the work of the customs administration;

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[1] These recommendations - and in particular the last one - have already been accepted by four of the countries in the region, in the Standardization Committee of the Common Market. See for example, the records of the eighth and eleventh meeting, held at Guatemala City on 10-11 February and 24-26 July 1972 respectively.

(c) That a mechanism be adopted to modify tariffs in a flexible way, so as to respond readily to the needs of industrial development of foreign trade policy and economic policy in general.

With respect to the revision of customs tariffs, it is considered that this should be a continuing task requiring analysis at the product level, with a view to fixing a level of protection that can reconcile the many different objectives of tariff policy. The following levels of nominal protection could be taken as adequate parameters.

Type of product	Nominal protection level (parameters)
Consumer goods	
(a) Produced in the region	60% to 100%
(b) Potentially producible	40% to 80%
(c) Other	20% to 40%
Raw materials and intermediate products	
(a) Produced in the region	20% to 40%
(b) Potentially producible	15% to 25%
(c) Other	10% to 20%
Capital goods	
(a) Produced in the region	10% to 30%
(b) Potentially producible	10% to 20%
(c) Other	10% to 15%

The tariff to be fixed in each case would take into account all information available concerning the region and international market situation, the present level of implied and nominal protection, the level of effective protection, (where data are available for this purpose) and the effects of upward or downward variations in the level of domestic prices, in employment, in the balance of payments, added value or other variables. Lastly, the common external tariff could be supplemented by general or selective taxes on internal consumption in accordance with the tax policy outline set forth below.

3. Industrial development policy

The objectives of the industrial development policy in the 1970's will have to differ significantly from the objectives of the preceding decade. On the one hand, it will still have to encourage efficiency in order to allow the

Central American industry to be increasingly competitive in international markets; on the other hand, with a view to promoting "backward integration" of regional industry, by promoting the establishment of intermediate activities that probably require a certain level of protection. Furthermore, the rôle of employment policy within the development strategy outlined in the preceding Chapter indicates that the manufacturing sector cannot disregard employment criteria, even though the relatively limited possibilities of this sector for absorbing manpower are recognized.

Lastly, it is intended to promote better integration as between primary and secondary activities and to ensure increased utilization of Central American inputs in industrial production. For the attainment of these various industrial policy objectives, it is recommended that the following concrete measures be adopted, under four main fields of activity.

(a) Tariff policy. As already mentioned above, tariff policy is one of the mainstays of the industrial development policy. A nomenclature is therefore needed which correspond better to the various stages of product processing, with a new tariff that could be rapidly amended in accordance with the principles outlined above. Through the levels of protection, the various objectives of the industrial development policy will have to be reconciled.

(b) Industrial programming and formulization of co-ordinated policies. The second basic element of the industrial development policy comprises a scheme of regional planning at various levels of intensity in accordance with the type of manufacturing activity. The following levels are being borne in mind.

(i) Basic industries. It is recommended that the shortcomings observed in the present régime of Central American integration industries be eliminated in order to afford an adequate instrument for programming and promoting the establishment of those manufacturing activities which, because of their dimension, need to use the regional market. In this way, the national and regional authorities would participate in certain decisions regarding the characteristics and location of the basic industries to be established, and adequate conditions of efficiency would be ensured. The intergovernmental body would be responsible for implementing a revised régime by means of agreements that would not require subsequent legislative ratification. Under the existing agreement, the principal changes proposed are: the tariff protection afforded to basic industry would be on a declining scale over time; where a plant of this type was operating at its optimum efficiency level no second plant could be set up in the same country where the first one was operating;

free trade would not be extended to plants competing with basic industries that were not covered by the régime; penalties would be established for failure to comply with the provisions of the régime; the régime would be incorporated in a broader scheme of industrial programming. Likewise, it is recommended that the present Special System of Promotion of Productive Activities be substituted by the revised régime because it is not considered to have carried out its mission;

(ii) Agreements on individual industrial branches. These agreements would cover brances of industry which, in the opinion of the national or regional authorities, showed, or were beginning to show, a situation that adversely affects their sound development, whether because of surplus installed capacity or because of other factors. Each agreement would set out guidelines for the future development of the activity concerned, the extent of permissible expansion, whether in respect of existing industries or of new plants and provisions to regulate orderly growth of the industry concerned and where necessary, allocation of global installed capacity by countries, taking into account the principle of balanced development. Most of the industries would be subject to agreements of this kind. The agreements would leave some leeway to undertakings so that the benefits of the free competition should not be nullified.

