

GENERAL AGREEMENT ON
TARIFFS AND TRADE

RESTRICTED

L/2591/Add.1
28 March 1966

Limited Distribution

CONTRACTING PARTIES
Twenty-Third Session

Original: Spanish

CENTRAL AMERICAN COMMON MARKET

Addendum

Survey of Economic Integration in 1965

Communication from the Government of Nicaragua

The annual report on Nicaragua's trade with the other Central American countries under the General Treaty for Central American Integration has been circulated in document L/2591. In amplification of the information contained in the report the Government of Nicaragua has now transmitted to the secretariat the following survey of the economic integration in Central America in 1965.

The activities in 1965 of the various organizations and bodies connected with Central American economic integration constituted a dynamic response to the directives and purposes aimed at the integrated economic development of the region.

The situation can be broadly described as follows:

Constitution of the Economic Integration Fund. The year opened with the prospect of the establishment of the Economic Integration Fund as a result of the negotiations held for this purpose in Lima, Peru, in December 1964, between the heads of the delegations of Central America at the third annual meeting of the Inter-American Economic and Social Council (IESC) and representatives of the United States Government. In conformity with the negotiations, the assembly of Governors of the Central American Bank held its fourth special session in the city of Antigua, Guatemala, in March 1965, with a view to setting up the Fund which will be constituted by an immediate contribution of \$35 million from the United States and a contribution of \$7 million from the five Central American Governments. It was decided that this initial Fund of \$42 million should be used for the development of the joint infra-structure programmes, in the area and that the Central American Bank would be responsible for its administration. Subsequently, on 19 July, the Loan Agreement relating to the contribution of the United States was signed in the White House in Washington.

Principal activities of the Central American Economic Council. The Special Agreement on the Equalization of Import Duties and Charges on Fabrics of Rayon and other Artificial or Synthetic Fibres was signed in February at the fourth regular session of the Central American Economic Council in San Salvador. This Agreement was intended to provide a solution to the problem caused by the competition between the undertakings in the area engaged in the manufacture of clothing.

The first meeting of the Central American Ministers of Economy and Finance was held from 1-10 March in the city of Antigua, Guatemala, with a view to discussing the co-ordination of the policies of the Central American countries regarding industrial and agricultural development and public investments, and to explore the possibilities of undertaking a programme of tax equalization. The Presidents of the Central Banks, the Directors of the Offices of Planning and the Chairmen of the industrial and commercial associations of the area attended that meeting.

At that first meeting of the Ministers of Economy and Finance attention was also given to the bases of a regional development policy. There was agreement concerning the work done in connexion with planning and the work performed by the Joint Programming Mission for Central America. It was agreed to submit the national development plans for consideration by the Committee of Nine in accordance with the Charter of Punta del Este, and it was decided to propose the constitution of one ad hoc committee only to consider the five plans.

With regard to the foreign trade policy, it was decided that before setting up a body on the regional level, each country should seek an internal solution to the problem. For this purpose it was considered necessary to set up rational commissions and a co-ordinating committee or to strengthen the institutions already existing.

As regards balance of payments it was noted that for many years a persistent imbalance had existed in the Central American economy. The serious nature of this problem was admitted, and also the need to seek urgent solutions at the regional level, which should include short-term, long-term and medium-term measures relating to foreign exchange, currencies and credits.

With regard to industrial and agricultural policies, and public investment, the meeting agreed that it was necessary for the Central American countries to continue the work of co-ordinating their plans and give this task a permanent character. It was also pointed out that the Economic Council could adopt general standards with a view to guiding the participation of foreign capital in our economic development.

It was decided to make the meeting of the Ministers of Economy and Finance a permanent institution and that the SIECA would act as the executive secretariat of that body.

Between 19 and 21 June the Ministers of Economy of the region held an informal meeting in the town of San Lucas, Sacatepéquez, in the Republic of Guatemala, with a view to exchanging impressions on important matters connected with economic integration. At that meeting particular attention was paid to national and foreign investments in the economic and social development of the countries of the Common Market. A preliminary declaration of policy on that matter was made.

