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CENTRAL AMERICAN ECONOMIC INTEGRATION  
AND DEVELOPMENT

1. The Economic Integration Programme is a joint development effort by the Central American countries and as such is a specifically regional solution. Its purpose is to overcome the limitations and obstacles to Central American development arising from the limited resources and market expansion opportunities which characterize the economy of every Central American State. The Programme's most outstanding feature is that it constitutes an overall effort to cover every branch of economic activity requiring co-ordination in order to promote the regional development of Central America.

Given this overall approach, it is only natural that, as a first step, emphasis should have been placed on the establishment of the common market. In advancing towards that objective, however, the Central American Governments have also concentrated on seeking ways and means of carrying out a radical change in their countries' basic economic conditions. The purpose of this was to provide Central America, to the extent that its resources permit, with the maximum supply facilities and capacity to meet the requirements of the common market as soon as the latter was juridically established. This approach has characterized the Programme from its very outset but it takes on added significance now that formal agreement has been reached on free-trade and tariff equalization.

The Central American Governments have therefore engaged in studies and programming aimed at the possible establishment of regional industries which would contribute not only to the rapid expansion of industrial production but also to an improvement in the level of technique and production methods at which this expansion is achieved. At the same time - and notwithstanding the fact that there is as yet little chance of bringing this about - an attempt is being made in the energy sector to interconnect systems and to establish an effective, economical network for all the countries concerned. With regard to transport, the Central American Governments have sought to carry out, as part of the Integration Programme, a Central American highway scheme to facilitate trade. Without this road network, the reciprocal free trade arrangements and the generally protectionist tariff levels agreed upon will lose part

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of their effectiveness. With a view to promoting these structural changes, which involve a long and arduous process of assimilation not only of capital but also of technique, a Central American Research Institute for Industry has been set up in the area to serve both the public and private sectors. In other branches of activity, agreement on ways and means of co-operation has not been easily achieved. This applies to agriculture, in which only the first step towards joint action to co-ordinate production and marketing policy in respect of staple foods has been taken, as well as to the social aspects of development, where progress has been made only in housing and a study of land tenure systems has only just been started.

2. The concept of economic integration as a means of promoting development derives from actual conditions in Central America. Unlike other integration experiments, the economies of Central American countries cannot expand without a major effort at inward-directed growth which would lead to the diversification of productive activities and to a vigorous process of import substitution to compensate for the static condition or slow growth of exports.

The conditions that must be fulfilled in order to overcome the limitations which the restricted nature of domestic markets imposes on the establishment of basic productive activities are thus being created. Industrial expansion is not to be achieved through a proliferation of existing plants with all the concomitant problems of duplication of investment and under-utilization of available capacity, but through the establishment of new industries essential to the development of other branches of activity. The countries concerned are thus being provided with the necessary means of formulating and carrying out projects which, because of their scope and complexity, could not be conceived and implemented by any one country on its own. In short, a system of qualitative change is being introduced which raises the level of industrialization.

3. A series of joint action programmes in a number of specialized fields is required in order to promote regional economic growth. While the common market provides important incentives, the expansion and

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diversification of economic activity, particularly industrialization, call for many other types of action within the framework of the common market that would contribute directly or indirectly to the solution of problems which cannot be solved by a free-trade area or a common tariff scheme alone.

The establishment of new basic industrial activities depends on the existence of a market sufficiently large to justify these activities and a coherent system of import duties and charges. It also depends upon the availability of financing, adequate tax incentives, research and technical assistance facilities and credit schemes with which to finance intra-regional imports. Moreover, investment in machinery, equipment and buildings requires additional fixed capital to be put into roads, energy and other infrastructural works on which the success of the investment largely depends.

In order to meet all these requirements, a co-ordinated approach must be adopted towards the process of integrated development. While private enterprise will no doubt have to bear the main responsibility for industrial growth, the Central American Governments have taken the initiative of pointing out the sectors in which development requires the establishment of new plants and maintain, through a specific agreement, the right of co-ordination and general supervision in some essential sectors.

4. These considerations, together with the need to place a regional stamp upon the above-mentioned activities, justify the existence of an integrated Central American development policy. This policy is designed to meet the common requirements of a number of countries for which purely national resources and hence domestic policies are inadequate.

Within a common denominator<sup>20</sup> of general under-development, there are vast differences from country to country in such major sectors as transport and communications, electric power, etc. These differences must be eliminated or at least lessened to enable the economic development process to lead to specialization in activities for which natural conditions exist in each of the countries concerned. These requirements

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transcend the boundaries of national interest and present fresh problems which must be solved by a joint and co-ordinated effort.

5. A direct consequence of Central American integration is the need to build a Central American road network to link the area's main production and consumer centres. This is another of the qualitative changes that must be effected as a consequence of the overall approach, which accentuates the importance of communications, and it is essential to the process of inward-directed economic growth.

