

# CEPAL

## Review

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UNITED NATIONS

ECONOMIC COMMISSION FOR LATIN AMERICA

SANTIAGO, CHILE / FIRST HALF OF 1977

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## Reflections on the conceptual framework of Central American economic integration

*Isaac Cohen Orantes and  
Gert Rosenthal\**

The report of the tenth session of the Central American Economic Co-operation Committee maintains that the integration process admits, and today requires, a multiplicity of approaches in which past achievements and the basic and permanent orientations that are deep-rooted in the best integrationist tradition are appropriately combined with innovative action. In the present article an attempt is made to clarify the possible scope and significance of this assertion.

An essay on this subject is a somewhat hazardous undertaking, for numerous have been the studies published in recent years on various questions relating to the economic integration of Central America, comparatively little has been written on the conceptual frame of reference which has guided this process in the past and might continue to do so in the future.

The article begins with a brief summary of the most outstanding aspects of integration theory—both in the economic field and in that of political science—, and goes on to recall the history of the Central American economic integration process up to the present time. Lastly, general guidelines are suggested for an approach that might help to resolve the many problems by which this process is confronted today.

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## 1.

### The concept of economic integration and its different manifestations

#### (a) *The concept of economic integration*

Although so much has been written on the subject of integration, interpretations of what it implies are far from uniform. For instance, the idea has differed in different countries and has even changed within the same country from one period of time to another. For some authors, an economic integration process consists in the total abolition of customs barriers between different national economic units (the partial elimination of such barriers would be only economic 'co-operation').<sup>1</sup> For others, the abolition of inter-country barriers should be accompanied by the elimination of every type of obstacle to the mobility of factors—including social mobility—<sup>2</sup> at the national level. Yet others concentrate on the institutional aspects and consider that integration "means the process of transferring exclusive expectations of benefits from the nation-state to some larger entity".<sup>3</sup> Lastly, economic integration is envisaged as involving the unification of several economies in a single whole, with total mobility of factors within this expanded

<sup>1</sup>See Bela Balassa, "Towards a Theory of Economic Integration", *Kyklos*, No 1, 1961, pp. 1-5; and *The Theory of Economic Integration*, Homewood, Illinois, Richard D. Irwin, Inc., 1961, pp. 1-2.

<sup>2</sup>See Gunnar Myrdal, *An International Economy*, New York, Harper, 1957, p. 11.

<sup>3</sup>See Ernst B. Haas and Philippe C. Schmitter, "Economic and Differential Patterns of Political Integration: Projection about Unity in Latin America", *International Political Communities: An Anthology*, New York, Anchor Books, 1966, p. 265.

economy, and total unification of policies under the direction of centralized institutions.<sup>4</sup>

In some instances the impulse to integration may derive from important political causes, as was the case, for example, with the European Economic Community during the period of reconstruction after the Second World War. In others, the motivation may be more of an economic nature.

Of the concept of economic integration, therefore, no single definition exists. For the purpose of the present note, any set of joint activities, promoted by common institutions, which raises the level of economic interdependence among a group of countries may be considered an integrating process. The degree of intensity of this process will be as great or as limited as the member countries may desire.

#### (b) *The various integration styles*

The Economic Commission for Latin America (CEPAL) has analysed the various development styles,<sup>5</sup> but the subject of integration styles has not been exhaustively explored. They may, of course, embrace many possibilities with regard to the objectives pursued by the countries members of an integration movement. For analytical purposes, however, and at the risk of lapsing into a few generalizations, a distinction can be drawn between two major approaches, which in their turn embody three integration 'styles'. The first approach—integration at the 'micro' level, or by

projects—aims at promoting interdependence through specific activities which involve an intrinsic benefit for the participating countries, but which are not necessarily conceived as stages leading to the emergence of a larger unit. The second—'macro' or globalist integration—seeks to cover all aspects of development and to make them the object of common treatment, although such treatment may be introduced progressively as part of a gradual process. Within this second approach two variants or styles can be discerned as means of attaining the same objective: one of a liberal character, and the other entailing a higher degree of State participation. The three styles identified will be termed here: (i) *the project approach*; (ii) *market integration*; and (iii) *integrated development*.

In any integration process traces of the three styles can be discovered, although one of them will always be predominant. At all events, it should be pointed out that they are not necessarily mutually exclusive.

(i) *The project approach*. This is based on the execution of specific projects or on concrete activities which could not be carried out by a single country in equally efficient or appropriate conditions. The classic example is afforded by manufacturing industries for whose optimum operation the scale of production required is larger than could be absorbed by the domestic market of any given country. Sometimes the execution of a joint project calls for the adoption of complementary measures—in the case of industry cited above, free trade in the articles to be manufactured—but the project approach is characterized by the intrinsic benefits for the participating countries implicit in each of the activities submitted to common treatment. These benefits can be

<sup>4</sup> See Jan Tinbergen, *International Economic Integration*, Amsterdam, Elsevier Publishing Co., 1965, p. 67.

<sup>5</sup> See *CEPAL Review*, No 1, First Semester 1976, United Nations publication, Sales No: E.76.II.G.2.

obtained without the necessity of agreeing upon across-the-board rules of the game (as, for example, a free-trade régime for *all* manufactured products).

The foregoing approach contrasts with that of a global character, in the sense that the former is envisaged as upward integration, implying the implementation of joint action to solve common problems, basically through the execution of projects and programmes, whereas the latter places its main emphasis on a conception of gradual integration from the top downwards, i.e., seeking rather to reach agreements of a global type than to promote specific activities within the framework of these global agreements.<sup>6</sup>

To put it more precisely, in integration by projects the immediate objectives—pertaining to the execution of some specific activity—may be fitted into the framework of a broader strategy aimed at increasing interdependence among the countries. Thus, the difference between the project and the global approaches lies in the fact that the former devotes more attention to the sequences constituting development than to their ultimate outcome (on the basis, moreover, of the assumption that the execution of the joint projects which make for greater interdependence will influence or even transform the final objective). Hence in this approach the indication of a precise goal (for example, the constitution of a perfect customs union) is intentionally avoided, and the emphasis is placed, in the last analysis, on the benefits which can be obtained from each joint activity.

<sup>6</sup> See CEPAL, *Sugerencias para reactivar a corto plazo la integración económica centro-americana* (E/CEPAL/CCE/367/Rev.3), April 1975, pp. 50-51.

Another important characteristic of the project approach is that it is envisaged as a *complement* to the development of each of the countries participating in a common project. In other words, the point of departure is the assumption that this type of integration should neither take the place of national development efforts nor, as far as possible, interfere with them.

Moreover, the project approach makes it possible for the distribution problem inherent in any form of interdependence among countries to be solved with relative efficacy, either through the selection of projects involving no costs for any country, or through the choice of a set of projects ensuring benefits for all. This aspect of the problem is discussed in greater detail at a later stage.

Such a conception of economic integration finds its counterpart in functionalist theory on international organization, which considers that institutions must be created as a function of the needs which are to be jointly satisfied, and that the emphasis must be placed on transactions, not on legal instruments.<sup>7</sup> According to this theory, what is important is to identify areas of co-operation which are of interest to all the participating States and preferably non-controversial. Once they have been identified, the agencies are established that are required for the attainment of the specific objectives fixed.

As the goals to be pursued in common by the countries participating in a process of this nature may be of many kinds, the project approach calls for institutional decentralization. Since by definition these goals are of interest

<sup>7</sup> See, *inter alia*, A.J. Groom and Paul Taylor, *Functionalism: Theory and Practice in International Relations*, London, University of London Press, 1974.

to all, it may be assumed that the participating States will voluntarily adopt the measures required for the execution of each project or joint activity, and that an integration scheme of this type does not necessitate regional institutions with supra-national characteristics. Similarly, integration by projects allows of whatever degree of State intervention the participating countries may deem desirable, although a decisive role will be incumbent on the public sector in negotiations relating to the location of the regional projects selected.

(ii) *The global approach: market integration and integrated development.* The second major approach seeks to promote global integration of the whole production apparatus of the countries adopting it. Although in theory a possibility to be considered is that of 'instantaneous' integration—which would consist in the voluntary or enforced decision of a group of countries to adopt a federal plan immediately—the process is most commonly conceived of as gradual and progressive. Its final objective is the constitution of a larger unit.

This approach of course admits of variants, even as regards the degree of integration desired. In some instances partial and in others total economic unity might be the end pursued. Nevertheless, two clearly-defined 'styles' can be distinguished in this globalist approach, with many characteristics in common and some significant differences.

What we have termed the 'market integration' approach is inspired by the theoretical writings of Viner and other authors on the formation of customs unions, within the broader field of studies relating to the international economy.<sup>8</sup> It is the most usual both among industrialized countries (European Economic Community) and among developing countries.

It consists in expanding the market size of several national units into an economy of regional dimensions for the participants. This integration may take various forms, which are normally regarded as stages in one and the same process.<sup>9</sup> The first step is the definition of a 'free-trade area' in which the member countries eliminate tariff duties on products from the region itself, but maintain their own respective tariffs for products from third countries. The second is the 'customs union', which implies, in addition to free trade in the products of the region, a common tariff *vis-à-vis* the rest of the world.<sup>10</sup> The third is the 'common market', the highest form of economic integration, in

<sup>8</sup> See, *inter alia*, C.A. Cooper and B.F. Massel, "A New Look at Customs Union Theory", *The Economic Journal*, Vol. LXXV, N° 300, December, 1965, pp. 742-747; Harry G. Johnson, "An Economic Theory of Protectionism, Tariff Bargaining, and the Formation of Customs Unions", *The Journal of Political Economy*, Vol. LXXIII, N° 3, June 1965, pp. 256-283; Melvyn B. Krauss, "Recent Developments in Customs Union Theory: An Interpretative Survey", *Journal of Economic Literature*, Vol. X, N° 2, June 1972, pp. 413-434; R. G. Lipsey, "The Theory of Customs Unions: A General Survey", *Economic Journal*, Vol. LXX, N° 279, September 1960, pp. 496-513; James E. Meade, *The Theory of Customs Unions*, Amsterdam, North Holland Publishing Co., 1955, and *Problems of Economic Union*, Chicago, University of Chicago Press, 1953; Jacob Viner, *The Customs Union Issue*, New York, The Carnegie Endowment for International Peace, 1950, especially pp. 41-55.

<sup>9</sup> The description which follows is that given by Bela Balassa, *The Theory of Economic Integration*, *op.cit.*, p. 2, with which Tinbergen, *International Economic Integration*, *op.cit.*, p. 21, also concurs. As is shown later, however, not all writers are in agreement with the terminology used.

which restrictions on trade and on movements of capital and labour are suppressed altogether. The 'economic union', lastly, combines all the foregoing with a high degree of harmonization of economic, monetary, fiscal, social and counter-cyclical policies.

Paradoxically enough, market integration has been sponsored both by those interested in liberalizing international trade<sup>11</sup> —as an initial stage in the elimination of tariff barriers between countries— and by those concerned with protecting nascent industries behind a common tariff barrier within an expanded market.<sup>12</sup>

Despite the differences existing between these two criteria —one of which involves a free-trade area with little or no tariff protection, whereas the other calls for a common tariff barrier to protect industrial development— it is

<sup>10</sup> In the writings of Lipsey, Meade and Viner, the term 'customs union' is understood to signify: (1) the elimination of tariff restrictions among the member countries for all products, irrespective of their origin; (2) the establishment of a common tariff *vis-à-vis* third countries; and (3) the establishment of machinery for the collection of customs duties on products from the rest of the world, and the subsequent distribution of the said duties among the member countries. See, for example, Viner, *The Customs Union Issue*, *op.cit.*, p. 5.