The Economic Council at its eleventh meeting held also in June, after adopting resolutions concerning the regulation of Central American transport, decided to undertake shortly the study of the main agricultural problems in the region at a joint meeting of the Ministers of Economy and Agriculture.

The first joint meeting of the Ministers of Economy and Agriculture was held as planned at Puerto Limon, Costa Rica, from 26-30 October.

At this meeting agreement was reached on recommendations concerning a food policy, farm workers' wages, utilization of land and land tenure, financing of agricultural activities and insurance, the development of the production of essential grains, a programme for the encouragement of cattle-raising, co-ordination promotion policies concerning industry, agriculture and cattle-raising, agricultural and cattle-raising research, a foreign trade policy with respect to the principal

export products and the liberalization of the regional trade in agricultural products. The signature of the Special Protocol on Essential Grains - the Limon Protocol - was approved, under which the contracting States will regulate the marketing and trade in maize, rice, beans and millet in the region; further, under the same agreement, they will co-ordinate the national policies of production and supply so as to ensure at the same time the widest possible freedom of trade in accordance with the needs of economic integration and development. At the same time they ratified the Regulations Governing the Uniform Cattle Pedigree Register.

The fifth ordinary meeting of the Economic Council was held in San Salvador from 3-6 November, at which the following instruments were approved: the Protocol to the Agreement on the Régime of Central American Integration Industries, which declares that the window plate and sheet-glass industry is "an integration industry" and incorporates in this Régime the plant to be set up in Honduras, and also adds new headings to the special system of productive activities; the Second San Salvador Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, under which the governments are empowered to apply this instrument as a national law, even before it enters into force in the region, and the corresponding Agreement concerning the cattle pedigree regulations, approved at the first joint meeting of the Ministers of Economy and Agriculture. Further the Second Plan of Operations of the Central American Institute of Industrial Research and Technology (ICAITI) was signed; the Implementing Regulations for the Central American Uniform Customs Code (RECAUCA) were also approved, thus constituting a considerable step forward towards the customs union. As regards the Central American Agreement on Fiscal Incentives for Industrial Development, in view of a statement made in this connexion by the Minister of Economy of Honduras in which he requested that an exhaustive study should be made of the provisions of this Agreement, the Economic Council decided to hold an extraordinary meeting in January 1966 so that on the basis of the statements, observations and comments which the governments might wish to make, steps could be taken to adapt this instrument to the new requirements of the industrial development of the region.

At this meeting the Council agreed, among other decisions, to set up an institution for the technical work of planning at a regional level recently carried out by the joint programming mission for Central America by incorporating it in the SIECA in accordance with the terms and conditions approved for that purpose. As a result of the conversations between the Department of Commerce and Industry of Mexico and the Central American Economic Council, it was decided to set up two joint committees to study the possibility of increasing trade between the two regions and of drawing up an agreement on technical assistance.

The unmitting work of the Executive Council of the General Treaty. The Executive Council of the General Treaty held nine meetings during 1965 in which, in addition to adopting measures respecting the operation of the Common Market, it continued its work on the equalization and renegotiation of the customs duties and the inclusion of new headings in the Special System of Productive Activities. It was agreed to liberalize trade between Honduras and Nicaragua with regard to certain products still subject to restrictions. Agreement was also reached concerning measures to guarantee the products of the integration industries and other regulations concerning the application of legal instruments previously approved. A model was drawn up fixing the requirements and procedures for modifying the equalized duties; the types and sizes of tyres and pneumatic tyres covered by the Protocol to the Agreement on the Régime of Central American Integration Industries were approved, and the prices for the said products were fixed as also the procedures for ensuring an adequate supply for the market. The bilateral negotiation between Honduras and Costa Rica to liberalize trade in fine bakers' wares was approved; it was agreed to incorporate in the régime of industries the window and sheet-glass factory to be established in the Republic of Honduras; measures were adopted to provide a solution to the problems connected with the free trade in grains in Central America; schedules and quotas were set up for the importation of powdered milk; consideration was given to the problems of free trade in ready-made clothing, and governments were recommended to form national study groups with a view to unifying the criteria concerning the policy of fiscal incentives for assembling industries. The terms of reference of the study to be carried out concerning the possible linking of Panama to the Central American Economic Integration were also examined.