(iii) Indicative or informative programming. For those branches of activity - the majority of them - that were not covered by the schemes mentioned above, annual meetings of producers would be organized in the various branches of industry to allow an exchange of information and knowledge, so that entrepreneurs could more readily adjust their production capacity to the potential prospects of regional demand.

(c) Institutional aspects. Industrial programming would be partly based on the regional institutions with respect to the identification and preparation of projects, selection of adequate technologies for the region, as well as promotion and financing of projects. In this order of ideas it is proposed that a high-level expert group be appointed whose continuing responsibility would be to identify meaningful projects for the region and prepare feasibility studies which would include, inter alia, an analysis of the optimum location of each plant. The revised agreement on integration industries would thus become an active instrument for promoting new projects instead of being, as in the past, a passive instrument to be adapted to existing projects.

The ICAITI would continue to play an important rôle in these tasks as well as in the development and adoption of relatively labour intensive technologies and the establishment and enforcement of quality standards. The Central American Economic Integration Bank would be responsible for promoting projects identified and declared as being integration industries by the supreme integration body.

(d) Financial aspects. Indeed, as part of its work in the field of promotion, the Bank would mobilize resources for projects declared to be of regional interest and would adjust its credit programmes to the industrial development policy adopted by the governments and the integration bodies. This aspect is examined in greater detail below;

(e) Fiscal incentives. It is recommended that the Central American Agreement on Fiscal Incentives for Industrial Development be rescinded, because it does not tally with the objectives of integrated development, and that it be replaced by a new and more selective instrument. All undertakings classified under the old Agreement would be required to obtain reclassification under the new instrument after a transitional period of three years.

The new agreement would classify undertakings in two groups:

(i) Group A, comprising industries of major significance for the region including those covered by the new instrument on basic industries. In order to be eligible, these industries would have to have a participation of Central American capital in an amount not less than a proportion of their equity capital to be specified in due time.

(ii) Group B, for which one of the two following conditions would have to be fulfilled: that a specified percentage of the total value of the raw materials and other inputs used - percentages to be established by integration bodies depending upon the circumstances and activity concerned - are of Central American origin (criterion of incorporated regional value); or that a specified proportion of the unit cost of the finished product represented wages and salaries paid to Central American personnel and manpower (employment criterion). Similarly a minimum Central American capital requirement would be established, similar to that mentioned in Group A.

Under the proposed scheme, undertakings would be entitled to the following benefits:

(i) Industrial undertakings classified in Group A would enjoy complete exemption from customs duties for imports of capital goods; and complete exemption from income tax during the first five years, thereafter the exemption to be progressively reduced over a further five years;

(ii) Industrial undertakings in Group B would enjoy exemption from customs duties for imports of capital goods, and the same exemption as Group A undertakings in respect of income tax, solely where they were located in countries which the regional authorities deem to be relatively less-developed;

(iii) Other undertakings would not enjoy any exemptions.

In addition to the foregoing, the Convention would provide a special régime for industries exporting to third countries. These industries would be permitted to import raw materials used in the processing of products subsequently exported (draw-back right) even if the raw material was produced in the region, and in addition would be entitled to deduct from their taxable income for income tax purposes a proportion of the ratio of their exports to the rest of the world to their total sales.

The foregoing scheme is intended to meet the objectives of industrial development, and at the same time is considerably more selective than the existing Central American Convention on Fiscal Incentives in that it does not grant exemptions for imports of raw materials except in order to promote exports to third countries.

