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NOTE BY THE SECRETARIAT  
ON THE CENTRAL AMERICAN COMMON MARKET



Since the year 1952, one of the aims pursued by the Central American countries - as part of their Economic Integration Programme - has been the formation of a common market for the area. Such a market was established under the terms of an agreement signed by the Governments concerned in December 1960.

The period of nine years that has witnessed the shaping of the Central American common market falls into two clearly-defined phases. The first of these, extending from 1952 to 1958, comprised the stage of conception and formulation, as well as the preparation of studies relating to the structure and development of the Central American economies. It coincided with the conclusion of various bilateral free-trade treaties among most of the countries of the area. The second phase, which began in 1958, was characterized by the concerting of a set of multilateral instruments designed to form the institutional framework of an effective common market.

#### 1. Free trade

In June 1958, during the fifth session of the Central American Economic Co-operation Committee, held at Tegucigalpa (Honduras), the Multilateral Treaty on Free Trade and Central American Economic Integration was signed by the five countries of the area, which thereby pledged themselves to institute a free-trade régime and bring it into full operation within a period of ten years. Two years later, in response to the pressing needs of industrial development, the republics of Guatemala, El Salvador, Honduras and Nicaragua decided to expand and integrate their markets over a shorter term.

This more resolute move towards market integration could not be made within the framework of the Multilateral Treaty, which, as stated above, stipulated a period of ten years for the creation of the free-trade area and provided for a system of product-by-product negotiation of the corresponding tariff treatment. Consequently, new ways and means had to be devised with a view to shortening the time allowed for the liberalization of trade and instituting the new régime once and for all in respect of most goods. Again, it seemed necessary to consolidate in a single instrument the effects of numerous existing bilateral agreements and of the Multilateral Treaty,

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and to determine precise commitments, to be fulfilled within a fixed time limit, with regard to both tariff equalization and the establishment of an agency in Central America for the financing of integration and of the executive machinery necessary for the entry into force and operation of the free-trade system.

To this end, at the seventh session of the Economic Co-operation Committee, held at Managua (Nicaragua), in December 1960, the four Governments signed the General Treaty on Central American Economic Integration, creating the Central American common market. By virtue of this Treaty they undertook to bring the free-trade area into full operation with a period of not more than five years from the date on which the Treaty entered into force, and to adopt a standard Central American tariff as provided for in the Central American Agreement on the Equalization of Import Duties and Charges, signed at San José (Costa Rica) in September 1959.

Under the terms of the General Treaty, the signatory States agreed to grant one another immediate free-trade treatment in respect of all products originating in their respective territories, except in the case of a few articles which, for specific reasons, are subject to certain special régimes defined in annex A to the Treaty in question. With very few exceptions, these items are to be automatically incorporated into the unrestricted free-trade régime at the end of the fifth year in which the Treaty is in force.

The negotiations relating to these special régimes were conducted bilaterally but as they were adopted at the multilateral level, any amendment which a particular pair of countries may desire to introduce in the schedules of goods to which they apply must be multilaterally approved by all the signatory States.

The list of goods subject to exceptional régimes comprises products in the case of which it was foreseen that immediate free-trade treatment might give rise to serious maladjustments in basic activities already established, or to substantial disequilibria in fiscal revenue levels. For these reasons, inter alia, treatments adapted to the special features of each case were established.

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The first example which may be singled out consists in the application of a preferential tariff, fixed or progressively decreasing, for a term of not more than five years. Broadly speaking, this treatment is extended to consumer goods which are manufactured on a national scale and which need sufficient time for adjustment to the new level of competition. Among them might be cited the products of the textile industry, oils and fats, beer, paint and soaps.

The second type of treatment establishes import and export controls or import quotas, and makes the liberalization of trade contingent upon the conclusion of special protocols for the purpose of regulating trade, co-ordinating supply policies and ensuring the fullest possible measure of free trade. This treatment is applicable to staple subsistence commodities, such as, for example, rice, maize and wheat flour.

The third formula stipulates that, pending the conclusion of a special agreement on the matter, customs duties shall continue to be payable on certain goods manufactured by industrial plants which need to be established on a regional scale, i.e., glass containers, tyres and paper.

Fourthly, in some instances, tariff equalization in respect of the finished product and its raw materials is a prerequisite for the granting of free-trade treatment, cases in point being the tobacco industry and some fibres, knitted goods and textile products.

Some goods remain subject for an indefinite period to the customs duties in force or to export and import controls, as trade in them is currently regulated by international agreements or by special State monopoly systems. The following are the items affected: coffee and coffee extracts; alcohol and cane spirit; cane sugar and cotton.

For the contracting parties, the Treaty takes precedence over the Multilateral Treaty and any other free-trade instruments which they have signed with one another, but does not affect the validity of these agreements, the provisions of which are applicable in so far as they are not covered in the General Treaty.

None of the signatory States is entitled to sign unilaterally with non-Central American countries any new treaties that may affect the

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principles of Central American economic integration. However, in the case of Costa Rica, which has not signed the General Treaty, any of the contracting parties is at liberty to conclude new bilateral free-trade agreements with that country, to amplify those already in existence, or to grant it special preferences by virtue of a unilateral measure.

The General Treaty establishes the organs required for its application and for the channelling of activities aiming at Central American economic integration. While it does not set up institutions with supranational faculties, the provisions adopted in this connexion assign to the said organs such terms of reference as will enable them to facilitate free trade and stimulate the process of integrated development.