On the other hand, the Executive Council during the year carried out a study of the various integration instruments, some of which, as has already been noted, were approved and signed by the Central American Economic Council. Others are in process of being approved, such as the regulations for determining the origin of goods, the draft convention on free zones and free ports, and the draft protocol respecting the assembling industries.

The SIECA in process of expansion. The Permanent Secretariat of the General Treaty continued its specific task in 1965 of making studies and reports, holding investigations, consultations and meetings and preparing preliminary drafts of agreement as necessary material for the resolutions adopted by the principal policy-making bodies of the programme. On the other hand, its scope was widened and two new sections were set up; the Section on Co-ordination of Fiscal Studies and Trade Policy and the Social Study Advisory Section. As regards international relations SIECA took part in the meetings on economic integration under the auspices of the Economic Commission for Latin America, the Organization of American States, and the International Development Bank. It has established close relations with the authorities of the Secretariat of the Latin American Free Trade Association (LAFTA)

and the European Common Market. With regard to the latter, in May it established a liaison office in Brussels where the European Economic Community has its head office. At the same time it has maintained excellent working relations with the Secretariat of ECLA and other specialized agencies of the United Nations, which have given great support to the Central American integration movement.

In 1965 the Permanent Secretariat began a veritable process of expansion due to the constant demands of economic integration and planned to extend its activities in 1966 with respect to regional planning by incorporating the Central American Joint Programming Mission in its plans of work.

Credit measures of the Central American Bank. In 1965 the Central American Bank also set up new departments: the department for financing housing and the department for the promotion of investments.

As from the beginning of the year, the Bank had succeeded in consolidating its operations by constituting a portfolio of loans which showed a tendency towards the stabilization of its income. Further, during that same period the Economic Integration Fund was established, the administration of which was entrusted to the Bank.

The Bank gave great assistance to the following activities: road-building, electrification, long-term loans for financing undertakings desirous of establishing regional industries, improving methods of production and expanding their installations.

It is possible, with the following table, to judge the work thus accomplished at the end of the financial year on 30 June 1965 and even better, through the accumulation of assets on 30 November of the same year:

OPERATIONS OF THE PRESENT FINANCIAL YEAR 1965/66

Item	The present month November 1965		Accumulation during the financial year 1 July-30 June			Total accumulation on 30 November 1965		
	No.	Value \$CA	No.	Value \$CA	%	No.	Value \$CA	%
Pre- investments	2	390,000	2	390,000	5.7	22	3,072,417	6.9
Investments			12	6,471,306	94.3	89	41,404,179	95.1
Total	2	390,000	14	6,861,306	100.0	111	44,476,596	100.0

The above figures show that in November 1965 there were 111 loans amounting to \$CA44,476,596.00. Of these loans sixty-four were granted for the establishment and expansion of industrial undertakings, two for works of infra-structure, nine for the building of houses, one for education and twenty-two for studies of profit-earning possibilities in the private and public sectors.

Reference must also be made to the First Central American Conference on Investment Opportunities, held in Managua in June, under the auspices of the Central American Bank; the purpose of this Conference was to make known the experience of recognized international experts as regards industrial development and to submit to private initiative in the region sixty investment projects which could be carried out in the common market area.

The three-year plan of the activities of ICAITI. With regard to the specific tasks recommended to the Central American Institute for Industrial Research and Technology (ICAITI) to promote the development of industry in the area, its Advisory Committee in March 1965 studied the three-year plan of activities of this body submitted by the Special Fund of the United Nations.

The said plan has already been approved and will constitute the next project of the Special Fund to be carried out.

Co-operation of the FECAICA with the Common Market. The Central American Federation of Industrial Chambers and Associations (FECAICA) intensified its efforts to strengthen our common market. With this end in view, its Board of Directors adopted a resolution on foreign investments in the area at its meeting in Managua in October, considering that it was necessary that countries which are members of the General Treaty should conclude an agreement on this matter.

