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REPORT OF THE SECRETARIAT ON THE CENTRAL AMERICAN
ECONOMIC INTEGRATION PROGRAMME
(May 1967 - April 1968)

Note by the secretariat

The secretariat wishes to draw the attention of the members of the Committee of the Whole of the Commission to its report on the Central American Economic Integration Programme for the period May 1967 to April 1968 (CEPAL/MEX/68/4). This document is intended as a background document for the discussion by the Committee of the Whole of the item on Central American economic integration.

ECONOMIC COMMISSION FOR LATIN AMERICA

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REPORT OF THE SECRETARIAT ON THE CENTRAL AMERICAN
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1. Introduction

The Economic Commission for Latin America (ECLA) will have been in existence for twenty years in May 1968. In the same month, seventeen years ago, the Central American Economic Integration Programme was started and, in its work, ECLA has devoted considerable attention to this Programme. From the outset, and until the establishment of the organs of the Central American Common Market proper - the Central American Economic Council, the Executive Council, the Permanent Secretariat of the General Treaty on Central American Economic Integration (SIECA), and the Central American Bank for Economic Integration (BCIE) the direction and co-ordination of the programme was the responsibility of the Central American Economic Integration Committee and its subsidiary bodies,^{1/} which received technical support from the Mexico Office of ECLA.

From 1963 onwards, the Economic Co-operation Committee, which continued to co-operate closely and actively with the Programme, became a forum for technical discussion, from which longer-term guidelines and prospects for economic integration emerged for submission to and possible implementation by the above-mentioned Central American executive organs, in accordance with the provisions of article XX of the General Treaty.

Between 1951 and 1968 there were four discernable stages in the process of regional integration. The first, which ended in 1958, consisted of the establishment of general policies, the preparation of basic studies and the operation of bilateral free trade agreements. The second, which lasted until 1962, was characterized by the signing of the main agreements constituting the Central American Common Market and of regional agreements on financing, industrial development and infrastructure. The third saw the entry into full operation of the Common Market, the free trade area and the external customs tariff, and the consolidation of the institutional machinery of the General Treaty. The fourth, which began in 1966, is

^{1/} The Trade, Statistical Co-ordination, Transport, Housing, Electric Power, and Agricultural Development Sub-Committees, together with working and advisory groups on specialized sectoral aspects.

concerned with the review and modification of the multilateral process and with the establishment of regulations, and also with the entry into operations of a regional programme for economic relations with third countries and the strengthening of the co-ordination of major economic policies in Central America.

The basic instruments of the Central American Common Market have facilitated and speeded up the development of intra-area trade and have consolidated the investment opportunities provided by the new enlarged market. When the transitional period ended in June 1966, the free trade area had entered into full operation. Moreover, in 1965 substantial agreement had been reached on the Central American Common Tariff, and in 1959 a start had been made on applying a regional industrial development policy in harmony with the needs of the Programme.

Inter-Central American trade, which amounted to 8.6 million Central American pesos when the Programme started in 1951 and to 36.8 million when the General Treaty was signed in 1961,^{2/} rose to 220 million in 1967. Moreover, these figures represent a sizable proportion of the area's total foreign trade; intra-area trade, which accounted for 4 per cent of total foreign trade in 1950, had risen to 20 per cent in 1967. In addition, the share of manufactures in the structure of internal trade flows has increased and now accounts for more than 70 per cent of total internal trade. As a result of these trends, since the entry into force of the General Treaty enterprises producing intermediate and capital goods have been established, and this expansion of the industrial structure has led to a greater degree of specialization in the countries and to the integrated development of certain industrial branches, such as the non-durable consumer goods, building materials, chemical and pharmaceutical products, and steel industries. Thanks to increased import substitution - one of the main objectives of the Integration Programme from the beginning - it has been possible to make more effective use of installed capacity and to channel more and more investment into new industries.

^{2/} The cumulative annual growth rate for Central American trade was 21 per cent between 1950 and 1967, and 35 per cent between 1961 and 1967.

There have also been important developments in other fields. For example, several of the main obstacles to economic integration in agriculture have been overcome. Considerable progress has been made in applying a common policy for guaranteeing prices and controlling the domestic and foreign supply of staple grains, for local consumption.

With regard to infrastructure, the Central American Common Market has concentrated its efforts on the construction of a regional road network in order to facilitate trade. In addition, bilateral electricity interconnexion projects have been prepared, a start has been made on evaluating water resources and a regional telecommunications system has been further developed; in all these fields the joint action of the Governments is extending the process of integration of their economies.