<sup>11</sup> With some exceptions, including Viner himself, who argued that the formation of customs unions between blocs of countries was bound to lead, in the long run, to a less than optimum allocation of resources at the world level.

<sup>12</sup> CEPAL, *The Latin American Common Market* (E/CN.12/532), United Nations publication, Sales No: 59.II.G.4, especially pp. 1-7. CEPAL did not confine itself, of course, to promoting solely the integration style defined here as 'market integration'

accepted in both cases that, within the free-trade area, market forces will spontaneously lead to an optimum reallocation of factors within the integrated region, with the resultant improvement in the efficiency of the production apparatus. An argument in favour of this integration approach (generally identified with economic liberalism) is to be found in the additional advantages of the more competitive régime engendered by the expanded market.<sup>13</sup>

Where co-ordination of policies is concerned, an initial difference may be noted between the market integration and the integrated development styles. In the first case it is understood that certain economic policies need to be co-ordinated and harmonized subsequently to the full liberalization of goods and factors, precisely in order to obviate distortions in the allocation of resources within the region. In the second, on the other hand, co-ordination of policies becomes a simultaneous —or even a prior— requisite for trade liberalization, since it is a more suitable mechanism for channelling the allocation of factors at the regional level and promoting gradual interdependence among the countries. In this sense, the style we have called 'integrated development' places the emphasis on active measures to promote interdependence— and to prevent, among other problems, unequal inter-country distribution of the benefits deriving from the process —as distinct from the more passive attitude implicit in market integration. But it is frequently argued that this latter approach is not appropriate for integration systems among developing countries, because of the defective

<sup>13</sup> See Tibor Scitovsky, *Economic Theory and Western European Integration*, London, George Allen and Unwin, Ltd., 1958, pp. 1-15.

operation of their market mechanisms and the need to keep their development processes in balance with one another.<sup>14</sup>

A second difference between the two 'globalist' systems derives precisely from the way in which the distribution problem is tackled under the process. It is in the market integration approach that the difficulties in this respect are greatest, because investment oriented by market forces logically tends to be concentrated in the countries that are relatively more developed or have larger markets. In contrast, in the case of integrated development, as has already been pointed out, this problem —of cardinal importance for any integration movement— is handled by allocating investment so as to take into account, among other factors, the need to secure a reasonably equitable inter-country distribution of the benefits attributable to economic integration.

A third difference —although one of nuance— between the two styles described would appear to be the objectives of the process. According to the literature on market integration, the aim pursued is the raising of the level of well-being (with reference in the case of the free-traders to the well-being of the population of the whole world; on the part of the protectionists only to that of the population of the region), although the formation of the customs union often seems to become an objective *per se*. The integrated development style has as its explicit objective the acceleration of the economic and social

<sup>14</sup> See Hiroshi Kitamura, "La teoría económica y la integración económica de las regiones subdesarrolladas", in M. Wionczek *et al.*, *Integración de América Latina, experiencias y perspectivas*, Mexico City, Fondo de Cultura Económica, 1964, pp. 26-49.

development of the countries members of an integration movement, and is oriented towards the optimization of economic policy as a whole.

It would be a mistake to deduce from the foregoing remarks that the integrated development approach —sometimes described as 'dirigist'<sup>15</sup>— can be applied solely in a centrally-directed economic system. Only by comparison with the market integration approach is its higher relative degree of State intervention brought out, and this intervention, moreover, may be substantial or moderate, at the discretion of the States participating in the process.

In the two integration systems described under the head of the globalist approach, the process is conceived as incremental or linear; that is, one milestone is infallibly followed by another on the road towards the construction of a larger unit. As progress is made in the stages envisaged, it is argued, the level and scope of the process increase, because the activities subject to common treatment spill over into new sectors or because they are carried out in greater depth in a specific sector.<sup>16</sup> Thus, to cite only two examples, and in accordance with neofunctionalist theory, for commercial integration to be successful it would necessarily have to spill over into monetary and agricultural integration.

With regard to the institutional framework which normally accompanies

<sup>15</sup> See *The Theory of Economic Integration*, *op.cit.*, pp. 8-11.

<sup>16</sup> See Philippe C. Schmitter, "The Process of Central American Integration: Spill-over or Spill-around?", *Journal of Common Market Studies*, Vol. IX, N° 1, September 1970, pp. 1-48. Lack of spill-over or regression is what is described as 'spill-back', while stagnation is termed 'spill-around'.



the globalist approach, two variants may be noted which are applicable alike to the market integration style and to the integrated development approach. Both start from the assumption that, as the process advances, governments will have to delegate increasing responsibilities to a common institution. In the case of the integrated development style, the transfer of faculties will have to begin at a very early stage in the process, to meet the requirements of co-ordination of policies, whereas in market integration, it may take place in the more advanced phases.

The first variant of the transfer of national powers to regional institutions has its source in federalist theory.<sup>17</sup> This legalist criterion for the construction of larger inter-State communities asserts the need to begin by establishing strong federal institutions and a basic constitution. The existence of overcentralization of powers is not necessarily implied—although neither is it excluded—, because, as is common knowledge, every genuine federation entails a permanent tension between the powers of the federal institutions and those of the member States. In some instances, governments confer only partial faculties on the federal institutions—where a confederation is concerned—and in others the most important are handed over to them.

The second variant—much more closely linked to the economic integration process—finds its inspiration in neofunctionalist theory.<sup>18</sup> According to this an

integration movement starting with joint activities in non-controversial areas may end in the spill-over described above because of the very dynamics of the process. "Members of an integration scheme—agreed on some collective goals for a variety of motives but unequally satisfied with their attainment of these goals—attempt to resolve this dissatisfaction either by resorting to collaboration in another related sector (expanding the *scope* of the mutual commitment) or by intensifying their commitment to the original sector (increasing the *level* of the mutual commitment), or both."<sup>19</sup> Such a process necessitates, with the passage of time, the gradual creation of increasingly powerful institutions, as the governments step up their common action or submit new activities to joint treatment. In other words, the 'globalist' approach to integration calls for the existence of institutions which, at least at the more advanced stages of the process, have certain supranational characteristics so that fulfilment of the commitments assumed by the member governments can be guaranteed.

In conclusion, it should be pointed out that as a general rule certain prior conditions facilitating an integration process are assumed to exist, such as, for example, a measure of homogeneity in the size and development characteristics of the countries members of the movement, their geographical proximity, their historical and cultural links and their community of interests *vis-à-vis* the rest of the world. From this point of view,

<sup>17</sup> See Ernst B. Haas, "The Study of Regional Integration: Reflections on the Joys & Anguish of Pre-theorizing", *International Organization*, Vol. XXIV, N° 4, Autumn 1970, Boston, World Peace Foundation, pp. 607-646.

<sup>18</sup> See Ernst B. Haas, *Beyond the Nation-State: Functionalism and International Organi-*

*zation*, Palo Alto, Stanford University Press, 1964.

<sup>19</sup> See Philippe C. Schmitter, "Three Neo-Functional Hypotheses about International Integration", *International Organization*, Vol. XXIII, N° 1, Winter 1969, p. 166.

circumstances suggest that integration is more viable in Central America than, for example, at the Latin American level.<sup>20</sup>

An essay on this subject is a venture not unattended by risks. It might prove somewhat pretentious; moreover, in many instances the facts of the case do not lend themselves to explanations that can be tidily pigeonholed within a theoretical or conceptual framework.

Accordingly, all that is proposed in the present note is to clarify some concepts which may be among those brought up for discussion, during the next few months, with respect to the future of the integration programme, in the context of the draft treaty on the establishment of an economic and social community in Central America.<sup>21</sup>

## 2.

### The concept of economic integration applied to Central America

#### (a) Past experience: integration styles tried out

The theoretical approaches described in the foregoing paragraphs do not in reality appear in 'pure' form. Thus, what has been called the 'project approach' may, in a given case, show characteristics more proper to 'market integration' or 'integrated development', and vice versa. In fact, when conceptual and theoretical frameworks are compared with actual experience, what emerges is a 'mix' of the styles described, in which the characteristics of one of them usually predominate.

This is the case in Central America, where trial has been made of the 'project

approach' —exemplified in the Central American Highway Plan or the regional telecommunications network—; 'market integration' —exemplified in the General Treaty on Central American Economic Integration—; and 'integrated development', exemplified in the work done from 1962 to 1966 by the OAS/IDB/CEPAL Joint Programming Mission.

Evidence of this diversity in methods of tackling integration in Central America can be found in many documents. In the very first resolution adopted by CEPAL on the possibility of promoting economic integration, the governments of the region expressed their interest "in the development of agricultural and industrial production and of transportation systems in their respective countries so as to promote the integration of their

<sup>20</sup> For two recent examples, see: Eduardo Lizano (ed.), *La integración económica centroamericana*, Mexico City, Fondo de Cultura Económica, 1972, two volumes; and Edelberto Torres R. (ed.), *Centroamérica hoy*, Mexico City, Siglo XXI, 1975. See also *Revista de la Integración Centroamericana*, published periodically by the Central American Bank for Economic Integration (various issues).

<sup>21</sup> See High-Level Committee on the Restructuration of the Central American Common Market, *Proyecto de Tratado de la Comunidad Económica y Social Centroamericana*, Guatemala, Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), 23 March 1976.

economies and the expansion of markets by the exchange of their products ['market integration'], the co-ordination of their development programmes ['integrated development'], and the establishment of enterprises in which all or some of these countries have an interest ['integration by projects']...<sup>22</sup>

At the same time, the first concrete measures were adopted to give impetus both to integration by projects —i.e., establishment of enterprises— and to market integration —i.e., exchange of products. Thus, on the one hand, in 1952 the Economic Co-operation Committee requested its secretariat to take steps to formulate specific projects for the establishment of new industries,<sup>23</sup> and during the next three years it approved projects for the setting-up of two regional institutions.<sup>24</sup> On the other hand, between 1951 and 1954, on the initiative of the governments concerned, bilateral trade treaties were signed which implied the objective of forming a customs union.<sup>25</sup>

<sup>22</sup> Resolution 9 (IV) of the Economic Commission for Latin America (CEPAL), adopted on 16 June 1961. The notes in square brackets have been added to make the terms used in the present paper more comprehensible.

<sup>23</sup> Resolution 2 (AC.17), adopted on 27 August 1952.

<sup>24</sup> The Central American Technological Research Institute for Industry (Instituto Centroamericano de Investigación y Tecnología Industrial — ICAITI) (1965) and the Advanced School of Public Administration for Central America (Escuela Superior de Administración Pública de América Central — ESAPAC) (1957).

<sup>25</sup> Bilateral treaties between El Salvador and Nicaragua (29 August, 1951), between El Salvador and Guatemala (17 March 1952), and between El Salvador and Costa Rica (18 February 1954).

Towards the middle of the decade, the determination to adopt various approaches to integration found even more explicit expression in a resolution in which the governments decided to reaffirm their interest in the preservation, within the Central American Economic Integration Programme as a whole, of a proper proportion between basic projects of an institutional type and those relating to the promotion of productive activities and the establishment of new industries appropriate to the Central American region.<sup>26</sup>

Similarly, the CEPAL secretariat —which was at the same time the secretariat of the Economic Co-operation Committee— noted several points in documents produced by it around that date.