Other elements that could form part of an industrial development policy would be complementary agreements with other countries, regions or sub-regions and the mobilization of international technical co-operation in this field. Similarly industrial development policy must be considered in conjunction with common treatment of foreign capital and this aspect will be examined later. Lastly as already mentioned elsewhere in this chapter industrial programming is one of the basic elements of the balanced development policy.

(4) Agricultural development policy

Efforts to promote agricultural development in the coming years will be designed to ensure that this sector contributes significantly to generating products, resources to finance other sectors (foreign exchange) and new employment opportunities; that a dynamic agricultural development facilitates a more equitable distribution of income which would be reflected in an expansion of the market for agricultural and non-agricultural products and in better social participation; and to guaranteeing adequate supply of products and raw materials through the utilization of a technology consistent with the region's own resources.

In the implementation of the agricultural development objectives, various instruments and concrete measures are suggested which are designed to be effective in the areas where the major obstacles to development have been identified. Some of these instruments present a much broader scope of feasibility and effects to the extent that the action of the various countries can be co-ordinated at regional level.

The study makes suggestions regarding the instruments that could be applied in the following fields:

Technology, marketing, agricultural structure, development of human resources, employment, development of natural resources and financing.

Lastly, mention should be made of the importance attached to the public sector in the context of the strategy for integrated agricultural development. It is recognized that, if the public sector does not participate broadly and effectively in the administration of the various instruments involved in the process, its feasibility can be jeopordized. The public sector must take on the responsibility of creating or strengthening specialized institutions to administer the various aspects of agricultural policy both in the fields already mentioned and in those relevant to the expansion and strengthening of services complementary to production, such as technical assistance, supply of inputs, organization of farmers, building of agricultural infrastructures. Furthermore, the public sector must have authority to carry out new functions in the context of regional activity in respect of co-ordination of agricultrual policies.

Nevertheless, with the organization and concepts existing at the present time, it is difficult for the public sector to take on successfully its full range of action. For this reason, the strategy includes some general ideas on the possible orientation of its organization and on its rightful endownment with human, financial and physical resources with a view to enabling the public sector to carry out its rôle effectively in the implementation of the strategy for integrated agricultural development.

(5) Physical integration programme

Because of the region's important achievements in the 1960's in the field of physical integration, there will have to be a significant change in the 1970's in the determination of investment priorities in the various fields. In this connexion, it would seem that in the coming years maritime transportation - including port policy - and the electrical power interconnexions deserve special attention.

(6) Export development strategy

Another key element of the strategy is to promote and develop Central American exports to third countries as a necessary condition for achieving the growth rates mentioned as a direct target in the preceding chapter and in order to maintain adequate capacity for external indebtedness.

An export development policy could conflict with other policies implied in the attainment of the Common Market, particularly in respect of the substitution policy. In order to avoid this possible conflict - at least to some extent - it has already been mentioned that the fiscal incentive régime provides for the elimination of all import duties on raw materials and inputs of those products that would subsequently be competing in the international market, through a draw-back entitlement. This instrument, which would have to be applied through the simplest possible administration procedure will contribute to some extent to modify the cost structure of the manufacturing sector in order to improve its competitive capacity in third markets. Among the other measures proposed in Annex 8 as part of the strategy to develop non-traditional exports, one may mention the following in particular:

(a) To develop supply of both agricultural and industrial products for export, through the mechanisms and instruments set forth in earlier chapters on industrial and agricultural development policy. These mechanisms and instruments, including fiscal incentives, direct technical assistance, soft term financing, training of human resources, formulation of quality standards and development and adjustment of new production technologies and, in some cases, substitutes for non-traditional products.

