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REPORT OF THE NINTH SESSION OF THE CENTRAL AMERICAN
ECONOMIC CO-OPERATION COMMITTEE
(Guatemala, 25 - 31 January 1966)

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Introduction

SCOPE OF THE REPORT

This report covers the period between 29 January 1963, when the eighth session of the Central American Economic Co-operation Committee was concluded at San Salvador, and 31 January 1966, which marks the close of the ninth session at Guatemala City.

The report is divided into four parts. Part I reviews the major activities of the process of economic integration in Central America between the two sessions of the Committee; part II describes the technical assistance provided by the United Nations to the integration programme; part III summarizes the proceedings and conclusions of the ninth session and part IV contains the resolutions adopted on that occasion.

The report of the first joint meeting of the members of the Executive Council with the directors of planning agencies and the presidents of development institutions held in Guatemala from 20 to 25 January 1966; the addresses made by the Minister for Economic Affairs of Guatemala and the Director of the ECLA Mexico Office at the opening of the ninth session, and a list of the studies and other documents prepared since the eighth session, are appended as annexes to this report.

Part I

ACCOUNT OF ACTIVITIES BETWEEN THE EIGHTH AND NINTH SESSIONS

The period between the eighth and ninth sessions of the Central American Economic Co-operation Committee was notable for the following developments:

(a) The effective and practical way in which the regional economic integration agencies grappled with and solved the problems arising in the operations of the Common Market during the period of transition before the complete liberalization of trade in the products originating in the area, a period which is due to expire on 4 June 1966.

(b) The close interest with which the Central American Government reviewed and assessed the course of the integration movement, in terms of the possibilities of integrated economic growth that it offers, and of the critical issues that have emerged in the last few years, particularly in relation to one of the main tenets of the programme, namely, the balanced development of each country. In this connexion, the Central American Economic Council requested ECLA, as the secretariat of the Economic Co-operation Committee, to prepare a study as a basis for evaluation and guiding the multilateral economic growth of the Central American area during the next few stages.^{1/}

(c) The widespread extension of integration activities and meetings to fields other than that of trade, and the establishment of certain institutional machinery on a region-wide basis. This augurs well for the progress of integration in that it reflects the increasing interest taken by other important sectors in the multinational movement, and has also brought the Central American organizations face to face with the need for greater unity and co-ordination within the Common Market. Furthermore, it has made it clear that proper machinery should be set up for working effectively towards the goals that have been set in the course of the integration meetings; and

^{1/} This study was submitted for the consideration of the Committee at its ninth session. See Evaluación de la integración económica centroamericana (E/CN.12/CCE/327/Rev.1).

(d) The substantial increase in the volume of trade and investment in the Central American Common Market, which has brought the Market into the fulltide of its activities, consolidated its achievements and equipped it to aim at fresh integration targets. In 1965 regional trade amounted to about 130 million dollars, or more than four times as much as in 1960, when it totalled 30 million. In addition, the investment made as a result of Common Market activities is estimated to be already over 100 million pesos.

During the period under review, appreciable progress was also made in other fields, notably in the following ways: (a) a start was made on economic development programming, the first results being the formulation of the medium-term national development plans; (b) the Régime for Integration Industries began to be applied; (c) the renegotiation of uniform duties vis-a-vis third parties was stepped up; (d) work continued on the infrastructural programmes for the region as a whole; (e) a protocol for regulating the grain trade in Central America was signed; (f) an integration fund was set up to defray the cost of regional infrastructural works; (g) the Central American Governments reorganized the Organization of Central American States (OCAS), and its new charter entered into force on 30 March 1965.

Activities during the period under consideration included ten sessions of the subsidiary organs of the Committee and meetings of working groups and seminars, to wit: the first special session of the Trade Sub-Committee; the first session of the Agricultural Development Sub-Committee; the second session of the Transport Sub-Committee; the second session of the Electrification Sub-Committee, and meetings of various study groups on interconnexion projects; the second and third sessions of the Housing Sub-Committee and a seminar on housing programming; and the fifth and sixth ordinary sessions and first special session of the Statistical Co-ordination Sub-Committee, together with working groups on agricultural and industrial statistics.

Both the Central American Research Institute for Industry (ICAITI) and the Advanced School of Public Administration for Central America and Panama (ESAPAC) have continued to contribute in their respective spheres of action to the progress of the Central American integration programme.

The ECLA secretariat has maintained close and constant co-operation with the Central American Governments and regional organizations, and took part in a number of meetings of the Economic and Executive Councils, and in joint meetings of the Ministers of Economic Affairs, Finance, Public Works and Agriculture held during the period in question.

A brief account is given below of the principal integration activities by sectors.

1. Free trade

The fifth and last year of the transition period leading up to the full establishment of the Central American free-trade area created by the General Treaty on Economic Integration signed on 13 December 1960 during the seventh session of the Committee will come to an end on 4 June 1966.

On that date, there will be complete free trade in the area for 92.5 per cent of the items composing the Standard Central American Customs Nomenclature (NAUCA),^{2/} and for a further 73 items as soon as various regulatory agreements are brought into force or certain conditions fulfilled.

Thus, only 23 headings for products in which trade is stagnant or for the region's major exports will continue to be subject to restrictions for an indefinite period within the Common Market. The main commodities to be freed halfway through the second quarter of 1966 will be textiles, oils, fats and various food products. Petroleum products, paper, tobacco and wheat flour will have to wait for the conclusion of special agreements on them. One such agreement, dealing with tariff equalization for fabrics of man-made fibres, was signed by the five Governments at the beginning of 1965, and is expected to enter into force in 1966 thereby freeing trade in 25 items relating to clothing.

^{2/} NAUCA comprises 1,276 tariff sub-items.

2. Tariff equalization

On 31 August 1965 Honduras and Nicaragua deposited their respective instruments of ratification to the San Salvador protocol on tariff equalization, signed by the five Central American Governments during the eighth session of the Economic Co-operation Committee. With these, the uniform duties in force for all members of the Common Market on imports of goods from third countries were extended to 98 per cent of the NAUCA sub-items.^{3/} The agencies in charge of economic integration expect that the only two agreements that have been concluded but not yet implemented will enter into force in the course of 1966. These are the Guatemala protocol and the Special Agreement on Tariff Equalization, signed respectively on 1 August 1964 and 7 November 1965 while the Central American Economic Council was in session.

The equalization of customs duties on pending items, some of which are particularly important from the fiscal standpoint, i.e. petroleum products, motor vehicles and electrical apparatus, is contingent on regional agreements for the standardization of internal consumption taxes, the establishment of free trade and the integrated development of assembly activities.

On 6 February 1965, the Uniform Central American Customs Code (CAUCA) entered into force for Costa Rica, Guatemala and Nicaragua. This instrument, which was drafted in compliance with Committee resolutions 18 (AC.17) and 22 (CCE) on the basis of texts prepared by United Nations experts, was completed at sessions of the Executive Council of the General Treaty, and signed by the Economic Council on 13 December 1963. The code, which establishes the legal framework for the regional customs operations required by the Common Market, has been supplemented by a body of regulations designed to give greater flexibility to customs operations. These regulations were signed by the Central American Governments on 7 November 1965.

During 1964 and 1965, the work of renegotiating the uniform duties and charges constituting the Central American tariff was stepped up. This work will undoubtedly become increasingly important because of the constant

^{3/} If the calculation is made on the basis of the standardized duties for sub-sub-items on the Central American tariff, the proportion is 93 per cent.

need to adapt the tariff to the requirements of the new stages of industrialization and to the changes in the guidelines for regional economic policy laid down by the Governments.

In order to facilitate this process of adaptation, discussions are currently being held on ways and means of streamlining the formalities from the moment at which the request of the interested party is submitted up to the entry into force of the new protocols containing the renegotiated duties on the Central American uniform tariff.

3. Trade policy

The Central American Trade Sub-Committee, one of the subsidiary organs of the Economic Co-operation Committee held a special session in Mexico in January 1964. During this session, basic guidelines were worked out for the position to be taken up by Central America at the meeting of government experts held at Brasilia, Brazil, in the same month, for the purpose of deciding upon the joint stand to be adopted by the Latin American countries at the United Nations Conference on Trade and Development (Geneva, March-June 1964). At the request of the Sub-Committee, the secretariat of the Economic Co-operation Committee collaborated directly in the last two conferences named. Thus, for the first time, an endeavour was made to work out a common Central American stand in negotiations with the rest of the world and, in so doing, to begin the implementation of Committee resolution 120 (CCE).

Pursuant to resolutions 251 and 254 (XI) adopted at the eleventh session of the Economic Commission for Latin America (Mexico, May 1965), the secretariat of the Committee also took part in the meeting of government experts convened by ECLA and held at Santiago, Chile, in October 1965.

In December of the same year, the first meeting of representatives of the Government of Mexico and of Central American integration agencies was held in Mexico City. The discussions focused on the measures that might be adopted for increasing Central America's exports to Mexico so as to place their reciprocal trade on a more even keel. The ECLA secretariat acted in an advisory capacity at the meeting as requested by the Joint Declaration signed by the Ministers for Economic Affairs of the six countries at the session of the Economic Council held at San Salvador in November 1965.

Under the auspices of SIECA, headway has been made in the negotiations between Central America and Panama with a view to the conclusion of an agreement for the economic association of Panama with the Common Market.

The Committee secretariat has begun work on studies aiming at the adoption of a common trade policy with third countries or economic groupings, and the establishment of a joint negotiating unit. The United Nations has already been asked for the services of experts on these questions.

4. Industrial development

(a) Industrial policy

At its sixth special session, in February 1964, the Economic Council laid down some broad guiding principles for the industrial policy to be followed by the Common Market, on the basis of studies submitted by the ECLA secretariat and SIECA.^{4/} These principles state the need for the regional programming and promotion of the dynamic industries together with greater specialization and modernization of the traditional industries. In June 1965, the Economic Council made its first statement of policy on foreign investment in Central America.

As regards the industrialization process itself, a number of new concerns have entered into operation, namely, petroleum refineries, and plants producing fertilizers, sulphuric and nitric acid, welded steel tubes, electric lamps, copper cables and wire, raw materials for detergents, steel rods, and tyres and inner tubes. Good headway has been made in the installation of plants for caustic soda, chlorine and insecticides, glass containers, sheet glass, and distilled spirits of turpentine. Assembly plants for motor vehicles, refrigerators and other appliances have also been developed.

The final touches are being put to the preliminary studies on the steel and ammonia industries and the production of polyvinyls based on calcium carbide, as well as on the use of forest resources for pulp and paper and eventually for kraft paper. Progress has also been made with studies on the industrial uses of bagasse.

^{4/} See joint ECLA/SIECA note on Los problemas de la política industrial centroamericana. (E/CN.12/CCE/311).

(b) Industrial integration instruments

The first protocol to the Agreement on the Régime for Integration Industries, which was signed at the eighth session of the Committee, entered into force in February 1965 for Costa Rica, El Salvador and Guatemala and in August of the same year for Nicaragua. The first two activities to be integrated were the tyre and inner tube plant set up in Guatemala and the caustic soda and chlorinated insecticides plant established in Nicaragua. In this way, the special system of promotion for productive activities has also begun to operate. In November 1965, the five Governments signed a second protocol extending the benefits of the Régime to a sheet glass plant to be opened in Honduras.

As recommended by the Committee at one of its early sessions, the ECLA secretariat has continued to carry out studies on the industrial possibilities of the Common Market. A United Nations expert prepared a further study on the subject, which was presented at the first meeting of Central American and foreign investors, convened by the Central American Bank and held at Managua in 1965.^{5/} Progress was made with the programme for textile specialization in Central America. The United Nations technical assistance expert in charge of the work is using SIECA as his headquarters.

At their second meeting held in Guatemala in 1965, the directors of the planning agencies considered a preliminary study on the regional programming of industries in 1965-74 prepared by the Joint Central American Programming Mission, and explored the possibility of setting up a specific system of study and promotion for the following four major industrial groups: pulp and paper; chemicals; basic metals and assembly activities. The Committee secretariat was present during the discussions.

The agreement on uniform fiscal incentives, concluded at the third special session of the Committee, has already been ratified by four countries and will enter into force as soon as Honduras has ratified it.

^{5/} Posibilidades de desarrollo industrial integrado en Centroamérica
(E/CN.12/CCE/323; TAO/LAT/50).

Lastly, the ECLA secretariat, with the assistance of United Nations experts, has continued to co-operate with SIECA, ICAITI, BCIE and the Joint Mission in the studies requested of it on specific projects or branches of industry.

5. Agricultural development

Free trade in agricultural commodities will be fully established in June 1966 upon the abolition of the restrictions established by the General Treaty on a number of goods and applied between pairs of countries during the transition period. The only products then remaining outside the free trade régime will be the major export items to third countries.

Pursuant to resolutions 91 (CCE) and 125 (CCE), the Central American Agricultural Development Sub-Committee was set up and held its first session at San José, Costa Rica, in October 1964. On the basis of the background studies prepared, a programme of work was adopted mainly directed towards the full liberalization of trade in agricultural commodities; the development of basic food production; the diversification of agricultural exports; and the expansion of livestock and milk production. Other subjects covered by the programme were the regional co-ordination of marketing activities, price stabilization and research.

Good headway has been made in agriculture since the Sub-Committee held its session. SIECA has organized meetings of meat exporters, livestock experts, and specialists on pasture and animal nutrition. The Joint Central American Programming Mission has drawn up regional programmes for stimulating grain production, laid down broad guidelines for diversifying exports, and is currently working on a regional livestock development programme. The Ministers of Agriculture held their first meeting in February 1964 in Guatemala, and took part in a joint session with the Ministers for Economic Affairs in October 1965 at Puerto Limón, Costa Rica. On the latter occasion, they signed the special grain protocol and the livestock studbook, and gave legal status to the Co-ordinating Committee on Marketing and Price Stabilization in Central America, set up in compliance with resolutions 63 (CCE) and 90 (CCE). As agreed at the Sub-Committee session, it was decided to set up a Central American Agricultural Research Committee. The responsibility for co-ordinating the research work was entrusted to the Inter-American Institute for Agricultural Sciences.

/The United

The United Nations Special Fund approved the request submitted by the Governments in accordance with resolution 125 (CCE) adopted at the eighth session of the Committee, thereupon launching the project for surveying Central America's fisheries resources. The total cost of the research has been estimated at 4 million dollars, to be expended progressively over the six years of the project's useful life. FAO will be in charge of the actual implementation of the project.

6. Development of the economic infrastructure

(a) Transport

During the period covered by this report, the activities of the Transport Sub-Committee and of the regional bodies concerned have been mainly directed towards implementing the first stage of the Central American road network formally approved by the Ministers of Economic Affairs and Public Works in 1963. At the second session of the Transport Sub-Committee, held at Managua in June of the same year, it was considered essential to embark upon studies and research to solve the transport problem as a whole, and to give the provision of transport facilities an even higher priority than the conclusion of the Central American road network.

The creation of the Integration Fund in the Central American Bank for Economic Integration (BCIE) offers specific possibilities for carrying out infrastructure works of interest to the whole region. A number of measures have been adopted concerning the phases for the planning and execution of these works, and stress was laid on the need to train regional technical cadres to take charge of them, and to study ways and means of adapting the design and construction techniques used by the developed countries to conditions in Central America.

As regards the extension of the road network, progress has been less satisfactory than could have been wished, mainly because of the shortage of funds and the lack of specific projects. Until these shortcomings have been remedied the deadlines set for the work will probably have to be moved back even further.

/During 1964

During 1964 and 1965, BCIE, with the assistance of firms of consultants from inside and outside the region carried out a study analysing the current situation of the transport system and recommending a solution for each of its branches. This study, together with those prepared by the technical assistance experts seconded to Central America, will provide a sound basis for retracing the lines along which regional activities in this sector are to be developed.

(b) Telecommunications

One of the most urgent tasks is to give the Central American Common Market a modern and efficient telecommunications network so that trade can continue to expand at a rapid pace. With the aid of the United Nations Special Fund, a study has been made of the possibility of establishing a Central American network to be operated by a multinational enterprise. Although lack of agreement on this plan has delayed the institution on an extensive network covering the whole of Central America, there have not been any telecommunications problems so far, as the different countries are able to use the telephone facilities of the Central American Air Traffic Corporation (Corporación Centroamericana de Servicios de Navegación Aérea - COCESNA). However, as they will shortly have to use this network for their own purposes, and as it is in any case inadequate for the load it will probably have to carry during the next few years, the present solution is simply a stopgap measure.

(c) Electrification

The Central American Electrification Sub-Committee continued with the work which the Economic Co-operation Committee had asked it to carry out on the interconnexion of electricity systems and the joint development of water resources. Every effort was made to advance with the next stages of projects that had already been evaluated and approved in principle by the countries concerned so as to bring them to the point of specific works. It was also thought desirable that new possibilities should be constantly reviewed by special working groups. In addition the basic guidelines were laid down for the execution of a long-term programme to place the initial projects on a thoroughly sound footing and convert them into an effective instrument for supplying the region's existing electric power requirements and the needs of new and important industries to be developed.

The Sub-Committee held its second session in May 1963. It examined the projects for linking up the power systems of Honduras and El Salvador and the electric power connexions of Chiriquí (Panama) and Golfito (Costa Rica) drawn up by the Electrification Mission which had been assigned by the United Nations to the economic integration programme. In both cases, the representatives of the electrification enterprises approved the projects in principle, and adopted a resolution to proceed forthwith to the final feasibility studies.

A regional programme for research and evaluation of the region's water resources was also approved. The first phase of this programme will be the improvement of the network for gathering hydrological and hydro-meteorological data. The proposal was made by the technical assistance experts and then brought before the Special Fund for financial backing. The evaluation of water resources will help to determine the supplies available for feeding the integrated system to be set up in the next ten years. It was also agreed to carry out a regional study on electricity rates and the standardization of equipment and materials used in electrification works. The first question is important for industrial siting and the second for gauging the possibilities of producing that type of equipment in Central America.

In December 1964 a Sub-Committee working group, consisting of officials from the national electrification agencies of Costa Rica and Nicaragua, met to study the joint development project for the electricity systems of the two countries that had been prepared by the technical assistance mission. It was decided to set up a joint technical commission to proceed with the studies that were scheduled for completion in 1966 with the financial assistance of BCIE.

In December 1965 and January 1966, the national electrification bodies of El Salvador and Honduras met at Tegucigalpa and San Salvador to examine an alternative project, drawn up by the same mission, for the joint development of the two countries' electricity systems. It was agreed to put it into execution forthwith, in February 1966.

/In January

In January 1966, the Special Fund approved the proposal made at the second session of the Sub-Committee to improve the basic network for collecting hydrological and hydrometeorological data at a total cost of 5.8 million dollars for the whole five-year period. The work is to be begun immediately.

In March 1966 the secretariat of the Committee will begin work on the detailed water resources evaluation programme recommended by the Sub-Committee. It will also submit the integrated development project for the power systems of El Salvador-Honduras and Guatemala, which has just been completed by the United Nations mission, for consideration by a special working group composed of officials from the countries concerned.

7. Development financing and co-ordination of monetary policies

The BCIE, which was established by an agreement signed during the seventh session of the Committee, will end its fifth year of operations on 31 May 1966. From the time it entered into operation up to 30 November 1965, it engaged in 111 credit transactions for a value of 44.5 million dollars. The money was used to finance: (a) the establishment and expansion of 81 industrial and services firms; (b) 19 feasibility studies; and (c) 11 loans for infrastructural works and housing.

In 1965 the Central American Economic Integration Fund was set up with 35 million dollars from the United States Government and 7 million from the five Central American Governments, thereby adding to the money available for covering regional investment requirements in the public sector. The Fund is administered by the BCIE. The Central American countries have already begun to draw upon the Fund's resources, the main feature of which is that they can be used to defray the over-all costs - including those in local currency - of works and projects forming part of national plans and policy for economic and social development.

On 25 February 1964, the Central Banks signed an agreement to promote the co-ordination and compatibility of the monetary, exchange and credit policies of the member countries and to establish little by little, the bases for a monetary union. This agreement set up the Central American Monetary Council, which is composed of the presidents of the central banks

/and is

and is the senior organ. Specialized technical activities are dealt with by four committees whose fields are respectively monetary policy, exchange and compensation policy, financial transactions, and legal studies. The secretariat has its headquarters in San Salvador, El Salvador, and is responsible for preparing technical studies and co-ordinating the work of the four committees. Under the terms of the agreement, the Clearing House, which entered into operation in October 1961, has been made a subordinate organ of the committee on exchange and compensation policy. The over-all volume of clearing operations has risen from a monthly average of 2 million Central American pesos during the first half of 1962 to 11 million in the second half of 1965. In addition, a special agreement on compensatory payments was concluded in December 1963 between the central banks of the area as a whole and the Bank of Mexico.

8. Planning

Planning in Central America involves the establishment and operation of an institutional framework for the area, which must be tailored to suit the requirements of the economic integration process and duly linked up with it. With the technical assistance of the Joint Central American Programming Mission, the Governments have been taking steps in the last few years to set up planning systems that will channel public and private action in such a way as to facilitate and speed up economic and social development. Central planning agencies have already been formed in all five countries, basic research undertaken and over-all and sectoral programmes worked out.

In addition, standard national accounts and statistical systems have been formulated, diagnoses of the economies made, in the majority of cases by major sectors, and performance budgeting instituted in every country. Thanks to these measures, the Governments have been able to move on to the actual preparation of economic and social development plans for the period 1965-69. In fact, each Central American country already has an over-all programme, which is currently being reviewed by the Panel of Nine with the object of obtaining funds for their execution.

/As regards

As regards the problems of establishing and co-ordinating regional targets that are commensurate with the requirements and possibilities of the Common Market, the Committee, in resolution 124 (CCE), recommended the Governments to link up their national plans by gradual stages so that they could eventually be merged into a single regional plan that would enable the advantages of the Common Market to be used to the full and make for complementarity among existing production sectors. Two meetings have already been held for purposes of co-ordination by the directors of the national planning agencies who act as advisory body to the Central American Economic Council.

The Ministers of Economic Affairs and Finance, at their first meeting held in Guatemala in April 1965, requested the ECLA secretariat to prepare a paper on the establishment of a regional institutional framework for planning.^{5/} This paper, which was submitted to the Advisory Committee on Programming and subsequently to the Economic Council, deals with the question of industrialization from various angles and suggests ways in which SIECA could take over the duties and staff of the Joint Mission.

Also pursuant to resolution 124 (CCE), the secretariat has organized three intensive training courses on programming techniques and project evaluation in Central America, with the co-operation of the Latin American Institute on Economic and Social Planning and the Inter-American Development Bank, together with other regional and international organizations. In this way, training has been given to nearly 200 Government officials from the five Central American countries and Panama whose work is closely connected with the formulation of national development plans.

9. Technical research and training

In accordance with the recommendations made by the special committee consisting of representatives of BCIE, SIECA, the United Nations Special Fund and the ECLA secretariat, which in 1962 studied and recommended the re-organization of ICATTI's activities, ICATTI has been conducting, with the financial assistance of the Special Fund, a number of research projects on the industrial use of raw materials and natural resources available in the region.

6/ See La institucionalización regional de la planificación en Centro-
américa (CEPAT/MEV/15/10)

The subjects studied include the industrial use of agricultural waste material; methods of obtaining paper pulp; the dehydration and preservation of tropical fruit; new methods of obtaining vegetable oils; and the distillation of essential oils. In broader terms, ICAITI proposes to break into new fields such as the use of coffee and sugar cane wastes; more efficient utilization of forest resources; and the possible industrial uses of the geological and mining resources of Central America.

At the request of the Central American Governments, ICAITI is also carrying out a standardization programme in order to fix quality standards for industrial products so as to facilitate free trade within the Common Market.

ESAPAC has progressed with the tasks assigned to it under the work programme adopted by its Board of Directors in 1962. Its activities over the last three years have included national and regional seminars and courses on development administration; basic research on the current features of tax administration and the need to adapt it to planning and economic integration requirements; a general diagnosis of administrative problems in Central America; regional seminars, followed by regional and national seminars on customs, tax and highway administration; Latin American courses on the administration of statistical services and on Government purchases and supplies. It has also given direct assistance to member Governments in solving a number of specific problems confronting their respective administrations and in modernizing some of the administrative systems, either in relation to the civil service and public administration as a career or to organization and methods.

In addition to the regional courses on programming techniques and project evaluation mentioned under point 8, other types of training programmes have been held, notably the course given by the Joint Programming Mission on performance budgeting, and the ILO mission's work in the field of industrial productivity.

10. Social aspects of development

(a) Housing

The Housing, Building and Planning Sub-Committee held its second and third sessions in May 1963 and December 1965, when it established a work programme and established guidelines for its implementation. At its second session, the Sub-Committee's discussions focused on the application of the resolution adopted by the Committee at its eighth session. To that end, it examined the studies on raw materials and natural resources available in Central America for the production of building materials; the inventory of industries producing those materials locally and their prospects for trade and expansion; national programmes for building and financing low-cost housing; and modular co-ordination and the possibility of introducing it into Central America. Ways and means of extending the self-help and mutual assistance programmes were also explored, together with other methods of solving the problem of housing for the lower-income groups. The Sub-Committee finally formulated a number of recommendations designed to bring about the greatest possible co-ordination among the housing activities in the different countries, and requested the secretariat to continue with its studies on the matter.

At the session held in Guatemala at the end of 1965 consideration was given to studies on town planning and development as part of economic planning; the financing of housing projects and possibilities of lowering production costs; the adoption of mutual aid and self-help systems as a means of tackling the housing problem; and the harmonizing of housing plans with national development programmes. On that occasion, the Sub-Committee decided to set up four permanent working groups to broaden and pursue studies on various aspects of housing, such as construction programming, costs and methods, financing and the role of community development in housing projects. These working groups will co-ordinate their activities with the assistance of the ECLA secretariat and United Nations experts, and submit recommendations to the Sub-Committee on the adoption of joint lines of action by the Central American countries.

/Lastly, in

Lastly, in December 1963 a seminar on housing programming was held at the ECLA Mexico office, and its conclusions used as a basis for studies submitted for consideration at the third session of the Sub-Committee.

(b) Manpower costs and productivity

With the collaboration of a United Nations expert, a study has been concluded on manpower costs and productivity in Central America.^{7/} This study, which is the first of its kind, provides the Governments concerned with a wealth of information on the incidence of the manpower factor on over-all production costs within the Common Market. It was undertaken in accordance with resolution 94 (CCE) and, after technical revision in the different countries concerned, will shortly be issued in final form. An ILO expert has also finished a similar study on industrial manpower productivity and costs in the region from the standpoint of labour.

(c) Population

A United Nations expert has concluded a new version of the study on socio-economic features of the capital city of San Salvador based on the survey carried out in 1961 and supplementary research. Assistance has been given to the statistical departments of the Central American countries in relation to their population research programmes with a view to the execution of a minimum regional plan that would provide sufficient data for analysing, among other factors, population growth, the labour supply and migratory movements.

(d) Land tenure

Having completed the first stage of the survey on land tenure and rural labour conditions in Central America, the organizations concerned, i.e., BTAO/FAO/ILO, have been holding consultations on the scope and methods of the next phase of the survey, which it is hoped to embark upon in 1966.

