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A STUDY OF THE
CENTRAL AMERICAN COMMON MARKET

PAUL K. HARNAD
and
ROBERT M. OLSEN

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A STUDY OF THE CENTRAL
AMERICAN COMMON MARKET

* * * * *

Paul K. Harnad

and

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A STUDY OF THE CENTRAL
AMERICAN COMMON MARKET

by

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Submitted in Partial Fulfillment of
the requirements for the degree of

MASTER OF SCIENCE
IN
MANAGEMENT

United States Naval Postgraduate School
Monterey, California

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AMERICAN COMMON MARKET**

by

Paul K. Harnad

and

Robert M. Olsen

**This work is accepted as fulfilling
the research paper requirements for the degree of**

MASTER OF SCIENCE

IN

MANAGEMENT

from the

United States Naval Postgraduate School

ABSTRACT

In the history of the Central American Republics many attempts at union, either political or economic or both, have been made and all have failed. Presently, these same countries are united economically once again as the Central American Common Market. In this latest attempt at union also doomed to failure?

This paper reviews the historical background of the region and the events leading to the present economic integration pact, summarizes the major agreements and treaties, discusses the chronic economic obstacles that must be overcome and examines the results to date of the nascent Central American Common Market.

TABLE OF CONTENTS

Chapter	Page
I.	Introduction and Historical Background 1
II.	The Economic Integration Program 7
	Multilateral Treaty 8
	The Agreement on the Regime for Central American Integration Industries 9
	Central American Agreement of Equalization of Import Duties and Charges 10
	Tripartite Treaty for Economic Association 11
	The General Treaty on Central American Economic Integration 13
	The Agreement Establishing the Central American Bank for Economic Integration 16
III.	Problems Facing Economic Integration 18
	Agriculture 18
	Transportation 20
	Education 22
IV.	Progress of the Central American Common Market to Date. 25
	Foreign Investments 25
	Foreign Trade 30
	Intra-regional Trade 30
	Tariffs 33
	Central American Bank for Economic Integration ... 34
	GNP and Per Capita Income 34
	Tourism 35
V.	Summary and Conclusions 37

Chapter	Page
Summary	37
Conclusions	38
Footnotes	40
Bibliography	42
Appendix A. Multilateral Treaty	46
Appendix B. The Agreement on the Regime for Central American Integration Industries	51
Appendix C. Central American Agreement of Equalization of Import Duties and Charges	53
Appendix D. The General Treaty on Central American Economic Integration	56

LIST OF TABLES

Table		Page
I.	Central American Common Market and Country by Country Industrial Development Incentives	26
II.	Central American World Trade, Imports and Exports	31
III.	Intra-Central American Common Market Imports	32
IV.	Central American Economic Indicators	35

CHAPTER I

INTRODUCTION AND HISTORICAL BACKGROUND

The European pattern of economic integration has found expression in the Western Hemisphere in three politically divergent, widely separated regional groupings. One such group is the now defunct West Indies Federation, a rearrangement of the remaining bits and pieces of British colonialism in the Caribbean region. Another is the Latin American Free Trade Association, which is a plan to link together economically, the more developed Latin American nations. However, the most vigorous approach to regional economic integration is being pursued by the Organization for the Economic Development of Central America (ODECA). Their plan is to weld together five individually inefficient countries into one productive unit capable of initiating and sustaining an economic takeoff.

Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica are individually small in area and population, but together they comprise 11 million people spread over 180,000 square miles. The countries may be compared to a group of islands separated by mountains, jungles and ideas. Each nation faces outward, its back to the other, making commercial contact with Europe or the United States easier than with its neighbor. Living standards are quite low with the average annual income about \$245. Central America's total output of goods and services amounts to less than two percent of that of the European Common Market. The economies are overwhelmingly agricultural with coffee, cotton, cocoa, and bananas accounting for 75 percent of all exports. It is also interesting to note that 85 percent of all exports have gone out of the Central American area.¹ Needless to say, fluctuations of world demand for these products has on occasion, caused considerable havoc within the individual

countries.

There is very little stimulation for intra-area trade. All countries produce agricultural commodities to meet local demands at a bare subsistence level and manufacturing output is barely adequate to satisfy local needs.