"A concept of economic integration", it was observed, "adequate as a starting-point in the case of Central America, would provide for limited integration allied with a policy of commercial and industrial reciprocity. ... Limited economic integration implies a policy which, within the

<sup>26</sup> Resolution 8 (CCE) of 7 May 1965. In commenting on this resolution, the secretariat said that the problem of proportion was in essence a matter of order and opportune timing in the execution of these different types of projects. Admittedly, both had to be and had been included in the programme, but the date and pace of their execution might be gradually modified so that a reasonable proportion between them could be continuously maintained. The promotion of projects of the one type relatively sooner than the other presented advantages and drawbacks which would have to be carefully weighed before their order of development was determined. See the document *La integración económica de Centroamérica. Su evolución y perspectivas* (E/CN.12/CCE/33/Rev.2; E/CN.12/422), 1956, p. 28.

general objectives of economic development, shall be directed to considering the optimum location for some of the outstanding economic activities (especially manufacturing industries, as well as those transforming agricultural and mineral products...)"<sup>27</sup>

Elsewhere it was stated that the constitution of a common customs territory was logically one of the indispensable elements of integration, and that the governments had deemed it necessary to achieve it gradually through the conclusion of bilateral free-trade treaties.<sup>28</sup>

Another view expressed was that "it will not be possible to increase reciprocal trade on a sound basis without an intensification of the efforts made to integrate and coordinate the economic development of Central America".<sup>29</sup>

Hence it can be deduced that the secretariat was exploring the possibility of promoting at one and the same time progress through all three approaches described above: the project approach, the market integration approach and the integrated development approach.

Nevertheless, from 1955 to 1958 a gradual change was observable in the proposals formulated by the secretariat and in the action taken by the governments. In 1955, for example, it was still

<sup>27</sup> See CEPAL, *Preliminary report of the Executive Secretary of the Economic Commission for Latin America on economic integration and reciprocity in Central America* (E/CN.12/AC.17/3), 1 August 1952, p. 35.

<sup>28</sup> See CEPAL, *Política comercial y libre comercio en Centroamérica* (E/CN.12/368), 20 July 1955, p. 118.

<sup>29</sup> See CEPAL, *Analysis and prospects of inter-Central American trade* (E/CN.12/367), 20 July 1955, p. 27.

recognized that the programme adopted from the outset by the Committee was of an essentially limited nature in present circumstances. A customs union was not envisaged as an immediate possibility, nor was the unification of fiscal, administrative, banking or other services. Integration had been conceived in a rather narrow sense, focusing mainly on integration in the industrial field.<sup>30</sup> In 1958, on the other hand, it was asserted that obviously, if integration were to be achieved, the countries seeking it would at least have to reach an agreement among themselves which would enable them to expand their reciprocal markets, with the ultimate aim of forming a customs union and a common market.<sup>31</sup> It was not that the multiple approach to integration had been given up—during this period, the secretariat identified specific projects in eleven branches of industry and proposed mechanisms for their execution, which led the governments to sign a Régime for Central American Integration Industries—but both the CEPAL secretariat and the governments seemed to lean increasingly towards a globalist system, with pre-established targets, and an incrementalist conception of the road to integration (although great care was taken to distinguish between activities directly linked to the integration process and those which were considered of an exclusively national character).<sup>32</sup> Within this global-

<sup>30</sup> See *La integración económica en Centroamérica. Su evolución y perspectivas*, op.cit., p. 6.

<sup>31</sup> See CEPAL, *Informe general de la secretaría sobre el Programa de Integración* (E/CN.12/CCE/113), May 1958, p. 4.

<sup>32</sup> See CEPAL, *Estado general del Programa de Integración del Istmo Centroamericano* (E/CN.12/CCE/71), February 1957, for a state-

ist view, the governments seemed inclined to favour market integration, that is, the free exchange of products, whereas the secretariat apparently considered integrated development more advisable.<sup>33</sup>

In the course of the rapid sequence of events which led first to the signing of the Multilateral Treaty on Free Trade—a selective mechanism for the liberalization of trade—and then to the Treaty on Economic Association and the General Treaty on Central American Economic Integration—automatic liberalization mechanisms—the market integration criterion of the Central American governments was consolidated. The last instrument named—compatible with article XXIV of the General Agreement on Tariffs and Trade (GATT)—was aimed at perfecting a Central American common market within a period of five

ment to the effect that the task of formulating an integration programme with practical possibilities therefore consisted in identifying, on the one hand, the problems which could and would have to be dealt with at the regional level, and, on the other hand, those whose solutions, although dependent upon national decisions, might affect the situation of the whole Isthmus.

<sup>33</sup> "The (Central American Economic Integration) Programme may also be considered as an attempt to co-ordinate and supplement the economic development of the five Central American countries as a joint undertaking. Such a view presupposes that each country has formulated its national development plans as a co-ordinated whole, (and) that a high degree of co-ordination in the matter of economic policy will be gradually evolved..." See CEPAL, "Central American Economic Integration Programme: evaluation and prospects" (E/CN.12/CCE/160), *Economic Bulletin for Latin America*, Vol. IV, N° 2, October 1959, p. 34.

years (in respect both of the free trade area and of the adoption of a common tariff) and at the formation of a customs union, although no deadline was fixed for this. Notwithstanding that in the Treaty all the provisions of the Régime for Integration Industries and of the treaty establishing the Central American Bank for Economic Integration were ratified, since it was considered that they would facilitate the implementation of a system with some of the characteristics of integrated development, there can be no doubt that the Régime was greatly weakened by the securing of free trade for almost all products.

The Central American Integration Programme continued to undergo many adaptations during the 1960s. Integration by projects was given some impetus through the execution of the Central American Highway Plan, the entry into operation of a radio-aids service for aircraft and the signing of the agreement which permitted the construction of the Central American telecommunications network. An attempt was also made to give greater importance to integrated development when the governments decided to form a Joint Programming Mission for Central America—with the support of the Organization of American States (OAS), the Inter-American Development Bank (IDB) and the Economic Commission for Latin America (CEPAL)—which was set up for the two-fold purpose of providing advisory assistance to the countries in the formulation of their development plans, and co-ordinating those plans with the economic integration programme.<sup>34</sup> Appa-

<sup>34</sup> See resolution N° 2 of the Central American Economic Council, adopted on 28 July 1962. In November 1965 the same Council decided to institutionalize the work of the Mission by fully incorporating it in SIECA.

rently, however, the Mission had more success in collaborating with the five countries of the region in the formulation of their own national development plans —almost a prerequisite for obtaining access to the external resources stemming from the programme known as the Alliance for Progress— than in securing the harmonization of those plans in relation to specific integration objectives.<sup>35</sup> Moreover, the integration variable hardly appeared in the national plans formulated with the collaboration of the Joint Mission.<sup>36</sup>

In short, despite the multiplicity of the approaches to Central American integration simultaneously tried out during the 1960s, the integration 'style' which predominated was manifestly the one we have described here as 'market integration'.

<sup>35</sup> See the annual reports submitted to the Advisory Committee by the Chief of the Joint Programming Mission for Central America in October 1962, March 1963, July 1963, March 1964 and December 1965. One of the signs of the relatively slight impact produced by the Mission in the field of joint programming is that the national planning authorities, which met together on only two occasions throughout the whole of the 1960s, never even had before them the document on a regional development strategy prepared during 1966. A summary of the activities of the Mission may be found in Alberto Fuentes-Mohr, "Una tentativa de planificación multinacional: la Misión Conjunta de Programación para Centroamérica", *Revista Interamericana de Planificación*, Vol. VIII, Nº 32, Bogotá, Colombia, Sociedad Interamericana de Planificación, December 1974.

<sup>36</sup> See Panel of Nine of the Alliance for Progress, *Informe sobre los planes nacionales de desarrollo y el proceso de integración económica de Centroamérica*, Washington, D.C., General Secretariat of the Organization of American States (OAS), August 1966, especially pp. 1-8.

(b) *Appraisals of the application of the conceptual frame of reference to the evolution of the process*

It is interesting to contrast the experience acquired in the course of 20 years of integration in Central America with the evolution of this process predictable in the light of the theoretical considerations summarized above. An analysis on these lines may help to clarify the nature of the crisis through which Central American integration is passing and contribute experience and background information which may perhaps provide guidance for the future progress of the movement.

Four major areas of the integration process account for what might be considered its 'crisis': (i) lack of spill-over; (ii) failure to cover the stages envisaged; (iii) distribution problems; and (iv) its insufficient depth, and the tensions that have developed between centralizing and decentralizing tendencies.

(i) *Lack of spill-over.* With regard to the first aspect of the problem, according to the neofunctionalist theory referred to above, the very dynamics of the process would require a steadily increasing number of activities and sectors to be submitted to common treatment; that is, its scope would have to be constantly enlarged. Nevertheless, one of the characteristics of integration in Central America —both during the formative years and, to a greater extent still, from 1966 to the present day— has lain precisely in the fact that deliberate attempts to extend its scope to new areas have proved difficult and fragmentary, and that very little spontaneous spill-over has occurred.<sup>37</sup> Events in

<sup>37</sup> See *Sugerencias para reactivar a corto plazo la integración económica centroamericana*, *op.cit.*, pp. 38-43.

Central America show that rapid strides were made towards the formation of a common market—the market integration described in the preceding section—as well as in the joint treatment of activities directly linked to trade (the construction of the road network, the establishment of a clearing-house, and the harmonization of the fiscal incentives applied to new industrial plants), and that at the same time, despite the efforts of regional institutions and some specific lines of government action, little success attended the proposal to extend the process effectively to other sectors or activities (agriculture, energy, harmonization of development policies and of tax systems, common external trade policy).

It would seem that after a period of rapid—even spectacular—progress in the formation of a perfect free-trade area and the adoption of a common tariff, by the mid-1960s the integration process had apparently reached the limit of its possibilities, and that thenceforward, instead of broadening its scope, it even lost some of the ground gained. For this phenomenon—which is the contrary of what might have been expected in accordance with the theoretical framework previously described—two basic explanations might be found.

The first is that the governments were unwilling to adopt global decisions whose consequences they could not measure, or as to whose potential benefits they probably entertained doubts. For example, no government showed interest in promoting any tax harmonization programme, doubtless because it might have implied, among other disadvantages, potential losses of revenue. Nor was headway made during the past fifteen years in any scheme for specialization in agricultural production, because

each government was anxious to attain national self-sufficiency in respect of basic foods.<sup>38</sup> Furthermore, the degree of economic interdependence among the countries of the area was not yet such that governments were disposed to exchange the real and immediate benefits deriving from a specific activity undertaken at the national level for potentially greater future benefits deriving from more efficient conduct of the same activity at the regional level. Thus, a prerequisite for subjecting any new activity to common treatment was to show that direct benefit would result for each and all of the countries of the region, which was very rarely the case.