^{7/} See La productividad, el costo de la mano de obra y el costo de producción en el Istmo Centroamericano (E/CN.12/CCE/335).

11. Statistical co-ordination

During the period under consideration, the Statistical Co-ordination Sub-Committee held its fifth and sixth regular sessions and first special session. Working groups also met twice.

At its fifth session, held in Honduras in February 1963, the Sub-Committee adopted a work programme in the light of the results obtained up to then with the programme formulated during its first four sessions, and extended it in certain fields to bring it into line with the new requirements of the integration programme and the tasks involved in preparing national and regional development plans.

During the sixth session of the Sub-Committee at Panama in November 1964, a statistical programme was drawn up for Central America by sectors of activity, pursuant to resolutions taken by the Sub-Committee itself at earlier sessions, and by working groups on agricultural and industrial statistics, which met in Costa Rica and El Salvador in December 1963 and June 1964 respectively. The studies prepared by the secretariat of the Economic Co-operation Committee with the aid of SIECA and the Joint Mission were used as a foundation while the Inter-American Programme of Basic Statistics served as a frame of reference.

The Central American statistical programme was completed in Mexico during the first special session of the Sub-Committee through the inclusion of the transport sector which had been left pending at the sixth session, and the drafting of a body of measures for the execution of the regional programmes.

Part II

TECHNICAL ASSISTANCE FOR THE INTEGRATION PROGRAMME

Central America continued to receive technical assistance from the United Nations through the Expanded Programme, the Special Fund and the regular programmes of its specialized agencies during the period 1963-64. The figure for 1965 is still uncertain as the accounts have not yet been fully settled.

The studies and projects financed by the United Nations Technical Assistance in response to the requests made by the Chairman of the Economic Co-operation Committee mainly concern the following subjects: (a) interconnexion and joint development of power systems and water resources; (b) industrial possibilities in the Common Market, and expansion and specialization of the textile industry; (c) economic aspects of transport and of integrated road development; (d) industrial labour costs and productivity in Central America; (e) regional housing programming and financing problems in the region; (f) the co-ordination of national development programming on a region-wide basis; (g) fiscal streamlining; and (h) co-operation with the ESAPAC.

With the financial assistance of the United Nations Special Fund, progress was made, among other things, with the studies on forest and mineral resources; telecommunications, ports and railways; fisheries development; and water resources for irrigation and electric energy. The Special Fund also gave financial aid to ICAITI with which, in November 1965, it formally agreed upon a new plan of operations to cover the next three years corresponding to the second phase of ICAITI's development.

The Special Fund is currently considering a number of requests for national and regional projects, including the establishment of a regional network of hydrometric and hydrometeorological stations.

Part III

NINTH SESSION OF THE COMMITTEE

A. Membership, attendance and organization of work

The session was attended by delegations from Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Panama sent an accredited representative. Representatives of various United Nations agencies and other international and Central American organizations were also present. The delegations were composed of the following members:

(a) Delegations of member countries

Guatemala

Chairman of the delegation: Carlos E. Peralta Méndez, Minister for Economic Affairs; Gabriel Orellana Estrada, Minister of Finance and Public Credit; Hugo A. Ordóñez Fernández, Deputy Minister for Economic Affairs; Fernando Juárez Rodas, Deputy Minister of Finance and Public Credit; Eduardo Palomo Escobar, Deputy Minister for Economic Affairs.

Members: José Antonio Palacios; José Luis Paredes Moreira; José de J. Monteagudo; Rubén Ayala Muñoz; Roberto López Porras; Gilberto I. Corzo Illescas; Carlos Enrique Gutiérrez; Alfonso Alonso Lima; Gilberto Chacón Pazos; René Chiu Fuentes; Carlos Guillermo Aldana G.; Leopoldo R. Sandoval; Edgar Leonel Ibarra; Jorge A. Carranza Rodas; José Víctor Velásquez; Luis Manlio Castillo; Mariano Rayo Ovalle; Efraín Morales Zapata; Marco A. Ortiz Romero; Orlando Marroquín; José A. Andrade; Gert Rosenthal; José M. Rivera M.; Jorge Mauricio Lau; Tomás Núñez Aguilar; Roberto López Pérez; Hugo H. Vargas O.; José Arturo López G.; Anastasio Cruz Ramos; Carlos Mamuel Juárez, Luis Schlesinger Carrera; Héctor Sánchez Latour; Oswaldo Cáffaro F.; Carlos A. Steiger T.; Luis A. del Valle; Julio Obiols; Francisco Escamilla; Enrique Aguiluz B.; Larry Andrade Lara; Enrique Matheu Palomo; Rafael David A.; Adolfo Montes Villagrán; Guillermo González B.; Carlos Molina Mencos; Ramiro Castillo Love; Ricardo Castillo; Carlos Montes Córdova.

/El Salvador

El Salvador

Chairman of the delegation: Abelardo Torres, Minister for Economic Affairs; Víctor Manuel Cuéllar O.; Under-Secretary for Economic Integration and Foreign Trade.

Members: Guillermo Borja Nathan; Alexander Vásquez; Francisco Varela C.; Mauricio Cuéllar C.; Armando Baltazar Rivera; Armando Interiano.

Honduras

Chairman of the delegation: Manuel Acosta Bonilla, Minister for Economic Affairs; Valentín J. Mendoza, Under-Secretary for Economic Affairs.

Members: Miguel Angel Rivera B.; Guillermo Bueso; Práxedes Martínez S.; Luis Alberto Chocano; Adán López Pineda; Trinidad Fiallos; Pedro García Ugarte; Ricardo Alvarez R.; Ricardo Reyes; Andrés Felipe López; Jaime Rosenthal; Marco A. Raudales P.; Guillermo Medina Santos; Vicente Machado Valles Jr.; Roberto M. Sánchez.

Nicaragua:

Chairman of the delegation: Silvio Argüello Cardenal, Minister for Economic Affairs; Jorge Armijo Mejía, Deputy Minister for Economic Affairs; Rodrigo A. Salmerón, Deputy Minister of Agriculture.

Members: Antioco Sacasa; Alvaro Porta; Alfredo Papi-Gil; Donald Briceño H.; Benjamín J. Guerra L.; Raúl Castellón D.; Julio H. Baldizón; Carlos Gabuardi L.; Roberto Morales V.

Costa Rica

Chairman of the delegation: Bernal Jiménez Monge, Minister of Finance, Industry and Trade; Rigoberto Navarro, Deputy Minister of Industry and Trade.

Members: Jorge Sánchez M.; Fernando Mora C.; Oscar Jiménez Ch.; Francisco Terán; Ernesto Ruiz.

(b) Delegation of Panama

Representative: Eduardo Ramírez.

(c) United Nations specialized agencies

International Labour Organisation (ILO): Geraldo M. Eboli; Ramón Aguado J.

Food and Agriculture Organization (FAO): Madan M. Babbar; Luiz P. G. Leite de Vascibcekis; Ulpiano F. Nascimento; Hugh Meharry.

International Bank for Reconstruction and Development (IBRD): Hubert F. Havlik; José Antonio Guerra.

International Monetary Fund (IMF): Luis E. Laso.

(d) Central American organizations

Organization of Central American States (OCAS): Carlos Cordero D'Abuisson;
Salomón Martínez.

Permanent Secretariat of the General Treaty on Central American Economic
Integration (SIECA): Pedro Abelardo Delgado; Raúl Sierra Franco;
José Guillén; Mauricio Baca Muñoz; Rodolfo Trejos; Guillermo Noriega Morales;
J. Mario Ponce; Gabriel Pons; Gautama Fonseca; José Sancho;
Carlos R. Hernández.

Advanced School of Public Administration for Central America and Panama
(ESAPAC): Wilburg Jiménez Castro; Manuel Guevara.

Central American Research Institute for Industry (ICAITI):
Manuel Noriega Morales; Francisco Aguirre.

Central American Higher Council of Universities (CSUCA): Raúl Sierra Franco.

Central American Air Traffic Corporation (COCESNA): Lisandro Rosales Abella.

Central American Bank for Economic Integration (BCIE): Gustavo A. Guerrero;
Héctor Monterroso.

Institute of Nutrition for Central America and Panama (INCAP): Marco A. Ramírez.

Central American Monetary Council (CMC): Alvaro Castro Jenkins.

Federation of Central American Chambers of Commerce: Arturo Melville.

(e) Other international organizations

Organization of American States (OAS): J. Alberto Torres.

Inter-American Development Bank (IDB): José Cárdenas; Adolfo N. Beeck;
Justo Carrillo.

Inter-American Committee on the Alliance for Progress (ICAP):
Jorge Sol Castellanos.

Panel of Nine: Jorge Méndez.

Inter-American Institute of Agricultural Sciences (IIAS): Armando Samper;
José Alberto Torres.

Joint Central American Programming Mission: Alberto Fuentes Mohr;
Salvador Sánchez Aguillón; Mauricio Castillo; Ramón López Rivera;
Gabriel Siri; Eduardo Montes Umaña; Salomón Ordóñez; Mario Córdova;
Lucila Alvear; Rafael Ponciano.

The United Nations Development Programme was represented by Mr. Jaime Renart. Present on behalf of the secretariat of the Economic Commission for Latin America (ECLA) were Mr. Carlos Manuel Castillo, the Director of the Mexico Office, Mr. Joseph Moscarella, Deputy Director, Mr. Francisco Giner de los Ríos, Assistant Director, Mr. Porfirio Morera Batres, Secretary of the Committee; Mr. David Ibarra, Mr. Alejandro Power, Mr. Alvaro de la Ossa, Mr. Alfredo Harvey, Mr. Enrique Díez-Canedo, Mr. José Tomás Zepeda and Miss Alma C. Barbosa, while the Bureau of Technical Assistance Operations (BTAO) was represented by Mr. Francisco Malavassi, Mr. K. Vyasulu and Mr. Ernesto Torrealba.

The ninth session of the Committee was opened by Mr. Enrique Peralta Azurdia, the President of Guatemala. At the inaugural meeting, addresses were made by Mr. Carlos E. Peralta Méndez, Minister for Economic Affairs of Guatemala,^{8/} Mr. Carlos Manuel Castillo, Director of the ECLA Mexico Office,^{9/} and Mr. Abelardo Torres, Minister for Economic Affairs of El Salvador, and former Chairman of the Committee, who replied on behalf of the delegations to the Minister for Economic Affairs of Guatemala.

At the first working meeting, Mr. Carlos E. Peralta Méndez, Chairman of the delegation of Guatemala was elected Chairman of the session and of the Committee, while Mr. Manuel Acosta Bonilla, Chairman of the delegation of Honduras, was elected Rapporteur.

The Committee conducted its business in plenary meetings and set up special working groups to consider certain items on the agenda.

B. Agenda

The Committee considered the provisional agenda (E/CN.12/CCE/325) prepared by the ECLA secretariat, and changed the order of some of the items in order to facilitate its work. At the request of the delegation of

^{8/} See annex 2.

^{9/} See annex 3.

El Salvador, two additional items were included: a draft Central American treaty on uniform legislation concerning migration and a project for the establishment of a Central Institute for Educational Loans.

The following agenda was adopted:

1. Opening meeting
2. Election of Chairman and Rapporteur
3. Consideration and adoption of the agenda
4. Organization of the work
5. Evaluation of the Central American economic integration programme
 - (a) Present situation and future prospects of the programme
 - (b) The economic policy of the Common Market during the next phase of integration
 - (i) The operation of the Common Market
 - (ii) Trade policy
 - (iii) Industrial policy
 - (iv) Agricultural integration
 - (v) Regional programmes by sectors
 - (c) The institutional framework for integration
 - (d) Balanced development within the Common Market

Documents:

Evaluación de la integración económica en Centroamérica
(E/CN.12/CCE/327/Rev.1)

Evaluación de la integración económica en Centroamérica.
Anexo estadístico. (E/CN.12/CCE/327/Rev.1/Add.1)

El crecimiento económico de Honduras y el desarrollo equilibrado
en la integración económica (CCE/IX/DT.1)

Exposición sobre la participación de Honduras en el proceso de
integración económica centroamericana (CCE/IX/DT.2)

Informe de la Primera Reunión Conjunta del Consejo Ejecutivo,
Directores de Organismos de Planificación y Presidentes de
Instituciones Nacionales de Fomento (CCE/IX/DT.3)

Reference documents

Los problemas de la política industrial centroamericana. Nota
conjunta (CEPAL/SIECA (E/CN.12/CCE/311))

Posibilidades de desarrollo industrial integrado en Centro-
américa (E/CN.12/CCE/323; TAO/LAT/50)

Carreteras, puertos y ferrocarriles de Centroamérica
(E/CN.12/CCE/324)

La productividad, el costo de la mano de obra y el costo de producción en el Istmo Centroamericano (E/CN.12/CCE/335)

6. Activities since the eighth session of the Central American Economic Co-operation Committee

(a) Technological research and vocational training

Documents

Informe del Director del Instituto Centroamericano de Investigación y Tecnología Industrial (E/CN.12/CCE/328)

Informe del Director de la Escuela Superior de Administración Pública América Central (E/CN.12/CCE/329)

(b) Technical assistance

Documents

Informe del Representante Regional de la Junta de Asistencia Técnica de las Naciones Unidas para Centroamérica (E/CN.12/CCE/330 y Add.1)

Informe de la Organización de las Naciones Unidas para la Agricultura y la Alimentación (E/CN.12/CCE/331)

Informe de la Organización Internacional del Trabajo (E/CN.12/CCE/332)

(c) Subsidiary organs of the Committee

Documents

Informe de la reunión extraordinaria del Subcomité de Comercio Centroamericano (E/CN.12/CCE/314)

Informe de la quinta reunión del Subcomité de Coordinación Estadística del Istmo Centroamericano (E/CN.12/CCE/304)

Informe de la sexta reunión del Subcomité de Coordinación Estadística del Istmo Centroamericano (E/CN.12/CCE/319)

Informe de la reunión extraordinaria del Subcomité de Coordinación Estadística del Istmo Centroamericano (E/CN.12/CCE/322)

Informe de la segunda reunión del Subcomité Centroamericano de Transportes (E/CN.12/CCE/307)

Informe de la segunda reunión del Subcomité Centroamericano de Electrificación (E/CN.12/CCE/306)

Informe de la reunión del Grupo de Trabajo sobre Interconexión Eléctrica Nicaragua y Costa Rica (E/CN.12/CCE/SC.5/33/Rev.1)

Informe de la segunda reunión del Subcomité de Vivienda, Edificación y Planeamiento del Istmo Centroamericano (E/CN.12/CCE/305)

Informe de la tercera reunión del Subcomité de Vivienda, Edificación y Planeamiento del Istmo Centroamericano (E/CN.12/CCE/326)

Informe de la primera reunión del Subcomité Centroamericano de Desarrollo Económico Agropecuario (E/CN.12/CCE/318)

7. Other matters

(a) Draft Central American Treaty on Uniform Legislation Concerning Migration

Documents:

Proyecto de ley de migración (CCE/IX/DT.4)

Recomendaciones del Consejo Centroamericano de Turismo sobre el proyecto de ley de migración (CCE/IX/DT.5)

(b) Central American Institute for Educational Loans

Documents:

Proyecto de creación del Instituto Centroamericano de Crédito Educativo (CCE/IX/DT.6)

8. Date and place of the tenth session of the Committee

9. Consideration and adoption of the report of the Rapporteur

10. Closing meeting

C. Account of proceedings

The ninth session of the Central American Economic Co-operation Committee took place when the transition period leading to complete free trade in the Common Market was already well into its fifth and last year. Since the formation of the Market notable progress had been made by the economies of most of the member countries. That was attributable to two favourable trends: first, the heartening recovery of the external sector, save in one or two cases, and, secondly, the increase in the stimulus given by general free trade and the standard import tariff, which had been drawn up with the object of developing the economy.

In 1965, however, the export sector began to decline again. That was a source of deep concern to the Committee because of the impact of the deterioration on the level of production in the traditional industries and because the integration movement would probably have to be pursued in a different economic context in the near future and more vigorous joint action taken to combat the ensuing difficulties. Hence, it was even more vital that the programme should lay increasing stress

/on the

on the transformation of the production systems in keeping with the opportunities created through multilateral co-operation among the countries concerned.

The Committee had itself drawn attention to these facts at its eighth session, but, after reviewing the new trend of events, it had found that little had been accomplished as yet and that the dynamic impetus displayed by the Common Market was primarily due to the forces automatically engendered by its establishment. It had also found that the advances made in industrial programming and the studies carried out on the feasibility and financing of public works on a regional scale had made it possible to obtain at least some of the essential data needed to embark upon the transformation of the production systems.

It was apparent at the ninth session that the experience acquired had made it possible to formulate increasingly clear-cut concepts and guidelines as a basis for economic integration policy in the major sectors of activity. Those were borne in mind at all times in the process of evaluation, and had been fully endorsed at the consultative meeting held earlier by the Executive Council of the General Treaty, the directors of planning agencies and the presidents of national development institutions. The Committee followed the same lines in its approach to the subjects under discussion, but in its case the concepts and guidelines served not merely to broaden considerably the scope of the proposals made to it by the joint meeting but also to translate those proposals into practical measures and recommendations.

In this respect, the ninth session was noteworthy for the zealous efforts made by the Ministers for Economic Affairs to improve a number of aspects related to the execution and operation of the programme in sectors other than those that had claimed most of their attention in the past. Conscious of the remarkable development of the needs and coverage of the integration movement, and of the lack of suitable machinery for meeting them, the resolution adopted by the Committee at its ninth session provided for the establishment of various Councils, Commissions and technical working groups under the General Treaty and its principal organs; urged the conclusion of new agreements and protocols; and gave the Central

American organizations some specific indications, with particular respect to financing, co-ordination and the achievement of higher levels of efficiency. The attainment of the objectives pursued would depend hereafter on the energy with which these measures were taken and on the manner and volume in which the funds necessary for their execution were obtained and disbursed.

Satisfaction was expressed at the provisions for the development of Honduras on a balanced footing with the other countries within the integration movement. Besides expressly recognizing a principle of vital importance for the Central American movement, those provisions made for the prompt and full implementation of the multilateral agreements that were still awaiting ratification and deposit. The way had thus been paved for an advance on new and more promising lines in the Common Market.

By the close of the session it had become apparent that, in comparison with the years 1958-62 when the basic integration agreements had been concluded with great rapidity, the current phase was primarily one of consolidation and practical realisation of opportunities as part of the complex task of framing and applying a regional economic policy, through the development of a common market, in the major fields of activity. By thus establishing practical channels of communication for an interdependent regional system of an increasingly comprehensive kind, the current movement was setting the stage for the broadening of the concept of integration within the Common Market to embrace such institutions as a customs union and a monetary union which would play their part in the complete merging of the Central American economies.

1. General situation and prospects of the programme

During the ninth session, the discussions of the Committee centred on the document entitled Evaluación de la Integración Económica en Centroamérica (E/CN.12/CCE/327/Rev.1) and on the Informe de la Primera Reunión Conjunta del Consejo Ejecutivo, Directores de Organismos Nacionales de Planificación y Presidentes de Instituciones Nacionales de Fomento submitted by the secretariat.^{10/} It was pointed out that both

^{10/} The text of this document appears as annex 1 to the present report.

presented the results of the process of evaluation undertaken by ECLA in response to the request addressed to it by the Economic Council of the General Treaty. Tribute was generally paid to the work of the secretariat which had made it possible to assess the progress made, determine current problems and decide and recommend solutions to those problems and to the difficulties likely to arise in future.

In the course of the general debate and the Committee's proceedings, it was made clear that the aims established for the first stage of the programme had been largely realized as far as the operation of the basic Common Market mechanisms was concerned. That was demonstrated by the figures for trade, and the rapid growth of the economic sectors - and industry in particular - that was the supply-line for trade.

It was admitted, however, that the Central American economies had not been developing in unison, partly because their export trade was carried on in different conditions but also because some countries had not been able to make as much use as others of the opportunities afforded by the expansion of the market during the early stage of integration. Moreover, it was emphasized that the prospects for the area's traditional exports were bleak enough to make it doubtful whether they would continue to spur on the economy of the Central American economies as effectively as they had managed to do in recent years.

In the light of this appreciation of the outlook for the Central American economy in future years, the Committee considered that at the present stage of the programme the joint action of the member countries should be concentrated on activities that would conduce to a co-ordinated expansion, on a regional basis, of the directly productive sectors, and on providing the area with the physical facilities and the services it needed.

It was agreed that, apart from the achievements in respect of free trade, progress had been slow in the various fields, for a number of reasons. The net result was an appreciable gap between the broad opportunities offered by free trade and the many requirements it gave rise to, on the one hand, and the restricted means of benefiting from those opportunities and meeting those requirements, at both the national and regional level.

That gap reflected the early stage of development in Central America, and the problems that had to be faced in transforming its productive systems within the framework of the regional market. On the basis of the experience of recent years, it was clear that that transformation could not be based solely on tariff policy and regional free trade. The rapid growth in trade had resulted from the expansion and modernization of the existing traditional industries, and had led in some cases to surplus productive capacity and high production costs. Moreover, agricultural production had responded almost exclusively to the stimulus of external demand, and hence the expansion of the regional supply of products for domestic consumption remained slow.

The Committee once again stressed the importance of maintaining the maximum fluidity in trade, and making the tariff instrument more flexible, and recommended the adoption of measures to eliminate the obstacles that in some cases were still hampering trade, and to permit a more effective review of the uniform common tariff in line with the changing needs of development policy. The Committee also pointed to the need to continue studies, and build up practical experience in different fields, to facilitate rapid progress in completing the tariff union.

The Committee concentrated its main attention on the other instruments and institutions for promoting the integrated development of the area. A consideration of the factors that had hampered their efficient functioning led to a reaffirmation of the need to continue concentrating efforts on the problems that arose, and attempting to solve them on the pragmatic basis that had been characteristic of the integration programme from the outset. Consideration of those problems in terms of a theoretical plan of integration might give rise to proposals involving a radical reconstruction of the regional agencies that had been built up as the fruit of successful experiment, and that had in essence proved their practical value, and the end result might be damaging to those agencies.

Viewing the problem thus, the Committee was in full agreement that present difficulties, and those that might arise in future years, should be solved by strengthening the existing regional agencies and increasing

the co-ordination of their activities with a view to the optimum use of the instruments available under the integration programme. At the same time, as the need for joint action in new fields arose, formulas should be sought to ensure a growing participation in the integration programme by other sectors of the public administration.

Aspects that should receive special attention in the immediate future, the Committee considered, included a more precise definition of industrial policy, and the setting up of the necessary machinery to permit prompt use of the financial and promotional instruments available, with a view to the allocation of industrial activities among the countries with due regard for economic considerations and an equitable sharing of the benefits of integration.

The Committee said that the regional highway programme should be accelerated, and so should the putting into operation of the inter-connexion of electricity systems, and other projects relating to the infrastructure and to basic services, in order to promote and facilitate the merging of the national economies and the reduction of the imbalances in the rate of development of the individual countries.

Both industrial and agricultural development policies must be based on the rational and co-ordinated exploitation of the area's natural resources. The Committee drew attention to the need to intensify survey work that the five countries had undertaken jointly, on an organized basis, with some technical and financial external help. That activity should be combined with the active promotion of new export lines, and the opening up of other markets abroad for Central American products. In that connexion, the Committee felt that there should be an immediate speeding up in the work and preparatory studies relating to the formulation of a common trade policy, and specified some of the institutional measures needed if Central America as a whole were to establish closer economic links with other countries and groups of countries, and defend its position more effectively in world markets as regards its traditional export products.

The Committee considered other questions that were becoming increasingly important to the unification of the national economies. They included the differences in the tax systems, and other elements tending to distort flows of goods and capital between the countries, and the Committee considered that studies should be undertaken with a view to gradual reduction of such differences. In addition, greater mobility of manpower and capital was needed for a complete merging of the individual economies, as well as a unification of social security policies and labour legislations, not only to equal out production costs, but also to increase the participation of the labour sector in the benefits of integration.

2. Functioning of the common market

The Committee took note with satisfaction of the extraordinary increase in the trade flows between the five countries since the entry into force of the General Treaty, and of the effective application of the free-trade system and the Central American import tariff. It considered, however, that although the problems that had arisen in administering the legal instruments of the common market were minimal, an effort must be made to solve them over the short term, in order to achieve maximum fluidity in intra-area trade, ensure the uniform application of the common tariff, and give greater flexibility to the process of renegotiating common charges, in order to adapt them to the changing needs of development policy. To that end, the Committee examined, and in the main adopted, the proposals on those questions submitted to it by the Joint Meeting, with some modifications in the light of new considerations that had arisen during the course of the debate.

With respect to free trade, the Committee's attention centred on the measures needed to reconcile, at the regional level, industrial and sanitary standards for manufactured products, with a view to avoiding duplicate or conflicting provisions that might result in obstacles to the flow of goods between the countries. It was recognized, however, that such reconciliation could not be achieved rapidly and effectively

by the mere incorporation of sanitary standards in the industrial standards. Hence the Committee proposed that the Economic Council should meet with the Central American Public Health Council in order to take decisions with a view to speeding up the work, and also asked ICAITI and the public health agencies responsible for those standards to effect the necessary co-ordination amongst themselves at the technical level. The Committee thus adopted the proposal of the Joint Meeting (which had also recommended on previous occasions that ICAITI should be the sole agency responsible for formulating industrial standards in Central America). The Committee also suggested to the Governments that they should take the necessary measures to speed up the application of a common policy in the field of tax incentives and with respect to the cereals protocol.

The Committee endorsed other proposals of the Joint Meeting, including those relating to the adoption of criteria and procedures to facilitate the determination of the origin of goods, and the signing of uniform agreements for the protection of industrial property and regional legislation on animal and plant hygiene.

With respect to tariff policy, the Committee stressed that although the adoption of more flexible procedures for the renegotiation of uniform official base values should be in line with the need to develop new industrial activities, it must also take account of considerations of a fiscal nature or relating to the balance of payments. In addition, it would permit effective use of the Central American tariff as an instrument of the common trade policy towards other countries that must be built up during the second stage of the integration programme.

In the light of the foregoing considerations, the Committee stressed the urgent need to carry out studies and other work with a view to hastening the signing of the protocol to the Central American Agreement on Equalization of Import Duties and Charges, since that would to some extent permit determination of the levels of official base values without prior ratification by the legislature. Furthermore, the Committee recommended that measures and procedures should be taken to speed up the regular process of ratifying and depositing the tariff renegotiation protocols.

Lastly, the Committee decided to ask SIECA to speed up the studies necessary to the completion of the Central American tariff legislation, and to ask the Economic Council to carry out pilot projects to permit the accumulation of experience in that field.

The Committee adopted resolution 134 (CCE) on the functioning of the common market, covering the foregoing points.

3. Unification of tax systems

The Committee studied the tax problems that had arisen from the establishment of the common market, and the new needs involved in the completion of the market in the immediate future, and endorsed the conclusion of the Joint Meeting that the gradual unification of the tax systems of the member countries should be initiated as soon as possible. To that end, the Committee recommended the establishment of a Central American Committee on Fiscal Questions (including taxes, budgets and public credit) to carry out technical studies in this field, with a view to making specific recommendations to the organs of the General Treaty and to the Joint Meeting of Ministers of Finance and of Economic Affairs.