Why then study an area whose total impact on world trade is so insignificant? The countries of Central America are representative of a large portion of the world today in size of population, climate, industrial capability, and per capita income. The methods used and the results obtained could be of immeasurable value to the less developed nations of Africa and Asia in their struggle to narrow the huge economic gap between themselves and the more prosperous nations of the world.

The first Europeans to visit Central America came with Christopher Columbus on his fourth voyage to Caribbean waters. This probe to the west was prompted by his belief that just beyond the lands he had already discovered lay the Indies of Asia. On 14 August 1502, Columbus first set foot on the Central American mainland at Cape Hondorus.

By 1511, Spanish expeditions were underway which would eventually overrun the isthmus from both north and south. The first overland contacts between Spaniards and Central American natives came in 1522, however it was not until 1524, that it became apparent that the Spaniards were there to stay. By 1527, Honduras, Guatemala (which included El Salvador), and Nicaragua were made separate provinces and granted royal governors. Numerous attempts to colonize what is now Costa Rica were unsuccessful until Juan Vasquez de Coronado established the first settlement in 1562 at Cartoga.²

By 1570, the local wars had ceased and Central America was destined to exist peacefully for the next two and one half centuries under the rule of the

Audiencia de Guatemala. By the late 18th century, Spain no longer had the energy nor the opportunity to ensure its hold on the area. In fact, the Central American area was but a small part of the hemispheric independence movement away from Spain, who at this time was having considerable problems with a liberal revolt at home and a revolution in South America.

Thus, with a small probability of interference by Spain, the Audiencia de Guatemala declared its independence on 15 September 1821, with little friction and even less blood-shed. In 1823, the five provinces formed a national union which was destined for failure. The political inexperience of the leaders and the conflicts between jealous social classes and rival towns were disastrous because the Central American communities possessed no political institutions which could be used as the basis for the establishment of an independent government. Continuous conflicts between the various states led to the Federation declaring in 1838, that the states might do as they saw fit regarding their attachment to the union. In less than one year, four states had withdrawn leaving only El Salvador in the union. The idea of federation persisted however, and it was not until 1847, beginning with Guatemala, did the states declare themselves independent republics.

Although various plans for union were attempted, all were weak and ineffective and quickly faded from consideration. The apparent impossibility of restoring the federation by the voluntary action of the five republics led Rufino Barrios, the president of Guatemala, to unilaterally declare in 1885 the restoration of the Central American union with himself as the leader. The other republics objected and fighting commenced which was to cost Barrios his life and to again signal the failure of another attempt at union.³ More peaceful attempts were tried in 1887, 1892, 1895, 1897, and 1898, however all

had the same end result...failure.

From the beginning of the twentieth century, two new trends became evident in Central American attempts at union. The first was the obvious interest of the United States in the internal affairs of the republics due mainly to her acquisition of the Canal Zone in 1903, and the second was the recognition by the nations themselves that the area must be in a peaceful state before any federation was possible. In 1902, a move of considerable significance took place at Corinto, Nicaragua, when representatives of all the republics except Guatemala, drew up a treaty creating a tribunal of Central American arbitrators for the settlement of international differences. Four years later a dispute between Guatemala and El Salvador reached a point where war was avoided only by the intervention of President Roosevelt and President Diaz of Mexico. As a result there was drawn up at San Jose, Costa Rica in 1906, a new treaty between Costa Rica, Honduras, El Salvador and Guatemala, under the provisions of which the presidents of the United States and Mexico were agreed upon as arbitrators in any further disputes between the signatory nations. In 1907, a border conflict flared between Nicaragua and Honduras which threatened to involve the entire region. Nicaragua offered to arbitrate under the Corinto plan while Honduras was willing to arbitrate only under the San Jose plan. As the situation became more serious, Presidents Roosevelt and Diaz invited the five states to a peace conference in Washington, which convened late in 1907. In addition to resolving the dispute, there was recommended formation of Central American institutes of agriculture, mines, and arts which were steps for the possible attainment of economic unity. The most important provision of the treaty that was signed was the creation of a Central American Court of Justice composed of one judge from each country, whose purpose would

be to decide conflicts between the member states.⁴ However, the results of this conference had little permanent effect. The recommended educational institutions were not organized and although the annual conferences continued for seven years, most of their worthy agreements were never ratified. The court got off to an excellent start and continued to function with a fair degree of success until 1917, when Costa Rica, El Salvador, and Nicaragua became involved in a dispute over a treaty involving United States rights to build a canal along the San Juan River. When the decision went against Nicaragua, she withdrew from the court, which shortly thereafter ceased to function.⁵