(b) To develop national and regional institutions to facilitate the promotion and marketing of Central American products abroad;

(c) To improve in certain respects the physical infrastructure of the region, more particularly port facilities and storage and warehousing installations;

(d) In relation with the cost of transporting exportable products, to charter special services and possibly to establish a regional shipping line, which could, in particular, offer preferential rates financed by the State for transporting certain articles the sale of which was to be promoted abroad;

(e) Like many other activities, export expansion is linked to tariff policy. To the extent that this policy implies achieve improved efficiency and lower costs for the industries supplying regional demand, sales of third countries will be relatively easier;

(f) Export expansion is of course linked to external trade policy, which is covered by the first point;

(g) To simplify administrative and legal formalities relating to export and extend assistance to undertakings that so desire;

(h) To carry out joint promotion drives abroad, including exhibitions, trade missions and similar activities;

(i) To develop joint systems to improve quality control for products intended for export;

(j) To strengthen, activate and simplify the special fund for extra regional exports in the Central Bank for Economic Integration and establish other financing sources at national level with a view to investment expenditures as well as pre and post embarkation operations. In addition to establish an export credit insurance scheme;

(k) to identify specific activities that could be developed in the region in efficient conditions and for which there is demand in international markets. Among these, the following possibilities have been identified: fruit, flowers, vegetables, some products of the textile industry, clothing, wood products and sub-contracting or milling activities;

(l) development of human resources to carry out the marketing of products in third markets.

All the above points will contribute to achieving an aspect of fundamental importance for the success of the strategy, namely to create an "export awareness" on the part of Central American entrepreneurs.

(7) Common external trade policy

The adoption of a common external trade policy vis-à-vis the rest of the world is one of the explicit elements of the integrated development strategy proposed in the preceding chapter and is closely linked to the export development strategy. The Central American countries would contribute by means of a common external trade policy to maximize the value of their sales to the rest of the world with a view to achieving stability and improvement in prices of their primary products and better export volumes, as well as a diversification of products exported and of the markets supplied. In addition a common policy would be followed in respect of import restraints and negotiations with other countries or groupings. For this purpose, it is recommended that the following measures be adopted <u>inter alia</u>:

(a) As already mentioned to use external tariff as an element of negotiation with other developing countries or groups of countries in order to obtain reciprocal trade concessions. In cases where Central America wants most-favoured-nation treatment a clause of exception will have to be included in order to prevent any extension to third countries or groups of countries of the treatment that members of the Common Market accord one another. Likewise, the common tariff can implement external trade policy objectives vis-à-vis industrialized countries although as a general rule non-reciprocal concessions would be negotiated with those countries.

(b) In a first stage, to bring into effect a co-ordination and consultation mechanism for the national institutions responsible for coffee marketing, in order to improve the region's negotiating capacity within the International Coffee Organization. In a second stage, this mechanism could develop into the establishment of a regional body which would be responsible in consultation with the national authorities for negotiating a quota for Central America, making contractual arrangements for transport, promoting consumption of Central American coffee abroad and in general maximizing the benefits accruing to the region from coffee cultivation.

(c) Likewise joint negotiation mechanisms are suggested for sugar, cocoa and cotton within the framework of appropriate international agreements, together with a regional position vis-à-vis countries that maintain preferential or restricted markets for specific products such as meat and sugar.

(d) With respect to the negotiations with industrialized countries concerning non-reciprocal preferences and the elimination of tariff and non-tariff barriers, direct lines of action are proposed but, in general, it is recommended that Central America as a region should act through the specialized organizations such as UNCTAD, GATT and the Special Commission on Consultation and Negotiation (CECON). In addition, the region should adopt a joint position in other bodies, including those comprising solely developing countries and those considered to be relatively less developed.

(e) In relation with developing countries, it is recommended that the activities of the Bilateral Committee already established between Central America and LAFTA be strengthened and extended, as well as the contacts already initiated with Mexico, Panama, Venezuela and other countries. In this connexion, it is recommended that joint groups be established between Central America and the Andean Group as well as with CARIFTA. As regards relations with industrialized countries, it is recommended that access to new markets be sought, including markets of centrally planned economy countries.

(f) Certain advantages and economies would be achieved if the Central American countries appointed jointly high level officials to diplomatic representations in key countries.

(g) Lastly, the major element for the conduct of a common external trade policy is to have the appropriate organization and mechanisms for formulating and implementing that policy. In this connexion, the proposal regarding the institutional aspects of integration set forth below, which is developed in further detail in Annex 11 to the present study, would be particularly relevant to the objectives pursued here.