During the debate it was made clear that the tax systems were being transformed as the result of the creation of new domestic taxes and the improvement of existing taxes. That process would be intensified in step with the increasing financial requirements of national investment plans.

In particular the Committee examined the domestic taxes on consumption, as an important source of additional revenue that, in time, should permit a more effective use of the tariff for economic development purposes. Nevertheless, the Committee expressed concern over the practice of establishing consumption taxes on specific articles, and considered that care should be taken to prevent such taxes from giving rise to discriminatory effects or restricting free trade. Furthermore, the tendency for that type of tax to multiply would impede the task of regional unification. In addition,

/domestic taxes

domestic taxes were important as a means of protecting the balance of payments, and it was considered desirable to compile and analyse past experience and methods used in that field in various countries of the area.

In the light of the foregoing considerations and of the information at its disposal, the Committee decided to recommend the drafting of regulations for the application of article VI of the General Treaty, to permit uniform interpretation and verify in practice that the application of taxes on consumption represented the same burden on domestic products as on those from the rest of Central America. Furthermore, the Committee recommended to the Governments that they should endeavour to consolidate such taxes in a system in which the rates of incidence would be more general, by groups of products, and in which the different categories of articles would be distinguished according to the importance of the needs they met. That could help to improve income distribution and reinforce the development promotion policy pursued by the Central American countries.

In view of the importance that must continue to attach to import duties, the Committee stressed the need for a joint review of the uniform tariff with a view to maintaining their function as a source of government revenue and as an instrument to promote development, and asked SIECA to undertake a study on customs exemptions granted by virtue of legal provisions and specific concessions.

Lastly, the Committee endorsed the proposal that the integration agencies should formulate their annual work programmes on the basis of the system of performance budgeting, and that they should participate in studies to facilitate the financing of their activities.

The Committee adopted resolution 138 (CCE) on the unification of tax systems, which covered the foregoing points.

4. Central American trade policy

The Committee welcomed the proposals made by the Joint Meeting, and regarded them as an appreciable advance towards defining Central American trade policy in terms of specific aims and the means that might be used to achieve them. That advance was the result not only of study, but also of the experience acquired in recent years by the United Nations Conference on Trade and Development, and at regional meetings at which Central America had acted as a unit in presenting its problems and needs.

The Committee, aware that the external sector would continue to exercise a determining influence on the area's development, decided to adopt a more practical approach to a common trade policy by indicating those specific fields in which joint action should be taken in the next few years, together with the instruments needed to co-ordinate such action in relation to negotiations with third countries, to prior studies of potential markets and of new possible export lines for the area, and to activities concerned with promotion and finance.

To that end, the Committee recommended that the Governments should gradually adopt a Central American trade policy, and stressed the need for any trade treaties concluded with third countries by any member country to include a right of amendment, if the purposes and provisions of the common policy so required.

Similarly, the Committee recommended that Governments should intensify their joint participation in the United Nations Conference on Trade and Development and in the activities of its subsidiary organs. However, it was concluded that the effectiveness of such participation would be minimal if it were not backed up by the action of all the Governments on specific questions of special concern for Central America. In that connexion the Committee stressed the vital need to co-ordinate national policies to defend exports of primary commodities, and recommended the formation of Central American committees for each commodity, under the Economic Council and the Executive Council.

As a first step in that direction the Committee recommended the establishment of a Central American Coffee Committee, which would be responsible, with the advice of SIECA, for the work of co-ordinating coffee marketing and the unification of the policy of the Central American countries in relation to the International Coffee Agreement.

With respect to other export products, the Committee reiterated the recommendations of the First Joint Meeting of Ministers of Finance and of Economic Affairs, that national foreign trade committees should be established, and that a group to co-ordinate their work should be formed, in order to provide the Executive Council and the Economic Council with the technical information essential to the formulation and execution of a common trade policy. In addition the Economic Council was recommended to encourage the preparation of specific projects and of programmes for research on, and development of the production of, new export lines, with due regard for the work being carried out by BCIIE and other institutions.

The Committee recommended a more detailed study, with the help of the agencies of the General Treaty, of the possibilities of linking up Central America with the movements towards a Latin American common market, especially as regards the industrial complementarity agreements. In that connexion it proposed that Central America be included, as an economic unit, in the studies in that field conducted by the Latin American Institute for Economic and Social Planning, the Inter-American Development Bank, and ECLA.

The Committee also recommended that joint committees should be set up, representing Central America and certain countries in Latin America, to explore the existing possibilities of co-operation, with the advice of SIECA, the ECLA secretariat, and other international bodies. Those and other recommendations on the same subject were covered by resolution 135 (CCE) on foreign trade policy.

5. Industrial policy

When the Committee discussed this subject, it recognized that considerable efforts had been made under the economic integration programme to industrialize the Central American countries. The formation of the common market had given a strong impetus to manufacturing. Nevertheless, that impetus was not adequate in some respects, relating to the form and degree of use made of the scanty capital resources, and had not yet penetrated into the field of the basic industries, on whose establishment depended the change that would have to be made in the existing manufacturing structure.

It was pointed out that these defects were largely due to the absence of an industrial policy co-ordinated at the regional level, and that lack, in turn, could be attributed to the fact that a number of important legal instruments signed some time ago were not yet in full force, while others were not being energetically applied, or had yet to be supplemented by the appropriate operational machinery.

The members of the Committee formed themselves into a working group in order to study the agenda item concerned, and discussed in detail the problems raised by the co-ordination of the industrial programmes at the regional level. With respect to the Régime for Central America Integration Industries and to the special tariff system for the promotion of productive activities, the proposals drafted by the consultative meeting were expanded and modified, to emphasize the importance of giving a vigorous impetus, on a selective basis, to the use of those instruments. To that end, it was decided to recommend to the Economic Council that it should draw up a list - to be amended or expanded from time to time - of regional industries of high priority, and for that purpose should adopt as a first step the list approved at the Second Meeting of Directors of Planning Offices (the pulp and paper, chemical, basic metals and assembly industries), together with the industries in each group that were specifically indicated at that meeting as suitable for co-ordinated promotion at the Central American level. It was agreed that the Economic Council should indicate which industries on the list should come under the Régime for Integration Industries, the special tariff system, and - when it entered into force - the protocol on assembly industries.

Some representatives expressed concern over the lengthiness of the procedures for defining and including new industries under the Régime, and over the difficulties in obtaining financing, and in general co-ordinating the regional efforts in this field, and ensuring the active participation of the entrepreneurial sectors.

With the aim of finding a solution to those problems, the Committee recommended the adoption of various operational measures. Firstly, it discussed and approved the establishment of a Central American Committee on Industrial Co-ordination, as an advisory body to the organs of the General Treaty, consisting of permanent members - for example, the presidents of the national development institutes, the directors of planning offices, and other high-level officials - who would be responsible for submitting recommendations to those organs on questions relating to the amendment and expansion of the basic list, the determination of the industries to be covered by each of the above-mentioned instruments, and the study and evaluation of the specific projects submitted for classification and accepted as covered by any of those instruments. The new committee would base all its recommendations on studies and technical evaluations carried out by ICAITI, and would perform its functions in accordance with terms of reference and procedures whose main lines had been approved by the Economic Co-operation Committee and were set forth in the resolution adopted on that subject.

Secondly, the Economic Co-operation Committee recommended the formulation of a draft protocol that would empower the Economic Council to include in the Régime for Integration Industries, and authorize the installation of any plants that met the requirements of the Agreement on the Régime, without the need for ratification by the legislature.

The Committee endorsed the concern expressed at the sixth session of the Economic Council respecting the need for studies and related work to permit a revision of the Régime with the aim of making it more flexible and ensuring the full realization of its aims.

It was also suggested that during the initial stage of the process of co-ordination referred to above, individual manufacturing plants might be listed as covered by the various industrial instruments belonging to the

economic integration programme, when the above-mentioned lists are being drawn up, where duly completed investment projects were available.

As regards the promotion and financing of industrial development, the discussions centred mainly on an examination of the types of measures that could be taken to strengthen regional action on industrialization. The main emphasis was, firstly, on defining machinery for co-ordination between the national and Central American agencies, and secondly, on establishing little by little a juridical and institutional framework suitable for that purpose.

With the aim of speeding up the execution of the industrial programmes and strengthening the area's technical cadres, it was agreed to recommend to ICAITI that it should establish a group of high-level experts to advise the national and regional specialized bodies on certain aspects of the preparation and evaluation of industrial projects of interest to Central America.

Some representatives stressed the lack of projects suitable for financing in the dynamic industries, and the need to encourage projects concerned with the tourist and fishing industries, which represented two promising opportunities of exporting goods and services. It was also suggested that the national industrial development institutions should be established or (where they existed) strengthened, with a view not only to guiding and promoting manufacturing development, but also to having available at the national level specialized bodies that could act as links in co-ordinating the regional programmes. In that connexion, it was pointed out that there should be a distinction between the specific function of industrial promotion, activities relating to other sectors, and purely banking activities, which were sometimes all carried out by the agencies concerned with industrial development.

Representatives were anxious to see an improvement in the systems of financing, and the channelling of funds into the manufacturing sector, and it was agreed to ask BCIE to seek out and adopt ways and means of ensuring closer co-ordination of its activities with the national credit and development institutions, and to endeavour to expand the funds allocated to industrial promotion. It was considered that such action would enable BCIE to establish

credit with European countries and international agencies, and to facilitate the mobilization of private savings, with a view to assisting the installation of the basic industries in Central America.

The Committee examined the obstacles due to the existence of different legal provisions in the individual countries and to the weakness of the capital market in the region. It was felt that both factors hampered the flow of capital and the formation of large-scale industrial enterprises, and the Committee stressed the need to support and give added impetus to the work of reconciling banking and trading laws and bring them up to date. For that purpose it was recommended that a Central American committee on financial and economic legislation should be established, to carry out comparative studies of the provisions in force in specific fields, and propose appropriate measures to effect a gradual reconciliation. More specifically, and in line with the terms of reference set forth in the resolution concerned, the new committee would be responsible for guiding and evaluating the studies carried out, and proposing measures to improve and strengthen the capital market, in relation to such questions as the enactment of the uniform legislation on securities, the organization of a Central American stock exchange, and the formation of enterprises on a regional basis.

The Committee then turned to the question of adopting regional provisions and instruments of simple application that could prevent or forestall unfair trade practices on the part of third countries, or arrangements between Central American entrepreneurs that might hamper regional free trade. It was agreed to recommend to the above-mentioned committee that it should prepare specific recommendations, on the basis of the studies and documents prepared by SIECA.

The Economic Co-operation Committee also discussed the problem of forming technical cadres and raising productivity. It was generally admitted that Central America lacked the necessary entrepreneurs and the manpower needed at the intermediate and higher levels, a lack that acted as a powerful brake on the development of manufacturing and, in particular, the installation of technologically complex industries. It was also agreed that little progress had been made in raising industrial productivity, and that greater efforts

/were needed

were needed to reduce internal costs and prices, and to improve Central America's competitive position in relation to third countries. It was recommended that the Governments should give stronger support to action in that field, and should take the necessary steps to strengthen the productivity centres and institutes operating in the Central American countries.

Lastly, the Committee took note with satisfaction of the regional project in preparation for establishing a special department in ICATTI to deal with productivity, under the joint sponsorship of the ILO and the United Nations. It also took note with satisfaction of the work being done by the Government of El Salvador, in collaboration with the Government of the United Kingdom and the private sector in El Salvador, to organize an Institute of Technical Education, to begin functioning in 1967.

The Committee adopted a resolution 136 (CCE) on industrial policy, covering the points indicated in the foregoing paragraphs.

6. Agricultural policy

During the discussions on this item the Committee noted (as had also the Joint Meeting of Ministers of Agriculture and of Economic Affairs, held recently in Puerto Limón, Costa Rica) the slow progress achieved in remedying the economic lag in many agricultural sectors. The small scale of the practical results were considered to be out of proportion to the number and broad coverage of the studies and research programmes undertaken in the area, and to the number of resolutions adopted at various Central American meetings. That was considered to be mainly due to the marked shortage of technical and financial resources of the national agencies responsible for agricultural policy and of the advisory agencies at the regional level. Note was taken of the progress achieved in determining production goals in national agricultural development plans. But except in individual instances, it was considered that in some of the countries those plans were still far from the operational stage, in terms of the funds available for their administration, and the supply of specific projects in the various fields. It was also noted that there was little reconciliation of the national plans with a view of possible specialization of production by zones in Central America, in the light of the criterion of balanced development.

On the basis of the above views the Committee reached the general conclusion that in the agricultural sector, unlike the industrial sector, there was as yet no over-all view that would permit the formulation and execution of an agricultural policy of Central American scope. It was decided to give the highest priority to the work that still had to be done before that aim could be realized, which included the processing of agricultural products, and to recommend the Governments to intensify economic integration activities in that sector. For the same purpose, BCIE was asked to give priority to the financing of agricultural development projects of regional interest, and establish close links with national credit institutions.

Appreciation was expressed for the work done by SIECA in the field of primary commodities for domestic consumption, and the Committee recommended that the Governments should increase the funds allocated to the preparation of specific projects for the development of those products. The Committee also considered that the establishment of a regional stockpile of staple foods, with the assistance of the United Nations World Food Program, could help to reinforce the price support programmes and finance cereal purchasing programmes, and suggested to the Ministers of Agriculture that they should study that proposal with the assistance of the Co-ordinating Committee on Marketing and Price Stabilization in Central America. The Economic Co-operation Committee also decided to transmit to the Ministers of Agriculture, for their consideration, the regional project for the production and marketing of improved seeds drawn up by FAO, and authorized the Chairman of the Committee to submit it, if approved, to the United Nations Development Programme, with a request for its financing and implementation.

The Committee asked the Central American Agricultural Co-ordination Sub-Committee to carry out, with the assistance of the national and international bodies concerned, basic studies on possible specialization of production by areas, in the light of the type and distribution of the potential resources available for the development of Central America's agriculture, and of the principle of balanced development.

Lastly, it should be noted that deep concern was expressed regarding the highly unfavourable conditions that were hampering cotton production as a result of natural factors that had led to a reduction in the volume and

/profitability of

profitability of production. In that connexion, the Committee recommended that the Economic Council should take steps to establish without delay a Central American committee, consisting of representatives of the Governments and of the private sector, to formulate specific recommendations on the short-term problems relating to costs, production and financing, and the more long-term problems of regional co-ordination of marketing policies in world markets.

The resolution on this subject adopted by the Committee was resolution 137 (CCE) on agricultural policy.

7. Regional programmes on the infrastructure sectors

In its discussions on this item, based on the documents submitted by the secretariat, the Committee agreed that it was necessary to give a strong and continuing impetus to regional programmes in the infrastructure sector, in order to ensure that the integration programme was provided with the services and physical facilities needed to provide an effective stimulus to its development.

The Committee considered the proposals on this question that had been submitted to the Joint Meeting. It was agreed that one of the reasons for the lag in the development of the programmes concerned was the difficulty of financing the projects already approved, and the insufficient development of the institutional machinery needed to facilitate action and co-ordination at the regional level.

With respect to finance, the Committee recommended that steps should be taken to increase the resources of the ECIE Economic Integration Fund. The Committee gave a favourable reception to the proposal to consider eligible, for financing by that Fund, the projects under the Central American Highway Plan, since they were the result of technical and economic feasibility studies, undertaken by the mission representing ECIE, SIECA and the Joint Central American Programming Mission, which had been approved and endorsed by the First Joint Meeting of the Ministers of Economic Affairs and of Public Works. In addition the Committee considered that the same policy should be followed with all programmes of that type approved at the regional level.

/The Committee

The Committee decided to ask the Joint Programming Mission to undertake a study on the probable effects of the execution of development plans on the external borrowing capacity of the Central American countries. It was considered that that step would make it possible to determine how the capital resources of the Integration Fund should be allocated, and what rules should be established on the distribution and terms of loans.

It was also agreed to ask the Joint Mission to make an inventory of infrastructure projects that would facilitate a better use of those natural resources of the potentially rich zones that were not at present being exploited. The preparation of those studies would ensure that there was a reserve of projects eligible for financial aid from the BCIE.

In order to give truly regional scope to certain infrastructure programmes, and provide institutional backing for their execution, the Committee adopted a recommendation to the Economic Council providing for the establishment of a Central American Transport Council (made up of representatives of the authorities concerned) and a Regional Committee of Highway Directors; the former would carry out, on a permanent basis, an evaluation of the needs of the common market in that field, and co-ordinate the execution of any programmes adopted, while the second would assist the Transport Council in relation to road construction.

The Committee also supported the proposal to establish regional groups, made up of top-level national experts, to advise the Governments on the preparation and execution of their programmes, and to guide and direct those programmes when asked to do so by any of the countries, with the help of the regional and international technical assistance experts, and foreign advisers.

The Committee also devoted special attention to the present state of the programme to create a Central American telecommunications network. It was considered essential to provide the common market with a modern and efficient network in order to achieve further advances in the economic integration process, and to facilitate and stimulate the development of directly productive activities on a regional basis.

It was recognized that the joint efforts made for a number of years by the telecommunications authorities had produced their first results in the form of the establishment of reliable communications throughout the area,

/consequent upon

consequent upon the agreement signed with the Central American Air Traffic Corporation (Corporación Centroamericana de Servicios de Navegación Aérea - COCESNA), and the adoption of a uniform tariff system with rates lower than those in force hitherto. However, the Committee also noted that that solution was temporary, and that over the short term an entirely new network would have to be constructed, on the lines drawn up in recent years by the competent authorities with the assistance of the United Nations.

The fact that a bilateral treaty had been concluded between Honduras and El Salvador, while Costa Rica and Nicaragua had agreed to the formation of the multinational enterprises originally suggested for the purpose of constructing and operating the network, made it clear that the position of the five countries on that question had not yet been reconciled. The Committee endorsed the view of the Joint Meeting that it was possible to reconcile the existing differences and find a formula to satisfy the various national interests and permit the hoped-for regional scope of the services to be fully realized.

It was deemed advisable to hold a meeting of the top-level communications authorities with the Ministers of Economic Affairs in order to examine jointly the various measures that could be adopted for that purpose. In view of the importance of the problem, the Committee recommended that the Ministers of Economic Affairs should take the necessary steps, in their respective countries, at the highest level, to obtain the firm support of their Governments for the establishment of the regional telecommunications network on the terms best suited to each individual country and to the area as a whole.

The Committee adopted two resolutions on this question, resolution 139 (CCE) on regional sectoral programmes, and resolution 140 (CCE) on the Central American telecommunications network.

8. The institutional organization of integration

During the discussions problems were raised in the Committee, in connexion with several different agenda items, relating to the institutional organization of integration, and in several of the resolutions adopted not only was the existing concern on that point voiced, but specific institutional

/formulas to

formulas to solve such problems were put forward. However, the Committee decided not to examine the question separately, preferring to refer it for consideration to a forthcoming special session of the Economic Council to be convened specifically to deal with this item.

9. Balance of development within the common market

As previously indicated in different parts of the present report, the question of balanced development was one of the Committee's main concerns during the ninth session. In analysing this agenda item (which was done by a working group made up of the members of the Committee), the Committee bore in mind, in addition to the relevant section of the general evaluation study, an ECLA document^{11/} describing the special situation of Honduras in relation to Central American economic integration, whose aim was to facilitate the study of the problem, and also a statement by the representative of Honduras on this point (CCE/IX/DT.2).

The Committee, in the light of those background data, reiterated its view that the achievement of a balance of development between countries was an essential aim of the integration programme. It had been so specified in the General Treaty, and in various legal instruments signed by the five Governments; moreover the Committee itself had endorsed that principle by establishing in 1952, in one of its first resolutions, that economic integration was based on the broad application of the principle of reciprocity, with due regard for the location of productive activities.

It was unanimously recognized that the case of Honduras had always presented a problem of balance of development, throughout the evolution of the Central American integration programme. The Committee decided that Honduras should be given preferential treatment in order to permit a better balance between its industrial development and that now taking place in the other countries of the region.

In that connexion, the Committee recommended the Economic Council to indicate the integration industries that should be assigned to Honduras under

11/ El crecimiento económico de Honduras y el desarrollo equilibrado en la integración centroamericana (CCE/IX/DT.1).

the Régime for Integration industries in order to accelerate its industrial development, in accordance with the economically desirable location determined in the studies made by the regional technical agencies.

With respect to financing, it was decided to recommend the BCIE to give priority in its operations to projects of interest for Honduras and for the Central American market, and negotiate with the various international credit institutions an over-all loan for Central America providing for special treatment for Honduras.

It was also agreed that Honduras should benefit from the application of a system of preferences in the granting of tax incentives, and for that purpose there should be an additional protocol to the Central American Agreement on Fiscal Incentives to Industrial Development, according Honduras a more generous treatment.

It was felt that the efforts of the Government of Honduras to implement its development plan also needed to be supplemented in the field of technological research, technical advice, public administration and the training of government staff. The Committee stated that for that purpose ICAITI and ESAPAC could provide valuable assistance, and it was specially important that the United Nations and other international bodies should increase their co-operation in the preparation and execution of industrial, agricultural and infrastructure projects.

The Committee asked the Economic Council to adopt at its forthcoming special session, the necessary measures, for putting the foregoing recommendations into practice. The Committee then decided to ask the Government of Honduras, with all due respect, take the action needed on its part to ratify the integration agreements that it had not yet ratified. It was unanimously agreed that that action would permit the practical realization of regional co-ordination of Central American policy in the industrial field and in the other fields of integration urgently needed for the satisfactory progress of the programme.

The Committee adopted resolution 141 (CCE) on an equal footing for Honduras in the economic development programme, which covered most of the foregoing points. On the same occasion the Committee had the pleasure

of hearing the Regional Representative for Central America of the United Nations Development Programme announce that his organization had decided to grant a supplementary sum to the Government of Honduras in order to expand the programme of technical assistance to that country.

It should also be noted that during the course of the discussion of the working group on the balanced development of the area, the representative of Nicaragua indicated the need to undertake studies to clarify the situation of his country in terms of the balance of development. The representatives of the other countries also referred to the existence of development imbalances in their countries in particular fields of economic activity. The Committee consequently decided to recommend the Economic Council to establish under SIECA a technical working group to carry out, as soon as possible, comparative studies analysing the situation and structure of the economies of the five countries, beginning with the industrial sector, and giving specific details about the degree of development of the main sectors of activity, and on the basis of that information and in the light of the different levels of development in each country, to formulate recommendations to promote the balanced development of all the Central American countries, on an integrated and continuous basis.

On this particular point the Committee adopted resolution 142 (CCE) on a study on balanced development.

10. Technical assistance, technological research
and public administration

The Committee took note with satisfaction of the reports submitted by ICAITI (E/CN.12/CCE/328) and ESAPAC (E/CN.12/CCE/329), and those submitted for its consideration by the United Nations Development Programme (E/CN.12/CCE/330 and Add.1), FAO (E/CN.12/CCE/331) and the ILO (E/CN.12/CCE/332), and had the pleasure of hearing statements by the directors or representatives of those bodies. There was an exchange of views on the experience gathered in this field, and suggestions were made to improve co-ordination in and use made of external technical assistance at the national and regional level.

It was decided to thank the United Nations, the Bureau of Technical Assistance Operations (BOAT), FAO and the ILO for the continuing and increasing co-operation lent to the Central American economic integration programme, and to authorize the Chairman of the Committee to submit the requests for the period 1967-68 deriving from the resolutions adopted at the ninth session.

The Committee adopted resolution 143 (CCE) on technical assistance.

11. Subsidiary organs of the Committee

The Committee, in reviewing the activities between the eighth and ninth sessions, took note of the work of its subsidiary organs, which held a total of ten meetings during the period under review. The Committee took note of the reports (including resolutions) of the first special session of the Trade Sub-Committee (E/CN.12/CCE/314), the first session of the Agricultural Development Sub-Committee (E/CN.12/CCE/318), the second session of the Transport Sub-Committee (E/CN.12/CCE/307), the second session of the Electrification Sub-Committee (E/CN.12/CCE/306) and the meetings of some of the working groups on interconnexion of the electricity systems of the individual countries, the second and third sessions of the Housing Sub-Committee (E/CN.12/CCE/305 and E/CN.12/CCE/326), and the fifth and sixth sessions, and the first special session, of the Statistical Co-ordination Sub-Committee (E/CN.12/CCE/304, E/CN.12/CCE/319 and E/CN.12/CCE/322), together with the reports of the working groups on agricultural and industrial statistics. The Committee also took cognizance of the technical studies and reports that served as the basis for the discussions of the above-mentioned meetings, which are summarized (together with other studies) in annex 4 to the present report.

12. Other matters

It should be reported, for information purposes, that during the general debate on the present status of the integration programme the Committee heard, in addition to statements by the representatives of the five member countries, statements by the representatives of BCIE, ESAPAC,

ICAITI, the Joint Central American Programming Mission, and SIECA. The Committee also took note with interest of the statements by the observers of the ILO and the Panel of Nine, and also of the speech made, in response to an invitation by the Chair, by Mr. Jorge Sol Castellanos.

(a) Support of international financial agencies

The representative of the International Bank for Reconstruction and Development (IBRD) made a statement to the Committee, the text of which was published as part of the documentation for the ninth session (CCE/IX/DI.3). He announced the Bank's intention of sending an economic mission, in the very near future, that would visit each of the Central American countries to study their problems and needs, and investigate how far the Bank could co-operate in accelerating the development of the individual countries, and the economic integration of the area as a whole.

At its last working meeting the Committee heard the representative of the Inter-American Development Bank (IDB), who gave an extensive account of IDB plans in relation to Latin American integration movements in general, and the development of the Central American common market in particular.

In connexion with the recent establishment in Buenos Aires of the Institute for Latin American Integration (Instituto para la Integración Latinoamericana - INTAL), he announced that IDB intended to extend its activities gradually to Central America, and in addition to increase its co-operation on the technical training courses and on project evaluation. He also stated that IDB had established an office to advise the Chairman of the Bank on integration questions, in order to organize IDB's work in this field, and had set up a fund for regional preinvestment studies.

In the course of his offer of greater co-operation in the various programmes and projects for Central American economic co-operation, the IDB representative listed the various fields in which assistance had already been given, mainly through BCIE, and those in which action was now being undertaken. He stressed the importance of closer links between IDB and the Central American integration agencies in the field of sectoral and sub-sectoral studies with a view to identifying possible new projects.

The Committee expressed its thanks for the offer of co-operation from IDB. The offer was particularly timely, since it coincided with the increased needs for financial and technical assistance implied by many of the resolutions adopted at the ninth session.

(b) Central American treaty on migration

The Committee took under consideration, at the request of the representative of El Salvador, the problems relating to liberty of movement between the countries that had signed the General Treaty, and took cognizance of the draft treaty on Central American migration prepared for the purpose of unifying, on a regional basis, the different national legislations. The Committee recommended that the Governments, before signing the Central American treaty on uniform migration legislation, should carefully study the implications that certain of its provisions might have on the efficient functioning of Central American integration (see resolution 144 (CCE)).

(c) Central American Institute for Educational Loans

The Committee took note of the project for establishing a Central American Institute for Educational Loans, prepared by the Organization of Central American States (OCAS), and decided to recommend to the member Governments that, in addition to making a detailed study of the project by means of national committees set up for that purpose, they should also co-operate in taking steps to realize the project in the most suitable form (see resolution 145 (CCE)).