Financial co-operation within the integration process began in the early nineteen-sixties. Intra-area trade was facilitated by the establishment of the Central American Clearing House in 1961, through which more than 80 per cent of this trade passes. In the same year, the Central American Bank for Economic Integration went into operation to provide financial support for the Integration Programme. The Bank also administers the Economic Integration Fund, which was established in 1965 to provide financial support for infrastructure programmes, especially as regards their domestic expenditure.

The Integration Programme has thus become one of the most dynamic elements for the economic development of the Central American countries. However, the downturn in the external sector in the last two years has made it impossible to take fuller advantage of the Programme and has led to a deterioration in the conditions favouring more rapid economic development.

2. The Common Market and the evolution of the Central American economy in 1967 3/

The rate of growth of the Central American economy was 4.3 per cent in 1967, which was lower than the rate recorded in 1966 and reflected the sharp decline in exports to the rest of the world, particularly in coffee

3/ For further information on this subject, see the chapter on Central America in the 1967 Economic Survey for Latin America.

and cotton. This contraction was only offset to some extent by an increase in banana exports and a higher volume of trade within the Central American Common Market.

To the obstacles besetting agricultural export production should be added the stagnation in staple products for domestic consumption resulting from adverse weather conditions and pests.

Moreover, heavy pressure on the balance of payments in several of the countries led to the adoption of various short-term restrictive measures, and this, together with the drop in export earnings, held the growth of capital formation down to 6 per cent and was responsible for a very slow growth rate in construction activities. Manufacturing output, however, continued to grow at a satisfactory rate, mainly as a result of increased import substitution and the higher volume of intra-area trade.

The decline in the growth rate of the product, which barely kept pace with population growth, together with the downturn in the external sector, affected fiscal revenue levels and thus gave rise to a slight contraction in public investment. Credit restrictions were imposed because of the need to curb imports, and imports were channelled towards productive activities, but these measures were not sufficient to stave off a considerable drop in foreign exchange reserves, despite an increase in external financial resources.

3. Salient developments of regional interest

The regional organs of the Central American Common Market had to tackle three major problems during the period covered by this report: the creation of institutional machinery that would enable Central America to act as a single economic unit in its trade relations with third countries and other economic groupings; the establishment of a regional policy for fiscal matters and the defence of the balance-of-payments position; and improvement of the operation of integration treaties and institutions.^{4/}

^{4/} See the progress report of the Secretary-General of SIECA on the Central American Economic Integration Programme, "Informe del Secretario General sobre el Estado del Programa de Integración Económica Centroamericana" (SIECA/CEC/VII-O/DT.2).

(a) Joint trade policy

The Central American Economic Council, at its seventh regular session held in Costa Rica in August 1967, approved the insitutional arrangements for Central America's common market trade policy. The Council assumed responsibility for formulating and administrating this policy, and decided that it should be harmonized with the external policy of the various States through consultations or meetings between the Council and the Ministers of Foreign Affairs. It also decided that the Executive Council of the General Treaty should implement and administer Central American external trade policy.^{5/} A co-ordinating committee of the Latin American Free Trade Area and the Central American Common Market - the ALALC/CACM Co-ordinating Committee - was set up for this purpose, the Central American Common Market represented by the members of the Executive Council and the Secretary-General of SIECA. The directors of other Central American institutions may be invited to attend meetings whenever the topics under discussion so require.^{6/}

At the thirteenth session of the Central American Trade Sub-Committee of ECLA, held in December 1967, various questions relating to the formulation and execution of the external common trade policy were examined. The general programme of action adopted is expected to facilitate the adoption of decisions and the indication of priorities by the executive organs of the Central American Economic Integration Programme.^{7/}

It was decided to establish a regional export development unit as part of SIECA, whose initial activities would be entrusted to specialized staff members of SIECA and of BCIE; and it was agreed to request continued support from the United Nations technical expert who has been co-operating

5/ See "Informe del Secretario General sobre el estado del Programa de Integración Económica Centroamericana" (SIECA/CEC/VII-O/DT.2).

6/ See Economic Council resolution 44 (CEC).