At the same meeting, among other decisions, a resolution was approved requesting governments to give a more active rôle to FECAICA at the meetings of the Executive Council and the Central American Economic Council. It was also agreed that as from 1 January 1966 the head office of this body should be situated in the City of Guatemala and that it should be attached to the Chamber of Industries of that country.

The legal situation in 1965 of some of the instruments of integration. The following observations relate to the legal changes that occurred during that year as regards certain instruments respecting integration:

I. The Government of Costa Rica having deposited on 28 January the instrument of ratification of the Protocol to the General Treaty which adopted the Uniform Central American Customs Code (CAUCA) and since the Governments of Guatemala and Nicaragua

had deposited the relevant instruments before that date, therefore in accordance with its Article III the said Protocol came into force for the three countries on 6 February. As regards El Salvador and Honduras the Protocol will begin to take effect from the date when both Governments deposit their instruments of ratification.

II. On 1 February the Government of Nicaragua deposited with the Secretariat of ODECA (Organization of the Central American States) the instrument of ratification of the Central American Agreement on Fiscal Incentives for Industrial Development, signed in San José, Costa Rica on 31 July 1962.

This is the fourth deposit made with respect to this Agreement, since the Guatemala Government had deposited the relevant instrument on 14 June 1963, Costa Rica on 23 September 1963 and El Salvador on 14 February 1964.

The Agreement will enter into force as soon as the Government of Honduras has ratified it and deposited the necessary instruments.

III. On 9 March the Government of Nicaragua deposited with ODECA its instrument of ratification of the San José Protocol to the Central American Agreement on the Equalization of Import Duties and Charges signed in the capital of Costa Rica on 31 July 1962. This Protocol, the instrument of ratification of which had already been deposited by Guatemala, El Salvador, Honduras and Costa Rica entered its second year of validity on 29 April.

IV. On 4 June the General Treaty for Central American Economic Integration signed at Managua on 13 December 1960 entered its fifth year of validity, thus marking one more stage towards the liberalization of intra-regional trade and a considerable reduction of customs duties and charges, on many Central American products.

V. On 31 August Honduras deposited with ODECA the instruments of ratification of the Costa Rica Protocol of accession to the Protocol on the Equalization of Import Duties and Charges, signed at Managua on 13 December 1960, and the annexes thereto; and of the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, signed in San Salvador on 29 January 1963.

For its part the Republic of Nicaragua deposited on the same occasion the instruments of ratification of the Protocol to the Agreement on the Régime of Central American Integration Industries and of the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, signed in San Salvador on 29 January 1963.

It should be noted that by the deposit of these instruments of ratification, the San Salvador Protocol to the Agreement on the Equalization of Import Duties and Charges came into force with respect to all the countries which are members of the Common Market.

In its turn, the Protocol to the Agreement on the Régime of Integration Industries - which came into force on 26 February 1965 for Guatemala, El Salvador and Costa Rica - also became applicable to Nicaragua: thus only the deposit by the Government of Honduras of the necessary instruments is lacking to enable the provisions of the Protocol to become applicable to the five countries.

VI. The Central American Agreement on the Equalization of Import Duties and Charges signed in the city of San José in Costa Rica on 1 September 1959 during the sixth regular session of the Committee of Economic Co-operation of the Central American Isthmus began its sixth year of validity on 29 September.

Consequently as from that date an end was put to the transitional régime established in Article XVI of the Agreement and the products and goods still included in list "B" - products and goods subject to the transitional system of progressive equalization - were transferred to list "A" which comprises products and goods subject to immediate equalization.

VII. On 8 October the Government of Nicaragua deposited the instrument of ratification of the Protocol to the Agreement on the Equalization of Import Duties and Charges - the Guatemala Protocol - which was signed on 1 August 1964. Costa Rica ratified the Protocol on 2 March.

VIII. On 4 November the Government of Guatemala deposited its instrument of ratification of the "Special Central American Agreement on Equalization of Import Duties and Charges on Fabrics of Rayon and other Artificial and Synthetic Fibres".

Thus we have described the situation in 1965, limiting ourselves to the organizations directly concerned with the integrated economic development of the region.