13. Date and place of the next session

The Committee welcomed and accepted the invitation of the Government of Honduras to hold the tenth session of the Committee in Tegucigalpa, and asked the ECLA secretariat to set the date of the session, in consultation with the member Governments, in due course (see resolution 146 (CCE)).

14. Expressions of appreciation and closure of the session

The Committee passed a special vote of thanks to the Government of Guatemala for its kind hospitality to representatives, and for the facilities made available for the ninth session, and also thanked the Minister of Economy, Mr. Carlos E. Peralta Mendez, for his efficient chairmanship of the discussions which had greatly contributed to the success of the session.

/The Committee

The Committee also congratulated Mr. Manuel Acosta Bonilla, Minister of Economic Affairs of Honduras, for the report he had submitted as the Rapporteur of the ninth session.

The Committee expressed its satisfaction for the work of the ECLA secretariat during the conference itself, and earlier, in the preparation of the study evaluating the Central American economic integration programme that had served as the basis of the Committee's discussions. In that connexion, resolution 146 (CCE) was adopted, by acclamation, in response to a proposal by the representative of Honduras.

At the closing meeting, held on the afternoon of 31 January 1966, the Committee, having adopted the present report, heard statements by Mr. Pedro Abelardo Delgado, Secretary-General of SIECA, Mr. Bernal Jiménez Monge, Ministry of Finance and of Industry and Trade, and head of the delegation of Costa Rica, and Mr. Carlos E. Peralta Méndez, Minister of Economic Affairs of Guatemala and Chairman of the Committee.

Part IV

RESOLUTIONS ADOPTED

- 134 (CCE) Functioning of the common market
- 135 (CCE) Foreign trade policy
- 136 (CCE) The industrial policy of the common market
- 137 (CCE) Agricultural policy
- 138 (CCE) Unification of tax systems
- 139 (CCE) Regional sectoral programmes
- 140 (CCE) Central American telecommunications network
- 141 (CCE) Balanced development of Honduras under the economic integration programme
- 142 (CCE) Study on balanced development
- 143 (CCE) Technical assistance
- 144 (CCE) Central American Treaty on Uniform Migration Legislation
- 145 (CCE) Central American Institute for Educational Loans
- 146 (CCE) Place and date of the next session
- 147 (CCE) Expression of appreciation to the secretariat of the Economic Commission for Latin America

FUNCTIONING OF THE COMMON MARKET

134 (CCE) Resolution adopted on 27 January 1966 (E/CN.12/CCE/338)

The Central American Economic Co-operation Committee,

Considering:

(a) That the efficient functioning of the basic integration instruments is one of the over-riding aims at the present stage of the consolidation of the common market;

(b) That the Governments are anxious to obtain the maximum freedom of movement in the regional trade in Central American products, ensure the uniform application of the Central American imports tariff, and introduce elements permitting a greater degree of flexibility in the process of renegotiating this tariff in order to adapt it to the changing needs of economic development;

(c) That, once the common market is established, the completion of the Central American customs union will be the next objective to aim for in the advance towards the formation of an economic community in Central America;

Takes note with satisfaction of the extraordinary increase in the trade flows between the five countries since the entry into force of the General Treaty, the effective application of the free-trade system and the Central American import tariff, and the extent to which the private sectors in the area have begun to take advantage of the opportunities thus opened up;

Declares that, although the problems that have arisen in administering the legal instruments of the common market are minimal compared with the present volume of trade, an effort must be made to solve these problems, and to that end,

Decides:

A. Free Trade

1. To recommend to the Executive Council of the General Treaty that it should:

(a) Complete, with the aid of SIECA, the formulation and adoption of criteria and procedures to facilitate the determination of the origin of goods, and make the application of the machinery relating to guarantees more flexible and less laborious; and

/(b) Accelerate

(b) Accelerate completion of the studies aimed at the signing of uniform agreements for the protection of industrial property and regional legislation on animal and plant hygiene, on the basis of the studies requested from the secretariat of the General Treaty and the Central American Phytosanitary Organization (OIRSA).

2. To recommend to Governments that they should take the necessary measures to speed up the application of a common policy in the field of tax incentives, and with respect to the cereals protocol, for the purpose of eliminating the barriers to trade that now exist in those respects;

3. To recommend to the Economic Council that it should.

(a) Take the necessary measures to formalize the functioning of ICAITI as the agency exclusively responsible for formulating industrial standards in Central America, and

(b) Arrange a meeting with the Central American Public Health Council for the purpose of formulating and adopting joint measures to permit co-ordination of the drafting and publication of standards for manufactured products relating to the health and technical and industrial aspects, and ask ICAITI and the agencies responsible for the technical aspects of these studies in the field of public health to organize and carry out with the same end in view, the work of co-ordination required at that level.

4. To recommend to the Ministries of Economic Affairs and Finance that they should establish closer co-operation between the customs administrations and the national integration agencies, in order to ensure the proper interpretation and application of the legal instruments of the common market.

5. To ask ESAPAC, in connexion with paragraph 4 above, to continue giving high priority in its programmes to the training of the customs officials of the Central American countries.

B. Tariff policy

1. To recommend to the Economic Council that, when future protocols on the renegotiation of standard import charges are signed, it should recommend to the Governments a time-limit for submitting the protocols for the consideration of their respective congresses, and for depositing the instruments of ratification concerned once the legislative process has been completed.

2. To recommend to the Executive Council that it should:

(a) Proceed with the work involved in drafting the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, in accordance with recommendation 7 of the First Meeting of Ministers of Economic Affairs and Finance, which is intended to expedite the tariff renegotiations and make them more flexible, with a view to advancing the date of its signature by the Governments;

(b) Establish time-limits for completing the stages of the renegotiation between the formal submission of the request concerned and the signing of the protocol in question;

(c) Form a permanent technical group, consisting of the alternate members of the Executive Council, to undertake the study and negotiation of the questions relating to tariff policy, and submit its conclusions for the decision of the Executive Council at the meeting immediately preceding the Economic Council meeting at which the measures would have to be adopted or, where applicable the agreements or protocols in question signed;

(d) Adopt a system of prior hearings to permit the participation of the various private interests concerned in the discussions on tariff policy, in order to improve the procedures relating to the deliberative and decision-making functions of the Executive Council.

3. To recommend to the Governments that they should request their Congresses to give high priority to the consideration of the protocols on tariff negotiations, and to that end should adopt any necessary reforms in their rules of procedure.

4. To recommend to SIECA that it should prepare the studies and projects needed for the completion of the Central American tariff legislation and for the revision and bringing up-to-date of the NAUCA tariff classification, in order to facilitate the uniform application of the Central American import tariff.

C. Central American tariff union

To recommend to SIECA that it should accelerate its studies on the completion of the Central American tariff union, with a view to identifying and analysing problems, and proposing the application of pilot projects that would permit the accumulation of experience in this field, and to recommend to the Economic Council that it should intensify the carrying out of such experiments in practice.

FOREIGN TRADE POLICY

135 (CCE) Resolution adopted on 29 January 1966 (E/CN.12/CCE/339)

The Central American Economic Co-operation Committee,

Considering:

- (a) That one of the main objectives of economic integration is to promote the efficient and constructive participation of the five countries in the benefits of international trade;
- (b) That the formation of the common market creates the need for, and the possibility of, developing a foreign trade policy of a regional nature, in order to take advantage of the broad opportunities afforded by joint multilateral action;
- (c) That the formulation and application of such a policy is becoming increasingly urgent, both because of the decisive role that foreign trade will continue to play, and because it is to Central America's advantage to take an active part in multilateral economic co-operation movements sponsored by the United Nations in Latin America and in other areas,

Decides:

1. To recommend to the Governments:
 - (a) The adoption of a common trade policy towards other countries or groups of countries, with the following aims:
 - (i) Stability and raising of price levels and increases in the volume of the traditional exports;

/(ii) Adjustment

- (ii) Adjustment of import totals to the income from exports and from inflows of long-term capital, with due regard for the effects of short-term external financing;
- (iii) A change in the composition of imports in line with the growth needs of domestic activity and with import substitution aims;
- (iv) The development of other export lines, including manufactures, and opening up of new markets abroad in order to permit the export sector to expand more vigorously, develop natural resources and promote diversification of production;

(b) That any individual trade treaties concluded with third countries, pending the organization of the regional arrangements for Central America, should include a right of amendment, if the purposes and provisions of the common policy so require;

(c) That they should intensify their joint participation in the United Nations Conference on Trade and Development and, in particular, in the Trade and Development Board, and the committees and other subsidiary bodies of the Conference;

(d) That they should study, with the help of the agencies of the General Treaty, the possibilities of linking up Central America with an economically integrated Latin America, especially as regards the industrial complementarity agreements; that they should also take measures to see that Central America is included in the studies in this field conducted by the ECLA/Institute/IDB Joint Programme for the Integration of Industrial Development and, in due course, study the advisability of joint participation in the programmes drawn up at the Latin American level;

(e) That, in order to progress more rapidly in establishing economic links with the rest of Latin America, joint committees should be set up, representing Central America and certain countries in Latin America, to explore at the technical level the existing possibilities of co-operation, with the advice of SIECA, the ECLA secretariat and other international agencies participating in the multinational integration movement;

2. To recommend to the Economic Council that, with respect to the primary commodity exports, it should:

/(a) Promote

(a) Promote the co-ordination of national policies to defend exports, in the light of the studies prepared by SIECA and of other elements of judgement and information that may be available;

(b) Take the necessary action, in order to make progress in this field, to establish under the Economic Council and the Executive Council, with the co-operation and advice of SIECA, Central American commodity committees responsible for working out proposals that will ensure the closest possible co-ordination, at the regional level, of the policy and strategy of the Central American countries in their relations with third countries or groups of countries, and in their relations with the international institutions and United Nations agencies acting in this field, and,

(c) Establish, as a first step, a Central American Coffee Committee, consisting of representatives of Governments and of the private sector, to carry out the work of co-ordinating the placing of coffee on the domestic and foreign markets, including the unification of the policy of the Central American countries with respect to the International Coffee Agreement, and to act as an advisory body at the regional level as regards all aspects of the coffee industry, including costs, production, diversification and marketing.

3. To recommend to the Economic Council that in addition, as regards other export products, it should:

(a) Approach the Governments concerned regarding the establishment of the national foreign trade committees or agencies recommended by the First Joint Meeting of the Ministers of Economic Affairs and Finance, and that a group should be formed to co-ordinate the work of these committees, in order to provide the Executive Council and the Economic Council with the technical information essential to the formulation and execution of a common trade policy, and

(b) Encourage the preparation of specific projects and of programmes for research on, and development of the production of, new export lines, with the aim of remedying the present limitations on supply, as well as the

markets studies and other tasks that will have to be undertaken at the same time in the field of trade policy proper, in all cases with due regard for the work being carried out by the Central American Bank for Economic Integration and other agencies.

THE INDUSTRIAL POLICY OF THE COMMON MARKET

136 (CCE) Resolution adopted on 31 January 1966 (E/CN.12/CCE/340)

The Central American Economic Co-operation Committee,

Considering:

(a) That in order to achieve the most extensive and satisfactory development of manufacturing activity in the common market it is an urgent necessity to give every encouragement to the formulation, co-ordination and execution of a policy of industrial development of regional scope in Central America;

(b) That for this purpose it is essential to strengthen the application of the legislative and institutional instruments already available at the regional level, and improve their efficiency in practice;

(c) That to increase the flow of funds to industry and achieve full mobility of capital between the five countries financial machinery of a promotional nature must be established, and there must be an increasing and improved organization of a dynamic Central American capital market; and

(d) That the industrialization of the common market calls for substantial improvements as regards productivity and technical training;

Decides:

A. Industrial co-ordination

1. To recommend to the Economic Council that in order to co-ordinate industrial programmes at the regional level and promote a vigorous and intensive application of the Agreement on the Régime for Central American Integration Industries, and of the special tariff system for the promotion of productive activities, it should:

(a) Draw up a list of industries of regional interest, that could be expanded and modified from time to time, and to that end adopt, as a first step, the list already approved by the Second Meeting of Planning Directors for four main industrial groups (pulp and paper, the chemical industry, the basic metal industries and the assembly industries), including under each heading the specific industries indicated at that meeting as suitable for co-ordination and promotion at the regional level;

(b) Determine, on the basis of the above-mentioned list, the establishment of which industries should be promoted under the agreement on the Régime for Central American Integration Industries, and also those that could be established under the special tariff system for the promotion of productive activities, and those to which the protocol on assembly industries would apply, once it enters into force.

2. To recommend likewise to the Economic Council that, for the foregoing purposes, it should establish as an advisory body, and as one of the organs of the General Treaty, a Central American Committee on Industrial Co-ordination, which could be made up of permanent members, such as the presidents of development institutions, planning directors, and others, and also call on the advice of the enterprises directly concerned in the projects, and the assistance of whatever experts were required. SIECA would act as secretariat of this committee and would convene its meetings.

3. To recommend to the Economic Council that it should prepare terms of reference for the Central American Committee on Industrial Co-ordination on the following lines:

(a) The recommendations of the Committee on the industries to be established, as appropriate, under the Integration Industries Régime and the special tariff system, should be worked out on the basis of technical studies submitted, at the Committee's request, by ICAITI, which should take account of the studies available on industrial branches, existing projects, and the criteria and policies of other agencies such as SIECA and the Joint Central American Programming Mission. The Committee's recommendations would be submitted to the organs of the General Treaty for its final approval.

(b) The Committee would draft recommendations for the expansion or amendment of the original lists, on the basis of the request presented by its members. For this purpose ICAITI would be responsible for centralizing all

/the information

the information available on industrial projects, which should be provided by the Deputy Ministers and Under-Secretaries responsible for integration in each country. ICAITI would submit the data thus collected to the Governments for their information;

(c) Similarly, the Central American Committee on Industrial Co-ordination should draft recommendations to the organs of the General Treaty on the application to specific cases, within the framework of the lists laid down, of the Agreement on the Régime for Central American Integration Industries and the special tariff system for the promotion of productive activities. These recommendations would be based on reports and technical data submitted by ICAITI on market size, economic scale, location and other technical and economic features of the plants concerned;

(d) ICAITI's task, when specific projects already exist, would be to prepare reports in line with an analysis and evaluation of the projects, with reference to any studies by industrial branches that were available. Where no project exists, the data would be based on studies made by ICAITI itself.

(e) With respect to the application of the special tariff system for the promotion of productive activities, once the list of industries had been drawn up the organs of the General Treaty would determine the standard import charges to be laid down in each case, on the basis of the criteria and data set forth in the studies by ICAITI and SIECA.

4. To recommend to the Economic Council that, to ensure the timely and efficient achievement of the aims described above, it should:

(a) Formulate, and submit to the Governments for signature, a protocol to empower the Economic Council: (i) to approve and authorize the installation of integration plans that comply with the requirements of the Agreement on the Régime for Integration Industries, without the need for ratification by the legislature, and (ii) to establish time-limits, project by project, within which the plants approved as within the terms of the Agreement must begin production, failure to comply with which will be sufficient grounds to change the location originally approved;

/(b) Take

(b) Take the necessary measures for the preparation as soon as possible of the studies and other work essential for the purpose of revising the Agreement on the Régime for Integration Industries, with a view to strengthening that instrument, permitting greater flexibility in its application, and, in general, ensuring the full realization of its aims.

B. Promotion and financing

1. To ask the Central American Bank:

(a) To study and adopt steps to expand its activities in the industrial field, and co-ordinate them with those undertaken by national banking and development institutions, especially in relation to the financing and promotion of the basic industries referred to in the foregoing section, and,

(b) For this purpose to undertake, inter alia, the action necessary to increase the funds it allocates to the industrial sector, through the establishment of credit with European countries and with international lending agencies.

2. To recommend to the Governments that they should strengthen, or where applicable establish, national industrial development institutions - differentiating the specific functions of promoting manufacturing both from the promotion of other types of production and from strictly banking functions - for the purpose of promoting development and facilitating co-ordination of industrial programmes at the Central American level.

3. To indicate to the Governments and to the Central American integration agencies the importance of developing tourism and the fishing industry, as part of the programmes of industrialization and export development, and to recommend that they should support the preparation and execution of specific projects in these fields.

4. To recommend to ICAITI that it should strengthen its technical staff concerned with the preparation and evaluation of industrial projects of a regional character, through the formation of a group of high-level experts with broad practical experience to advise the national and Central American agencies and, that to that end, it should take the necessary steps to obtain the funds needed as part of the external technical assistance available for economic integration.

5. To recommend to the Economic Council:

(a) That in order to achieve the fullest mobility of capital and stimulate the development of industrial activities in the common market on a regional basis, it should encourage the modernization and co-ordination of the banking and commercial legislation of the five countries and, to that end, should promote the establishment of a Central American Committee on Economic and Financial Legislation, as one of the organs of the General Treaty.

(b) That the Committee, with the advice of SIECA, the Central American Bank, the Central American Monetary Council and the Central American Institute of Comparative Law, should guide and evaluate the studies involved and propose steps to strengthen the common market of capital and, in particular, to ensure adoption of uniform legislation on credit instruments, and the formation of a stock exchange and a Central American security commission, and of regional corporations and enterprises;

(c) That the terms of reference of the Committee should include the revision of the provisions on unfair trade practices by third countries (including anti-dumping clauses), and the study and evaluation of the practices or arrangements between Central American entrepreneurs that hamper trade in the common market, and that the Committee should prepare appropriate recommendations to establish regional machinery in these fields that is expeditious and easy to apply, on the basis of the juridical and other studies made by SIECA.

C. Productivity and technical manpower training

To recommend to the Governments that they should give firm support to measures to raise productivity in Central America, at both the national and regional levels; that they should help to strengthen the productivity centres and institutes that have been or are to be established, and should give full consideration to the regional productivity project being prepared by ICAITI, ILO and the United Nations.

AGRICULTURAL POLICY

137 (CCE) Resolution adopted on 29 January 1966 (E/CN.12/CCE/341)

The Central American Economic Co-operation Committee,

Considering:

(a) That the extensive nature of the studies and research work carried out in the area, and the number and coverage of the recommendations adopted at various Central American meetings, are out of proportion to the practical results, and that in large measure this is because of the marked shortage of resources of all kinds available for the purpose of remedying the chronic backwardness of large agricultural sectors;

(b) That a proper development of production for export must be encouraged, and that there must be an improvement in the use made of all the resources needed for agriculture, and a strengthening and diversification of the productive base which is the foundation of any joint trade policy for the sale of these products on world markets, and for the defense of their position;

(c) That there must also be encouragement of the production of basic items for domestic consumption, as an essential part of the balance that should exist in the over-all agricultural policy, and with a view to achieving the specific aims desired, improving cost and price levels, ensuring that consumption requirements are met, and achieving the maximum level of import substitution compatible with Central American resources,

Decides:

1. To recommend to the Governments that they should intensify economic integration activities in the agricultural sector with the aim, inter alia, of promoting the processing of crop products and the regional production of manufactured articles for use in the agricultural sector.
2. To express the deepest concern regarding both the highly unfavourable conditions that are hampering cotton production, as the result of natural factors that have led to a short-term reduction in the volume and profitability of production, and regarding the existence of internal and

/external circumstances

external circumstances that stand in the way, over the long term, of the technical improvement of cotton production, and prevent the Central American countries from taking full advantage of the progress achieved in this field;

3. To recommend to the Economic Council that it should take steps, as part of the operational measures to attack the problem referred to in the foregoing paragraph, to establish without delay a Central American committee consisting of representatives of Governments and of the private sector which, with the advice of SIECA, would undertake at once to formulate specific recommendations on the short-term problems relating to costs, production and financing, and the more long-term problems of regional co-ordination of marketing policies in world markets;

4. To express its approval of the activities that SIECA has been carrying out in the field of primary commodities for domestic consumption, and recommend to the Governments that it should increase the resources allocated for the preparation of programmes and specific projects for encouraging production of such items, and that for this purpose technical groups of a regional nature should be established, consisting of national and international experts who can contribute to this task;

5. To ask the Central American Agricultural Development Sub-Committee to include in its work programme the preparation of basic studies on possible specialization of production by areas, in the light of the type of resources available and the regional criterion of balanced development, and to that end the Sub-Committee should ask national and international specialized bodies for the necessary technical assistance.

6. To recommend to the Central American Bank for Economic Integration that it should establish close links with the national credit agencies and should give priority to the financing of programmes contributing to the improvement and diversification of agriculture on a regional basis, and should ask FAO and IIAS to increase their technical assistance to Central America, in order to facilitate the carrying out of integration activities in the agricultural sector.

7. To ask the Ministers of Agriculture, in co-operation with the Co-ordinating Committee on Marketing and Price Stabilization in Central America, to examine the desirability of establishing, with the assistance of

the United Nations World Food Program and other international agencies, a stockpile of staple foods that, administered on a regional basis, could serve to reinforce the price support programmes and supplement the financing of cereal purchasing programmes.

8. To transmit to the Ministers of Agriculture and to the Co-ordinating Committee on Marketing and Price Stabilization for their consideration, the regional project for the production and marketing of improved seeds drawn up by FAO in accordance with resolution 7 of the Joint Meeting of Ministers of Agriculture and Economic Affairs, and authorize the Chairman of the Committee to present it, if approved, to the United Nations Development Programme, with a request for its financing and implementation.

UNIFICATION OF TAX SYSTEMS

138 (CCE) Resolution adopted on 27 January 1966 (E/CN.12/CCE/342)

The Central American Economic Co-operation Committee,

Considering:

(a) That the improvement of the Central American common market and its progress towards higher degrees of economic integration makes it necessary to unify the national tax systems, in order to promote the most satisfactory functioning of the common market, on the basis of the principle of balanced development, ensure the adequate financing of public expenditure, and encourage productive investment to take a form that will stimulate the regional economy; and

(b) That the Governments' needs for tax revenue are bound to rise considerably in the next few years, in line with the need for funds to carry out public investment programmes, despite the increasing role allocated to external sources of financing,

Decides:

1. To recommend to the Economic Council and to the Ministers of Finance that they should promote without delay the programme to unify the Central American tax systems, in the first place with emphasis on the tax

/aspects that

aspects that are most closely related to the functioning of the common market, and with due regard for the different levels of development of the various countries.

2. To recommend, for that purpose, that the Economic Council should promote the early establishment, within the framework of the Executive Council, of a Central American Committee on Fiscal Questions (including taxes, budgets and public credit), made up of top-level experts, with advisory and co-ordination services from SIECA.

3. To propose that this committee should be responsible for evaluating the technical studies already available, and for guiding those to be carried out in the future, as well as for making recommendations to the Joint Meeting of Ministers of Economic Affairs and Finance on the measures, of regional co-ordination and unification that should gradually be adopted.

4. To recommend to the Executive Council that it should:

(a) Carry out at the appropriate time, with the help of the above-described Committee, a complete revision of the uniform import tariff, with a view to proposing to the Economic Council measures to maintain its function as a major source of government revenue, and a stimulus to sound industrial expansion, all this without prejudice to the basic development criteria underlying that tariff;

(b) Prepare draft regulations for the application of article VI of the General Treaty, to permit uniform interpretation, and verify in practice that the application of taxes on consumption is of uniform incidence, as regards both domestic production and articles from other Central American countries.

5. To recommend to the Governments that they should:

(a) Take into account, in establishing taxes on consumption, not only considerations of a fiscal nature, but also criteria relating to the improvement of income distribution, the structure of production and industrial development, and to the prevention or remedying of balance-of-payment problems.

(b) Endeavour, in increasing taxes on consumption, to do so on the basis of co-ordinated principles and methodologies, with reference to any studies carried out in this connexion by the Committee referred to in paragraph 2 above, and consider consolidating such taxes in a system in which the rates of incidence would be more general, by groups of products, without prejudice to the possibility of differentiating between the various categories of articles according to the importance of the needs they meet.

6. To recommend to SIECA that it should undertake a study on customs exemptions, including those aimed at industrial promotion, granted in the countries belonging to the common market by virtue of legal provisions and specific concessions, in order to analyze their implications for the functioning of the common market, for government revenue, and for the industrialization process.

7. To recommend to the Central American integration agencies that they should formulate their annual work programmes in accordance with the performance budgeting system, in order to facilitate the evaluation of results, and that in addition they should co-operate in preparing studies aimed at facilitating the financing of their activities, so that the Governments should have at their disposal sufficient relevant information to enable them to take the necessary decisions in good time.

REGIONAL SECTORAL PROGRAMMES

139 (CCE) Resolution adopted on 29 January 1966 (E/CN.12/CCE/343)

The Central American Economic Co-operation Committee,

Considering:

(a) That one of the most important tasks in the integration programme is to provide Central America with the necessary services and physical facilities, and that this is all the more necessary because the initial opportunities created by the formation of the common market can only be supplemented and further stimulated through the development of the infrastructure on a regional basis;

(b) That although the progress achieved in the various sectors under regional programmes is promising, it must be recognized that in some respects the execution of these programmes has been slow, because of various obstacles that have prevented their full development;

(c) That the most important of these obstacles are the scarcity of the national and international funds available for financing the execution of the construction work involved, and the lack of development of the institutional machinery facilitating action and co-ordination at the regional level;

/(d) That

(d) That it is essential to work as rapidly as possible towards the aims pursued in the regional infrastructure programmes, and to that end the authorities at the highest level in each country should familiarize themselves in good time with the existing problems, and provide the backing needed to solve them and to carry out the infrastructure programmes promptly and efficiently,

Decides:

1. With respect to financing:

- (a) To ask the Central American Bank for Economic Integration (BCIE):
- (i) To continue providing assistance to programmes and studies on infrastructure, and to endeavour to increase the funds made available by international lending agencies and other sources;
 - (ii) To take the necessary steps, in line with the decisions taken at Punta del Este, to see that the Economic Integration Fund's resources are increased, and that the work already under way is given the necessary impetus;
 - (iii) To prepare in the form of a document a joint statement that could be made by the representatives of the Central American countries at the forthcoming meeting of the Inter-American Economic and Social Council, on the subject of the prompt disbursement of the funds representing the second series of payments by the Integration Fund;
 - (iv) To consider eligible for loans for the preparation of final studies, and for construction work, the projects under the Central American Highway Plan included in the feasibility study, carried out by the Technical Mission representing BCIE, SIECA and the Joint Central American Programming Mission, which was approved at the First Joint Meeting of the Ministers of Economic Affairs and of Public Works;
- (b) To ask the member Governments to make additional contributions of counterpart funds for the purpose of increasing the resources of the Integration Fund, and to take the necessary steps to ensure that deposits are made regularly and promptly;

/(c) To

- (c) To ask the Joint Central American Programming Mission:
- (i) To carry out, in consultation with BCIE, a study on the probable effects of the execution of development plans on the external debt of the Central American countries, in order to define the conditions in which it would be advisable to draw on financial resources from this source for national and regional sectoral programmes, in the light of the capacity to absorb external capital and of the principle of balanced development.
 - (ii) To make an inventory, and an analysis of the economic viability, of the infrastructure projects that would facilitate the exploitation at the regional level of those natural resources of the potentially rich zones that are not at present being exploited.

The purpose of these activities would be to ensure that there was a sufficient body of studies to form a reserve of projects, available at short notice, that are eligible for financial aid from the Central American Bank.