A second Washington conference was convened in 1922. New treaties were written to keep peace in the region but contained little to encourage the advocates of union. An arbitration panel was established to replace the Central American Court of Justice, however it possessed little authority. When these treaties were denounced by Costa Rica and El Salvador in 1934, the whole unification movement went into abeyance for more than a decade. During this period, until 1951, the countries were generally under the rule of individual strong men who desired to maintain the status quo in his relations with his neighbors.

Finally, in 1951, the conditions were again favorable for another attempt at unification. The foreign ministers met in El Salvador and wrote the Charter of San Salvador, which established the Organization de Estados Centroamericanos. ODECA, as the association is called, is not a federation. It is designed by its members instead to "fortify the ties which unite them". Peaceful solutions of disputes were envisaged, and the promotion of isthmian economic, social, and cultural development was anticipated.⁶

Summary

Three years after declaring independence from Spain, the five provinces of Central America enacted a constitution and established the Federal Republic of Central America. By 1838, this union had clearly failed and the states went their separate ways. Since that time, more than twenty-five formal and official steps were taken in attempts to once again re-unite the countries into some sort of federation. In spite of all these efforts, never has there been anything resembling success. Why then in light of these continuous failures do attempts at unification continue? The majority of their statesmen realize that the countries can never truly be independent of each other, and that the interests of all would best be served by joining forces for their common ends. The union of five small and disorderly states into one strong nation able to promote the interests of its people and to command respect from foreign powers would then be able to assume a position of importance in the councils of Latin America and to make great strides towards better government and a more complete realization of economic opportunities at home.

CHAPTER II

THE ECONOMIC INTEGRATION PROGRAM

The first major step toward the present Central American integration program was taken in June, 1951, at the yearly meeting of the United Nations Economic Commission for Latin America (ECLA). At this time, the representatives of the Central American Republics proposed a resolution, subsequently adopted by the ECLA, that expressed the interest of the region in "the development of agricultural and industrial production and of transport systems in their respective countries so as to promote the integration of their economies and the expansion of markets by the exchange of their products, the coordination of their development programs and the establishment of enterprises in which all or some of these countries have an interest".⁷ For this purpose, the ECLA Secretariat was to initiate a number of studies and a committee of ECLA was to be set up as a coordinating agency. This committee, which was designated the Central American Economic Co-operation Committee was composed of a representative from each Central American country and ECLA and aided by a permanent staff and secretariat provided by the Mexico City office of ECLA. This committee, aided by various specialized sub-committees and other bodies, has directed the integration program.

During this same period the Central American Republics signed the "Charter of San Salvador" which established the ODECA which is aimed at the eventual consolidation of Central American activities, including cultural and possibly even political fields.⁸ The charter was signed in 1951 and became effective in January, 1962.

From the beginning the Central American Economic Co-operation Committee sought a multilateral formula to promote free trade in the region, to promote

the development of industrialization and to insure that duplication of products which could not be justified by the total market of the region was not allowed to take place. Over the years 1952-1958 the Committee, after numerous conferences and studies, developed two draft treaties, one dealing with the elimination of internal customs barriers and setting up common external tariffs and the other defining the so-called "integration" industries. These treaties, entitled the Multilateral Treaty on Free Trade and Central American Integration, and the Agreement on the Regime for Central American Integration Industries, respectively, were signed in Tegucigalpa, Honduras on June 10, 1958 by the presidents of the five countries. Both treaties were shortly thereafter ratified by the legislatures of the five countries with the exception of Costa Rica, which did not ratify until September, 1963.

In regard to these treaties, the Central American Common Market was thought of as a free-trade area which, within a period of ten years was to be perfected with a view toward creating a customs union.⁹

Multilateral Treaty

The Multilateral Treaty established an initial schedule of approximately 200 commodities on which all duties and tariffs, except for specified quantitative restrictions, would be immediately abolished. Furthermore, the ratifying nations undertook the task of equalizing the tariffs imposed by them on other than Central American countries on products included in the free trade schedule and those to be subsequently added, as well as on their principal raw materials and the necessary containers.