The second explanation—of a political nature—might be that the most effective way of subjecting a specific activity or sector to common treatment is to hand over faculties partly or entirely to regional institutions so that they may have at their disposal mechanisms to ensure implementation of the decisions adopted; unfortunately, the story of Central American integration abounds in evidence of the governments' reluctance to transfer powers to such institutions. The General Treaty did not provide for—or contemplate—the establishment of supranational organs; the intergovernmental organs envisaged in the Treaty merely delegated certain powers to the Permanent Secretariat in isolated cases

<sup>38</sup> This circumstance was highlighted during the period 1972-1974, when a drought, combined with distortions on the world market and notable increases in the costs of agricultural inputs, brought about a widespread dearth of basic grains in the area. At that juncture, the export of these commodities from one Central American country to another was described in the exporter country as 'contraband', both by government sources and in the press.

and in relation to highly specific matters.<sup>39</sup> Moreover, despite the obvious need—frequently pointed out in Central America—to adopt some procedure for rapidly and flexibly modifying the Central American common tariff, the governments never managed to reach agreement on this very limited transfer of national faculties to a regional organ, even though it was an intergovernmental organ like the Economic Council that was concerned. Other examples might be cited, such as the unwillingness of one government to entrust part of its foreign trade policy to joint treatment,<sup>40</sup> and the refusal of another to submit its decision to change the parity of its currency for approval by a regional organ—the Central American Monetary Council.<sup>41</sup> It is also worth while to mention the valiant effort made in the mid-1960s to set up a regional telecommunications corporation, which in the end found expression in five national projects, co-ordinated by an intergovernmental commission (Comisión Técnica

de Telecomunicaciones de Centroamérica - COMTELCA). Lastly, it should be noted that decisions adopted by the Executive Council to settle conflicts arising out of free trade were often disregarded by the governments which had voted against them, and this led to open (and frequent) violations of the trade régime.<sup>42</sup> In conclusion, stress must be laid on the vicious circle created by the causes and effects of the limited scope of integration in Central America. On the one hand, the lack of spill-over has been reflected in narrow sectoral coverage of the activities subject to common treatment, with the result that integration has not much significance for national authorities linked to the sectors left out (for example, the Ministers of Agriculture and of Finance, and the Planning Directors). For this reason, presumably, they have taken little interest in the process and have devoted all their attention to tackling development problems from a national standpoint. On the other hand, the fact that most government authorities have neither found integration of any assistance in solving the problems with which they are confronted in the performance of their everyday tasks, nor become thoroughly familiarized with its objectives, mechanisms and scope, has undoubtedly helped to make the deliberate extension of the process to new sectors an even more difficult matter.

(ii) *Failure to cover the stages envisaged* The second element in the Central

<sup>39</sup> See Guatama Fonseca and Dante Ramírez, "Los órganos del Tratado General de Integración Económica Centroamericana", *Derecho de la integración*, N° 6, Buenos Aires, April 1970, p. 93.

<sup>40</sup> See the report of a meeting on trade negotiations, held at Managua, on 30 April and 1 May 1974, between representatives of the Central American Governments and the Special Representative of the President of the United States of America.

<sup>41</sup> See SIECA, *Exposición del Banco Central de Costa Rica sobre las medidas sugeridas para corregir los problemas de balanza de pagos y fiscal*, Tegucigalpa, 6-7 January 1967; Executive Secretariat of the Central American Monetary Council, *Implicaciones de las medidas cambiarias adoptadas por Costa Rica el 19 de junio de 1971*, Memorandum 9-71, San José, 22 June 1971.

<sup>42</sup> See Francisco Villagrán Kramer, "Los procedimientos que de hecho se utilizan en el Mercado Común Centroamericano", *La solución de conflictos en la integración latinoamericana*, Buenos Aires, Inter-American Development Bank/Institute for Latin American Integration, (IDB/INTAL), 1972, pp. 25-174.



American integration 'crisis', closely linked to the preceding factor, is the failure to cover the stages envisaged (a perfect common market within five years' time, as from 1960, and gradual evolution towards a customs union). The adoption of targets and stages is a typical reflex of the purpose of progressively enlarging the scope of the process – the 'incrementalist' view – which characterizes both market integration and the integrated development approach. This expectation of spill-over carried with it, in Central America's experience, two serious disadvantages: it gave rise to exaggerated suppositions regarding integration, and introduced rigidities into the process. These two observations will next be discussed.

In the first place, the conception of integration as a linear and cumulative process – which was the idea that actually prevailed in Central America – rules out the possibility of recognizing that a process of this type may, at a given moment, become stabilized or reach its break-even point. If this latter characteristic had been admitted, perhaps it would not have been felt towards the end of the 1960s that integration had entered upon a critical stage. On the contrary, the Central American Programme has done better, in a very short space of time, than any other subregional integration movement in the developing world. It might well be argued that the process in question reached its break-even point in 1966, and that the governments could have declared themselves satisfied with the results, without, for the moment, seeking to carry the movement any further. It is when achievements are compared with the expectations aroused – with the notion that the process must inevitably continue expanding – that one can understand the

sometimes unduly facile use of epithets such as 'crisis' and 'fracaso'.<sup>43</sup>

Secondly, the rigidity introduced by linear and cumulative progress towards a predetermined goal consists in the fact that all the efforts of governments and regional institutions are concentrated upon the attainment of the goal in question, sometimes at the expense of other activities which might even be of greater importance for the integration movement. It should be recalled that in Central America's case the process of perfecting the Common Market had by the mid-1960s acquired so compelling a logic of its own that sometimes the constitution of a customs union seemed to become an objective *per se*. Such a conviction has the drawback of blinding those who hold it to other additional objectives, as in fact happened in Central America. Thus, when some countries began to call in question the desirability of a customs union, the Programme, victim of its own approach, could not redefine its objectives, nor immediately incorporate into the tasks of integration activities which had not been contemplated in the General Treaty.

Lastly, the experience of the 1960s has shown that the evolution of the process, apart from not necessarily leading to the formation of a larger unit, permitted in the course of time the emergence of factors which actually detracted from its viability. Thus, with the increase in the size of the national markets – for example, in 1975 Guatemala's gross domestic product was similar to that of the entire area in

<sup>43</sup> Admittedly, of course, other factors nurtured the increasing dissatisfaction with the operation of the Common Market. Some of them – especially the distribution problem – will be discussed below.

1955—, specific branches of activity were able to operate with reasonable margins of economic efficiency on a domestic market basis, and as from the close of the 1960s there were signs that each of the Central American countries was going in for industrialization with a view to substituting domestic production for imports from the rest of the Common Market, while the relative share of inter-Central American trade in the foreign trade of the area has been steadily declining since 1971.

(iii) *Distribution problems.* The third element in the integration crisis is the well-known distribution phenomenon. As has already been noted, any scheme for interdependence is bound to generate problems of this type among its members, and the scope of such problems in the case under review needs defining. It is untrue that in an integration process like that of Central America costs for specific countries are necessarily reflected in benefits for the rest; as was pointed out in a recent document, the programme distributes the costs and benefits of integration unevenly, to the disadvantage of a particular country, a circumstance which, far from resulting in net benefits for the rest, becomes on the contrary a source of cumulative costs which affect them unfavourably.<sup>44</sup> And this has in fact happened in Central America; the relative poverty of at least one of the member countries has tended to become a cost that hampers the satisfactory progress of the entire Common Market.

Undoubtedly, the present situation must be partly attributed to the integra-

tion style prevailing in the region—market integration—since it is the one that makes it most difficult to cope with a distribution problem such as that described above. Since the operation of free trade was left to the mercy of market forces—it should be recalled that one of the few corrective mechanisms at the disposal of the scheme, i.e., the Régime for Integration Industries, was hardly applied in practice during the 1960s—the new investments encouraged by the expanded market were channelled towards the areas or countries which had the biggest market and the best developed physical and human infrastructure.

It would be unfair, however, to impute the Central American distribution problem solely to the integration style adopted during the 1960s. Those same circumstances that helped to limit the scope of the process would almost have rendered inoperative a different 'style' such as the integrated development approach—which in theory at least tackles the distribution problem—, because the co-ordination of policies for distributive purposes entails submitting some lines of action to common treatment, and that would have necessitated the delegation of national powers to regional agencies. As shown above, past experience suggests that such a situation would have been unlikely to materialize.

A higher degree of co-ordination of policies, especially at the level of joint formulation of national development plans, is attractive and desirable as a means of pushing ahead with integration and at the same time securing better distribution of its costs and benefits among the member countries. Nevertheless, it would also be a mistake to pin exaggerated hopes to a reorientation of this type in the Central American integration 'style', at least to judge from the brief

<sup>44</sup> See CEPAL, *Planteamientos y posibles medidas en torno al problema del desarrollo equilibrado en Centroamérica* (CEPAL/MEX/74/22), November 1974, p. 8.

experience of the Joint Programming Mission. In the first place, because overall development planning is still on a shaky footing, even at the level of the individual countries, and because the incorporation of integration objectives in such plans does not necessarily mean that subsequent official action will be in line with them. Secondly, the integration variable—although of increasing importance—still carries relatively little weight in the individual Central American economies,<sup>45</sup> and it is perhaps for that reason that the region's planning experts have shown a marked tendency to regard integration as a mere appendix to national economic development, and to continue following this criterion in economic and social development planning. Thirdly, the consensual character of any integration movement precludes the possibility of strict programming of the members' commitments, since every proposal will have to pass through the natural process of negotiation. Lastly, even if a consensus were reached with respect to a regional development programme, a centralized agency would have to be established—a community organ endowed with supranational powers—with sufficient authority to enforce its implementation by the participants: a very unlikely eventuality, to judge from what has happened in the past.

These indications of the potential limitations of joint programming are corroborated by the experience of other integration movements in which care has

<sup>45</sup> In 1975, the proportion of the gross domestic product represented by exports to the rest of the Common Market was as follows: Guatemala, 4.4 per cent; El Salvador, 5.1 per cent; Honduras, 2.1 per cent; Nicaragua, 5.6 per cent; and Costa Rica, 4.6 per cent.

been taken to confine the area of joint programming to the activities strictly necessary to make integration work well. In the Andean Group, for example, where exceptional importance has been assigned to what are termed sectoral industrial development programmes, joint programming has in fact been applied only to a few projects or sub-branches of industry which are considered to be of primary importance for the progress of integration.<sup>46</sup> Even the Council for Mutual Economic Assistance (CMEA)—an integration movement among countries with centrally-directed economies—formulates joint plans of limited scope. Thus, a recent CMEA publication notes that socialist economic integration is effected on an entirely voluntary basis and is not accompanied by the formation of supranational agencies, nor does it affect problems related to internal planning or to activities in the field of finance and financial self-management.<sup>47</sup>

To sum up, during the 1960s the integration style adopted did not allow mechanisms to be brought into force which would promote better-balanced development as between the Central American countries, and doubt may be felt, for reasons noted above, as to the efficacy of the mechanisms that might be introduced under a style more closely linked to integrated development.

(iv) *The insufficient depth of the process.* The fourth and last element in

<sup>46</sup> See Board of the Cartagena Agreement, "Bases generales para una estrategia subregional de desarrollo", Andean Group, Separata N<sup>o</sup> 11, May 1972, p. 5.

<sup>47</sup> See CMEA, *Programa complejo de profundización y perfeccionamiento de la colaboración y de desarrollo de la integración económica socialista de los países del CAME*, Moscow, Editorial Progreso, 1972, p. 13.

the Central American integration crisis is to be found in the insufficient depth of the process and in the tensions that have arisen between centralizing and decentralizing tendencies, the term 'depth' being understood to mean the extent to which governments confer powers on regional institutions.<sup>48</sup> In this connexion, the evolution of Central American integration institutions would seem to reveal two basic facts. Firstly, the Programme cannot be said to have resulted in increased delegation of faculties or powers to regional institutions, as might have been expected in the light of neofunctionalist theory. Secondly, it is endowed with a decentralized institutional structure, which has also been the object of centralizing aspirations that have had to remain unfulfilled.