2. As regards ensuring that the infrastructure programmes are truly regional in scope:

(a) To ask the member Governments to encourage, in co-operation with SIECA, the formation of specialized regional groups consisting of top-level national experts who would fulfil the double function of advising the Governments on the execution of the sectoral programmes, and providing liaison with experts furnished by external technical assistance programmes and giving them any guidance or orientation they need;

(b) To recommend to the Economic Council that it should make representations to the Governments of the various countries on the advantages of establishing a Central American Transport Council to carry out, on a permanent basis, an evaluation of the needs of the common market in this field, and to co-ordinate the execution of any programmes adopted; this Transport Council should be assisted by a Regional Committee of Highway Directors, who would co-ordinate the work of developing the Central American road network of the common market;

(c) To recommend to SIECA that it should convene as soon as possible a meeting of the officials responsible for regulating the transport services of the Central American countries, as agreed by the Economic Council at its eighth session, so that on the basis of the studies prepared by SIECA it can determine the technical basis for the drafting of a regional agreement governing the provision of such services.

CENTRAL AMERICAN TELECOMMUNICATIONS NETWORK

140 (CCE) Resolution adopted on 31 January 1966 (E/CN.12/CCE/344)

The Central American Economic Co-operation Committee,

Considering:

(a) That it is essential to provide the common market with a modern and efficient telecommunications network, in order to achieve further advances in the process of integrating the Central American economies, and to facilitate and stimulate the development of directly productive activities on a strictly regional basis;

(b) That the Directors of Telecommunications of the five countries have been working for a number of years towards this objective, on the basis of studies and projects prepared with the assistance of the United Nations;

(c) That the first results of these efforts are now to be seen, in the form of the agreement concluded with the Central American Air Traffic Corporation (Corporación Centroamericana de Servicios de Navegación Aérea - COCESNA), permitting the temporary use of some of its installations for intra-Central American telephone services, and the establishment of uniform tariffs lower than those in force hitherto; and

(d) That some problems still remain, whose solution calls for a request to the members of the Economic Council to use their good offices to approach the highest authorities in the field,

Decides:

1. To recommend that the Ministers of Economic Affairs of the five Central American countries should take steps to convene a joint meeting of the Ministers and the highest authorities in the telecommunications field, which would examine the progress achieved thus far in developing telecommunications

/services in

services in the common market, analyzed problems still outstanding and draft recommendations to facilitate the establishment of the regional telecommunications network on the terms best suited to each of the individual countries and to the economic integration programme in general.

2. To recommend to the Ministers of Economic Affairs that they should take whatever steps they consider necessary, at the highest level, in order to obtain the firm support of their Governments for the establishment of the regional telecommunications network.

BALANCED DEVELOPMENT OF HONDURAS UNDER THE ECONOMIC
INTEGRATION PROGRAMME

141 (CCE) Resolution adopted on 29 January 1966 (E/CN.12/CCE/345)

The Central American Economic Co-operation Committee,

Considering:

(a) That by virtue of the adoption of resolution 2 (AC.17) of 27 August 1952, the Committee has established that economic integration would be based on the broad application of the principle of reciprocity, with due regard for the location of productive activities;

(b) That the achievement of an inter-country balance of development is an essential aim of the Central American economic integration programme, and has been embodied as such in the General Treaty and other legal instruments signed by the five Governments;

(c) That the case of Honduras has always represented a problem of balance of development, throughout the evolution of the Central American integration programme, and that hence this country should be given preferential treatment in order to permit a better balance between its industrial development and that of the other countries of the region;

(d) That the Government of Honduras has included, in the economic development programme for 1956-59, a policy directed towards, inter alia, the expansion of domestic activity which is needed to permit a balanced regional growth;

/(e) That

(e) That this policy needs to be supplemented at the Central American level, and that for this purpose the Government of Honduras has requested and obtained a promise of co-operation by the Governments of the other four countries, and .

(f) The content of documents CCE/IX/DT.1 and CCE/IX/DT.2 submitted by the ECLA secretariat and by the delegation of Honduras, respectively,

Decides:

1. To recommend to the Economic Council:

(a) That it should proceed to indicate the industries that should be established under the Agreement on the Régime for Central American Integration Industries, and those that could be considered as covered by the special tariff system for the promotion of productive activities;

(b) That it should determine, after studies have been made by the technical integration agencies, the integration industries that, on the basis of an economically advantageous location, should be assigned to Honduras under the Régime for Integration Industries, in order to accelerate its industrial development.

2. To recommend to the Central American Bank for Economic Integration (BCIE):

(a) That in its financing operations it should consider eligible, and give priority to, projects of interest for Honduras and for the Central American market;

(b) That it should negotiate with the International Bank for Reconstruction and Development (IBRD), the Inter-American Development Bank (IDB) and other international credit institutions, for an over-all loan to Central America providing for special treatment for Honduras.

3. To apply to Honduras a system of preferences in the granting of tax incentives, through the signing of an additional protocol to the Central American Agreement on Fiscal Incentives to Industrial Development, according Honduras a more generous treatment.

4. To recommend to ICAITI, ESAPAC, and other Central American agencies, that they should draw up specific programmes for Honduras in the fields of research, advisory services and manpower training, in co-operation with the Government of Honduras.

5. To suggest that the technical assistance provided for the Central American economic integration programme by the United Nations and other international organizations should be expanded, and should go mainly to Honduras, especially in connexion with the preparation of industrial, agricultural and infrastructure projects, and their execution.
6. To ask the Economic Council to adopt, at its forthcoming special session, the necessary measures for putting into practice as soon as possible the recommendations made above.
7. To ask the Government of Honduras, with all due respect, in view of the content of the foregoing paragraphs, to ratify the integration agreements that it has not yet ratified, and deposit the instruments concerned, so that the regional co-ordination of Central American policy, in such fields as industry, can be put into effect without delay.

STUDY ON BALANCED DEVELOPMENT

142 (CCE) Resolution adopted on 29 January 1966 (E/CN.12/CCE/346)

The Central American Economic Co-operation Committee,

Considering that during the general debate on the problem of the balanced development of the countries of the area, the delegation of Nicaragua indicated the need to undertake studies to clarify the situation of his country in this respect, and that the other delegations also referred to the existence of development imbalances in their countries in particular fields of economic activity, which should receive attention in accordance with the principle of a balanced regional development,

Decides to ask the Economic Council, with a view to studying the existing situation in the various countries, to establish under SIECA a technical working group to carry out, as soon as possible, comparative studies analysing the situation and structure of the economies of the five countries, beginning with the industrial sector, and giving specific details about the degree of development of the main sectors of activity, and on the basis of this information and in the light of the different levels of development in each country, to formulate recommendations to promote the balanced development of all the Central American countries, on an integrated and continuous basis.

/TECHNICAL ASSISTANCE

TECHNICAL ASSISTANCE

143 (CCE) Resolution adopted on 31 January 1966 (E/CN.12/CCE/347)

The Central American Economic Co-operation Committee,

Considering the reports submitted by the Director of ICAITI, the Director of ESAPAC, the Regional Representative of the United Nations Technical Assistance Board, FAO, and ILO on the activities carried out since the Committee's eighth session,

Decides:

1. To take note with satisfaction of the reports in question, and express its thanks for the co-operation of the Technical Assistance Board, the Special Fund and the specialized agencies of the United Nations, in response to the requests made by the Chairman of the Committee, which are hereby endorsed;
2. To authorize the chairman of the Committee to transmit to the United Nations Development Programme the requests for the two-year period 1967-68.

CENTRAL AMERICAN TREATY ON UNIFORM MIGRATION LEGISLATION

144 (CCE) Resolution adopted on 31 January 1966 (E/CN.12/CCE/348)

The Central American Economic Co-operation Committee,

Considering

(a) That one of the basic requirements for regional integration is the free movement of persons between the countries that signed the General Treaty on Central American Economic Integration, and that in various existing multilateral treaties and agreements there are specific provisions directed to this end;

(b) That a draft treaty on migration in Central America has been drawn up with the praiseworthy aim of standardizing the legislation in this field, but that some of its provisions, if adopted, might hamper, rather than facilitate, the movement of Central American citizens within the territory of the common market,

/Decides to

Decides to recommend to the Governments that before signing the Central American migration law they should carefully study its implications for regional economic integration, and endeavour to include in it clauses to facilitate free movement of persons between the five countries of the area.

CENTRAL AMERICAN INSTITUTE FOR EDUCATIONAL LOANS

145 (CCE) Resolution adopted on 31 January 1966 (E/CN.12/CCE/349)

The Central American Economic Co-operation Committee,

Considering:

(a) That Central America's economic integration requires the collaboration of an increasing number of technicians and qualified staff to carry out the work of transforming and modernizing the structure of production;

(b) That the Organization of Central American States (OCAS) has prepared a project for the establishment of a Central American Institute for Educational Loans, financed by external sources and by the five countries of the area, in order to promote, by means of a system of loans, better technical qualifications in the professional cadres of Central America;

Having taken note of the texts of the draft Articles of Agreement and draft regulations of the above-described Institute, submitted by the secretariat (CCE/IX/DT.6),

Decides:

1. To recommend to the Economic Council that it should endorse this project because of the beneficial results it can achieve in training technicians and providing qualified staff;
2. To recommend to the member Governments that each should establish in its country a national committee which, in addition to making a detailed study of the project, could collaborate in taking steps to realize the project in the most suitable form.

PLACE AND DATE OF THE NEXT SESSION

146 (CCE) Resolution adopted on 31 January 1966 (E/CN.12/CCE/350)

The Central American Economic Co-operation Committee,

Decides to express its thanks to the Government of Honduras for its invitation to hold the Committee's tenth session in the city of Tegucigalpa, and requests the ECLA secretariat to set the date of the session, in consultation with the Governments, in due course.

EXPRESSION OF APPRECIATION TO THE ECONOMIC COMMISSION
FOR LATIN AMERICA

147 (CCE) Resolution adopted on 31 January 1966 (E/CN.12/CCE/350-A)

The Central American Economic Co-operation Committee,

Considering:

- (a) That the secretariat of the Economic Commission for Latin America has done valuable work that has served as the basis of the evaluation of the Central American Integration Programme by the Committee at its ninth session;
- (b) That the Committee's discussions have been considerably facilitated and guided by the suggestions contained in the documents prepared by the ECLA secretariat;

Decides:

1. To take note with satisfaction of the efficiency with which the secretariat has carried out its tasks and maintained co-ordination during the whole of the process of evaluating the Integration Programme;
2. To express its appreciation to the ECLA secretariat, in recognition of its valuable contribution to the achievements of the Committee's ninth session; and
3. To transmit to the United Nations the text of the present resolution.

Annex 1

REPORT OF THE FIRST JOINT MEETING OF THE EXECUTIVE COUNCIL,
DIRECTORS OF PLANNING AGENCIES AND PRESIDENTS
OF NATIONAL DEVELOPMENT INSTITUTIONS

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I. BACKGROUND DATA

The Central American Economic Council, at its eighth special session, deemed it necessary to make a general appraisal of the economic integration programme. It requested ECLA, in its capacity as secretariat of the Central American Economic Co-operation Committee, to prepare a study of the integrated growth prospects and the critical problems and factors that have gradually come to light in the common market during the past few years, with a view to determining guidelines for the future work and decisions of the national authorities and integration agencies in relation to strengthening the common market and bringing it into full operation. In compliance with the Council's request, the secretariat of ECLA prepared the document Evaluación de la integración económica en Centroamérica (E/CN.12/CCE/327/Rev.1).

The process of evaluating the programme has been carried out at different levels with the purpose of giving it a content which will correspond as closely as possible to the conditions and problems that Central American integration is currently facing. In addition to the preparation of technical studies proper as a first stage, a meeting was held with the integration institutions from 15 to 17 October 1965, which was followed by others with the national committees organized for the purpose in each of the member countries. The intention was not only to establish direct contact and exchange information with the agencies administering and implementing the integration programme at the regional and national level, but also to discuss in detail the problems arising and to arrange them in order of priority. As a second stage, it was considered advisable to hold a joint meeting of the members of the Executive Council and officials of planning agencies and national development institutions.

The essential aim of this meeting - which was convened by SIECA and whose results are the subject of the present report - has been to examine the questions connected with the operation of the common market; the trade, industrial and agricultural policies; and the regional programmes by sectors, in order to submit the relevant decisions for the consideration of the Central American Economic Co-operation Committee at its ninth session.

II. FIRST JOINT MEETING OF THE EXECUTIVE COUNCIL, THE DIRECTORS
OF PLANNING AGENCIES AND THE PRESIDENTS OF NATIONAL
DEVELOPMENT INSTITUTIONS

A. MEMBERSHIP, ATTENDANCE AND OPENING MEETING

The first joint meeting was held at the office of the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), Guatemala City, from 20 to 25 January 1966.

It was attended by delegations from Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Central American and international institutions also sent representatives. The delegations were composed as follows:

(a) Delegations of Central American countries

Guatemala

Chairman of the delegation: Hugo A. Ordóñez F., Under-Secretary for Economic Affairs;

Fernando Juárez Rodas, Under-Secretary for Finance and Public Credit;

Members: Ministry of Economic Affairs: J. Luis Paredes Moreira, José de Jesús Monteagudo, Rubén Ayala, Roberto López Porras, Gilberto I. Corzo I., Francisco M. Palacios J. and Carlos Enrique Gutiérrez; Ministry of Finance and Public Credit: René Chifú Fuentes; Ministry of Agriculture: Carlos G. Aldana G., Leopoldo R. Sandoval, Edgar Leonel Ibarra, Jorge A. Carranza Rodas, José V. Velásquez and Luis Manlio Castillo; Ministry of Communications and Public Works: Mariano Rayo Ovalle, Efraín Morales Zapata, Marco A. Ortiz R. and Orlando Marroquín; National Economic Planning Council: José Antonio Palacios, José A. Andrade, Gert Rosenthal, José M. Rivera M., Jorge Mauricio Lau and Tomás Núñez Aguilar; Production Development Institute: Salvador Toledo Morán, Hugo H. Vargas O., José Arturo López Gálvez, Anastasio Cruz Ramos and Carlos Manuel Juárez; Development and Productivity Centre: Luis Schlessinger Carrera; Bank of Guatemala: Oscar Pontaza, Oswaldo Cáfaro F., Carlos A. Steiger Tercero

/and Luis A. del Valle,

and Luis A. del Valle; National Electrification Institute: Julio Obiols, Francisco Escamilla Santos, Enrique Aguiluz Berlioz and Larry Andrade Lara; Guatemalan Industrialists' Association: Enrique Matheu Palomo, Adolfo Montes Villagrán, Carlos Molina Mencos, Ramiro Castillo Love and José María Pasarelli.

El Salvador

Chairman of the delegation: Victor Manuel Cuéllar O., Under-Secretary for Economic Integration and Foreign Trade.

Members: Ministry of Economic Affairs: Alexander Vásquez, Leonilo Armando Alas, Gilberto Lara and Marco A. Moreno; Ministry of Agriculture: Hernán Tenorio L.; National Planning and Economic Co-ordination Council: Armando Baltazar Rivera; Salvadorian Industrial Development Institute: Francisco Varela C. and Mauricio Cuellar C.; Ministry of Public Works: Oscar A. Herrera P.; Salvadorian Industrialists' Association: Alfonso Moisés Beatriz; Association of Salvadorian Businessmen and Industrialists: Godofredo Calderón.

Honduras

Chairman of the delegation: Valentín J. Mendoza, Under-Secretary for Economic Affairs.

Members: Ministry of Economic Affairs: Luis Alberto Chocano and Adán López Pineda; Congress: Práxedes Martínez S.; Ministry of Communications and Public Works: Pedro García Ugarte; National Development Bank: Alberto Galeano, Ricardo Reyes, Guillermo Medina Santos and Ricardo Alvarez R.; Higher Council of Economic Planning: Miguel Angel Rivera B., Alvaro R. Mencía, Mario Rietti and Cristiana Fletes; National Industrialists' Association: Marco A. Raudales P.; Chamber of Commerce and Industries of Cortés: Gabriel A. Mejía and Andrés Felipe López.

/Nicaragua

Nicaragua

Chairman of the delegation: Jorge Armijo Mejía, Under-Secretary for Economic Affairs.

Members: Central Bank of Nicaragua: Luis C. González R.; National Bank of Nicaragua: Julio H. Paldizón, Carlos Gabuardi L., Alfredo Papi-Gil and Donald Briceño H.; National Development Institute: Raúl Castellón D.; Planning Office: Edgard J. Sevilla R.; Ministry of Defence and Communications: Benjamín J. Guerra L.

Costa Rica

Chairman of the delegation: Jorge Sánchez M., Director-General of Economic Integration and Foreign Trade.

Members: National Production Council: Juan M. Revilla M.; Planning Office: Fernando Mora C.; Ministry of Industry and Trade: Carlos E. Echeverría; Central Bank of Costa Rica: Oscar Jiménez Ch.; Chamber of Commerce: Julio Ugarte T.; Bank of Costa Rica: René Sánchez B.; Costa Rican Electricity Institute: Edgar Jiménez A.

(b) Central American and international organizations

Advanced School of Public Administration for Central America and Panama (ESAPAC): Mr. Manuel Cuevara and Mr. Sergio Sánchez; Central American Research Institute for Industry (ICAITI): Mr. Manuel Noriega Morales and Mr. Gabriel Dengo; Food and Agriculture Organization of the United Nations (FAO): Mr. Madan M. Babbar and Mr. Adalberto Carrillo.

Joint Central American Programming Mission: Mr. Alberto Fuentes Mohr, Mr. Mauricio Castillo, Mr. Ramón López Rivera, Mr. Gabriel Siri, Mr. Eduardo Montes Umaña, Mr. Salómón Ordóñez, Mr. Mario Córdova, Miss Lucila Alvear and Mr. Rafael Ponciano.

The secretariat of the Economic Commission for Latin America (ECLA) was represented by Mr. Carlos Manuel Castillo, Mr. Francisco Giner de los Ríos, Mr. Porfirio Morera Batres, Mr. David Ibarra, Mr. Francisco Malavassi, Mr. Alvaro de la Ossa, Mr. K. Vyasulu, Mr. Ernesto Torrealba, Mr. Alfredo Harvey, Mr. Enrique Díez-Canedo, Mr. José T. Zepeda Monge and Miss Alma C. Barbosa.

The Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA) was represented by:

Mr. Pedro Abelardo Delgado, Mr. Raúl Sierra Franco, Mr. José Guillén, Mr. Mauricio Baca Muñoz, Mr. Rodolfo Trejos, Mr. Guillermo Noriega Morales, Mr. J. Mario Ponce, Mr. Gabriel Pons, Mr. Jaime Pasquier, Mr. Gautama Fonseca, Mr. José Sancho, and Mr. Carlos R. Hernández.

At the opening meeting, Mr. Carlos Enrique Peralta Méndez, Minister for Economic Affairs of Guatemala, welcomed the representatives. Mr. Valentín J. Mendoza, Chairman of the delegation of Honduras, replied on behalf of the delegations.

At the first working meeting Mr. Hugo Ordóñez, Chairman of the delegation of Guatemala, was elected Chairman of the session, and Mr. Jorge Armijo, Chairman of the delegation of Nicaragua, was elected Rapporteur.

The business of the session was conducted in plenary meetings. For two items of the agenda - regional programmes by sectors and agricultural policy - working groups were set up, the first under the chairmanship of Mr. Julio Obiols (Guatemala) and the second under that of Mr. Juan M. Revilla (Costa Rica).

B. AGENDA

The meeting considered and adopted the following provisional agenda prepared by SIECA:

1. Economic Policy of the Central American common market in the next stage of integration.
 - (a) Operation of the common market
 - (b) Trade policy
 - (c) Industrial policy
 - (d) Agricultural policy

Documents

Evaluation of economic integration in Central America;
La política económica de la integración en campos específicos
(E/CN.12/CCE/327/Rev.1, part II).

/2. Regional programmes

2. Regional programmes by sectors:

- (a) Central American road plan;
- (b) Regional road transport services;
- (c) Central American telecommunications system; and
- (d) Water resources, interconnexion and combined development of electric power systems.

Documents:

Evaluation of economic integration in Central America:
Los programas regionales por sectores (E/CN.12/CCE/327/Rev.1,
Part III).

3. Other business.

C. ACCOUNT OF PROCEEDINGS

1. Operation of the common market

The meeting was concerned mainly with evaluating the problems currently affecting the practical efficiency of the trade liberalization and tariff equalization instruments, and with examining various measures which could improve their application or bring them into full operation. A study was also made of the co-ordination and standardization of other regional instruments within the general frame of reference provided by the basic common market agreements. The meeting considered that experience over the last five years has shown the existence of certain factors which, if appropriate measures were adopted, would permit full use to be made of the advantages afforded to intra-regional trade by the integration area.

(a) Free trade

There was consensus that the free-trade system had operated satisfactorily and that the problems that had arisen were minimal compared with the efficient way in which the countries had been applying the provisions of the General Treaty, under which the trade flows between the five countries had increased at an extraordinary pace, to nearly 130 million Central American pesos in 1965.

The meeting studied some of the barriers which at times obstructed the smooth flow of free trade and delayed or prevented the application of specific provisions related thereto. The solution of such cases required action at the regional level in order to remedy the present lack of co-ordination resulting from the adoption of different measures in each country. Special reference was made to the policy of fiscal incentives to industrial development and to the policy of price stabilization and supplies in respect of staple foods. Attention was drawn to the need to speed up the application of an agreement which would establish regulations governing such incentives at the regional level, and of the cereals protocol which had been signed recently by the Ministers of Agriculture and of Economic Affairs.

A study was made of the problems that had arisen concerning the origin of the goods involved in trade flows between common market countries, which at times had given rise to controversy and had caused them to be held up by customs authorities at the border. Since such situations might occur more frequently in the future, and be accompanied by an increase in the volume of inter-Central American trade, it was considered advisable to focus attention on measures to forestall any further problems of that nature.

In the first place, it was stressed that, if the general free-trade system was to be maintained and consolidated, under no circumstances should trade flows be interrupted, and wherever doubt arose concerning the origin of goods recourse should be had to the machinery relating to guarantees. To that end, it was recommended that procedures and methods should be established for improving that machinery and making its application more flexible and less laborious, as well as for safeguarding the interests of each individual country.

It was also agreed that steps should be taken to improve the measures applied in practice for determining the origin of goods in case of doubt, and for settling any controversy that might arise in that respect. It was duly emphasized that such measures ought to promote - and never reduce - the flexibility of free trade flows. Note was taken of the fact that the common market should shortly be in full operation (June 1966) and that one of the major economic integration aims in the ensuing stage was the establishment of a complete customs union among the five countries, in which all goods - including imported items - would circulate freely. The meeting recommended the Executive Council, with the aid of SIECA, to complete the work it had been doing in this connexion and to adopt the general criteria and procedures required, on a clear and specific basis.

Some delegations pointed out that customs administrations would require more trained personnel and better technical advisory services in order to deal promptly and efficiently with the increase in border traffic. It was further noted that closer co-operation should be established between customs officials and national integration agencies

in order to ensure the proper application of the legal instruments in force which were Central American in scope. It would therefore be desirable for ESAPAC to expand its services to Governments in that field.

Lastly, the participants expressed recognition of the progress made by SIECA in drafting uniform provisions for the protection of industrial property (patents and trade marks), and of certain aspects of the work done by the Central American Phytosanitary Organization (OIRSA) - in consultation with SIECA - in relation to regional legislation on animal and plant hygiene. The meeting recommended that steps should be taken to accelerate completion of the studies under way in order to sign the relevant agreements as soon as possible. With regard to animal and plant hygiene in particular, it was considered that the efforts involved should conduce not only to the establishment of uniform laws, but also to their application through machinery operating on an entirely regional basis. As to sanitary regulations for industrial products, it was further recommended that - in order to avoid duplication that would hamper the development of inter-Central American trade - OCAITI should be designated as the regional agency with exclusive responsibility for formulating industrial standards, which should include the sanitary regulations issued by the public health authorities with the advisory assistance of specialized regional and international institutions.

In this connexion, part A of the draft resolution on the operation of the common market was approved.

(b) Tariff policy

The meeting reviewed the questions related to uniform tariff legislation and the procedures that might be adopted to make the process of modifying the uniform import duties and charges more flexible. The discussion was based on the relevant part of the document presented by the ECLA secretariat (E/CN.12/CCE/327/Rev.1, chapter II-3).

It was reaffirmed that the adoption of the uniform tariff legislation that is in course of preparation would greatly facilitate the application of the equalized import tariff, and that of other regional development

/policy instruments.

policy instruments. SIECA reported on the stage reached in the basic studies, and stress was placed on the need to speed up their completion and to sign the agreement envisaged in article XIX of the San José Protocol without delay.

It was agreed that NAUCA should be revised and that its Coding Manual should be prepared in greater detail with a view to bringing the nomenclature into line with the increasing number of new investment programming needs and with the changes taking place in the structure of trade, as well as modernizing those instruments in keeping with the advances made in tariff techniques during the past decade. It was recommended that the Coding Manual should be incorporated in the uniform tariff legislation, and it was deemed expedient that, as part of the revision of NAUCA, the possibility be explored of establishing standard uniform import duties and charges which would simplify the structure and application of the tariff. This would be for technical and administrative purposes only and would in no circumstances alter the economic policy aspects of the regional tariff.

In examining tariff equalization, the highest priority was given to the establishment of official base values, and note was taken of the decision adopted by the governing organs of the General Treaty to set up a working group which would devote its attention in the near future to the completion of this work.

The meeting then went on to give careful consideration to the questions related to the process of renegotiating uniform import duties and charges under the common import tariff. This was brought into focus as one of the problems that have caused the Governments most concern and the importance was underlined of introducing a greater degree of flexibility in the process in order to adapt the tariff to the changing needs of production development.

It was evident that the slow pace at which import duties were being renegotiated was not entirely due to the time it took for parliamentary ratification. Many of the delays had occurred, too, in the actual presentation of the protocols to the Legislature, and in the formality of depositing the relevant instruments of ratification.

The meeting considered two types of proposals in connexion with (a) the preparation of a protocol to the Agreement on the Equalization of Import Duties and Charges which would empower the Executive to determine, within certain limits, the level of uniform import duties on the basis of Economic Council decisions, without the need for prior ratification by the Legislatures; and (b) the establishment of norms and procedures for streamlining the formalities at the different stages of the normal process of renegotiation of the uniform tariff.

There appeared to be no insurmountable legal obstacles to the adoption of the protocol, and it was pointed out that in certain countries of the area the Executive already enjoyed similar powers. There was a good deal of discussion regarding the length of time such an instrument should be considered to be in force, and it was deemed advisable to establish a specific term which could be renewed if necessary. That would have the twofold advantage of allowing enough time to effect the essential changes in a tariff adopted several years before and of guaranteeing a reasonable degree of stability in the common base values, while it would serve as an initial trial period for the possible renewal of the new economic integration instrument in question.

With respect to the proposals aimed at expediting the renegotiation of uniform import duties, an examination of the existing procedures was followed by some discussion regarding the advisability of establishing time-limits for completing the various formalities, from submission of the request to the integration organs to the time of deposit of the relevant instrument. The periods considered were, specifically, (a) between formal submission of the request and its consideration by the Executive Council; (b) the time taken by the Council to consider and adopt a decision concerning the request; (c) between conclusion of the renegotiation and the signing of the relevant protocol to the Agreement on the Equalization of Import Duties and Charges; (d) between the signing of the protocol and its presentation to the Legislature; and (e) between ratification by the Legislature and the deposit of the relevant instrument by each individual Government.