7/ See the report of the Central American Trade Sub-Committee on its thirteenth session (E/CN.12/CCE/SC.1/99/Rev.1).

in this work since 1966. This programme for promoting the production and diversification of exports is one of the measures designed to defend and strengthen the balance-of-payments position referred to below.^{8/}

Central America has already made significant progress in its programme for economic relations with third countries. First, the Economic Council has declared that Panama's fully participation in the Central American Common Market, through a gradual and flexible process which will facilitate the integration of the two economies, is a matter of vital importance. To achieve this, the Council has decided to give preferential attention to the relevant negotiations, and has therefore invited the Government of Panama to send a representative to one of its forthcoming meetings.^{9/} Secondly, a meeting of the Joint Mexico/Central America Committee (Comisión Mixta México-Centroamérica) is planned for May 1968, when possibilities for trade and industrial complementarity will be examined and defined. The representatives of the Central American countries have likewise shown a marked interest in the development of a programme of technical and financial assistance, involving both economic co-operation with the countries of the Caribbean Basin and the formulation of the preferential treatment considered necessary to enable the economically relatively less developed countries to join in the process of multinational integration that has been launched in Latin America.^{10/}

Lastly, the CACM authorities decided to keep in closer touch with countries and agencies of the European Economic Community and to act as a single unit at the second session of the United Nations Conference on Trade and Development.^{11/}

^{8/} See Acta de la Primera Reunión Conjunta del Consejo Económico, el Consejo Monetario y los Ministros de Hacienda de Centroamérica.

^{9/} See Economic Council resolution 45 (CEC).

^{10/} See "Report of the Meeting on the Problems of Regional Integration of the Economically Relatively Less Developed Countries" (E/CN.12/798).

^{11/} See Acta Número Veintidos del Consejo Económico.

(b) Co-ordination of economic policies

The fiscal and balance-of-payments problems of several Central American countries became more serious in 1967, a situation which, together with the short-term prospects, reflects the evolution of the external sector and emphasizes the urgency of adopting joint monetary, credit and fiscal measures with a view to achieving a gradual solution of those problems without affecting the stability of the Central American Common Market. That is why, towards the end of 1967, the Central American institutions devoted special attention to co-ordinating economic policies within the context of regional integration.

In November 1967 the Economic Council, the Monetary Council and the Central American Ministers of Finance examined the situation at their joint meeting agreed on various measures for immediate application, and indicated the studies, draft agreements and regulations that must be prepared in order to strengthen Central America's fiscal and balance-of-payments position. Prime importance was attached to the introduction of general taxes on sales of goods and services, the flexible application of tariff policies, the creation of a monetary stabilization fund, the establishment financial mechanism to promote intra-area exports of manufactures, the setting up of a regional unit for the promotion of extra-area exports, and studies which would provide general guidelines for exchange policy and external and internal borrowing policy designed to maintain monetary stability in the area.^{12/}

(c) Operation of the Common Market

During the period covered by this report, the Central American Governments concluded another regional integration agreement - the Protocol to the Central American Agreement on Equalization of Import Duties and Charges and to the Agreement on the Régime for Central American Integration Industries^{13/} (second Managua Protocol) - by virtue of which tariff levels for more than forty items of the Central American Common

^{12/} See foot note 8.

^{13/} See document SIECA/CEC-VIII.

Tariff were brought into line with present state of production in the area, and two of the thirty-three items that had remained pending were added to the tariff development policy for the manufacture of cotton yarn and plain-woven cotton fabrics was defined; the Central American Textile Training School was established in Nicaragua; and new items were included in the special system for the promotion of productive activities.

The Executive Council and SIECA continued to examine and resolve specific problems relating to the functioning of CACM, and have proceeded, jointly with the other integration agencies, with the study of procedures for the settlement of disputes at the regional level, and of various formulas for securing adequate financing for all the regional institutions.

Progress has also been made in such sectors as economic infrastructure and multinational financing.

The Conference of Ministers of Foreign Affairs set up the Central American Infrastructure Council (Consejo Interamericano de Infraestructura).^{14/} In addition, two ECLA working groups - one set up by the Central American Transport Sub-Committee and the other by the Central American Statistical Co-ordination Sub-Committee - embarked on the regional co-ordination of activities related to maritime transport and port and harbour development,^{15/} and to the formulation and improvement of statistics on the various means of transport,^{16/} respectively.

The activities of the Central American Bank for Economic Integration at the end of 1967 showed an increase in credit operations for regional infrastructure projects and a diversification of foreign contributions to its financing. Loans amounted to 22.3 million Central American pesos in the year, with 83 per cent earmarked for the infrastructure sector. The allocations made by BCIE since it began operations in 1961 total 111 million pesos.

^{14/} See Acta Final de la Tercera Conferencia Ordinaria de Ministros de Relaciones Exteriores de Centroamérica.

^{15/} See "Informe de la primera reunión del Grupo de Trabajo sobre Transporte Marítimo y Desarrollo Portuario" (E/CN.12/GCE/SC.3/22).

^{16/} See Informe de la reunión del Grupo de Trabajo sobre Estadísticas de Transporte (E/CN.12/GCE/SC.2/103/Rev.1).