(8) Monetary integration

The long-term target of monetary integration is to arrive at complete union through the creation of a single currency unit, the pooling of the foreign exchange reserves of the five countries and the establishment of community agencies to regulate and supervise monetary, exchange, and credit policies of the member countries. Such agencies would comprise the five central banks of the region as part of a regional central bank system.

In a first stage of monetary integration - which would include the period covered by the present study - the existing preferential monetary area would be improved and completed. Specific tasks to be carried out would include the following:

(a) To institutionalize the Central American currency area within which a normal exchange régime would operate on the basis of single fixed rates of exchange and unrestricted reciprocal convertibility between the national currencies of the member countries;

(b) To institutionalize the monetary integration organizations, recognizing as specialized bodies, the Central American Monetary Council - comprising the Presidents of the Central Banks - and its technical secretariat. Similarly, the Central American Compensation Chamber and the Central American Stabilization Fund would be formally recognized;

(c) Increasing co-ordination of the monetary, credit, and exchange policies, adopted in each country which would be adjusted to the broader policy of integrated development, formulated by the governments and the integration bodies (some considerations are set forth later in this study concerning co-ordination between economic integration bodies and the monetary integration body);

(d) Joint action in international monetary relations and a common policy to safeguard the balance of payments;

(e) To ensure free transferability of capital for investment purposes within the region as an important component of free capital movement;

(f) To determine the exceptional circumstances that could oblige a country to modify the normal exchange system because of global balance-of-payments problems before applying a safeguard clause to regional trade.

The tasks involved in completing the Central American currency area are closely connected with the tax and tax policy harmonization programme that is proposed in the present study.

(9) Mobility of capital

The proposals set forth in the study supplement a much broader and more complete analysis carried out over the past two years within the framework of the project for establishing a Common Capital Market in Central America. After analyzing the various stages implied in moving on to complete capital mobility within the region, it is recommended, as a first step towards the establishment of a stock exchange at regional level, that an office and a national committee for securities be established within the Central Bank of each country with the possibility of subsequent development at national and regional level. These national offices could be co-ordinated through a central unit, located in the Executive Secretariat of the Central American Monetary Council. Simultaneously, the legal, exchange, and institutional provisions proposed in the aforementioned study would be brought into force in order to ensure free mobility of capital in the region.

(10) Mobility of man-power

The improvement and completion of the modalities for regional co-ordination within a framework of balanced development of the signatory countries and of their social structures, based furthermore on optimum use of available resources, imply the need to ensure free movement of man-power as between the member countries. Annex 6 points out that this action should be undertaken in a gradual and progressive manner, having regard to a set of economic, political, psycho-social and institutional considerations. This also points out that selective liberalization of movement of workers would contribute in the long term to a better allocation of resources by alleviating population pressures in some areas and orienting migratory flows consistently with the employment and regional development policies recommended in the present study. In any case, one cannot evade the problem of the existence of surplus unqualified man-power in certain countries and areas, and the inadequate labour force in others, opening up a new field for multilateral co-operation and reallocation of resources.

In this connexion, it is suggested that bi-national and multi-national programmes be formulated and implemented for investment in infrastructure works and combined projects for settlement and frontier development and that this could constitute a first stage in the set of policies designed to stimulate mobility of the labour force in the region. These programmes would be supplemented by the establishment of joint vocational training institutes, the harmonization of educational and higher educational institutions and the provision of selective incentives to Central American tourism. In a second phase, the scope of workers' movements would be extended and the conditions relating thereto would be liberalized, until unrestricted mobility of the labour force was achieved.

(11) Regional employment policy

As stated throughout the present study, levels of productivity, income and social participation are being adversely affected by the shortcomings revealed in the labour market. Hence, the desirability of formulating, within the context of policies for expansion and for redistribution of the benefits and costs of development, a strategy designed substantially to raise the volume of job opportunities in the area. The structural nature of the problem is recognized and, accordingly, it is suggested that long-term complementary measures be adopted.