/The Legislatures

The Legislatures were agreed, in principle, on the need to establish the above-mentioned time-limits, and there was consensus in determining and recommending their application under points (a), (b) and (c). As regards (a), it was considered that the norms and procedures followed by the Executive Council satisfactorily fulfilled the aims adopted. The meeting failed to reach agreement on the two remaining points. Some delegations expressed misgivings about the possibility of attaining sufficient flexibility in the renegotiations process if the normal procedures were followed in those two stages. Others pointed out that the recommendation to establish time-limits might have unfavourable results, in that it would limit the Executive's power to choose the right moment to initiate the formality.

As to the ratification of the instruments by the Legislatures, the meeting decided to recommend to the Governments that they should request their Congresses to give high priority to the consideration of the protocols on tariff renegotiation, and to that end should adopt any necessary reforms in their rules of procedure.

It was also considered advisable to set up a permanent technical group, consisting of the alternate members of the Executive Council, to undertake the study and negotiation of the questions relating to tariff policy. It would absorb the functions of the group organized at the Executive Council's request to consider the items awaiting equalization, and would submit its conclusions for the decision of the Executive Council at the meeting immediately preceding that of the Economic Council at which the appropriate measures would have to be adopted or where applicable, the agreements and protocols in question signed.

Lastly, the meeting considered that the Executive Council should have recourse to procedures which, in addition to permitting the participation of the various private interests concerned in the discussions on tariff policy, would make it possible to draw a sharp distinction between the advisory and informational status of the parties concerned and the deliberative and decision-making functions of the Executive Council. It was unanimously recommended that, instead of the procedures used in the past, the Executive Council should adopt a system of prior hearings which

would make it possible to sound the interested parties, hear their viewpoints and obtain information from them without prejudice to the procedures in use in each individual country with the same end in view. It was also considered advisable that the said interested parties should hold themselves in readiness for any additional consultations the Council might need to make. Furthermore, some of the participants pointed out the advantage of including in the government delegations representatives of associations, chambers or unions belonging to the economic sector.

Part B of the draft resolution on "Operation of the common market" was approved.

2. Unification of tax systems

The meeting based its discussion of this item of the agenda on the relevant chapter in document E/CN.12/OCE/327/Rev.1, and considered the main tax problems deriving from the functioning of the common market. In the first place, it analysed the implications of the lack of uniformity presented by the tax systems in various economic integration fields and drew attention to the distortions liable to occur in the prices of trade items and in the pattern of location of production activities if the five different systems were maintained.

The participants deemed it important to recognize that, although the problems in that field were seemingly not as pressing as in other spheres of integration, immediate steps should be taken to predict and forestall them.

The following regional unification policy aims were established: (a) to neutralize the influence of the national systems on the location of production activities in the area and on the cost of goods; (b) to ensure the necessary financing of public expenditure, with due regard for the Governments' growing tax revenue needs and for the supplementary role played by external credit; and (c) to encourage productive investment to take a form that would stimulate the regional economy. Some delegations underlined the importance of starting with the unification of taxes on income and capital.

/Particular attention

Particular attention was focused on the problems arising in Central America from the decline in government revenue, which was attributable to the liberalization of intra-area trade. It was pointed out, on the one hand, that the national economic development programmes had required increasing sums to implement specific investment projects and, in general, to finance government expenditure; and on the other hand, that a number of internal taxes had been introduced - especially on consumption - to meet at least a proportion of those requirements. In that respect, it was considered necessary to adopt criteria ensuring that the application of taxes on consumption was of uniform incidence, in order to avoid harmful distortions in the functioning of free trade. Stress was likewise laid on the need to include in the criteria of a fiscal nature, considerations that would bring them into line with the aims pursued by economic policy in other fields, such as income distribution and industrial policy. In that way, they would not adversely affect the demand for essential products nor reduce the indispensable stimulus to the growth and diversification of manufactures.

With regard to the adoption of immediate action, the meeting recommended that the uniform import tariff should be periodically reviewed and overhauled in order to adapt it to the changing conditions of economic development in the Central American countries. Some delegations maintained that the work of revision should be performed without impairing the essential function of the import tariff as an instrument of economic development.

Another problem considered was the increase in the number of exemptions in respect of items imported from the rest of the world. According to provisional data for 1962, 20 to 30 per cent of such imports were exempt from the payment of official base values and only one-third corresponded to items protected by the legislation on fiscal incentives. It was agreed to recommend the application of measures and procedures aimed at limiting the granting of those exemptions for the purpose of reducing fiscal losses and thereby precluding the creation of circumstances that might vitiate the aims of the basic instruments of integration and, in general, of the regional development policy.

/The meeting

The meeting also recommended that a study should be undertaken with a view to bringing up to date and completing the existing data on the subject, comparing the legal provisions in force in each country and determining the implications of the exemptions concerned for the functioning of the common market. On the basis of that study, regional mechanisms should be set up for the purpose of establishing criteria that would subsequently pave the way for a Central American agreement on the uniform application of customs exemptions.

With respect to internal taxes on consumption, the meeting recommended that a set of rules should be prepared for the application of article VI of the General Treaty, to ensure its uniform interpretation, and verify that the application of consumption taxes was of uniform incidence, as regards both domestic production and articles from other Central American countries. Several delegations thought that prior consultations should take place at a regional level whenever a Government decided to levy a new tax on consumption. It was recognized, however, that such a procedure would, in some cases, conflict with the provisions of the General Treaty.

A great deal of importance was attached to the need to consolidate taxes on consumption in a system in which their incidence would be more general, as one of the principal instruments for preventing a large increase in the number of taxes and for abolishing the discriminatory or regressive effects of the systems in force.

In relation to public expenditure on integration, the meeting examined two main proposals: (a) to adopt the performance budgeting system, and (b) to explore the possibility of establishing permanent sources of revenue in order to finance the Central American institutions on the basis of a regional tax collection system. With respect to the first proposal, it was agreed that the integration agencies should be asked to formulate their work programmes in accordance with the performance budgeting system. As to the second, some delegations drew attention to its possible incompatibility with the individual countries' constitutional and budgetary procedures, and suggested that other means should be sought to solve the problem.

Lastly, the meeting unanimously recognized that if the issues raised were to be effectively solved and the various instruments of the integration

/programme satisfactorily

programme satisfactorily co-ordinated with fiscal policy, it was imperative to set up a technical committee without delay to study all the tax and budgetary issues affecting the common market. The committee should function within the framework of the integration agencies; it should be composed of top-level government experts, and its work should serve as a guide for the Advisory Committee on Tax Questions set up by the First Meeting of Ministers of Economic Affairs and Finance. In addition, the Committee could examine - on the basis of prior studies prepared by SIECA - the effect of the liberalization and tariff equalization policy on government revenue.

The draft resolution on "Unification of tax systems" was approved.

3. Trade policy

There was considerable discussion of this item of the agenda which permitted a preliminary systematic analysis of some of its salient points. There was general consensus that economic integration was not a movement that would be likely to exclude the Central American countries from the world economy. On the contrary, it sought to reorganize their relationships with the rest of the world on efficient and constructive lines. Moreover, the formulation of a trade policy was one of the major objectives of the common market, in view of its relatively small size and of the decisive role that foreign trade must continue to play in the area's future development.

It was further noted that the headway made in integration afforded Central America the opportunity, for the first time, of formulating and implementing its own policy in that respect. The meeting considered that such a policy should pursue the following principal aims: (a) stability of price levels and the largest possible volume of traditional exports; (b) adjustment of import totals to the income from exports and from inflows of long-term capital, with due regard for the effects - positive or otherwise - of short-term external financing; (c) a change in the composition of imports in line with the growth needs of domestic activity and with import substitution aims, which the Central American countries would have to continue to encourage within the context of the common market;

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and (d) the development of other export lines and the opening-up of new markets abroad in order to permit the export sector to expand more vigorously and promote diversification of production. With regard to the latter point, stress was laid on the importance of preparing an inventory of Central America's natural resources without delay. In connexion with the expansion of exports, the representative of Honduras indicated the desirability of taking into account the potential of each country and, in particular, of promoting the development of a national export sector in Honduras.

The meeting then considered the need to put into practice a joint trade policy of a purely regional nature. It was recognized that, although the integration treaties in force contained provisions aimed at maintaining the unity of the common market, such provisions had not been put into effect, and indeed their terms had not been such as to induce countries to take action on a regional basis in connexion with foreign trade policy. Multilateral action would permit advantage to be taken of the opportunities afforded by the regional unity of the market, with the resulting improvement in the bargaining powers of the member countries with respect to other countries or groups of countries. The import tariff would therefore be an important instrument for promoting foreign trade. Steps could also be taken to improve the efficacy of other economic policy measures, such as those aimed at promoting manufactures and balanced development among countries.

It was recognized that the formulation and implementation of a common trade policy would require a great many studies and measures of a legal and institutional nature. The participants considered that steps should be taken forthwith to accelerate those studies and recommended that in any individual trade treaties concluded with third countries -- and until such time as the instruments were brought into full operation -- the Central American exemption clause should be amplified to include a right of amendment, if the purposes of the regional policy so required.

The adoption of that measure would represent an important step prior to the unification of regional action in the field of foreign trade policy,

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and would provide Central America with the necessary machinery to prevent unilateral trade action from jeopardizing the efforts to attain such unification.

Within the broad outlines described, the meeting then proceeded to examine questions related to the co-ordination of policy in respect to primary export commodities. Reference was made to past difficulties in achieving such co-ordination, while at the same time the importance was stressed of promoting effective action in that sense. The defence of the prices of those commodities -- coffee, cotton, sugar and meat -- and the expansion of their sales abroad were not only factors determining production levels in each country, but also decisively influenced the functioning of economic integration and the possibilities of further progress in that direction.

Accordingly, it was recommended that the activities concerned should be initiated immediately -- at least in the fields presenting fewer obstacles -- and that SIECA should be asked to prepare a preliminary comparative study analysing (a) the policy of each individual country; (b) the legislation and administrative provisions in force; (c) the national organizations with jurisdiction in the matter; and (d) the possibilities and problems likely to emerge in the promotion of any effort to co-ordinate the national policies on a regional basis.

Other recommendations related to the development of new lines of exports to the rest of the world. It was noted that, concurrently with the trade policy and market studies, it was imperative to devote special attention in those cases to the preparation and execution of specific production projects and programmes, with due regard for Central America's severe present limitations on supply, which prevented it from taking advantage of real export opportunities.

The delegates confirmed the view expressed by their Governments on previous occasions to the effect that Central America should take an active part in the movement towards the economic integration of Latin America. It was nevertheless made clear that the studies carried out did not yet permit of linking up the Central American common market with ALALC. On the other hand, it was recommended that the possibility be explored of establishing trade relations with other individual Latin American countries.

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It was further considered desirable that the international agencies carrying out studies on complementarity in specific basic industries (steel making, pulp and paper, aluminium and chemical products) should include Central America as a unit in their research. Thus, the Governments could, in due course, consider the possibility of participating in the agreements reached, with a view to encouraging the establishment in their territories of specific production activities which require broader markets, within a Latin American specialization scheme.

In considering the questions relating to the organizational arrangements that would have to be established in order to formulate and implement a common trade policy in Central America, attention was drawn to the need to differentiate between long-term and short-term measures. The former would include the adoption of uniform legal provisions based on the regulations laid down for the application of the relevant clauses of the Multilateral Treaty and the General Treaty, as well as the establishment of a regional negotiating unit with the necessary powers and juridical status to direct trade policy at a Central American level.

Furthermore, it was unanimously agreed that trade policy should continue to develop within the framework of the organs of the General Treaty - the Economic Council and the Executive Council -, in order to maintain unity of action and to guarantee a consistent relationship between trade policy, tariff policy and the other regional instruments for promoting immediately productive activities. The Economic Council, with the co-operation of the Central American Monetary Council and BCIE - within the jurisdiction of each -, would lay down the guidelines for the trade policy to be followed, while the Executive Council would conduct the negotiations either directly or through a special committee.

Lastly, it was suggested that, pending the formulation and adoption of better regional procedures, such negotiations might lead to the conclusion of agreements that could be drawn up in the form of five identical documents - one for each country -, for submission to the respective Legislatures. It was thought fit to adopt measures similar to those recommended for making the uniform tariff more flexible, in order to speed up the formalities concerned.

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In this respect, the draft resolution on "Central American trade policy" was approved.

4. Agricultural policy

A working group composed of representatives of all the delegations and of experts from SIECA, the Joint Central American Programming Mission, FAO and ECLA was requested to review the chapter on agricultural policy contained in the study on the evaluation of Central American economic integration (E/CN.12/CCE/327/Rev.1).

The group began by examining the progress made by the various agencies in that field. It was pointed out that first the Central American Agricultural Development Sub-Committee and later the Joint Meeting of Ministers of Agriculture and Economic Affairs had recommended that several studies should be undertaken and a number of measures adopted relating, inter alia, to free trade in agricultural commodities; the development of the production of staple foods and export items; research; and planning and land settlement. Concern was expressed at the fact that the practical results hitherto obtained were out of proportion to the extensive nature of the research and to the number and coverage of the recommendations adopted at the meetings in question.

It was deemed necessary to adopt vigorous action at the national level to ensure better co-ordination between the government agencies linked to the agricultural sector. It was recognized, however, that such action would not suffice on its own and that, for the present, the technical assistance provided by the international organizations would have to be intensified.

Particular attention was given to the institutional machinery that had gradually been set up to stimulate agricultural development in Central America, and there was consensus that it should be reinforced and a more dynamic impetus should be given to the part it played in regional activities. A useful step would be for the Ministers of Agriculture of the five countries to hold more frequent meetings with one another and with the Ministers of Economic Affairs, since that would help not only to establish guidelines

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and a smoother co-ordination in respect of the measures that would need to be adopted, but also to accelerate their practical application.

It was likewise considered that the Central American Agricultural Development Sub-Committee should meet more often, and at its next meeting should make a thorough examination of its programme of work and the resolutions adopted jointly by the Ministers of Agriculture and Economic Affairs at their first meeting (Limón, Costa Rica, October 1965), in order to assess the progress made and carry on with the studies and action entrusted to them.

It was agreed that SIECA should increase the technical and advisory assistance it was providing in that field, with a view to meeting the growing need to co-ordinate the national policies and to facilitate the adoption of the measures approved at the Central American meetings. It was recognized that the resulting increase in SIECA's work would make it necessary to reinforce the unit responsible for agricultural development activities.

The working group then turned its attention to a technical examination of the subjects dwelt on in the evaluation document, in particular to the specialization of production at the regional level. It agreed with the theory that the free movement of agricultural commodities in the common market would gradually shape a new dimension in the development of agriculture, which would be reflected in a tendency towards specialization by areas, independently of national boundaries. Having regard to the risk involved if the process should take place spontaneously and thus be the cause of economic and social disequilibria, it was deemed necessary to guide it by expanding present production and introducing or strengthening new export lines. It seemed advisable for regional action to be aimed at (a) promoting the growth of areas at a less advanced stage of development, e.g., the Atlantic coast; (b) modernizing and diversifying agricultural production in the Pacific coastal belt, which is the centre of cultivation for home consumption; and (c) developing in particular, the Golfo de Fonseca area.

There was consensus regarding the need to lose no time in initiating the basic studies conducive to economic and social development planning in

the three areas concerned, and it was recommended that the Central American Agricultural Development Sub-Committee should be asked to include them in its work programme, with due regard for the special nature of their resources and the regional criterion of balanced development. In addition to requesting the necessary technical assistance from national and international specialized institutions, the group considered that financing should be obtained from BCIE, since the studies were aimed at improving agriculture on a regional basis.

With respect to the promotion of agriculture within the context of the common market, the working group felt that the projects aimed at the diversification of production and a larger supply of primary commodities should be organized on a regional basis - because of the advantages that would offer -, with due regard for the national plans. That would not only avoid a waste of resources, but would improve the countries' bargaining position in the case of export commodities.

The participants reiterated the advisability of embarking on the execution of three specific programmes in that connexion: (a) diversification of production for home consumption and export; (b) promotion of the production of basic cereals; and (c) development of stock-breeding and the production of pasture and forage.

It was considered that efforts should be made to invigorate the sectoral planning units established on the recommendation of the meeting of Ministers of Agriculture and Economic Affairs, so as to equip them to formulate the national programmes and investment projects for the agricultural sector on the basis of the studies undertaken by the planning offices and the Joint Central American Programming Mission. Attention was focused, too, on the technical experimental work and extension services assigned to the recently established Standing Committee on Agricultural Research, in accordance with the resolution adopted by the Ministers of Agriculture and Economic Affairs.

In discussing the problems relating to the production of basic cereals, the working group took note of the studies carried out by FAO in preparing a regional project for the production and marketing of improved seeds, and decided to transmit the project to the Ministers of Agriculture

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and the Co-ordinating Committee on Marketing and Price Stabilization for their consideration and, if approved, for submission to the United Nations Special Fund with a request for its financing and implementation.^{1/}

With regard to the modernization of marketing systems, the group supported the recommendation to increase the budgets of price stabilization agencies and to accelerate the construction of the Central American grain storage network. Note was also taken of the signing of the special Cereals Protocol which would help to improve the co-ordination of the price stabilization activities in Central America.

Lastly, the group recommended that the Ministers of Agriculture should be asked to examine - in co-operation with the Co-ordinating Committee on Marketing and Price Stabilization - the possibility of establishing a stockpile of staple foods in Central America, with the aid of the United Nations World Food Programme and other international agencies, which would help to regulate prices and supplement the financial resources required for grain purchasing programmes.

The draft resolution on "Agricultural policy" was approved.

5. Industrial policy

The discussions, based on the chapter on industrial policy in document E/CN.12/CCE/327/Rev.1, reflected the growing preoccupation of the Central American Governments with the need to guide and transform the pattern of industrial development that was unfolding in the region.

Attention was drawn to the fact that the problems encountered were not the result of intensive industrialization. On the contrary, the movement was at an incipient stage and would have to be considerably stepped up; otherwise no significant changes could be expected to take place in Central America's economic structure that would tend, on the one hand, to extend the scope and application of the import substitution policy and, on the other, to facilitate the establishment of centres of dynamic growth which were needed to restore a satisfactory development process in those countries.

^{1/} The project is described in an annex to the report of the FAO Mission to the Central American Economic Co-operation Committee (E/CN.12/CCE/331).

It was agreed that the inadequate application of certain Central American instruments had partly obstructed the attainment of some of the integration aims pursued. Another factor had been the want of regional industrial planning machinery and well-defined procedures for co-ordinating the national programmes. Accordingly, it was thought fit to recommend to the Economic Council that it should adopt a decision regarding the mechanisms suggested for the purpose by the Second Meeting of Directors of Planning Agencies.

It was further pointed out that the shortage of technical personnel might adversely affect the operation of certain basic industries now in process of installation, as well as the establishment of new branches of activity. There was consensus regarding the urgent necessity to increase the professional cadres required by industrial development in the area. It was considered that the training of entrepreneurial resources was an important factor if a steady increase was to be obtained in productivity. In that respect, it was decided to recommend the Governments to give firm support to the productivity centres and institutes operating in Central America.

The next point considered was the channelling of resources into industry. The financial resources at present available for the manufacturing sector in Central America were mainly allocated to the traditional industries, and it was deemed necessary that BCIE - in co-ordination with the national institutes concerned - should follow the policy of contributing to the financing of basic industries, through the granting of credit and direct participation in the registered capital of enterprises. Some delegations suggested that, for the purpose, the meetings of development institutes, national financing associations and BCIE should be continued.

It was also considered necessary to create a Central American system of financing which would link up the commercial banks and insurance companies with the integration process, in order to launch high capital-intensive projects. Such a system would permit the participation of Central American entrepreneurs in mixed enterprises with foreign entrepreneurs.

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It was unanimously agreed to take steps to modernize trade legislation, particularly where that would facilitate the formation of stock companies of a regional nature. It was reported that uniform draft legislation already existed on credit securities and bonds, and that some progress had been made in the preparatory studies for the organization of a stock exchange in the area.

(a) Guidelines for the production of manufactures

After the general discussion on industrialization in Central America, the meeting made a detailed study of the need to improve the application of the legal and institutional instruments of the common market, in order to guide the development of the type of manufacturing structure it was wished to establish. It was stressed that the foregoing consideration related primarily to the basic industries, and it was necessary to establish them on the best possible technical and economic footing if reasonable price conditions were to be obtained, to base them on the use of the area's natural resources, to encourage the setting up of other productive activities supplying their inputs and utilizing their products, and to avoid duplication of investment, inefficient scales of production and inadequate industrial processes.

It was agreed that, although some thought should be given to additional instruments - investment and import licences - for achieving those aims, it did not seem to be the time to consider their adoption, the best course being to employ the machinery in force and vigorously implement the Agreement on the Régime for Central American Integration Industries and, where applicable, the special tariff system for the promotion of productive activities. There was considerable discussion about the possibility of preparing separate lists of the industries that would be under the protection of each of the two instruments, but, with the exception of Honduras, all the delegations deemed such a course unwise in that it might have detrimental restrictive effects and might encounter legal obstacles in certain countries.

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Moreover, some of the representatives agreed with the proposal that the Régime should be applied simultaneously to the branch of industry and the integration plant, so that, once the first integration plant had been accepted, the rest would have to be established under the terms of the Agreement. Other delegates considered that the application of the Régime along those lines might introduce an element of rigidity into the industrial development process. It was unanimously recommended that time-limits should be established for the study and negotiation of the requests presented by integration industries. That would facilitate the consideration of other projects and would enable Central America to select the industry or industries that would suit it best.

The meeting considered that the present structure of the special tariff system for the promotion of production activities should be maintained, and rejected the adoption in the respective protocols of additional requisites concerning the technical and economic features of such activities, so that the tariff protection they afforded could enter into force. It was nevertheless recommended that these should be sufficient criteria on the basis of which to establish a level of protection that would encourage the installation of industries under conditions compatible with integration aims. The representative of Honduras expressed the view that, in addition to the foregoing recommendation, it would be advisable to consider the adoption of provisions for guiding the location of industries under the special tariff system, in terms of the existing comparative advantages and balanced development needs.

The views expressed in the general debate on industrial plans were amplified and the necessity was recognized of co-ordinating at the Central American level the establishment of certain new lines of production, by branch of industry, in accordance with the list already drawn up by the Meeting of Directors of Planning Agencies. The list could be extended in the future without prejudice to the possible application of the Régime for Integration Industries on the special

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tariff system. It was made clear, however, that the establishment of the new lines referred to should be co-ordinated in line with the guidelines set forth in article I of the Agreement on the Régime.

The participants expressed interest in the suggestion contained in the ECLA study that ICAITI should set up a small group of experienced experts at the professional level to help in the preparation and evaluation of regional industrial projects and provide the integration agencies with advisory assistance in promoting them. The group would also serve to train Central American personnel in that type of work. The resources needed for its establishment should be forthcoming from external technical co-operation programmes. The representative of Guatemala expressed agreement with the suggestion, provided that the group operated only on a temporary basis, for as long as it was needed to train Central American personnel to take over its duties.

Lastly, it was agreed to recommend that national industrial development institutions should be set up in countries where they did not already exist, with a view to encouraging the promotion of development there and to facilitating action at the Central American level in co-ordination with the regional agencies.

It was further deemed advisable to differentiate between specific industrial development functions and other development activities including those related purely to banking.

(b) Foreign investment

The meeting focused attention on the official declaration of Central American policy in relation to foreign investment issued by the Ministers of Economic Affairs in June 1965. It was deemed necessary for foreign investment to contribute to the development of the common market, and unwise to adopt general measures to restrict it in view of the notable shortage of domestic savings to attain the required levels of capital formation. It was also made clear that a selective criterion should be used to promote foreign investment

instead of encouraging an indiscriminate policy and passively awaiting inflows of capital.

The representatives also reaffirmed the view supported on earlier occasions that foreign investment should be channelled into the sectors of most interest to the region. It was considered desirable for the five countries - without necessarily concluding any treaties or legal instruments - to come to a more specific understanding concerning the practical measures and procedures to be adopted on a co-ordinated basis in order to accomplish that goal. Among other things, it was considered necessary for foreign investment to promote the formation of mixed enterprises with Central American investors and the utilization of the available natural resources.

Concern was expressed at the recently noted tendency for foreign firms to absorb Central American enterprises. Stress was placed on the need to formulate various measures to improve the position of entrepreneurs in Central America with respect to those operating outside the area and, where appropriate, to facilitate their association under satisfactory conditions when that should be in the area's interest.

The draft resolution on "The industrial policy of the common market" was approved.

6. Regional sectoral programmes

A working group composed of representatives of all the delegations, and experts from SIECA, ESAPAC, the Joint Central American Programming Mission and the ECLA secretariat, was set up to examine this item of the agenda and chapter III of document E/CN.12/CCE/327/Rev.1. It subsequently presented a draft resolution for consideration at a plenary meeting.

(a) General problems

It was recognized that one of the most important tasks of Central American integration was to provide the area with services and physical facilities, as well as a production capacity commensurate with its size. The work done so far in this field had made it possible to forge ahead with a group of regional programmes in the transport, communications and electric energy sectors. There was general consensus that regional infrastructure programmes did much to raise the profitability of existing national projects by increasing their utilization factor.

It was considered vital for the economic and industrial development of Central America not only that the regional sectoral programmes should provide the basis for its works and services, but also that they should do so at the appropriate time and offer adequate conditions in regard to availability, quality and prices for promoting such development.

The representatives considered that, on the whole, good work had been done in the three sectors covered by the programmes and that evident progress had been made, although there was a certain amount of delay in solving specific problems for want, perhaps, of top-level decisions. Nevertheless, much still remained to be done and the situation in the various countries reflected a serious shortage of basic resources and investment, high costs, and inadequate public services. Added to the fact that some of the programmes had not begun to be implemented, obstacles had arisen to delay and obstruct those under way. Concern was expressed at the fact that that should happen just at the end of the period of transition before the common market could be brought into full operation.

The representative of Honduras mentioned the delays experienced in completing the stretch of the Central American road network that fell to his country, as well as in the work of electrical interconnexion, which he

attributed partly to the problems of balanced development among countries. In that respect, there were evident misgivings about the detrimental effects of those problems on the implementation of programmes, and it was deemed necessary to seek practical and effective formulas for remedying the situation created by the existing disequilibrium. Such action would ensure the Governments' willingness to carry out the programmes concerned in accordance with the construction schedule envisaged.

(i) Financing. The working group paid special attention to financing problems and recognized that the most pressing of them had begun to be solved by the establishment of the Economic Integration Fund as an organ of BCIE. However, the Fund's resources were still insufficient to cover even the early stages of the regional works contemplated in the programme and unless they were increased in good time the work schedules would have to be modified.

Stress was laid on the need to augment the Fund's resources with contributions from other countries and funds from other credit sources, in order to ensure not only an increase in the available holdings but also the provision of cheaper equipment, materials and services. It was also considered advisable to explore another possibility of increasing the Fund's resources by channelling the credit at present granted by the international agencies through BCIE as financing agent.