The first of these characteristics has been reflected in little power of initiative, limited financial autonomy and restricted capacity to ensure implementation of the decisions adopted. In consequence of their scant power of initiative, for example, the regional institutions have not attempted to go beyond the limited objectives which the constituting instruments had assigned to the Programme, and this in its turn has led to over-concentration of attention on monitoring the execution of the original commitments. The lack of financial autonomy has been evidenced in a high degree of dependence on government contributions (and, in default of them, on external sources). Lastly, it was largely due to the governments' reluctance to accept any solution of a supranational character that the institutions were not granted the necessary powers to enforce

<sup>48</sup> See *Sugerencias para reactivar a corto plazo la integración económica centroamericana*, *op.cit.*, p. 36.

the implementation of decisions adopted by common accord. Hence it has been a characteristic of the process that important decisions adopted have often become a dead letter, or, again, agreements or treaties formally signed have remained unratified for long periods, and even when their ratification has been secured it has not been possible to put them into operation.

In short, the institutional evolution of Central American integration makes it evident that between the attempts of the regional institutions to acquire greater powers and the tenacious opposition of governments to the granting of such faculties a tug-of-war has taken place, in which the governments have ultimately been victorious.

Furthermore, in institutional respects the process betrays a tension—apparently unresolved—between the existence of a decentralized institutional framework and the endeavours made to introduce some degree of co-ordination through centralization. This tension may be said to have accompanied the integration process from its very birth, when the tasks relating to economic integration were kept separate from those aimed at political unification, the two types of activity being pursued in different forums and institutions and with little co-ordination between them. It should be recalled that during the 1950s, the Organization of Central American States (OCAS) made an attempt to bring economic integration activities under its control and co-ordination, but was unsuccessful.

Within the sphere of strictly economic efforts, the programme is marked by a decentralized institutional set-up, resulting precisely from the application of several different approaches in Central American integration, since, on the one

hand, separate institutions were established to be responsible for some particular joint activity (like ESAPAC and ICAITI), whereas, on the other hand, emphasis on trade integration led to the emergence of the programme's own organs (the Economic and Executive Councils and the Permanent Secretariat). To the foregoing may be added, *inter alia*, the specific institutions in the fields of monetary integration (the Central American Monetary Council) and of regional financing (the Central American Bank for Economic Integration).

The decentralization described indubitably involved certain advantages: for example, the full brunt of the effects of the 1969 conflict between two of the countries participating in the programme did not have to be borne by a single institution. While the Organization of Central American States (OCAS) was seriously weakened, the Central American Bank for Economic Integration (BCIE) and the Central American Monetary Council continued to operate more or less normally. These advantages were not always turned to good account, however, because of the permanent tension created by the claims of some institutions to supremacy over others,

and the action taken by all of them to preserve their relative autonomy. For example, it was never possible to subordinate BCIE's financing programme to the overall development policies drawn up by SIECA and approved by the governments (policies which, moreover, were never systematically formulated), nor did the experience of the 1960s testify to much co-ordination between the activities of SIECA and those of the Executive Secretariat of the Central American Monetary Council. It is true that the tensions arising out of the desire to co-ordinate the work of all these institutions (centralization) and their autonomous action (decentralization) could have been somewhat eased by the establishment of a voluntary co-ordination and consultation mechanism. But the sporadic inter-institutional meetings held throughout the period under review seldom led to the identification of areas of common interest on which the regional institutions could present a united front *vis-à-vis* the criterion of the governments. Rather did they reveal the wasteful expenditure of energy in coping with the tensions in question, which only helped to weaken the relative influence that each individual regional institution could exercise over the governments.

### 3.

## Implications of past experience for the future

#### (a) *General considerations*

Undoubtedly, Central America would be in a better position to con-

front the many obstacles to its development if it were a larger economic unit instead of five separate economic entities. The obvious advantages which make its economic integration advisable

—economies of scale, more rational location of investment, greater specialization at the regional level, more efficient utilization of the area's resources, improvement in its bargaining power *vis-à-vis* third countries— are well-known, and require no further analysis. It is therefore perfectly justifiable, *prima facie*, to promote ever-increasing economic interdependence between the five economies of the region, as the best way of accelerating development in each country.

This does not mean, however, that a predetermined goal—such as that of establishing a customs union or forming a bigger economic unit— will necessarily have to be pursued, since, as indicated earlier, past experience in Central America and in other integration movements shows that the construction of legal instruments which are too closely geared to achieving such objectives, instead of ensuring their attainment, is conducive to their violation; and the 'incrementalist' or linear view associated with this approach impedes the incorporation in integration activities of new fields not envisaged in the original commitments.

The experience gained in the operation of the Central American Common Market in the 1960s can teach other important lessons of which advantage ought to be taken in mapping out the future progress of the movement. It would be advisable, for example, to continue to promote integration—as was done in the past— by means of several simultaneous approaches, although a shift of emphasis in respect of the predominant integration style would seem to be justified, at least until significant changes occur in the degree of political will shown by the governments to allocate greater powers to the regional institutions.

It would also be as well to avoid some of the problems that arose in the 1960s as a result of the excessive emphasis placed on market integration, because that made it difficult to smooth out the inequalities in the distribution of the costs and benefits deriving from the process. This does not, of course, imply failure to recognize the considerable headway made so far in the establishment of the Common Market. One of the key tactics on which Central American integration would have to rely in the next few years is precisely the preservation—and as far as possible the improvement— of what has been achieved in the past in respect of the free-trade area and the common tariff. In other words, the market integration approach will be bound to continue playing an important role in the future.

A second tactic could be the assignment of greater importance to the project approach. Thus the future integration process would be guided by more pragmatic and realistic criteria, some of the obstacles that have hindered progress in the past fifteen years would be avoided, and integration would more usefully serve the fundamental end represented by the countries' economic and social development.

Stronger emphasis on integration by projects affords considerable advantages. In the first place, it seems to offer greater possibilities of correcting disequilibria, particularly if the identification and preparation of joint projects or activities are supplemented by increased support from the Central American Bank for Economic Integration. Secondly, it eliminates objectives that are utopian or unattainable within specified deadlines, failure to meet which, owing to political factors, merely helps to weaken the process. Thirdly, it is the most flexible

system for the incorporation of new activities more outstandingly important for integration, thus permitting the interests of the five countries to be more effectively unified in specific joint activities.

Moreover, if in view of the development of the process – and as a result of the progress achieved by placing greater emphasis on integration by projects – the governments showed that they were politically prepared to take integration a step further by gradually delegating powers to the regional institutions, it would be possible to continue advancing through the adoption of a third tactic: the integrated development approach.

It must be stressed here that the process in mind would not be devoid of a conceptual framework and based exclusively on pragmatic or ‘immediatist’ action which might or might not ultimately serve the purpose of increasing the degree of interdependence among the countries. The aim, in the last issue, should be to promote such interdependence by all the means in the power of the governments and the regional institutions, always with the idea of cooperating in the development of each individual country and, therefore, of the region as a whole.

In short, the intention would be deliberately to expand the scope of the Central American integration process by incorporating new activities which the governments would undertake jointly, without neglecting follow-up of the progress already achieved. With such an approach, the emphasis would fall more on *integration activities* and less on the fulfilment of *formal commitments*.

The main criterion ruling the adoption of new projects or joint activities would be simply the possibility of generating benefits for the various countries.

The application of this criterion and the increasing interdependence and community of interests among the countries that would gradually emerge would indicate the lines along which integration should develop in the future and would help to overcome any opposition there might be to the adoption of more ambitious measures.

All this would mean deferring objectives of a global type, such as, for example, the formation of a customs union within a specific period, or the perfecting of an economic union. It would be sufficient to adopt as a general integration objective that of furthering the development of the five countries of the region, and as an instrumental objective that of reaching higher levels of interdependence, without stipulating stages on the way.

Moreover, it would seem preferable to abandon the ‘incrementalist’ or linear view – that one stage inexorably follows another – in favour of a ‘sequence’ whereby the increasing degrees of interdependence sought would be attained not in predetermined succession but only when the actual dynamics of the process so dictated and prevailing circumstances permitted.

Consequently, any excessively globalist pretensions, in the sense of endeavouring to deal simultaneously at the national level and within the context of integration with all activities related to economic and social development, would have to be renounced.

Lastly, it would be necessary to design an institutional framework that would be applicable to a multiple system, with special emphasis on integration by projects. Some of these propositions are explained in greater detail below.

(b) *Requirements in some specific areas*

The adoption of an integration system in Central America which would give more importance to integration by projects within the range of approaches suggested – again it must be urged, without completely abandoning the application of the other approaches – would influence the method of organizing the effort to achieve increasing degrees of interdependence. First, it would be necessary to specify criteria for selecting new activities to be subjected to common treatment; secondly, the institutional framework – at the national and regional level – would have to be shaped on the lines required by the project system. While no attempt will be made to deal with the subject exhaustively, some considerations on these aspects of the problem are presented below.

(i) *Criteria for the selection of priority areas.* As pointed out earlier, integration projects should bring intrinsic benefits to the member countries and also generate advantages which are beyond their reach when they are operating unilaterally. These benefits may derive from (a) projects or joint activities implying economies of scale; (b) projects entailing indirect benefits or external economies; and (c) projects which help to reduce the vulnerability of the participating economies. A combination of these possibilities may, of course, occur.

Projects implying economies of scale are the most obvious and the most commonly invoked justification for integration, particularly in small markets like those of the individual Central American countries. This advantage is most frequently exemplified, of course, in the manufacturing sector, and as technological innovations are introduced the

economies of scale increase. For instance, the operation of a specific plant on reasonably efficient lines may require the expanded market of several countries under an integration programme. In other cases, it will be simply a matter of taking advantage of that market to install a few plants operating at optimum capacity instead of a larger number operating below the optimum level. The establishment of plants that will operate at their maximum capacity is also important if competing on the world market is an end in view, a point which is likewise of interest to the Central American countries.

The possibility of profiting by economies of scale is not, however, limited to the manufacturing sector. Although it may not seem a very important factor in agricultural production, there may be advantages in operating jointly in the fields of processing and marketing. In the case of Central America, for example, joint action – by either the public sector or private entrepreneurs – might be considered in connexion with the sale of fruit and vegetables from the whole region to third countries.

Another sector in which concerted action permits a saving in costs is that of physical infrastructure, as regards not only the joint designing of projects in the transport, communications, energy or water resources sectors, but also their joint operation or management. Similarly, there are evident advantages in dealing jointly with research and some aspects of education, a fact which was recognized in the first half of the 1950s with the establishment of the Nutrition Institute for Central America and Panama (INCAP), the Central American Research Institute for Industry (ICAITI) and the Advanced School of Public Administration (ESAPAC) (now the



Central American Institute of Public Administration (ICAP) ).

Lastly, the services sector offers distinct possibilities for taking advantage of economies of scale, as has been shown in the East African Community, where a regional port unit, airline and railway line have been set up, as well as a single postal service. In Central America, examples of this type of joint action can also be found in the radio aids to aircraft provided by the Central American Air Traffic Corporation (COCESNA) and in the joint efforts to promote tourism through the Secretariat for Central American Tourism Integration (SITCA).