The Central American Economic Council is the governing body established for the purpose of co-ordinating the economic policy of the contracting States, and is composed of the Ministers of Economic Affairs of the four signatories. It is also responsible for facilitating the implementation of the resolutions adopted by the Central American Economic Co-operation Committee.

The function of the Executive Council is that of applying and administering the General Treaty in conformity with the basic principles established by the Economic Council, and it may propose to the Governments the signing of such additional multilateral agreements as may be required in order to achieve the purposes of Central American economic integration.

To ensure implementation of the resolutions adopted both by the Central American Economic Council and the Executive Council, a permanent secretariat is instituted, with its headquarters in Guatemala City.

All the instruments forming the legal basis of the common market are open for the accession of Costa Rica, without restrictions of any kind.

## 2. Tariff equalization

The Agreement on the Equalization of Import Duties and Charges, signed in 1959, is the mechanism established by the five countries for the adoption of the standard Central American import tariff. Most of the goods eligible for free-trade treatment under the terms of the Multilateral Treaty are covered by the tariff equalization established in the said Agreement, whether immediately (Annex A) or progressively (Annex B). Progressive equalization is generally effected over a period of five years, at the end of which the standard tariff levels are reached. At the present time this instrument is in force in three countries.

With the same aim of expediting the formation of the common market, the republics of Guatemala, El Salvador, Honduras and Nicaragua signed at Managua (Nicaragua), in December 1960, a Protocol to the Agreement on Equalization, by virtue of which duties and charges were equalized at a standard level on 428 items, i.e., approximately 50 per cent of the tariff.

In conformity with the first provisional article of the said Protocol, whereby the contracting parties agreed to sign, not later than six months from the date of entry into force of the instrument, such additional protocols as might be needful for the equalization of import duties and charges on the goods which were of most importance for Central American trade, the tenth session of the Central American Trade Sub-Committee was convened in February at Tegucigalpa (Honduras). At the session in question, duties and charges were equalized on 701 further items; these will be incorporated in a new protocol to be submitted to the Governments for their consideration with a view to its signature, at the forthcoming session of the Economic Co-operation Committee, which is scheduled for July 1961. When this new protocol has been signed, as many as 1,388 items will have been equalized.

For the completion of the common tariff, only 69 sub-items of the Standard Central American Tariff Nomenclature (Nomenclatura Arancelaria Uniforme Centroamericana - NAUCA) are still awaiting equalization. It is expected that in the course of the present year the four Contracting Parties will be able to reach agreement on the standard levels concerned.

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In view of the success of the tariff equalization negotiations, it is felt that a few indications of the procedure followed and the criteria adopted may usefully be added here.

The first move towards tariff equalization took place in September 1958, when standard levels were agreed upon for most of the goods covered by the Multilateral Treaty. They represented a limited number of heterogeneous products bearing little relation to one another. In the light of this experience, the rest of the tariff items were classified in 32 groups, the selection being based on the activity producing them. The object was to facilitate negotiations and permit the application of consistent general principles and criteria which would be conducive to the formulation of a tariff development policy.

Since the Central American republics are under-developed countries which have to amend their traditional tariff policies in the course of the integration process, they would not be in a position to adopt inflexible and automatic equalization criteria and procedures. It was therefore necessary to consider and equalize each item separately, the basis of reference taken for each country being the total ad valorem equivalent, calculated in accordance with a Central American unit value. This furnished an indicator of the fiscal incidence of the national duty in force, which served as a point of comparison for the levels which were finally agreed upon, with due regard to the requirements of integrated development.

Broadly speaking, the purpose of the basic tariff policy criteria adopted in the negotiations was to facilitate import substitution by means of protectionist tariffs applicable to durable or non-durable consumer goods currently produced in Central America or offering short-term prospects of production. As regards raw materials, equalization was effected at relatively low levels, not exceeding 15 per cent, except in the case of those which are produced satisfactorily within the area. As regards capital goods, the policy pursued was similar to that adopted for raw materials. It was decided that imports of agricultural machinery should be completely liberalized, while domestic policies designed to encourage and intensify agricultural development in each of the individual

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countries should continue to be applied. With respect to industrial machinery, the principle followed was that of leaving a reasonable margin to enable Governments to formulate a policy of incentives to industrial development and channel resources towards imports of the machinery really needed by the Central American countries for the maintenance and promotion of the economic development of the area as a whole. Lastly, on balance-of-payments grounds, high levels were agreed upon for luxury goods.

In brief, as a result of the equalization negotiations, the Central American countries have formulated and adopted a tariff policy calculated to further the integrated development of the area; in so far as it proves efficacious it cannot but contribute to the rapid expansion of internal economic activity and the remodelling of its structure which together constitute the central objective of the whole Integration Programme.

Obviously, the efficacy of tariff policy will chiefly depend upon the economic situation of Central America in the next few years and on the measures adopted in other sectors to spur on the import substitution process and to encourage the internal capital formation effort which is indispensable. Central America has already taken some of these measures, and has conceived the Integration Programme as an instrument of co-ordinated development. Such inter-relations between the common market and the other aspects of the Programme are analysed in the document Central American Economic Integration and Development (E/CN.12/586), also presented to the Commission at its ninth session.