Until such time as BCIE was able to obtain those additional resources, it would be as well, in connexion with high-profitability regional works, to consider the alternative possibility of obtaining direct loans from the international credit agencies which had normally financed that type of project in the past.

It was also maintained that the Governments' contributions of counterpart funds to BCIE should be increased, and that deposits should be made regularly and promptly. The working group took the position that the terms of financing in respect of regional projects should - as in the case of the Integration Fund - be in line with the decisions adopted at Punta del Este, where it was stipulated that external credit for such projects should be additional to the loans earmarked for national programmes. It

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was deemed necessary for all programmes -- including those regarded as having the highest rates of return -- to be financed with soft-currency loans when the countries' total external debt approached critical levels.

In the latter respect, the group recommended that a study of financing problems should be carried out immediately in the five countries, in order to define the terms under which capital resources should be obtained for regional programmes, with due regard for each country's level of indebtedness. Such a study would serve as a basis for determining the differential treatment that could be given to each individual country in so far as distribution of funds and credit terms were concerned.

Great importance was attached to the necessity for the regional programmes approved by the Governments to be based on feasibility studies. That would ensure that the works contemplated in the programme should enter at once into the financing stage without the need for additional studies to justify each project. An example cited was the construction work under the Central American Highway Plan that had been approved at the First Joint Meeting of Ministers of Economic Affairs and of Public Works.

Lastly, it was stated that the feasibility studies should be based on the criteria best attuned to Central American conditions, which were not always the same as those adopted in the more developed countries. Furthermore, the ratio of profit to cost should be flexibly applied in judging the works contemplated in the programmes.

(ii) Formulation of regional plans and participation at the national level. The working group agreed that the programmes had not developed smoothly owing, in large measure, to the difficulty of giving them a regional dimension, in which the top-level authorities in each country were required to play a consistently active guiding role, as the officials responsible for deciding, at the technical and policy level, to adopt the programmes. It was considered that the participation of high-level political figures in the technical meetings connected with the integration programme would provide effective backing for the work under way and expedite the adoption of decisions. In the light of the important experience provided by the Joint Meeting of Ministers of Economic Affairs and of Public Works, it was deemed expedient to encourage the convening of a further meeting with the top-level communications authorities.

The group considered it very important that planning offices, in formulating development plans in each country, should always take the integration programmes into account, not only with a view to assessing domestic needs in terms of the common market, but also to studying alternative solutions and possibilities of complementarity between national and regional projects. It would be most useful if regional experts could take part and collaborate in the formulation of national plans, and the idea was put forward of establishing a frequent exchange of regional and national experts in order to make better use of the few technicians currently available. Thus, the formation of permanent technical groups would have the great advantage of expediting the programme's development.

The technical resources available for carrying out programme activities were very limited and should be supplemented by technical assistance from abroad. Apart from the high cost of that type of assistance, in not a few cases it proved inefficient, mainly because most experts were ignorant of the particular conditions prevailing in the Central American countries. It was stressed that Central American experts should take part regularly in the drawing up of plans and projects, and that it was an urgent necessity to take steps on a national and regional plans to conduct personnel training programmes at the various levels.

The representatives gave detailed accounts of the situation in their own countries in relation to that point. A review of each country's experience in the field of external technical assistance - which had not always yielded the best results - showed the need to help countries to adopt a better approach to the selection of foreign consulting firms and to the definition of their participation in the preparation and execution of projects. It was considered that there were a number of adequately trained national experts in the area and that it would be a feasible proposition to organize several Central American technical cadres at the highest level in order to make good some of the deficiencies.

(b) Central American Highway Plan

Several representatives of the Joint Central American Programming Mission reported fully on the state of each of the thirteen highways that make up the road network and which are considered of regional interest.

A review of pending problems and of the difficulties arising in specific cases made it clear that the mixed commissions responsible for co-ordinating the action of the five countries should meet immediately with a view to retrieving the time loss through the present delays, especially in the work on the connecting stretches on the borders between Honduras and Nicaragua, and Honduras and Guatemala.

In that respect, it was recommended that BCIE should agree to finance those projects, considering that the feasibility studies carried out by the Technical Mission representing BCIE, SIECA and the Joint Central American Programming Mission - on the basis of which the plan had been officially adopted by the First Meeting of Ministers of Economic Affairs and of Public Works - provided sufficient justification for the loans as consistent with the requirements laid down by BCIE.

An account was also given of the projects recently studied by BCIE and it was considered that the studies concerned, in conjunction with those prepared later, could serve as a basis for preliminary new highways projects which would gradually form a more complete road network as a second stage. It could be seen from other studies prepared by SIECA and the Joint Programming Mission that on the whole, and despite the fact that some highways would be completed well after the dates envisaged in the schedule, satisfactory progress had been made in the execution of road network projects.

In reviewing questions of regional co-ordination, the group agreed that one of the most urgent problems affecting the programme was the lack of regional machinery for ensuring its execution. It was essential to set up organizations provided with plenty of technical resources to co-ordinate and strengthen national activities in terms of Central American considerations. The participants endorsed ECLA's proposal to the effect that it was necessary to co-ordinate on an integrated basis the action of the Ministries of Public Works, integration agencies and the national or Central American construction enterprises executing the projects.

The group welcomed the idea of establishing a Central American Transport Council - by institutionalizing the Meeting of Ministers of Public Works - and a regional Committee of Highway Directors, and strongly supported the proposal to submit it to the next meeting of the Central

American Economic Co-operation Committee. The former would take care of all questions relating to transport in the common market, while the latter would assist the Council in connexion with road projects.

Lastly, it was recommended that the integration agencies should examine the reasons for the limited national operational capacity in both the preparation and execution of projects. The conclusions deriving from that study would help to turn to better account the opportunities for raising the levels of technology in the five countries by promoting the establishment of consulting and road construction enterprises in Central America.

(c) Regional road transport services

It was agreed that the improvement and expansion of the existing regional road transport services and the reduction of present costs and prices might be a more urgent task than the actual completion of the Central American road network.

Even though the new road network might generate substantial savings and make for a reduction in costs and prices, no positive results could be achieved until the question of the organization of transport services was tackled at the root and its present shortcomings remedied.

Consideration was given to the organization of those services, which had come into being on a national scale almost spontaneously and subject to no control. The lack of satisfactory services had forced many industrial enterprises to establish their own system, and that had resulted in a disorganized medley of small private transport companies, which had had a detrimental effect on the few specialized enterprises operating on a regional basis. Moreover, even when high rates were charged, they often failed to cover the cost of the services owing to inefficient administrative practices and poor maintenance.

It was agreed to advocate the adoption of a regional agreement to regulate the transport services, and emphasis was placed on the need to extend it in due course to other types of transport in which the conditions were similar to those now prevailing in the road transport sector. There was consensus that, in order to have the desired effect, the agreement should be adopted at the regional level, and it was considered advisable

to recommend to SIECA that it should convene as soon as possible a meeting of the officials responsible for regulating the transport services of the Central American countries to consider the possibilities of co-ordinating them on a regional basis.

(d) Central American telecommunications system

The working group opened the discussions on this item with a statement on the present stage of the programme and the problems that have prevented its full development. An account was given of the favourable results obtained through the use of the channel hired from the Central American Air Traffic Corporation (Corporación Centroamericana de Servicios de Navegación Aérea - COCESNA), which had been put into operation on a commercial basis in January 1966, as well as through the regional tariff agreements concluded in El Salvador for establishing uniform rates for the provision of those services. The agreements were considered a useful step towards providing the area with an efficient up-to-date system. Even so, it was felt that the network would shortly have to be expanded and modernized in view of the anticipated increase in demand.

With respect to technical training in that field, the representative of Nicaragua described the efforts his country was making to establish a regional school for the training of technical cadres at the intermediate and lower levels. It was deemed necessary to encourage the negotiations aimed at securing the necessary external financial aid to put the project into operation.

With respect to national plans, the representatives of Honduras and El Salvador reported that a bilateral agreement had been concluded between their respective countries providing immediately for the next stage of modernization of their radiotelephonic intercommunication. They also said that similar bilateral agreements had been proposed, on the one hand to Nicaragua by Honduras and on the other, to Guatemala by El Salvador, and that replies were awaited from the two countries. The representatives of Costa Rica and Nicaragua, in their turn, indicated that their Governments still firmly supported the establishment of a Central American telecommunications enterprise in line with the proposals that had been considered by all the national agencies up to the meeting at San José.

The Guatemalan representative admitted that his country had received a proposal from El Salvador to the effect that the two countries should sign an agreement along the lines of the one concluded between El Salvador and Honduras, and said that no official decision had been adopted as yet and a counter-proposal was under study.

The group concluded that a means should be sought for reconciling the various discrepancies between the agreements and proposals concerned and agreed that there was a good chance of doing so. It should not be difficult to find a formula that would satisfy the various national interests and fulfil the function of improving the telecommunications services as required by the increase in Central America's activities. Lastly, it was felt that the top-level telecommunications authorities should be exhorted to continue their joint quest for the measures needed to level out the existing discrepancies.

(e) Water resources and electrical interconnexion systems

The working group made a detailed examination of the activities reviewed in the secretariat report and focused attention on pending problems and the recommendations suggested for solving them. The representatives described the stage reached in the bilateral interconnexion projects and in the combined development of electrical systems. In the case of Honduras-El Salvador, cognizance was taken of the work done by the joint meetings of the national electric power development agencies convened by SIECA, which were scheduled to end in February 1966. It would be decided at those meetings whether it was technically possible to effect the interconnexion of the two electrical systems in the near future, and the project agreed on would immediately be submitted for the approval of the national authorities.

With regard to the interconnexion of the Chiriquí-Golfito electrical systems (Panama and Costa Rica), a final decision concerning the project was awaiting the report now being prepared by a consulting firm with the financial aid of the United Nations Special Fund. As to the combined development of the Nicaragua and Costa Rica systems, it was reported that the market studies and the evaluation of specific hydroelectric projects in Nicaragua were about to be completed. The joint commission set up at the meeting of officials of national electric power development agencies held

at San José and Managua in 1965 would then make a fresh examination of the interconnexion project. In that respect, cognizance was taken of the negotiations undertaken by the two countries with BCIE in order to secure financial aid for the joint studies. The ECLA secretariat, for its part, reported that the study of a new possibility for the combined development of the El Salvador-Honduras-Guatemala systems would shortly be submitted for the consideration of the Governments concerned.

It was agreed that the evaluation of new possibilities of combined development should be accelerated and to that end a thorough knowledge of the area's water resources was required. To turn the best possibilities of those resources to good account was an attractive proposition both for the industrial establishments which were large-scale consumers of energy and for the purpose of achieving substantial reductions in average generating costs. However, large-scale hydroelectric projects had specifically not been considered heretofore because they were out of proportion to the size of the existing individual markets.

For the reasons mentioned, it was unanimously decided that the United Nations Special Fund should be requested, without delay, to approve and implement as soon as possible the proposed regional programme designed to improve the fund of basic hydrological and hydrometeorological information considered essential in order to proceed with the evaluation of those resources.

Stress was likewise laid on the importance of improving the techniques used in evaluating future energy needs, taking particularly into account the industrial plans likely to be encouraged by integration in the next few years. Such an evaluation would provide the necessary background data for undertaking research into new possibilities for electrical interconnexion.

With respect to the proposal to strengthen the regional machinery for promoting and directing those programmes, it was considered that the activities in question should be entrusted to the Central American Electrification Sub-Committee, and to that end it was recommended that a group should be set up, composed of officials of electrification agencies, to direct the groups of technical assistance experts currently engaged in preparing studies for the Sub-Committee.

A study was also made of the type of decisions that would have to be adopted at the national level once the stage of executing the interconnexion projects was reached, and of the various provisions the relevant contracts would include at the enterprise level. The group examined the advantages of the ideas - which four of the delegates considered favourably - of possibly concluding a multilateral agreement authorizing national enterprises to execute immediately those projects which were considered to be in the countries' interests.

Lastly, the group underlined the importance of carrying on with other studies which technical assistance experts were conducting for the Central American Electrification Sub-Committee, as set forth in document E/CN.12/CCE/327/Rev.1.

The draft resolution on "Regional sectoral programmes" was approved.

III. DRAFT RESOLUTIONS APPROVED

1. Functioning of the common market
2. Unification of tax systems
3. Central American trade policy
4. Agricultural policy
5. The industrial policy of the common market
6. Regional sectoral programmes

/FUNCTIONING OF

FUNCTIONING OF THE COMMON MARKET

(Draft resolution)

The Central American Economic Co-operation Committee,

Considering:

(a) That the efficient functioning of the basic integration instruments is one of the overriding aims at the present stage of the consolidation of the common market;

(b) That the Governments are anxious to obtain the maximum freedom of movement in the regional trade in Central American products, ensure the uniform application of the Central American import tariff, and introduce elements permitting a greater degree of flexibility in the process of renegotiating this tariff in order to adapt it to changing needs of economic development;

Takes note with satisfaction of the extraordinary increase in the trade flows between the five countries since the entry into force of the General Treaty, the effective application of the free-trade system and the Central American import tariff, and the extent to which the private sectors in the area have begun to take advantage of the opportunities thus opened up;

Declares that, although the problems that have arisen in administering the legal instruments of the common market are minimal compared with the present volume of trade, an effort must be made to solve these problems, and to that end,

Decides:

A. Free trade

1. To recommend to the Executive Council of the General Treaty that it should:

(a) Complete, with the aid of SIECA, the formulation and adoption of criteria and procedures to facilitate the determination of the origin of goods, and make the application of the machinery relating to guarantees more flexible and less laborious;

(b) Accelerate

(b) Accelerate completion of the studies aimed at the signing of uniform agreements for the protection of industrial property and regional legislation on animal and plant hygiene, on the basis of the studies requested from the secretariat of the General Treaty and the Central American Phytosanitary Organization (OIRSA).

2. To recommend to Governments that they should:

(a) Take the necessary measures to speed up the application of a common policy in the field of tax incentives, and with respect to the cereals protocol, for the purpose of eliminating the barriers to trade that now exist in those respects;

(b) Designate ICAITI as the agency exclusively responsible for formulating industrial standards in Central America, which should include the sanitary regulations issued by the public health authorities.

3. To recommend to the Ministers of Economic Affairs and Finance that they should establish closer co-operation between the customs administrations and the national integration agencies, in order to ensure the proper interpretation and application of the legal instruments of the common market.

5. To ask ESAPAC, in connexion with paragraph 3 above, to continue giving high priority in its programmes to the training of the customs officials of the Central American countries.

B. Tariff policy

1. To recommend to the Executive Council that it should:

(a) Proceed with the work involved in drafting the Protocol to the Central American Agreement on the Equalization of Import Duties and Charges, in accordance with recommendation 7 of the First Meeting of Ministers of Economic Affairs and Finance, which is intended to expedite the tariff renegotiations and make them more flexible;

(b) Establish time-limits for completing the stages of the renegotiation between formal submission of the request concerned and the signing of the protocol in question;

(c) Form a permanent technical group, consisting of the alternate members of the Executive Council, to undertake the study and negotiation of the questions relating to tariff policy, and submit its conclusions for the decision of the Executive Council at the meeting immediately preceding the Economic Council meeting at which the measures would have to be adopted or, where applicable, the agreements or protocols in question signed;

(d) Adopt a system of prior hearings to permit the participation of the various private interests concerned in the discussions on tariff policy, in order to improve the procedures relating to the deliberative and decision-making functions of the Executive Council.

2. To recommend to the Governments that they should request their Congresses to give high priority to the consideration of the protocols on tariff renegotiation, and to that end should adopt any necessary reforms in their rules of procedure.

3. To recommend to SIECA that it should prepare the studies and projects needed for the completion of the Central American tariff legislation and for the revision and bringing up to date of the NAUCA tariff classification, in order to facilitate the uniform application of the Central American import tariff.

UNIFICATION OF TAX SYSTEMS

(Draft resolution)

The Central American Economic Co-operation Committee,

Considering :

(a) That the improvement of the Central American common market and its progress towards higher degrees of economic integration makes it necessary to unify the national tax systems, in order to neutralize their effect on the functioning of the common market, on the basis of the principle of balanced development, ensure the adequate financing of public expenditure, and encourage productive investment to take a form that will stimulate the regional economy; and

(b) That the Governments' needs for tax revenue are bound to rise considerably in the next few years, in line with the need for funds to carry out public investment programmes, despite the increasing role allocated to external sources of financing,

Decides:

1. To recommend to the Economic Council and to the Ministers of Finance that they should promote without delay the programme to unify the Central American tax systems, in the first place with emphasis on the tax aspects that are most closely related to the functioning of the common market, and with due regard for the different levels of development of the various countries.

2. To recommend, for the purpose, that the Economic Council should promote the early establishment, within the framework of the Executive Council, of a Central American Committee on Fiscal Questions (including taxes, budgets and public credit), made up of top-level experts, with advisory and co-ordination services from SIECA.

3. To propose that this committee should be responsible for evaluating the technical studies already available, and for guiding those to be carried out in the future, as well as for making recommendations to the Joint Meeting of Ministers of Economic Affairs and Finance on the measures of regional co-ordination and unification that should gradually be adopted.

4. To recommend to the Executive Council that it should:

(a) Carry out at the appropriate time, with the help of the above-described Committee, a complete revision of the uniform import tariff, with a view to proposing to the Economic Council measures to maintain its function as a major source of government revenue, and a stimulus to sound industrial expansion, all without prejudice to the basic development criteria underlying that tariff;

(b) Prepare draft regulations for the application of article VI of the General Treaty, to permit uniform interpretation, and verify in practice that the application of taxes on consumption is of uniform incidence, as regards both domestic production and articles from other Central American countries.

5. To recommend to the Governments that they should:

(a) Take into account, in establishing taxes on consumption, not only considerations of a fiscal nature, but also criteria relating to the improvement of the structure of production and industrial development;

(b) Consider the unification of taxes on consumption in a system in which their incidence would be more general, in order to prevent an undesirable increase in the number of these taxes on specific products, without prejudice to the possibility of differentiating between the various categories of articles according to the importance of the needs they meet.

6. To recommend to SIECA that it should undertake a study on customs exemptions, including those aimed at industrial promotion, granted in the countries belonging to the common market by virtue of legal provisions and specific concessions, in order to analyse their implications for the functioning of the common market, for government revenue, and for the industrialization process.

7. To recommend to the Central American integration agencies that they should formulate their annual work programmes in accordance with the performance budgeting system, in order to facilitate the evaluation of results, and that in addition they should co-operate in preparing studies aimed at facilitating the financing of their activities, so that the Governments should have at their disposal sufficient relevant information to enable them to take the necessary decisions in good time.

CENTRAL AMERICAN TRADE POLICY

(Draft resolution)

The Central American Economic Co-operation Committee,

Considering:

- (a) That one of the main objectives of economic integration is to promote the efficient and constructive participation of the five countries in the benefits of international trade;
- (b) That the formation of the common market creates the possibility of developing a foreign trade policy of a regional nature in order to take advantage of the broad opportunities afforded by joint multilateral action;
- (c) That the formulation and application of such a policy are becoming increasingly urgent, both because of the decisive role that foreign trade will continue to play, and because it is not to Central America's advantage to be excluded from the multilateral economic co-operation movements sponsored by the United Nations in Latin America and other areas,

Decides:

1. To recommend the Governments to adopt a common trade policy towards other countries or groups of countries, with the following aims:
 - (a) Stability and raising of price levels and increases in the volume of the traditional exports;
 - (b) Adjustment of import totals to the income from exports and from inflows of long-term capital, with due regard for the effects of short-term external financing;
 - (c) A change in the composition of imports in line with the growth needs of domestic activity and with import substitution aims;
 - (d) The development of other export lines, including manufactures, in order to permit the export sector to expand more vigorously, develop natural resources and promote diversification of production;
2. To recommend to the Governments that any individual trade treaties concluded with third countries, pending the organization of the regional arrangements for Central America, should include a right of amendment, if the purposes and provisions of the common policy so require.

3. To recommend to the Economic Council that it should promote the co-ordination of national policies to defend primary commodity exports on the basis of a preliminary comparative study to be prepared by SIECA, and that it should encourage the preparation of specific projects and of programmes for research on and development of the production of new export lines, with the aim of remedying the present limitations on supply, as well as the market studies and other tasks that will have to be undertaken at the same time in the field of trade policy.

4. To recommend to SIECA that it should study the possibilities of linking up Central America with an economically integrated Latin America, especially as regards the industrial complementarity agreements; and to the Governments that they should take measures to see that Central America is included in the studies in this field conducted by international agencies and, in due course, study the advisability from a purely Central American standpoint, of participating in the programmes drawn up at the Latin American level.

5. To recommend to the Economic Council and the Executive Council that, in the course of their functions connected with supervising the progress of economic integration, they should lay down procedures for action that would permit advances in the field of common trade policy, pending the adoption of the provisions and machinery needed to operate permanently on a regional basis.

AGRICULTURAL POLICY

(Draft resolution)

The Central American Economic Co-operation Committee,

Considering:

(a) That in Central America a large number of studies has been prepared and various types of data gathered on agricultural activities, on the basis of which it has been possible to determine the nature of the problems arising and the outlines of a development strategy for the sector;

(b) That the practical results achieved are out of proportion to the extensive nature of the research or to the number and coverage of the recommendations adopted at various Central American meetings, and that this is because of the marked shortage of resources of all kinds available to help agricultural policy to remedy the chronic backwardness of subsistence agriculture and introduce technical reforms and diversify its structure;

Decides:

1. To ask the Central American Agricultural Development Sub-Committee to include in its work programme the preparation of basic studies on possible specialization of production by areas, in the light of the type of resources available and the regional criterion of balanced development, and to that end the Sub-Committee should ask national and international specialized bodies for the necessary technical assistance.

2. To promote the strengthening of the institutional machinery that has been established to stimulate agricultural development in the area, and to that end:

(a) To recommend to the Ministers of Agriculture that they should hold more frequent meetings with one another and with the Ministers of Economic Affairs, for the purpose of establishing guidelines and accelerating the application of the measures aimed at a gradual process of integration and the growth of agricultural production, as well as of co-ordinating the relevant policies at the national and regional level;

/(b) To

(b) To stress that the Central American Agricultural Development Sub-Committee should meet more often, and that at its next meeting it should assess the extent to which its own programme of work and the resolutions adopted at the meeting of Ministers of Agriculture, and jointly by the Ministers of Economic Affairs and Agriculture, have been implemented;

(c) To ask SIECA to increase the technical and advisory assistance it provides in this field, with a view to meeting the growing need to co-ordinate the national policies and to facilitate the adoption of the measures recommended at Central American meetings.

3. To recommend to the Central American Bank for Economic Integration that it should establish close links with the national credit agencies and should give priority to the financing of programmes contributing to the improvement and diversification of agriculture on a regional basis, and should ask FAO and IIAS to increase their technical assistance to Central America, in order to facilitate the carrying out of integration activities in the agricultural sector.

4. To ask the Ministers of Agriculture, in co-operation with the Co-ordinating Committee on Marketing and Price Stabilization in Central America, to examine the desirability of establishing, with the assistance of the United Nations World Food Program and other international agencies, a stockpile of staple foods that, administered on a regional basis, would serve to reinforce the price support programmes and supplement the financing of cereals purchasing programmes.

5. To transmit to the Ministers of Agriculture and to the Co-ordinating Committee on Marketing and Price Stabilization, for their consideration, the regional project for the production and marketing of improved seeds drawn up by FAO in accordance with resolution 7 of the Joint Meeting of Ministers of Agriculture and Economic Affairs, and, if approved, for submission to the United Nations Special Fund with a request for its financing and implementation.

THE INDUSTRIAL POLICY OF THE COMMON MARKET

(Draft resolution)

The Central American Economic Co-operation Committee,

Considering:

(a) That Central America's industrial development has not yet progressed to the stage where drastic changes can be wrought in the economic structure of the five countries, with a view to restoring a satisfactory development process, and that it is an increasingly urgent necessity to encourage and guide the growth of the manufacturing sector in line with those aims;

(b) That for this purpose it is essential to strengthen the application of the existing legislative and institutional integration instruments and improve their efficiency in practice, and to establish other instruments in order to increase the resources channelled into industry,

Decides:

1. To recommend to the Economic Council that it should:

(a) Encourage the co-ordination and modernization of the banking and commercial legislation of the countries members of the common market, with the co-operation of the Central American Monetary Council and the Central American Institute of Comparative Law;

(b) Promote, also with the aid of the Central American Monetary Council, the reorganization of the national and regional financial systems in terms of the needs of the industrial sector, and the regional co-ordination of those systems at various levels.

2. To recommend to the Governments that, in order to establish basic industries and ensure balanced development among the five countries, they should:

(a) Vigorously enforce the Agreement on the Régime for Central American Integration Industries;

(b) Co-ordinate, with the aid of the integration agencies and the private sectors directly concerned, the establishment of the industries set out in the list drawn up by the Meeting of Directors of Planning Agencies, and to that end the Economic Council should adopt a final decision concerning the machinery proposed;

(c) Speed up the studies in connexion with the adoption of uniform legislation on credit instruments, and the organization of a stock exchange in the area;

(d) Give firm support to the productivity centres and institutes operating in the area.

3. To recommend to the Central American Bank for Economic Integration that it should:

(a) Study and adopt steps to expand its activities in connexion with the financing of basic industries for the development of Central America;

(b) Promote and guide action, in co-ordination with the State and private banks of the area, to tap savings in all population sectors for the purpose of financing basic industries.

4. To recommend to ICAITI that it should set up a technical group to help in the preparation and evaluation of regional industrial projects and provide the Central American agencies with advisory assistance in promoting them, and that it should take the necessary steps to obtain the resources needed for the purpose as part of the external technical assistance available for regional integration.

/REGIONAL SECTORAL

REGIONAL SECTORAL PROGRAMMES

(Draft resolution)

The Central American Economic Co-operation Committee,

Considering:

(a) That one of the most important tasks is to provide Central America with the necessary services and physical facilities, and that this is now all the more necessary because the initial opportunities created by the formation of the common market can only be supplemented and further stimulated through the development of the infrastructure on a regional basis;

(b) That although the progress achieved in the various sectors under the regional programmes is promising, it must be recognized that in some respects the execution of these programmes has been slow, because of various obstacles that have prevented their full development;

(c) That the most important of these obstacles are the scarcity of the national and international funds available for financing the execution of the construction work involved, and the lack of development of the institutional machinery facilitating action and co-ordination at the regional level;

(d) That it is essential to work as rapidly as possible towards the aims pursued in the regional infrastructure programmes, and to that end the authorities at the highest level in each country should familiarize themselves in good time with the existing problems, and provide the backing needed to solve them and to carry out the infrastructure programmes promptly and efficiently;

Decides:

1. With respect to financing:

(a) To ask the Central American Bank for Economic Integration (BCIE):

(i) To continue providing assistance to programmes and studies on infrastructure, and to endeavour to increase the funds made available by international lending agencies and other sources;

(ii) To take the necessary steps, in line with the decisions taken at Punta del Este, to see that the Economic Integration Fund's resources are increased, and that the work already under way is given the necessary impetus;

/(iii) To

(iii) To consider eligible for loans for the preparation of final studies, and for construction work, the projects under the Central American Highway Plan included in the feasibility study, carried out by the Technical Mission representing BCIE, SIECA and the Joint Central American Programming Mission, which was approved at the First Joint Meeting of the Ministers of Economic Affairs and of Public Works;

(b) To ask the member Governments to make additional contributions of counterpart funds for the purpose of increasing the resources of the Integration Fund, and to take the necessary steps to ensure that deposits are made regularly and promptly;

(c) To ask the Joint Central American Programming Mission to carry out, in consultation with BCIE, a study on the probable effects of the execution of development plans on the external debt of the Central American countries, in order to define the conditions in which it would be advisable to draw on financial resources from this source for national and regional sectoral programmes, in the light of the capacity to absorb external capital, and of the principle of balanced development.