(12) Institutional aspects

One element of fundamental importance for achieving integrated development in Central America in terms of the new strategy, comprises the organs and institutions to be responsible for directing and implementing that process. In this connexion, the existing system is deemed inadequate because it is excessively rigid and dispersed, and in the long-term does not permit the desirable degree of participation of all sectors directly or indirectly affected throughout the decision-making process. In addition, the present bodies, comprising governmental representatives, do not strictly constitute community bodies that express the interests of the region as a whole. This scheme does not therefore meet the needs of an integration movement reconstructed in accordance with the outline identified in this study, and it is considered essential to provide a basis for the establishment of a Central American Economic Community.

Under the institutional system proposed, it is intended that there should be adequate representation not only of governmental interests and of the various segments of the private sector, but also of the interests of the region in the form of an entity having its own legal personality. The main components of such a system as shown in the organizational chart, would be the Council of Ministers, which would be an intergovernmental body; the Standing Committee which would be a community body; the specialized bodies and institutions which would assist the Council and the Committee in carrying out their tasks; the consultation machinery with extensive participation by all the economic and social factors of the region; lastly, a body to control legality, which would ensure compliance with the Committee rules and uniform interpretation of these rules.

(a) The Council of Ministers. This intergovernmental body would be the supreme authority of the Community. Among other functions the Council would define guidelines for economic and social policy; make the necessary arrangements for the adequate functioning and improvement of the process; assess progress towards integration; co-ordinate community action with action at national levels, and would approve the budget of the regional institutions. The Council would be composed of the Ministers of State responsible for the relevant matters and would meet whenever necessary with the Central American Monetary Council (Governers of the Central Banks). The Council's decisions would be taken by a majority vote or unanimously as required for each type of decision, in accordance with the relevant rules;

(b) The Standing Committee. The Committee would be the executive body of the Community. It would be responsible, inter alia, for implementing existing legal provisions and the decisions of the Council of Ministers for making proposals to further the attainment of the objectives of integrated development and for co-ordinating the activities of the regional institutions. Similarly, it would determine the time when the conditions set forth in the legal system for integration were considered to be complete, so that the process can move from one stage to the next in fields such as the customs union and movement of factors. This would be the Community body within the general scheme and, as such, it would be composed of eight Central American nationals of recognized ability, who would be appointed in the following manner: the Council of Ministers would appoint five members for a four-year term and then those five members would elect three more for a similar term. The latter members would include the Chairman of the Committee - who would be the legal representative of the Community within and outside the region - and two vice-chairmen.

Being a technical collegiate body, the Committee would adopt these decisions by consensus, always with a view to the interest of the region on the basis of objective criteria. Nevertheless, if a vote was taken, decisions would generally be adopted by a majority vote.

The Committee would have the necessary technical services for carrying out its tasks and special regulations would govern the organization thereof. A distinction would have to be made in the regulations between activities relating to the formulation of proposals covering immediate aspects of the functioning of economic integration and, in the implementation of the committee's decisions as well as those activities in respect of medium and long-term aspects of the process, the co-ordination of national development plans and advisory assistance to individual member countries in matters of planning. These functions would be the responsibility of an Executive Secretary and a Director of Programming.

If considered appropriate, the Chairman of the Committee could entrust certain functions to the various members in respect of sectors - industry, agriculture, external trade, physical integration, social policy, public finance, etc., rather than countries.

(c) Specialized bodies and institutions. The institutional scheme proposed would comprise specialized bodies and institutions of various kinds which could be classified as follows:

(i) The Central American Monetary Council. A specialized body entrusted with a monetary integration. Considering that the attainment of the objective of establishing a monetary union in the region, requires the establishment of a regional central banking system, it is proposed that the present structure of the Central American Monetary Council and its Executive Secretariat be maintained and institutionalized, the necessary financing to be borne by the five banks. Nevertheless the Council would co-ordinate its activities with the integration bodies at various levels, including co-ordinating meetings with the Council of Ministers and the Standing Committee.