The indirect benefits or external economies which might be obtained from joint projects or activities are closely related to the benefits deriving from economies of scale, but they may have a value of their own. For example, entrepreneurial capacity in Central America could be improved by means of regional projects. A secondary benefit stemming from the execution of a regional project may be the encouragement of a higher level of competition, which would redound to the advantage of the consumer and would help to increase efficiency.

The third criterion mentioned—reduction of the vulnerability of the economies—is based on the fact that in many cases governments can more effectively counteract factors which are adverse to their economic development by taking joint instead of unilateral action. The external sector probably offers the best chances in this respect, both because a region has stronger bargaining power *vis-à-vis* third countries, and because it affords greater room for manoeuvre in influencing the behaviour of exports, imports or movements

of capital.<sup>49</sup> In other words, the reduction of the external vulnerability of the Central American economies is another of the main justifications for undertaking joint projects or activities.<sup>50</sup>

Not only can adverse factors of external origin be dealt with in common, however, but also some of internal origin. The identification and execution of activities within the framework of integration, for example, may permit a greater degree of intervention in some that are awkward or over-risky to tackle at the internal level, as might be the case with regard to action in the tax field or a regional policy *vis-à-vis* direct foreign investment. At the same time, regional activity can reinforce action taken by each government at the internal level; there is no doubt, for example, that the work of the Joint Programming Mission referred to in the previous chapter strengthened the planning process at the level of the individual countries.

In brief, integration offers a platform for action which at the national level may not be regarded as necessary, but which would favourably influence the development of the individual countries, and, moreover, would give the group of countries as a whole additional economic

<sup>49</sup> This factor was undoubtedly taken into consideration when it was decided to establish the Latin American Economic System (SELA), constituted under an agreement signed in Panama on 17 October 1975. However, the possibility of deciding on specific activities in the field of foreign trade, for example, is greater among a group of countries as homogeneous as those of Central America than among so heterogeneous a group as the members of SELA.

<sup>50</sup> See *Sugerencias para reactivar a corto plazo la integración económica centroamericana*, *op.cit.*, especially pp. 61-93.

strength to overcome the obstacles hindering its development.

Lastly, it should be noted that the idea of reducing the vulnerability of the Central American economies on the basis of joint activities is not confined to the public sector alone. Entrepreneurs too have discovered the advantages of joining forces at the regional level—a case in point is the Central American Federation of Manufacturers' Associations (FECAICA)—in order to give more weight and specificity to the demands they put before their governments.

(ii) *How to deal with distribution problems.* The fact that a joint project or activity may bring benefits, either because it implies economies of scale and indirect economies or because it helps to make the economies of the region less vulnerable, does not mean that such benefits are distributed equally among all the countries. What is more, in such cases as, for example, the establishment of a single industry to supply regional demand, the benefits may be concentrated in the country where the plant is located and, in line with the reasoning of neo-classical economic theory,<sup>51</sup> may even be converted into costs for the rest of the countries.

Hence the importance of distinguishing between activities which involve sacrifices of some kind for the participants and those which represent no cost to any of them, or whose cost can be transferred to third countries. For example, the establishment of a Central American company for marketing vegetables abroad may in all probability entail no sacrifice for any of the countries in comparison with what is likely to happen when each performs this task unilaterally. This type of project would

<sup>51</sup> See *The Customs Union Issue*, *op. cit.*

be the most acceptable from the standpoint of the distribution of benefits. Others, in contrast, do raise the problem of costs for some and benefits for others. For example, the establishment of an industry in one of the countries may yield profits which are seen as losses by the rest. To even matters up, it is advisable to prepare groups of projects in sufficient number to ensure that the sacrifices which one country may have to put up with in some activities will be offset by the benefits obtained in others, without of course carrying this to such an extreme as a mathematical distribution of costs and benefits among the five countries of the region.

Furthermore, in analysing new projects the distribution criterion should always be kept in mind. Thus, preference could be given to projects whose optimum location from the economic standpoint favoured the relatively less developed countries of the region.

Another way of mitigating distribution problems when projects involved financial costs would be to obtain external support (for example, through international technical co-operation), in particular in order to reduce the burden for the relatively less developed countries, and thus make the projects viable.

Lastly, it should be noted that it is the responsibility of the promotion instruments at Central America's disposal, especially the Central American Bank for Economic Integration, to assign projects to specific countries on the basis of both optimum location and distribution criteria.<sup>52</sup>

(iii) *The role of programming.* National planning has always been linked

<sup>52</sup> See *Planteamientos y posibles medidas en torno al problema del desarrollo equilibrado en Centroamérica*, *op. cit.*, pp. 31-33.

with integration, within what is described here as the 'integrated development' approach. The role of planning in Central America's future integration process would be no less important, even if preference were shown for the integration-by-projects style.

In that event, it would not be absolutely necessary to contemplate the overall or even the sectoral programming of the economic activity of the individual participating countries in a regional context; what could be considered would be the programming of limited objectives. The idea is that planning offices in Central America should participate fully in the process of identifying projects and in the specific activities that would be the object of joint action, in line with the above criteria. At the same time, the planning offices would perform the essential task of gradually incorporating in their respective national plans the regional projects assigned to the individual countries, under whatever consensual agreements might be concluded. Lastly, once certain regional projects were included in a specific national plan, the planning office of the country concerned would supervise their timely execution. This task of supervision would be complementary to the promotion activities carried out by the Central American Bank for Economic Integration and the respective national development institution.

Decisions regarding the allocation of projects and their incorporation in national development plans require the convening, at fairly regular periods, of meetings of government officials holding different ranks in national planning offices—including the Directors themselves—so that they can become directly acquainted with the process of identifying and preparing projects of regional

interest. These questions are examined in greater detail below.

(iv) *The institutional framework.* An integration approach such as that under review, in which greater emphasis is placed on integration by projects than in the past, points to institutional decentralization. In fact, in line with the principle that institutional solutions must respond to the objectives pursued in each joint activity, there might emerge, as an extreme case, an institutional formula for each joint project or action, depending on the objectives pursued. It is impossible in the present phase of Central American integration, to visualize a formula that would be universally valid for all activities undertaken in common.

It might be argued that this implies some contradictions and a certain amount of overlapping of functions and inefficient use of resources, but that happens even in each country's own public administration, and the disadvantages would be amply offset by the advantages of institutional decentralization in a process which has not yet compassed the formation of a major unit possessing regional organs with supranational features. One of these advantages is that some sectors would make more progress than others and, in times of crisis, the adverse effects would be spread over several institutions instead of being concentrated in a single one.

This is by no means intended to suggest that there should be no coordination between regional institutions. It only recalls the lack, within the integration programme, of a central entity with sufficient authority and power to enforce the implementation of decisions both by governments and by the other regional institutions.

Nor would a system such as that described necessarily exclude a community

organ; rather it influences the type of powers that would or would not be assigned to the organ in question. This subject will be reverted to later.

Thus, on the basis of the objectives pursued in each project or joint activity, distinctions may be established between the institutional frameworks required for each type of activity. First, there would be those activities in which the participating governments possess a certain amount of experience but the benefits of which are obtained unilaterally. If the execution of joint activities in these fields would not immediately bring greater benefits to all concerned—a matter that would have to be determined case by case—the action taken could be reduced to mere exchanges of information and experience with a view to the identification of areas of common interest. Such exchanges could take place at intergovernmental meetings of experts which would precede the adoption and execution of any common project. That is what happened in Central America, for example, during the 1950s, with the various sub-committees of the Economic Co-operation Committee, some of which still meet periodically.

This fairly simple type of institutional arrangement requires at least the existence of a secretariat that will assume responsibility for the compilation of data, procedural matters (such as the convening of meetings, agendas and records), and the identification of the first joint projects, while the participants are amassing the necessary reciprocal knowledge. After identifying a common project, these intergovernmental expert committees would submit it for approval by a higher authority—preferably with ministerial status—and the secretariat

serving at the expert level could also serve as such at the ministerial level.

Secondly, in the case of a project involving a specific activity the benefits of which would be accessible to all participants, the institutional formula would also be relatively simple. The financing of the project—either by equal or by unequal contributions, according to whether the distribution problem is or is not to be taken into account—would represent a body of resources whose management would be entrusted to a group of regional specialists under the direction of an intergovernmental committee which would adopt its decisions unanimously. This has generally been the formula used in the regional research institutes of Central America, with satisfactory results. Experience would seem to advise its adoption, as far as possible, through the conclusion of an international treaty that would endow the group executing the project with the necessary legal status.

Thirdly, for the provision of a regional public service a more complex institutional formula would be required. As in the case of the radio-aids for aircraft provided in Central America by COCESNA, a regional corporation could be set up, to be financed by its members, whose representatives would form its supreme organ. The distribution of profits, if any, would be proportional to the contributions, and here again the alternative course of unequal distribution of contributions and profits might be considered, still with a view to balanced growth. The establishment of such a corporation would also have to be based on the conclusion of an international treaty giving the executing authorities the legal status necessary for the provision of the service.

As noted earlier, in none of the alternatives hitherto described should the possibility be overlooked of obtaining external financing to supplement the financing contributed by the participants. In all the cases mentioned, it would help in some degree to reduce the cost that the execution of the project might involve.

Lastly, for projects connected with the production of a good or the provision of some service by private investors, or in the case of mixed investments, it would be advisable to prepare a regional statute to regulate the constitution of regional enterprises. Until such a statute were brought into force, enterprises would have to be established in accordance with the laws of the member country where the project was located, and operate on the basis of free trade and the protection afforded them by the common tariff, or of the fiscal incentives they received from the host country. If such enterprises were to have exclusive access to the expanded market, it would be necessary to explore the desirability of adopting regional provisions to regulate their operation and prevent their monopolistic position from affecting consumers in the region. Such regulations already exist in Central America for enterprises classified under the Régime for Integration Industries. Advantage could be taken of that experience in the case of similar enterprises. The decision to establish a specific industry would be complemented by an intensive promotional campaign which could be entrusted to the Central American Bank.

All the above considerations refer to any new projects or activities which the participants might decide to undertake jointly in view of the impossibility of obtaining identical benefits unilaterally.

With this same purpose of obtaining greater benefits, some activities which the governments are already carrying out individually could be tackled on a regional scale. The institutional solution would then be more complex, since in so far as the aim was to make activities that already existed at the national level compatible at the regional level, some formula would have to be found for co-ordinating policies, and this would involve, in addition to the actual work of co-ordination, the indication of certain regional priorities to which government action might have to be subordinated. In this case, the co-ordination of policies would have to be conceived along such lines as to bring the participants some tangible benefits in return. Here an example is set by the co-ordination activities which are made a requisite for obtaining financing, in the recent loans extended by the Central American Monetary Stabilization Fund (FOCEM) to three central banks in the region.

Another important point in connexion with the institutional aspect is that the groups or units directly or indirectly benefiting from each new joint activity, i.e., those most interested in the execution of the project, should be identified as clearly as possible. This would apply not only to governments, but also to the interested private groups in the region. An essential requisite would be that neither the one nor the other should be visualized as a unitary body with a monolithic will. Such concepts as the "national interest" or the "interest of the private sector" have been shown, in practice, to be too abstract, because underlying them are the internal conflicts occurring within each government or interest group with respect to the formulation of what is then interpreted as the "national" or "entrepre-

neurial" position. The aim behind this non-unitary conception of the agents of the process is to make use of the diverse influences wielded by their component elements in determining the resultant position reached.