Within the framework of the treaty and with the view of providing the maximum possible flexibility in the creation of the common market, special temporary arrangements were agreed upon under which could be negotiated progressive duty reductions for products not initially listed in the free trade

schedule of commodities or for products which were to remain subject to quantity restrictions. Furthermore, under the treaty, special arrangements could also be negotiated for free trade in specified products between less than the full number of contracting states, provided progressive duty reductions were granted to the remaining country or countries, with the ultimate aim of incorporating such products into the free trade schedule. The expressed intention of the treaty was that the original list of free-trade commodities should be expanded by later agreements. Administration of the treaty was to be handled through a Central American Trade Commission. Appendix A contains the complete text of the treaty.

The Agreement on the Regime for Central American Integration Industries

This agreement was to be applicable to industries defined as those composed of one or more plants in which minimum capacity would require access to the whole Central American Market to ensure operation under reasonably economic and competitive conditions. A Central American Industrial Integration Commission was to recommend to the governments additional resolutions concerning those industries that would qualify as "integration industries". Such additional resolutions could state, among others: which country or countries the plants would be located, minimum capacity, the necessary industrial standards, the conditions under which more plants might be admitted to the regime, the regulations that might be advisable for the participation of Central American capital in the corresponding enterprises, and other requirements. Within the framework of the agreement the products of the integration industries were to benefit from free trade while those products of the non-integration industries would only benefit from continuous yearly duty reductions of ten percent until the tenth year when they would also enjoy the

full benefits of free trade. Furthermore, the integration industries were granted tax exemptions or reductions and preferences in government purchases. Although not specifically stated in either the Multilateral Treaty or the Agreement on the Regime for Central American Integration Industries, it was tacitly agreed that the application of the free trade provisions of the Multilateral Treaty to certain products of new and important industries would be subject to agreement among the ratifying countries under the terms of the industrial integration arrangement. Thus, in this manner, whenever the common market would be an essential condition for the development of such industries, the basis for coordinating industrial development was established. Appendix B contains the full text of the agreement.

Central American Agreement of Equalization of Import Duties and Charges

At its sixth session in 1959, the Central American Cooperation Committee proposed a treaty to deal more thoroughly than the earlier treaties in regard to the establishment of uniform external tariffs for the Central American Common Market. In September, 1959, the five countries signed the Agreement on the Equalization of Import Duties and Charges. This treaty provided for the immediate equalization of external duties on approximately 272 tariff items and undertook to equalize gradually the tariffs for items listed in another schedule. Once the customs duties in this latter schedule became equal in the five countries, these products would enjoy complete free trade within a period of five years and in any event, not later than the ten years provided for in the Multilateral Treaty. The main purpose of this treaty was to establish a unified Central American Tariff consistent with the integration and economic development requirements of Central America, thus facilitating the creation of the common market stipulated in the Multilateral Free Trade Treaty. In preparation for this treaty, a customs nomenclature had been

worked out and adopted by the five countries in January, 1956. Inasmuch as the initial schedule of free commodities in the Multilateral Treaty was small, the countries agreed to add an addendum to the Agreement on the Equalization of Import Duties and Charges which would permit them to grant each other an immediate tariff preference of twenty percent for any product not yet transferred to the free trade schedule. Appendix C contains the complete text of this agreement.

Tripartite Treaty for Economic Association

During February, 1960, representatives of Guatemala, El Salvador, and Honduras complicated the situation when they met with the aim of speeding the process of economic integration and increasing trade in goods produced within the region and signed a triangular agreement apparently not coordinated with the Tegucigalpa treaties to which Costa Rica and Nicaragua were a part.¹⁰ Under this Tripartite Treaty, the three countries set up a free trade area that, in five years and provided import duties were first equalized (under the same terms as agreed to under the Tegucigalpa Treaties), would become a customs union with common customs administration, equitable distribution of customs duties and free movement of any kind of product irrespective of its country of origin. During the interim period when the union would function as a free-trade area, imports of products originating in any of these countries would be exempt from any duty or charge from the date the treaty went into effect. Exceptions were to be listed on a separate schedule as well as gradual duty reductions and quantity restrictions on foodstuffs, raw materials and manufactured goods which under present production levels might be unfavorably affected by free trade. This system under the Tripartite Treaty thusly differs from the Multilateral Treaty in that the tariffs on the goods of