2. As regards ensuring that the infrastructure programmes are truly regional in scope:

(a) To ask the member Governments to encourage, in co-operation with SIECA, the formation of specialized regional groups consisting of top-level national experts who would fulfil the double function of advising the Governments on the execution of sectoral programmes, and providing liaison with experts furnished by international technical assistance programmes, and giving them any guidance or orientation they need;

(b) To recommend to the Economic Council that it should make representations to the Governments of the various countries on the advantages of establishing a Central American Transport Council to carry out on a permanent basis, an evaluation of the needs of the common market in this field, and to co-ordinate the execution of any programme adopted; this Transport Council should be assisted by a Regional Committee of Highway Directors, who would co-ordinate the work of developing the Central American road network of the common market;

/(c) To

(c) To recommend to SIECA that it should convene as soon as possible a meeting of the officials responsible for regulating the transport services of the Central American countries, as agreed by the Economic Council at its eighth session, so that on the basis of the studies prepared by SIECA it can determine the technical basis for the drafting of a regional agreement governing the provision of such services.

Annex 2

ADDRESS DELIVERED BY MR. CARLOS ENRIQUE PERALTA MENDEZ, MINISTER
FOR ECONOMIC AFFAIRS OF GUATEMALA, AT THE OPENING MEETING
OF THE NINTH SESSION OF THE CENTRAL AMERICAN
ECONOMIC CO-OPERATION COMMITTEE

The Government of Guatemala is deeply honoured to act once again as host to a meeting of the Central American Economic Co-operation Committee - the agency responsible for launching the Economic Integration Programme - and the representatives of international institutions, that are here to undertake the important task of evaluating the development of economic integration and defining the principles and aims of regional policy in the next stage.

On behalf of the people and Government of Guatemala, I extend a cordial welcome to the Ministers of Economic Affairs and their delegations, and to the representatives of the United Nations, the Economic Commission for Latin America and the other international and financing agencies which are co-operating in this evaluation.

By and large, the Central American economic integration process has shown very promising results. Fifteen years ago, the development possibilities of each of the five States were limited by the size of their markets, the separate nature of their efforts, the pressures of the external economy and other traditional factors which prevented the Central American countries from acting in unison.

With undoubted foresight, the Central American statesmen of the last two decades planned the new structures that made it possible to surmount the obstacles to development. The first big step was the application of the principle of free trade between the Central American countries on the basis of bilateral treaties which, although they still had many limitations, meant considerable progress towards the fulfilment of new prospects and aims for the Central American people. The second idea to gain ground was tariff equalization as a requisite for the maintenance of free trade flows. This gave rise to the establishment of an appropriate instrument against foreign competition and was the basis for industrial development in the area.

These new forms of expression of Central America's eagerness to attain higher living levels have gained impetus during the last five years in which agreements of regional scope have been concluded - in particular the General Treaty on Central American Economic Integration - which gave birth to the Central American common market and paved the way for setting up a customs union.

These lines of action were followed by various developments which, in turn, gave rise to another essential principle underlying economic integration aims: that all Central Americans without exception have a right to turn to account the opportunities opened up by the Central American common market and to attain the highest living levels compatible with the dignity of mankind. In other words, in accordance with the principle of balanced development in the area - which was also imposed on an equitable basis - each Central American State should possess the means and instruments to ensure that its participation in this, the most important process in our history, will enable it to enjoy the same benefits as its other associates in the system.

The tangible results of the first stage of integration are evident from the trade figures for the five States - the only figures I shall mention now -, which show that, while total intra-area trade when the programme was launched in 1950 amounted to 8.6 million Central American pesos, the provisional figures at the end of 1965 were 130 million.

On the face of it, this is genuinely a good sign. The awareness of the whole of Central America has been aroused. We are determined to adopt a concerted stand vis-à-vis the major problems affecting development. We are at present in the throes of an essentially dynamic and integral process, which has shown that it has the necessary institutions to attain the goals and ideals that we Central Americans have pursued throughout our history. Let us now go boldly forward to a more far-reaching integration. We no longer have to decide whether it is a satisfactory system or whether we have followed the right course. All we are now concerned about is to reach agreement regarding the procedure to adopt in order to make good use of all the possibilities offered by integration, with a view to developing the area's human and natural resources to the full. We know that we are approaching

a new economic dimension and that we are only on the threshold of a second task, that of bringing the common market into full operation and reinforcing the institutions that will enable us to maintain the vigorous growth of our economies and their independence with respect to external influence.

We can also clearly discern the emergence of an essentially Central American nationality. Our integration programme is an independent movement, creating opportunities for all Central Americans and enabling them to exercise their right to a life in keeping with the dignity of mankind, and to freedom from fear, disease and poverty. The evils of a locally-oriented policy have been practically obliterated. The area is actively forging ahead towards a regional type of nationalism, which is the vital force that will impel the Central American nations on to their next objectives.

Central America has acquired full confidence in itself and in the higher democratic aims it is called upon to meet. The powerful forces of this nationalistic spirit - which are so necessary in a political and economic development process - find in the institutions of the Central American programme the guiding principles in the light of which, while viewing integration as an independent movement, they strike a balance with the external economic forces, within the interdependence existing in world economic relationships. Thus, the right formulas are being sought and common policies defined in order to facilitate the inflow of capital and other elements that are essential to Central America's development.

Last June, at a private meeting of the Central American Ministers for Economic Affairs held in a village of San Lucas Sacatepéquez, we made a statement which contained the broad outlines of a private investment policy for our countries. This statement was the first result of calm and conscientious deliberation, in conjunction with the directors of Central American integration agencies. It was well received in both national and foreign economic circles, and this shows that, through sustained joint action, it is possible to maintain that balance, which at once strengthens the Central American nationality and makes available the external financial and technical resources that are indispensable for the area's development, in view of the shortage of domestic savings.

The integration programme is also an equitable movement, in that its development permits all the Central American States an equal share in the growing opportunities offered by the new stages of development. An integral process would not be justified unless its advantages were equally accessible to all Central America's citizens. The equity at present characterizing our integration policy consists, therefore, in providing each State with the instruments and means to maintain a balance of development in the area.

The Central American economic integration process has acquired strong individuality vis-à-vis the rest of the world. In the respected opinion of agencies other than Central American, our programme is considered the most serious and progressive economic integration venture among the developing countries. This programme has been so devised and implemented as to give Central America the force and consistency to take part effectively in the major world economic movements. We cannot remain isolated. We are deeply concerned that a bottleneck in the external sector should not affect our integration process or the development of our separate economies. The disequilibria in the external sector limit our growth and could well hamper the programme. We are convinced that, while external sector income is maintained at a satisfactory level, the existence - which we hope will be only temporary - of disequilibria in the trade balances between one Central American State and another will have no serious consequences. But if intra-area trade presented a constant deficit in the case of a single Central American State, which coincided with an imbalance in the external sector, the two circumstances together would seriously jeopardize the balanced development of the integration programme.

The heavy dependence of our economies on the world market can never be over-emphasized; hence, it is essential to secure more equitable treatment from the major industrial powers. Some efforts have been made - separately or together - by the Central American States to arrest the alarming decline in the world prices of our export commodities and to offset, at least in part, the steady rise in the prices of our imports. In other words, we have attempted to prevent the terms of trade from continuing to deteriorate. Unfortunately, however, such a task requires

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that our standpoint be given fair consideration by the countries dominating world trade. Our efforts are still not enough, since at the most we have managed to make ourselves heard at international conferences.

As we said at Geneva, and repeated at Lima, Asunción, and again at Rio de Janeiro, it is imperative that reasonable and fair prices be obtained for our export commodities if the internal development efforts are to be fruitful.

One specific desire was made to prevail at the United Nations Conference on Trade and Development when I had the honour to state that the Central American countries advocated the establishment of a new system of international economic relationships, based on foreign trade patterns that would correct the factors conducive to stagnation in the countries producing raw materials; the adoption of a new conception of the principle of reciprocity and of the application of the most-favoured-nation clause, under which the concessions granted by the industrialized countries should not entail the granting of reciprocal benefits by countries at a less advanced stage of development, nor that such concessions - or those granted between the developing countries themselves - should necessarily be extended to the more advanced countries.

The need to present a solidly united front in our relations with other countries is most obvious in the case of international commodity agreements. At Geneva we supported the conclusion of those agreements and we still believe that they are desirable instruments of international economic policy. But the position adopted by the major world economic interests has thrown into relief the imperative need for Central America to present its foreign trade problems on the basis of a common platform and to unite in defending its own interests, which have never been, nor ever will be, protected by the major powers. Experience has shown that we must face this fact and that we cannot do so individually.

I do not consider it out of place to recall a single example on this occasion. The right to vote, and therefore to be heard, does not exist for the medium-sized and small countries in the case of the International Coffee Agreement, since notwithstanding the fact that there are over fifty signatory countries, only the unilateral decision of three of them can resolve a given situation.

The explicit and inevitable recognition of the need to establish solid and ever closer economic ties between the Central American common market and other friendly countries or groups of countries clearly shows that our integration movement, rather than an instrument of economic isolation, constitutes our best means of reorganizing Central America's relations with other countries with a view to its effective and constructive participation in the evolution of the world economy.

This will unquestionably be one of the common market's main tasks in the next few years, since, in addition to the increasingly urgent nature of the external economic problems, it is as well to remember that in the formation of the common market it was essential for each and all of the Central American countries to reduce the scope of the previously existing trade policy, for the sake of the organic unity of the free-trade area and of the common import tariff.

Admittedly, the present Central American treaties in force contain no provisions legally obliging the countries of the area to conduct their trade policy in line with the adoption of concerted action by the five countries on a purely regional basis. But it is equally clear that the clauses aimed at preserving the organic unity of the common market at all times have practically reduced the scope of unilateral action to the conclusion of treaties invoking the most-favoured-nation clause, subject to the Central American exemption clause. These treaties, as shown by experience in the developing countries, are of little value in improving the conditions under which our foreign trade is evolving.

On the other hand, as opposed to the little that each country can still do on its own in this field, there are really broad opportunities open to us if we pool our efforts in dealing with problems affecting us all, in terms of commonly shared objectives.

A common trade policy has, moreover, the advantage of providing such instruments as the uniform tariff, which are integration instruments proper and in no circumstances can be used individually by the Central American countries. These instruments are of fundamental importance in foreign trade negotiations.

Accordingly, Central America's trade policy should develop, in the future, along the lines of concerted action adopted by the five countries on a purely regional basis.

I may state that this year will witness the accomplishment of the first two integration aims: free trade and customs tariff equalization, which are the basic elements of the Central American common market. A great deal still remains to be done as regards the implementation and improvement of economic policy in the fields of industry, trade, investment, defence of our balance of payments and other sectors covered by the integration programme.

However, even if we have some achievements to our credit, we must not let ourselves be dazzled by the initial successes. At this meeting it will be necessary to focus attention on the shortcomings discovered in the system and on an analysis of our own mistakes. Only thus, by adopting a critical, objective and impartial approach, can we remedy the shortcomings of the programme and, by carrying it to a phase of renewed vigour, obtain a more accelerated economic and social development in the Central American countries and the means to solve the major problems confronting them.

Among these major problems, we should not conceal the fact that a large segment of the Central American population lacks the purchasing power to be considered a real sector of consumption of goods and services in the common market. Therefore, it is necessary to co-ordinate and strengthen the national and regional policies aimed at improving the income of that population group so that it can enjoy to the full the benefits deriving from integration and, at the same time, consume increasing quantities of Central American agricultural and industrial products. In this way regional demand would rise sharply, and this would result in the expansion of production activities and of enterprises with higher scales of production and better prospects of raising productivity and successfully meeting world competition.

Our evaluation should also embrace the essential elements of the policy to be adopted, which should include among its immediate and realistic objectives the customs union, which we are getting closer to, and the monetary union, which is as necessary as it is feasible in the next few years. It should also cover the establishment or reinforcement of regional agencies with decision-making powers required for the programme's proper implementation.

These institutional reforms will consolidate the common market, open up new prospects and help substantially towards attaining the final aim of adequately institutionalizing the Central American community in line with the just desires of the Central American nations.

Annex 3

ADDRESS DELIVERED BY MR. CARLOS MANUEL CASTILLO, DIRECTOR OF
THE ECIA MEXICO OFFICE, AT THE OPENING MEETING OF
THE NINTH SESSION OF THE CENTRAL AMERICAN
ECONOMIC CO-OPERATION COMMITTEE

The meeting that is about to begin is not merely another event in the chain of our activities. It represents the culmination of a whole process which the five Governments and their integration agencies have been engaged in for months, that of evaluating the progress of the common market five years after its establishment. The meeting therefore provides an opportunity to examine the present situation of the multinational movement, analyse the problems that have arisen in the course of its development, establish specific guiding principles for promptly and adequately solving those problems, and draw up a future programme of action through which the Central American countries can attain higher levels of integration and development.

For those of us who have devoted our efforts to the aims pursued by the United Nations and, in particular, who have striven to bring about Central American unity, it is highly gratifying to note the profitable and fruitful progress made since, in 1951, the Governments decided to give impetus to this co-operation movement, and to see that what was before an ideal and later merely a set of legal texts, is now a real and irrevocable process which is more and more firmly rooted in the daily evolution of the five national systems.

But we have not come to Guatemala to dwell on our achievements. It is precisely in the calm certainty of a job well and enthusiastically done that the process of evaluating the common market has been - and should continue to be - directed along the lines of an analysis of pending action and towards the attainment of objectives that are still unfulfilled. It is already clear that, as regards the advances made by the Governments in the common effort, the work that lies ahead does consist not so much in working out concepts in relation to the aims pursued on the substantive side, but primarily in putting into practice the concepts that have been clearly

/specified in

specified in previous years. In this respect, the present stage is essentially devoted to consolidating the basic framework of the common market and to paving the way for its ultimate transformation into a complete customs union.

It is a source of deep concern to us all that it has so far proved impossible to promote the development of one of the member countries sufficiently to satisfy its basic needs within the context of Central American equilibrium. This is one of the chief problems that will necessarily claim the attention of the Ministers of Economic Affairs on this occasion, with the object not of arriving at theoretical definitions of balanced development among countries, but of formulating guiding principles and adopting pragmatic measures that will guarantee a reasonable distribution of integration opportunities in each and all of the participating countries.

Although the criteria governing this aspect of the integration movement will have to be applied in the various activities and programmes concerned, balanced development is only part of the problem. From a broader standpoint, the problem of integration today lies in the inescapable need to lose no time in transforming Central America's traditional pattern of growth by turning to account all the opportunities afforded by the common market. Whether we like it or not, the solution of this problem necessarily involves regional industrialization, understood as a far-reaching reorganization of the production bases of society in these countries. Even the development of agriculture - which now and in the future must continue to be a predominant activity throughout Central America - could not be achieved, or even conceived, except in terms of an intensive growth of the manufacturing sector. In this respect, the need consciously and deliberately to stimulate the development of the common market, through regional public works programmes and the co-ordination of agricultural and industrial policies, seems to be the most important task. In terms of specific accomplishments, the common market has hitherto been primarily a means of stepping up the activities which we knew were going ahead already in Central America since before its establishments and, in approaching full legal and institutional operation, it has not yet gone very far in the process of transforming the economic pattern in these countries, a process which is not only its raison d'être but also the best safeguard for its future survival.

/The existence

The existence of these problems and the hitherto inadequate efforts to solve them are a source of legitimate concern to the five Governments and, to the regional integration agencies. However, the countries with problems of this kind today are fortunate, because rather than defining the unchanging picture of stagnation, they are the truest reflection of the existence of a real opportunity for growth, instead of the frustration of a vicious circle of under-development.

It should be noted that all these problems will have to be solved within a new context of integration, of an opposite sign to that which has characterized it in the earlier stages. The inexorable advance of positive and negative developments over which Central America has no decisive influence forces us to see more and more clearly that the area's integrated development will have to take place within the context of a growing interdependence with other countries and groups of countries.

This is neither strange nor contrary to the aims of the Central American multinational movement, where it has always been plain that the common market would be invaluable as a basis for the more intensive participation of these countries in world trade and the international economy. But the pace of events affecting them from abroad and the very needs of the internal system are precipitating this process.

It is therefore of the utmost importance that Central America should intensify the part it plays in activities at the international level, not only in the international agencies engaged in promoting the reorganization of the multilateral trade system, but also in the monetary agencies where a solution is being sought to the problem of liquidity and the shortage of means of payment, and the institutions promoting Latin American integration. It is common knowledge that the solutions or proposals put forward are not all entirely in Central America's interests. Nor, for well-known reasons, could the five countries' active participation in these matters necessarily be expected to produce the most desirable solutions. But it does seem reasonable to state that such intervention would provide the best chance of their interests' receiving an acceptable measure of consideration of leading to the establishment of measures consistent with their own needs and those of the developing countries in general.

It would be a mistake to think that the extension and reorganization of our relations with the rest of the world related only to the promotion of trade and of capital income. Economic questions play so preponderant a role in present-day affairs that we sometimes tend to lose sight of the fact that the centres and periphery also define fundamental realities in the field of policy and culture. In this respect, integration has come to lay the material bases and is beginning to result, as the Minister of Economic Affairs of Guatemala so aptly put it, in a new Central American nationalism - similar perhaps, and only apparently paradoxically, to the movement to win freedom of over a century ago - which, constructively guided, would make it possible for these nations to take full part in world movements.

These considerations bring to light the complex nature of the combined play of internal and external factors which will be influencing the development of integration in the ensuing stages. Because, although the strengthening of links with other countries offers unlimited opportunities, their fulfilment entails new and more challenging requisites than those that would have to be met in an isolated development process conducted on a smaller scale.

It is therefore all the more necessary to effect the reforms which the Latin American countries undertook to promote four years ago. Various circumstances, including the want of feasible proposals to that end, have had the effect, in many cases, of postponing or relegating them to second place. This state of affairs cannot but have unfavourable consequences, such as the existing economic and social situations which are currently at issue and should not be ignored. In the case of Central America, it is clear that those reforms relate not only to the objectives of eradicating poverty, ignorance and disease in an internal sense, so to speak, but also to the fact that the enjoyment of development opportunities and the shouldering of responsibilities deriving therefrom by the 12 million inhabitants of the area are an essential requirement if for the profitable linking up of the regional unit is to be profitably linked up with other countries and groups of countries.

The course of Central America's history has not been smooth, but the fact remains that the generations which in the past held the destinies of these countries in their hands were capable of developing the economy which is sustaining the present generations. If we look beyond the immediate and transitory circumstances, it is up to the latter to leave the future generations a new and solid base on which to continue that progress.

In the face of the growing inadequacy of past systems and the trends manifest in other parts of the world, integration is the only way out. In this respect, and in the light of the practical experience which must serve the Economic Co-operation Committee as the point of departure for its present discussions, the measures already adopted by the Governments have had the outstanding virtue of establishing a sharp contrast between five countries in a chronic state of stagnation and a single unit with hope for the future.

Annex 4

LIST OF STUDIES AND DOCUMENTS PREPARED SINCE THE EIGHTH SESSION
OF THE CENTRAL AMERICAN ECONOMIC CO-OPERATION COMMITTEE

1. Central American Economic
Co-operation Committee

E/CN.12/672

Report of the Central American Economic
Co-operation Committee (13 December 1960-
29 January 1963)

2. Trade

E/CN.12/CCE/SC.1/88

Nota conjunta de la secretaría de CEPAL
y SIECA sobre el Anteproyecto de
Código Aduanero Uniforme Centroamericano

E/CN.12/CCE/SC.1/89

Observaciones de los gobiernos centro-
americanos al Anteproyecto de Código
Aduanero Uniforme Centroamericano

3. Statistics

E/CN.11/CCE/SC.2/65*

Coordinación de las estadísticas agrope-
cuarias continuas entre las naciones
del Istmo Centroamericano

E/CN.11/CCE/SC.2/66*

Resumen de los resultados de una encuesta
sobre precios recibidos por los productos
agropecuarios en las naciones del Istmo
Centroamericano

E/CN.12/CCE/SC.2/67*

Estadísticas de precios recibidos por
los productos agropecuarios

E/CN.12/CCE/SC.2/68*

Situación actual del programa centro-
americano de coordinación estadística
(Nota conjunta CEPAL/SIECA)

E/CN.12/CCE/SC.2/69
FAO/CAIS/60/1

Estado actual de las estadísticas agrope-
cuarias continuas en las naciones del
Istmo Centroamericano

E/CN.12/CCE/SC.2/70
FAO/CAIS/60/2

El desarrollo del programa de coordinación
de estadísticas agropecuarias de las naciones
del Istmo Centroamericano

* Out of stock,

E/CN.12/CCE/SC.2/71 FAO/CAIS/61/1	Coordinación de las boletas del censo agropecuario de los países del Istmo Centroamericano
E/CN.12/CCE/SC.2/72 FAO/CAIS/62/2	Coordinación de las estadísticas de destace del ganado en los países del Istmo Centroamericano
E/CN.12/CCE/SC.2/75	Modificaciones que se propone introducir en las normas internacionales para la preparación de estadísticas industriales básicas
E/CN.12/CCE/SC.2/76	Proyecto de propuestas para el programa mundial de encuestas industriales básicas de 1963
E/CN.12/CCE/SC.2/77	Valuación de mercaderías que entran en el comercio exterior
E/CN.12/CCE/SC.2/80 FAO/CAIS/63/7	Programa coordinado de encuestas agropecuarias para los países del Istmo Centroamericano
E/CN.12/CCE/SC.2/81* FAO/CAIS/63/5	Programa para el mejoramiento de las estadísticas forestales y productos forestales
E/CN.12/CCE/SC.2/83/Rev.1	Informe de la segunda reunión del Grupo de Trabajo de Estadísticas Agropecuarias
E/CN.12/CCE/SC.2/84/Rev.1	Coordinación de las Estadísticas industriales en Centroamérica y Panamá (Nota conjunta CEPAL/SIECA/Misión Conjunta)
E/CN.12/CCE/SC.2/86*	Problemas y sugerencias en relación con el levantamiento de los censos económicos
E/CN.12/CCE/SC.2/87/Rev.1	Informe de la tercera reunión del Grupo de Trabajo sobre estadísticas industriales
E/CN.12/CCE/SC.2/89	Bases para la formulación de un programa integral de estadísticas para los países del Istmo Centroamericano

4. Transport

E/CN.12/CCE/SC.3/8	Nota de la Secretaría
E/CN.12/CCE/SC.3/18	Sistema de navegación lacustre y fluvial entre Costa Rica y Nicaragua
E/CN.12/CCE/SC.3/19	Adaptaciones técnicas de construcción y diseño de carreteras a las condiciones y necesidades centroamericanas

* Out of stock.

5. Housing

- E/CN.12/CCE/SC.4/14/Rev.1* Informe del Grupo de Trabajo sobre coordinación modular en vivienda
- E/CN.12/CCE/SC.4/15* Industrias o establecimientos que fabrican materiales de construcción en el Istmo Centroamericano
- E/CN.12/CCE/SC.4/19 Situación actual y nuevos campos de la coordinación regional de los programas de vivienda en el Istmo Centroamericano (Nota de la Secretaría)
- E/CN.12/CCE/SC.4/26 Propuesta para el estudio de costos de construcción de la vivienda en el Istmo Centroamericano con referencia a costos preliminares de 1965
- E/CN.12/CCE/SC.4/27 La programación de la vivienda en el esquema de la programación global del desarrollo económico y social
- E/CN.12/CCE/SC.4/28 Informe del Seminario sobre programación de la vivienda
- E/CN.12/CCE/SC.4/29* El financiamiento de la vivienda en el Istmo Centroamericano
- E/CN.12/CCE/SC.4/30* La programación de la vivienda y el desarrollo urbano en la política y los planes de desarrollo
- E/CN.12/CCE/SC.4/31* Niveles arancelarios, regímenes de intercambio establecidos en el Tratado General y comercio exterior, para los principales materiales de construcción en Centroamérica
- E/CN.12/CCE/SC.4/32* Proyectos de esfuerzo propio y ayuda mutua en Centroamérica

6. Electric power development

- E/CN.12/CCE/SC.5/9 Estadísticas de energía eléctrica en Centroamérica y Panamá, 1960 y 1961
- E/CN.12/CCE/SC.5/10 Nota de la Secretaría. Desarrollo coordinado del sector de energía eléctrica en el Istmo Centroamericano
- E/CN.12/CCE/SC.5/11
TAO/IAT/40 Desarrollo combinado de los sistemas centrales de El Salvador y Honduras
- E/CN.12/CCE/SC.5/12
TAO/LAT/41 Desarrollo combinado de los sistemas eléctricos de Chiriquí (Panamá) y Golfito (Costa Rica)

* Out of stock.

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| E/CN.12/CCE/SC.5/14 * | TAO/LAT/43 | Proyecto para el Establecimiento de una red regional de estaciones hidrométricas e hidrometeorológicas |
| E/CN.11/CCE/SC.5/15 * | | Sistema uniforme de cuentas para empresas eléctricas |
| E/CN.12/CCE/SC.5/31 | TAO/LAT/45 | Desarrollo combinado del sistema pacífico de Nicaragua y del sistema central de Costa Rica |
| E/CN.12/CCE/SC.5/32 | TAO/LAT/49 | Desarrollo del sistema eléctrico central de Guatemala |
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| 7. | <u>Agricultural development</u> | |
| E/CN.12/CCE/SC.6/2 | FAO/CAIS/64/5 | Informe sobre los trabajos realizados en el sector agropecuario dentro del programa de integración económica del Istmo Centroamericano |
| E/CN.12/CCE/SC.6/3 | FAO/CAIS/64/8 | Actividades de la política agropecuaria en los países centroamericanos |
| E/CN.12/CCE/SC.6/4 | FAO/CAIS/64/6 | El mercado común de productos agropecuarios en Centroamérica |
| E/CN.12/CCE/SC.6/5 | FAO/CAIS/64/7 | Estado actual de la producción y el mercado de granos en Centroamérica |
| E/CN.12/CCE/SC.6/6 | | Estado actual de la investigación agropecuaria en Centroamérica |
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| 8. | <u>Population</u> | |
| E/CN.12/CCE/333 | TAO/LAT/54 | Aspectos demográficos y socioeconómicos del área metropolitana de San Salvador |
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| 9. | <u>Other studies</u> | |
| E/CN.12/CCE/308 | | La eventual participación de Panamá al mercado común centroamericano |
| E/CN.12/CCE/309 | | Estudio sobre la posible incorporación de Panamá al mercado común centroamericano |
| E/CN.12/CCE/312 | | Informe del Seminario de Clasificación y Administración Presupuestarias en Centroamérica y Panamá. |

* Out of stock.