A further effect of integrationist measures which should be expressly pursued is to promote the greatest possible regional solidarity among government officials or units, or homologous groups which have to deal with similar problems at the national level. The way the Central American Monetary Council has been operating may serve to exemplify this type of *esprit de corps*, which has been established between the central banks of Central America, at different levels of authority, and has brought out a regional solidarity based on a shared view of their position within the individual governments. To this may be ascribed the positive results achieved in connexion with monetary integration.

It would be equally interesting if each new integration activity served to increase the participants' operating capacity in sectors that were relegated to a secondary plane. A case in point, for example, is the TRANSMAR project, which has brought into focus the need for government units specializing in the design of port and maritime navigation policies. Of course, the establishment and strengthening of such units would later raise the more difficult problem of regional co-ordination for their operation, but that is no reason why their

mere establishment should not be one of the positive effects of any integration activity.

None of the foregoing comments refers to the institutional requirements involved in conserving the interdependence already attained—as in the case of free trade and the common tariff in Central America—because the only possible way to preserve it would seem to be to continue unflaggingly increasing it by specifying and putting into practice new activities complementary to those already existing. The need to extend the coverage of the existing activities and include other new ones is considered an important part of this conception of integration, and in such an event the new complementary activities would have to be identified and carried out by the same institutions as were responsible for the original undertakings.

The institutions referred to could continue to operate as multinational units without supranational powers—like SIECA—, but with some of the features of a community organ, as, for example, the power of initiating action. In both cases, their main responsibilities could be (1) systematically to identify new areas of interest with a view to deliberately producing spill-over; (2) to undertake follow-up and promotion activities in connexion with the execution of such projects; and (3) to co-ordinate, on a consensual basis, the activities of the rest of the regional institutions.

## *Comments by Cristóbal Lara Beutell*

It was fortunate that the agents of integration in Central America never troubled their heads about the style that had been adopted, or the characteristics of the integration model that was being created; whether the process was being conducted on 'incremental', global or partial lines; or, lastly, whether one or other of these characteristics corresponded to one or other specific type of co-operation. Though it may seem an irony, no fixed rules governed integration in its formative phase in Central America, the approach changing in accordance with what were deemed to be the needs of the region. For it was not so much the type of integration pursued that was of concern as its repercussions on the regional economy, and, specifically, the physiognomy that would supersede the old patterns displaced by new developments.

Today we are suffering from an itch for classification so acute that at times activities are felt to be of interest less for their results than for the broader type of action within which they are comprised: in other words, for their classification. And this almost inevitably determines a leaning towards isolated and sometimes small-scale activities, which are proposed and advocated precisely because of their isolation, because they are viable, because supposedly they can be carried out at no cost to anyone or benefit all alike, or in the light of any other criterion relevant to the status and characteristics of the recommended groups of decisions. Not very many years ago, in Latin America, there were some who went so far as expressly to defend what was then called micro-integration, that is, the promotion of common activities on a small scale.

As such activities, however sporadic or modest, need something behind them greater than themselves to give them impetus, and that 'something' not only has lost strength in recent years, but is sometimes considered unnecessary and even counterproductive, the path they offer may lead to a veritable *cul-de-sac*: to utopias in reverse, which are as unattainable as utopias themselves, but, unlike these, even if they were attained would bring about no fundamental change.

Herein lies initial food for thought. Whatever the extent to which the advance towards any action of far-reaching scope has been interrupted or seriously hindered, it is still true that neither Central America nor, where the case arises, any other Latin American region will achieve its integration through isolated activities, related to narrow horizons. Whether we like it or not, a minimum push must be given without which continued progress will lack impetus or will not be possible at all. In other words, specific activities, however specific they may be, will thrive in the propitious environment of broader impulses and programmes from which they will stem.

This is a point worth dwelling on, because it is fashionable to believe that much of what happens outside integration programmes (agreements between private enterprises, joint investment projects and the ways in which the transnational corporations specialize for the market) occurs independently not only of the programmes but of integration itself. And given this belief, it is only one step farther to the replacement of integration programmes—complex, entailing commitments and presumably of indefinite duration—by specific projects

of limited and clearly-defined scope and effects.

Experience in Central America, and in other Latin American regional groupings, does not bear out such a view; non-formal or parallel integration comes into being, in the natural course of things, in an environment already rendered favourable for its emergence by the fact that integration programmes themselves and policy commitments have held out prospects of profitability and the certainty of permanence.

Consequently, such central integration impulses are an indispensable requisite if all the rest is to follow. Or, to put it better, instruments and policies will sometimes need changing because they are worn out by too much use, because they have entered upon a phase of manifestly diminishing returns, or, because, on the contrary, after years of lying idle they have grown rusty, as may also happen, and indeed has happened with some of the integration policies subscribed to in their time. But what will not be possible is to dispense with the central impulse and yet continue advancing in respect of a balanced and favourable relationship among our economies: that is, towards lasting solidarity.

Of course, another requisite is plurality of approach, and programmes and projects such as those rightly proposed in Central America's case by the authors of the article under review; but even more is it needful to find the bases for a new 'big push' whereby the stages already travelled can be left behind and new motive forces can be generated. That is the major problem; and it is at this point that Central America has stood since the earlier integration impulses began to lose force.

These impulses consisted mainly in: (a) the sudden expansion of the five countries' markets for any individual producer; and (b) regional import substitution, a road already taken by other Latin American countries. These two movements, furthermore, were inward-directed.

The first of them came about at a specific moment, in 1960, but by its very nature this *sudden* expansion could only occur once and for all. The secondary effects of the historic change which consolidated the five national markets in a single whole are still operative today, but the change itself cannot be repeated. As regards the second factor, the possibilities inherent in regional import substitution and the birth and expansion of manufacturing industry are far from having spent themselves, and a valuable joint development potential still exists: but, for one reason or another, its exploitation has been deferred again and again.

In these conditions, Central America cannot bemuse itself in contemplation of its own inward-directed co-operation, and there would be obvious advantages in carrying this co-operation on to the level of exports of manufactures to the rest of Latin America and to other areas: firstly, in view of the well-known fact that many industries are still affected by limitations of size, even taking due account of the Central American Common Market as a whole; and secondly, in order to bring about a significant change of attitude, since for too many years economic co-operation in Central America has been centred on patching up disagreements. A supremely important change would be heralded by any effort on the part of the Central American countries to extend the frontiers of their reciprocal co-operation



and join together in exporting to third countries, since such a policy would tend to unite them, and the movement would thus gain fresh impetus.

This would give rise to investment projects and programmes like those suggested by Cohen and Rosenthal, linked to the Central American Market and to that of other Latin American countries. The article by these two writers represents a valuable quest for solutions. It is an invitation to take another stride forward, and, for a while, to construct integration through projects of decisive significance for the economy: important enough, in fact, to lead in the course of time to the application of more general development and market expansion measures. This constitutes the 'multiple approach' which the authors also recommend. But the essential element in the approach consists in projects which by virtue of their importance and the diversity of the fields they cover form a sort of new programme of integration activities. The key point to settle is whether the region is in a position to mobilize the energies required for bringing such activities into being, without introducing major modifications in the political conditions surrounding integration.

It would appear from all that has been said that in order to enter upon this phase of achievement certain basic changes are needed. On the one hand, it would be necessary to pass from a phase of negotiation among the five countries to a phase of negotiation *vis-à-vis* others, and of co-operation with other countries too. Despite the setbacks suffered by integration in recent years, Central America is in no danger of losing its identity, but it could reaffirm that identity now in contact with others instead of merely within its own relative

isolation. This need to forge links and enlarge the scale of economic operations is not peculiar to the small Central American area, and holds good in varying degrees for the rest of Latin America.

But what would be the conditions in which relations could be established with other countries and regions in Latin America? It can be said straight away that they would have to be different from those prevailing in the past. Central America could not compete as a minor unit among major units unless it were able to count upon its own complete internal cohesion. The last five years have witnessed a rapid expansion of trade with the other Latin American countries, but on the basis of a relationship which is still ill-balanced, since imports do not find their necessary counterpart in the shape of exports.

Moreover, there are manifest symptoms that the Central American programme has lacked certain indispensable elements that would enable it to help in finding ways out of urgent national problems, to cope with particular combinations of circumstances, or to adapt itself to the rapid economic changes that have taken place in the last few years; not to speak of that veritable Achilles' heel of integration, inequality of benefits, which means that some profit by the movement and others gain little or nothing at all. Problems of this type are outside the scope of the so-called project approach, and until their solution is ensured they will make it difficult for suitable projects to be formulated.

Another requisite for progress seems to be closer linkage between integration efforts and some of the most crucial problems of national development, to further which is the function of such

efforts in a region like Central America, as was clearly envisaged from the very outset. And as long as they remain apparently remote from such problems as unemployment or income levels, they will meet with a cool reception, and will not kindle the same warm interest as national development policies. When the linkage in question is achieved, integration will no longer be a 'week-end exercise', as a well-known Central American once said, but will tend to enlist steady and continuing attention and support. To recover from the integration crisis, in a lasting sense of the words, is to enter upon active participation in the development problems of the countries and of the region. Here too the project approach needs the support of the more permanent integration instruments and policies.

The time may possibly come when projects and programmes of broad significance can be launched, and when this will be the best way of making progress in integration; but not in the midst of a climate of opinion which undervalues or disregards the integration movement, for if there is no faith in the strength of the integrated market, there will hardly be faith in the economic destiny of the activities established within it, nor will the future hold out motivating prospects. Julio Melnik, one of the best thinkers on the project problem—and on many others—, when bombarded with questions as to what could be done to encourage the emergence of projects, used to say with irrefutable logic that the *sine qua non* was a climate of development; without development no project could exist. And we might say that neither can projects be looked for without a climate of integration.

Again, the Central American economies viewed their early integration

efforts in a far-reaching perspective which clearly revealed the prospect of a stronger, more advanced region, where the quality of life would be better. Such farsightedness is still needed. This it was that made it possible to deal with major and minor problems which otherwise would have impoverished the environment and retarded the pace. One of the factors which influenced the 1969 crisis and the discouragement preceding it—a factor which entered into every sphere of integration— was the gradual blurring of the great objective of unity combined with development. When it was lost sight of altogether, something very serious had happened: either reality could no longer provide sustenance for a constructive vision of the future, because the actual situation had deteriorated; or the programme had been flooded by the so-called practical spirit, with the result that negotiation, haggling and the commercial instinct thrust aside all forward-looking aspirations, replacing them by the 'hard facts'. These facts proved too bitter to be stomachable when they were impossible to reconcile or compare with the constructive view of integrated development that had hitherto constituted the horizon of the programme.

Consequently, in the set of instruments and policies which seem likely to be applied in the future, a hiatus can be perceived which it is to be feared projects and programmes alone will be unable to fill: a hiatus created by a lack of purpose which holds back integration, in the sense of economies which give one another functional support in their development and which all strengthen their own roots by their union. For this reason, it may be difficult at present to advance towards integration through isolated activities, and progress in that

direction can now be better envisaged as the product of a new impulse which will bring in its wake programmes and projects—even projects on a minimum scale— together with major policies.