countries outside the treaty were equalized at the same time and not according to an initial limited schedule that would be expanded through negotiations. Another important difference between the Tripartite Treaty and the Multilateral Treaty was that in the latter, free trade was tied to the idea of a coordinated industrial development program which was to be carved out in accordance with the Agreement on the Regime for Central American Integration Industries in which new industries would be phased into the region only after agreement among all countries.¹¹ Under the Tripartite Treaty there would be no such coordinated agreement on the proposals for new industries, location, size, etc. Thus, in this respect, the three country agreement did not attempt to attain the balanced economic integration as set forth in the five country agreements.

Another aspect of the Tripartite Treaty was the setting up of a Development and Assistance Fund whose functions were those of a development and loan agency for the carrying out of projects destined to serve basic needs of the countries, namely, highway construction, establishment or enlargement of agricultural and industrial enterprises, etc. Under this treaty the provisions of the fund were to be drafted and ratified before June 6, 1960. During this same period of time, and indeed, even prior to the Tripartite Treaty, the Economic Cooperation Committee of the five countries had been working on various financial and fiscal aspects of a proposal for the creation of a Central American Financial Agency to promote integrated economic development "with due regard to the necessity of assigning special priority to the less developed parts of the area".¹²

Thus, even though the Tripartite Treaty stated that the other Central American countries were invited to participate in the association, it was

apparent that there were two different understandings of a Central American common market. Unless some reconciliation or merging of viewpoints was attained, the idea of Central American economic integration was being splintered and doomed to failure due to the independent actions of a few countries in lieu of using a common denominator among all the countries. In view of this turn of events, a general reappraisal of the situation was deemed necessary. Accordingly, in April of 1960, the Economic Cooperation Committee convened an extraordinary session at which all five countries were present to iron out the differences. At this meeting the Secretariat of ECLA was authorized to prepare a draft treaty for Central American accelerated economic integration along the lines of the Tripartite Treaty but also including the integration industries program.¹³ In the opinion of four of the countries (Costa Rica had expressed reservations), this new treaty was to be understood as a general regime of immediate free trade, with the exception of products which might be brought under interim provisions and with the exception also of commodities, which, in the terms of the agreement to be signed, would be designated as products of industrial integration plants. Thus the groundwork for the General Treaty on Central American Economic Integration (GTEI) and the Agreement Establishing the Central American Bank for Economic Integration (CABEI), was established.

The General Treaty on Central American Economic Integration

The General Treaty of Economic Integration, the major treaty of the Central American Common Market, was signed by four member countries in Managua, Nicaragua, in December, 1960. It was ratified and became operative for El Salvador, Guatemala, and Nicaragua in June of 1961, and for Honduras in August of 1962. Costa Rica signed the General Treaty in July of 1962, but did

not ratify it until July of 1963. In becoming the basic charter for the economic integration program, the General Treaty on Economic Integration superseded all previous integration agreements but stipulated that provisions of earlier agreements not contradicted by the GTEI would remain in effect. Appendix D contains the complete text of this treaty. The major provisions of the General Treaty are as follows:

1. A Common Market - The five countries agreed to establish a Common Market within five years of ratification of the treaty and it further binds the contracting countries to the setting up of a customs union with a single external tariff schedule. It established free trade immediately for all products originating in the territories of the signatory countries, except for those products, specified in annexes to the agreement, which will be brought under special interim arrangements until they may become totally free. The treaty includes long and complicated lists of products for which customs treatment by pairs of countries will be progressively modified. Some products would enter into free trade in two years, others in three or four, during the five year limitation, or never. Most of these listed products were those of companies that would be harmed by the immediate elimination of duties.
2. National Treatment - Goods originating in any member state enjoy the same treatment in other member states as the national products of that other member. Certain exceptions were permitted for reasons of health, safety or enforcement of law and order.
3. Investments - The industrial development laws and other legislation of the member states related to investments and business activities are to be as uniform as possible - particularly with respect to

special investment incentives. The treaty also assumes the provisions of the Central American Industrial Integration Regime that had been signed earlier by the five countries but that never went into effect due to Costa Rica's failure to ratify.