(ii) The Central American Bank for Economic Integration would be the financial body for integration and its activities would need to be consistent with the policies and decisions adopted by the Council of Ministers and the Standing Committee (some special considerations concerning this institution are set forth below):

(iii) Specialized institutes with specific functions such as already exist in the field of public administration, industrial technology, nutrition, higher education; and any institutes that might be established in the field of agricultural technology;

(iv) Regional public service corporations similar to the existing Central American Air Services Corporation (COCESNA), in such fields as maritime or air transport, telecommunications, and the like.

The Standing Committee would be responsible for co-ordinating the functioning of all these specialized institutions and would convene interinstitutional meetings from time to time; the Committee would maintain continuing contact with each institution and in consultation with them would draw-up the Community's budget to be submitted each year to the Council of Ministers.

(d) Consultation mechanisms. In order to extend the participation of various segments of society in decisions concerning the integration process and to give an opportunity to those sectors to express their views at the appropriate stage of the formulation of proposals - and rather than after they have been elaborated - it is proposed that public and private consultation committees be established including some corresponding to the entrepreneurial sector and such others as are deemed desirable. The community body would be empowered to set up such committees on an *ad hoc* basis or on a continuing basis, but this would not exclude the possibility of consultations being held outside the committees with the private sector and with governments. The Standing Committee would be responsible for encouraging participation by the general public in the integration process.

(e) Legal supervisory body. As one can expect that disputes may arise in the implementation and integration of the various rules and decisions, governments or private individuals, when internal remedies had been exhausted, would be entitled to appeal to a legal supervisory body which would rule whether or not the decision challenged was consistent with community legislation. This body could, in principle, be composed of five judges appointed by the Council from among candidates nominated by the Supreme Courts of the Member countries.

The institutional structure suggested is designed in such a way that the two main bodies of the Community - the Council of Ministers and the Standing Committee - would act jointly on adoption of regional decisions. The Committee would be responsible for the implementation and, generally speaking, the taking of initiatives; the Council Ministers would have the power to make political decisions. Within the Council, the national interest of each of the member States would be expressed, whereas in the Committee considering its membership and other characteristics, matters would be viewed from the regional aspect. In this connexion, the rôle of the Committee vis-à-vis the member States and the various sectors would basically be to ensure that the interest of the region as a whole prevailed. In other words, the main function of the Committee would be to receive proposals from the various institutional mechanisms and submit them for relevant consultations, to prepare proposals to be submitted to the Council of Ministers for adoption or rejection as the Council may deem appropriate.

Lastly, although the scheme does not specifically mention a meeting of Heads of State, the Council of Ministers could request that such a meeting be held whenever major guidelines were needed or whenever a review of progress of the integration process at the highest political level was deemed to be necessary.

It should also be explained that the proposed institutional scheme only covers the aspects of economic and social integration. In considering these, governments would have to decide whether all or only part of the activities at present entrusted to the Organization of Central American States (ODECA) should be included in the restructuration process. As regards the various bodies and institutions established under the General Treaty, the Council of Ministers would take on and extend the functions of the existing Economic Council. The Standing Committee for its part would be an individual body within the institutional integration scheme of whose parallelism with the existing system would be reflected in a merging of the Executive Council - although not yet comprising governments' representatives - and the Permanent Secretariat (SIECA). The other regional institutions - BCIE, ICAITI, ICAP and others - would continue to operate on the basis of existing rules but with such amendments as are desirable having regard to the extension of the integration process.

(13) Reasonable equitable participation of all countries in the benefits of integrated development.

A recurring theme throughout the study is the need to promote reasonably equitable participation of all member countries in the benefits of integrated development, as an essential aspect for maintaining unity of participation by all parties in the process.