The time is not ripe, therefore, for isolated project-based activities, because no fertile ground has been prepared for them, and because they would have no strength to transmit but would exhaust what they possessed in their own vital effort to survive. Indubitably, there is a considerable margin for action in the form of that 'quiet progress' to which Professor Hirschman refers, and which is a path that many Central American activities and forms of co-operation have followed. Moreover, the approach proposed by Cohen and Rosenthal incorporates a valuable point of departure that might facilitate its implementation, inasmuch as the coverage of the areas of action is strikingly wide, comprising not only integration industries and other productive activities, but also important lines of regional policy. This has a dimension that might promote new and highly necessary forms of co-operation among the countries. But at the same time the twofold need already indicated still exists: the need for fuller economic support, which, either by way of extra-regional exports or by any other means, will link up Central American activities and will be capable of giving integration a new overall impetus; and the need to reconstitute the indispensable climate of achievements and objectives.

The more thought is given to this matter, and the closer the scrutiny directed upon what has happened since 1969 and what is happening now, at the time of writing—in Central America and in the world economy—, the more patent becomes the necessity of action bearing on the very pith and marrow of econo-

mic integration itself, not upon separate fragments of it.

To put it very briefly, the integration process must be more effectively related to the central motive forces of the national economies, to their purchasing power, to the region's natural resources (which are turned to very little account within the area) and to an export potential with fresh possibilities not only as regards the kind of goods exported, but also in respect of their destination, which could include new buyer markets both within Latin America and outside it. And when this is done, when integration is identified with these forces, it will tend to acquire new dimensions and operate on different levels, with vigour enough to find a way out of the present *impasse*, while strengthening all that already exists, not setting it aside.

This prospect of mobilization of action and policies throws into relief both the need and the basis for complementarity between the Central American Common Market and the Caribbean area, as well as the Andean Group and its member countries. What is suggested is not a general association, for all three systems are still in process of evolution, and have not yet taken their final shape. It would be unreasonable, in such circumstances, to attempt broad and complex linkage. But such a policy emphatically could be tried out in relation to important groups of products where the enlargement of the market could offer the incentive lacking today for the development of the corresponding productive activities; and not only markets could be pooled, but also financial and capital resources, organizational know-how, technology, and any other factors in respect of which the various regions are mutually complementary. This must not be left to chance,

however, but must constitute a line of policy followed by the five member countries. For chance, up to now, has been niggardly in promoting movements of such far-reaching importance.

It is an open question whether Central America would or would not be capable of undertaking this sort of natural prolongation of its own inward-directed integration, but at least the attempt could profitably be made. The Central American Common Market would find in it a compelling motivation that it lacks today. For in so far as it extends its exports to third countries, it will at the same time be obliged to raise the pitch of its economies to more efficient levels of industrial production. And this too would be another major objective which integration could bring within reach, just as in the past it wrought a notable change for the better in the production conditions prevailing when the process began.

It is sweeping changes such as those described that could afford the bases for the new 'big push' referred to earlier, whereby the stages already completed could be left behind and new motive forces could be generated. To that end, whatever specific form the 'push' may take, both projects and policies are needed. For projects will not be either formulated or executed by themselves, without the broader-based support of integration policies.

Moreover, in the Central American countries a high degree of reciprocal interest still attaches to the economic destiny of each individual one, since integration has advanced far enough to make them interdependent. But it is an unbalanced interdependence, at least as regards the country whose development is lagging farthest behind. In the failure to bear in mind or grasp this circum-

stance the explanation of the integration crisis lies, just as, in the future, understanding and observance of the principle involved will account for the reactivation of the process.

On the road towards normalization of the Central American Common Market there would be no question of enabling the countries that have gained less than others, or nothing at all, to recoup the benefits they previously had to forgo; the idea would be to construct their own source of profit and expansion within the normal operation of the system. Nor, by its very nature, will the balance sought result from occasional action, or sporadic compensatory measures. A set of economic interrelationships needs to be established that will link up the countries in such a way as to create a situation of shared prosperity, in which an adequate proportion of the impulse received by the country or countries whose growth is most dynamic will be commuted into demand for goods from countries that have not yet attained the same degree of dynamism.

For this purpose, the establishment of a network of interrelated industries manufacturing final production goods and intermediate goods in the various countries is a worth-while objective which could mobilize a great deal of energy in the Central American area, and create the right conditions either for sharing the prosperity generated by integration itself or for mitigating and offsetting whatever repercussions of recession and instability in the world economy may affect the region in the future. Needless to say, the economic transformation and the consequent progress of the more backward countries is conceivable, and possible to achieve, only over the long term; but unbalanced development is an immediate problem

which, unless it is tackled efficiently from the outset—as could be done now in a new phase—will gain increasing sway over the integration process.

The next few years may also witness an effort to assign integration a role more closely associated—as would seem appropriate to the degree of maturity that the process has already attained—with one of the principal development problems by which the countries are beset. The forces roused by integration could be channelled into the deliberate creation of new jobs, for which special financing could be used, both domestic and from other sources; and advantage could be taken of the regional market and the rapprochement with other regions and countries to support an employment-creating programme on a large enough scale to make itself definitely felt as a product of the integration

process on which it is based. Admittedly, the pace of the process has slackened. But it would be a mistake to conclude that consequently no action can be taken in the field of employment. For the loss of speed is also due to the detachment of integration from this and other problems and possibilities—a defect which must now be corrected.

Such lines of action may or may not prove feasible, and it would be unwise to oversimplify all that they imply in terms of effort and performance capacity. Be this as it may, however, there is a permanent and basic meaning of integration which calls for broad movements of the kind indicated if progress is to continue. And it is salutary, too, to recognize this fact, so that full advantage may be taken of the strength still displayed by the integration process, which, in the midst of an abnormal situation, is continuing to produce undeniably potent effects.

### *Comments by Albert O. Hirschman*

Issac Cohen Orantes and Gert Rosenthal have written a rich, thoughtful and constructive paper about the difficult process of economic integration in Central America. It seems to me that they might have used as an epigraph for their story the following paragraph by the Polish philosopher Leszek Kolakowski:

“The simplest improvements in social conditions require so huge an effort on the part of society that full awareness of this disproportion would be most discouraging and would thereby make any social progress impossible. The effort must be prodigally great if the result is to be at all visible. . . . It is not at all

peculiar then that this terrible disproportion must be quite weakly reflected in human consciousness if society is to generate the energy required to effect changes in social and human relations. For this purpose, one exaggerates the prospective results into a myth so as to make them take on dimensions which correspond a bit more to the immediately felt effort. . . . [The myth acts like] a Fata Morgana which makes beautiful lands arise before the eyes of the members of a caravan and thus increases their efforts to the point where, in spite of all their sufferings, they reach the next tiny waterhole. Had such tempting

mirages not appeared, the exhausted caravan would inevitably have perished in the sandstorm, bereft of hope."<sup>1</sup>

As I have said elsewhere, the moral of this fine passage is twofold: in the first place, the effort of the caravan would never have been forthcoming had the required social energy not been generated by the mirage. Secondly, in spite of the comparatively meagre result, the effort was definitely worth while since it alone permitted survival.

Both conclusions are highly applicable to the Central American experience with economic integration. That experience would not have been set in motion had it not been for the Fata Morgana of full economic unification and of its obvious implications in the political realm. Secondly, even though movement stalled at a considerable distance from that goal, the result justified the effort expended—in the Central American case it achieved nothing as dramatic as survival (as in the story of the caravan), but it can certainly be credited with having made an important contribution to the economic growth of the region over the past twenty-five years.

When the Central American experience is interpreted with the help of the Kolakowsky metaphor, another inference or 'lesson' can be drawn: there are special difficulties in visualizing in advance *intermediate* outcomes, be it the 'tiny waterhole' or the present fragmentary character of economic integration in Central America. The reason is that "man may simply be unable to conceive of the strictly limited, yet satisfactory, advances, replete with compromises and

concessions to opposing forces, which are the very stuff of 'incremental politics' as well as the frequent result of ambitious socio-economic development moves".<sup>2</sup> In other words, the goals we set ourselves are often utopian not so much for the purpose of galvanizing social energy, but because goals are part of the future and the future can only be visualized in very simple terms, without qualification and fine nuances. The present state of Central American integration could never have been specified in advance as an *objective*. It is the complex and contradictory, yet useful *outcome* of an action that had a far more simple objective and, once again, this outcome could not have been achieved had that objective not been set. Naturally, the distance between the actual outcome and the objective gives the impression of 'fracaso' or of 'crisis'. A correct understanding of the normal, to-be-expected relationship between *objectives* and *outcomes* of social action would thus make for less 'fracasomania'.

As Cohen Orantes and Rosenthal imply, the time may have come to accept the outcome instead of continuously lamenting it as a failure. That would make it possible to conceive of further practical moves on the basis of the present situation. In this connexion the observations about the tendency of import substitution *within* the Common Market are of particular interest. I had long thought that one pattern of industrial integration that would make sense in Central America would be for one country to set up a new factory (say, cement) that would export to the neighbouring countries part of its production

<sup>1</sup> Leszek Kolakowski, *Der Mensch ohne Alternative*, Munich, R. Piper, 1961, pp. 127-128. (My translation from the German translation.)

<sup>2</sup> A.O. Hirschman, *Development Projects Observed*, Washington, D.C., The Brookings Institution, 1967, p. 33.

during the early years while the domestic market was not yet large enough to absorb all of its output. Later on, it would be another country's turn to build the next cement mill which would also export for a limited number of years, and so on. This sort of practical project planning can make a useful contribution once the 'idealistic' phase has been exhausted; but it can do so only after one has made one's peace with that fact, at least for a while, pending the next big push.

It is instructive at this point to compare the Central American integration experience with recent policy-making in the United States. Not so long ago Anthony Downs attempted to analyse what he calls the 'issue-attention cycle' in American policy-making by distinguishing the following phases of a policy problem, such as environmental pollution:

(1) The 'pre-problem stage' during which the problem exists all right, but not much public attention is paid to it;

(2) Then comes "alarmed discovery and euphoric enthusiasm". The problem is considered *a priori* fully solvable "if only we devote sufficient effort to it";

(3) In the next phase, it is realized that solving the problem may be costly and goes against the immediate interests of large and influential groups of people;

(4) As a result of this realization, there is then a gradual decline of intense public interest, which is helped by the providential appearance of another problem that will occupy the limelight;

(5) Finally, there is the 'post-problem stage' which differs from the pre-problem stage in that a number of

efforts and agencies that have been set up to 'solve' the problem in Phase Two continue to exist and may actually make some quiet progress. Moreover, once the problem has passed through the cycle, it will continue to receive a modicum of public attention.<sup>3</sup>

This is obviously a rather ironic scheme; it reflects the author's irritation with the spasmodic policy-making style lately prevalent in the United States. In comparison with this North American style it appears that Central America has not done so badly with its common market experience! It fits the Downs pattern rather well, but improves upon it since a number of important advances were actually achieved in phases (2) and (3) when the problem was first analysed and acted upon. In the Downs sequence the only phase with some positive accomplishments is the last one when the 'problem' has reached the 'post-problem stage'. At this point, quiet progress becomes possible because the institutional framework now exists for dealing pragmatically with the matter. This seems precisely the present situation in Central America. The paper by Cohen Orantes and Rosenthal is in itself a strong indication that the reasonable, incremental phase (5) is at hand, and it also contains the sort of practical proposals characteristic of that phase.

<sup>3</sup> Summarized from "Up and Down with Ecology - the 'Issue-Attention Cycle'", *The Public Interest*, No 28 (Summer 1972), New York, National Affairs Inc., pp. 38-50. With respect to point (4), Downs turned out to be prophetic, as in 1973 the energy problem displaced the environmental pollution problem from the headlines.