The immediate objective of the regional transport policy is to complete the main highways of the Central American road network. As a result of the basic studies carried out in 1952 and 1953 and the work subsequently done by the Transport Sub-Committee, a decision has been taken on the main highways needed by the common market. On this basis, stock is now being taken of the progress achieved, the problems are being identified that must be solved in order to complete the stretches as yet unbuilt, and the relevant co-ordination plans are being formulated and carried out.

Moreover, the Central American transport policy has a longer-range objective - that of adapting the road network to the requirements of increasing commercial traffic by improving trunk roads, building secondary and approach roads, and expanding and modernizing harbour installations and facilities in the area.

6. The position with respect to the electric power sector is similar to that of transport and communications. While the economies of the Central American countries have grown separately, their systems of electric power generation and distribution have developed - although far below the required level - in accordance with the requirements of outward-directed growth. The present pattern of integrated development creates entirely new conditions which can be better met through a joint policy of inter-connexion of domestic networks and the co-ordinated utilization of available resources.

On the one hand, the rate and scale of development within the common market are such as to cause a radical change in the factors of electric power demand and a much more rapid increase in that demand.

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On the other hand, the wide gaps between one country and another in aspects such as the relative level of electric power development and costs and prices of power must be eliminated in order to localize properly the new economic activities to be established. Inter-connexion and the co-ordinated utilization of available resources offer good prospects of cuts in costs and improvements in the economic efficiency of investments.

The nature of some existing problems and the type of joint action which should be taken to deal with them were clarified at the meeting of Central American electric power officials (1957) and the first session of the Electric Power Sub-Committee (1959).

Among the steps taken to chart the future course of electric power development and to situate it in the context of general economic growth, a series of specific possibilities is being explored, such as the inter-connexion of the new generating plants in Honduras with the grid in El Salvador, the joint development by Panama and Costa Rica of the resources available in some of their border areas, and the integration of thermal and hydroelectric plants in El Salvador and Guatemala in order to reduce costs and to make better use of installed capacity.

7. With regard to industrialization, the policy of integrated development seeks to promote the establishment of new productive activities and specialization in existing activities, with due regard to foreseeable changes in the level and structure of demand and the need to co-ordinate the industrial sector, to avoid duplication of investment and waste of capital and to ensure a balanced development process among the countries concerned. To this end, the Governments are taking action at various levels.

As a first step and as an objective to be achieved over the relatively short term, efforts are being made to encourage the establishment of certain basic industries, chiefly producers of intermediate goods and some capital goods, the development of which will generate the largest possible growth in production, ensure the supply of other productive activities and spur on the process of import substitution. Some of the possibilities now being examined cover action in the following

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branches of activity: plate glass, glass containers, welded pipes, rolled steel, electric bulbs, fertilizers, petroleum derivatives, rayon fibre, electrolytic copper and insecticides.

As regards these industrial activities which, like those already mentioned, can be established only within the Central American common market, an industrial agreement has been entered into which effectively ensures that the Central American common market will be available for the products of these industries, grants them the maximum benefits of the legislation promoting industry and, in general, affords them full protection as integration programme industries. This is an attempt to overcome the chief obstacles to their establishment.

Secondly - and this applies as much to integration industries as to economic development in general -, the programme has, as a source of financing, the Central American Bank for Economic Integration. This institution, whose charter was signed at Managua (Nicaragua) in December 1960, will begin to function in 1961 with a subscribed capital of 16 million dollars, with additional funds supplied by other international organs and with an industrial investment promotion programme designed to meet some of the chief requirements of regional development. The Central American Bank will also serve as a means of channelling domestic savings and foreign credit into economic integration activities, and will provide the countries concerned with the means of organizing a capital market which today does not exist at the national level, not even in its most rudimentary forms.

In order to eliminate - as a localization factor - the differences in treatment provided for in the countries concerned by industrial promotion laws, the Governments have undertaken in the General Treaty to formulate and adopt a Central American régime which unifies domestic legislation and co-ordinates its application. A draft agreement on the subject is already in existence.

8. The Central American Governments are constantly and increasingly active in the field of technical research through the Central American Research Institute for Industry (ICAITI). This institution serves Governments, their decentralized organs and, in particular, private

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enterprise in member countries. Within its field of competence, it also serves regional organs responsible for applying the Economic Integration Programme. From another point of view, its work will allow a full study to be made of the natural resources of Central America and how they can be put to more effective use.

9. Responsibility for the promotion and direction of development necessitates the organization and improvement of public administration. Since 1953 the Central American Governments have had their officials trained through the Advanced School of Public Administration for Central America (ESAPAC). The School's training activities have so far been of a general character, but in the present new stage of the Programme they are being more and more closely related to the specific requirements of the integration process: training of customs officials responsible for applying the standard tariff and the free-trade régime; training of administration officials responsible for the enforcement of legislation on the promotion of industry; and training of experts in the administration of public works programmes.

10. An attempt has been made in the present note to indicate some of the aspects of the Central American integrated development process within the framework of the common market, and to sketch the main lines of the joint policies being applied by the countries of the region. It is not an exhaustive analysis but a description of a few features of these policies which, in addition to being their most important elements, are sufficiently well advanced for the phase of execution to be embarked on in the immediate future.