Apart from the short-term measures that would be adopted during the transitional period until the restructured integration process envisaged in the present study becomes fully effective, the main features of a balanced development policy would include the following, inter alia:

(a) The regional authorities should seek joint solutions to critical problems experienced by individual countries, whether for conjunctural or for structural reasons. In this connexion, the expansion and modernizing of the production apparatus of Honduras, the alleviation of demographic pressures in El Salvador, the lack of social integration in Guatemala, the inadequacies of limited physical integration of Nicaragua and the deterioration in Costa Rica's relative competitive capacity with the other countries of the region[1] to mention only a few examples, should be resolved as integration problems, by calling on all available instruments and mechanisms;

(b) One of these mechanisms which has already demonstrated its effectiveness in the 1960's is financing through the Central American Bank for economic integration, whose activities should be given a new impetus and take on new dimensions, covering for example, technical assistance and promotion programmes, during the 1970's, and whose policy should be governed, inter alia, by the need to maintain a certain balance among countries through a scale of regional priorities affecting each country;

(c) More significant still would be the establishment of policy co-ordination mechanisms - above all in the agricultural and industrial sectors - to ensure adequate distribution of increases in productive capacity as between the five countries, thereby avoiding uneconomic localization of activities. One of the key elements of the integrated industrial development policy proposed in Annex 3 is a scheme allocating some basic industrial projects to each country;

(d) The new policy of fiscal incentives for industrial development which is proposed as part of the manufacturing development programme includes some elements that would encourage the location of certain manufacturing activities in countries at a relatively advanced stage of industrial development;

(e) Within a framework of co-ordination of policies at regional level, mobility of factors can relieve differences in the degree of development. In this connexion, it is proposed to establish Central American undertakings with multinational capital, preferably in the less-industrialized countries of the region;

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[1] According to official statistics, the general price index in 1970 (base year: 1963) was 106.7 in Guatemala, 107.9 in El Salvador, and 116.3 in Costa Rica.

(f) The implementation of multinational development projects in certain geographical areas in accordance with the guidelines of the studies currently being carried out in three multinational centres of the region could be an additional useful element for promoting investments in relatively less-developed areas or countries;

(g) As regards the distribution of integration costs, two mechanisms are proposed so as to allow a smaller relative contribution by those countries that lag behind in the sharing in the benefits of integrated development. In the first place, the mechanism of financing by regional bodies - including the BCIE capitalization - as already described, provides that part of the contribution by countries would be unequal on the basis of certain criteria concerning the benefits obtained from integration. In the second place, and in the longer term, the establishment of a regional customs administration as part of a full customs union scheme would allow customs revenue to be reallocated among the member countries in accordance with a set of criteria, where the relative participation of countries in the costs and benefits deriving from integration would undoubtedly be of major significance;

(h) The above proposal for an institutional integration scheme contains an element guaranteeing reasonable equitable participation by countries in the benefits deriving from integration through the establishment of a Community body whose function is to ensure collective well-being;

(i) External technical co-operation should be more beneficial to the relatively less-developed countries in the region.

In conclusion, it should be noted that all the proposals summarized above are mutually supporting and have been designed so as to constitute a coherent scheme. Thus, for example, the tax programme and the tariff programme are closely linked; the agricultural and industrial development programmes will depend to a greater extent on the financial programme and on the full achievement of the free-trade area; the back-stopping elements of a distributive policy are included in most of the plans outlined; and the institutional scheme and the international technical co-operation programme underlie practically all the recommendations made.

No doubt, the implementation of this far-reaching restructuring programme, designed to form progressively a regional grouping of the Community type, will call for new and more extensive undertakings on the part of the various States. Such undertakings which can only be objectively expressed in the form of an international legal instrument, would preserve all the achievements at regional level over more than ten years of experience in the field of economic integration; furthermore, they would set forth the orientations desired for the process, as well as the objectives aimed at by the various States, so that these can be progressively attained at the appropriate time, by the Community bodies through proper exercise of legal techniques within their field of authority and responsibility.

This would involve therefore, the drawing-up of an international agreement, which, as in other regional integration schemes, would suffice to make it possible to extend the process through the expression of the will of the States within the appropriate political body and through the implementation of their decisions by a Community body, in the context of a series of mechanisms constituting the system within which the interests of the individual countries would be reconciled with those of the region, conceived as one Community. This therefore calls for a stand to be taken by governments at the highest political level and for a definition of what the scope of the process is to be.