4. Financing Economic Integration - The General Treaty provides for the establishment of a Central American bank to finance and promote the economic development of the area. In accordance with this portion of the General Treaty, the Central American Bank for Economic Integration, to be discussed later, was established.
5. Administration of the Program - The general administration of the CACM as set forth in the General Treaty involves three administrative groups, namely:
 - a. The Central American Economic Council - This council, composed of the Ministers of Economy of the respective signatory countries, was established to direct and coordinate the economic integration. It also reviews the work of the Executive Council and meets as necessary or at the request of a member country.
 - b. The Executive Council - This council applies and administers the General Treaty and takes the necessary steps required to achieve economic union. Its membership consists of one principal delegate and an alternate for each of the member countries. The Executive Council meets as necessary, at the request of a member country, or upon call of the permanent Secretariat.
 - c. The Permanent Secretariat - This group has juridical responsibility to serve both the Economic Council and the Executive



Council. It is directed by a Secretary General, appointed for a three year term by the Economic Council. It is responsible for supervising the proper implementation of the Central American agreements. The Economic and Executive Councils also assign projects and studies to the Secretariat which can establish departments and offices as necessary for the performance of its duties.

6. Arbitration Procedures - Differences among the member states in matters of interpretation of the treaty are to be settled by the Economic or Executive Councils. All disputes not resolved by these organs will be settled by arbitration.

The Agreement Establishing the Central American Bank for Economic Integration

At the same meeting at which the General Treaty was signed, the agreement establishing the Central American Bank for Economic Integration was also signed. The Bank, with headquarters in Tegucigalpa, Honduras came into existence in May, 1961. Costa Rica, however, withheld ratification until September, 1963. The bank started with a capital of sixteen million dollars and has received the support of the Inter-American Development Bank. Its principal function is to consider projects which may promote the economic integration and general economic improvement of the region. These projects may relate to basic social overhead or to certain agricultural and industrial activities. The bank will not undertake to finance projects of purely local interest. Thus, special attention will be given to proposals that will tend to reduce the economic differences between the countries. Furthermore the creation of this bank fulfilled the purpose of the earlier three-country Tripartite Treaty to create a development and assistance fund.

Although all Central American countries were eligible to become members of the bank, they could not obtain loans or guaranties without ratifying the major treaties at the base of the Central American Common Market.¹⁴

Summary

Basically what the above review of the various treaties and agreements adds up to is a formation by the Central American Republics of a basis for a unified area with common external tariffs and the removal of all trade barriers among the member countries. They will have a common trade policy and the necessary monetary, fiscal, and institutional adjustments which will lead to the economic unification of the respective countries.

Although inspired by the highly successful European Common Market, the Central American version is quite different in nature and purpose. The European Market is composed of highly industrialized economically mature nations with a tradition of economic inter-dependence, and the underlying goal of the EEC is political in nature. On the other hand, the Central American nations have underdeveloped, agricultural economies in which intra-regional trade is only a small percent of the total, and the primary goal of unification is economic in character.

CHAPTER III

PROBLEMS FACING ECONOMIC INTEGRATION

Having reviewed the contents of the various treaties, we now arrive at a most crucial point in our discussion of the Central American Common Market. What are the problem areas related to the economic integration of Central America, how may they be overcome, and finally, what are the chances for ultimate success? Although many of these problem areas are quite apparent, the solutions are not so apparent.

Agriculture

When discussing the economy of the Central American states the first topic to consider must, of course, be agriculture. The region has what is often referred to as a "colonial economy": agricultural products are exported and manufactured goods are imported.¹⁵ In this case agricultural products refer specifically to coffee and bananas which account for more than 60% of the value of all exports. In the "colonial economies" it is obvious that a country's accumulation of capital is wholly dependent upon the world demand for their specific commodities and unless a country can budget on the basis of an average price over a period of time serious balance of payment problems will arise. This has been the story in Central America.

The initial approach to agriculture is logically through the examination of the use of the land in the area. With the exception of El Salvador there is an abundance of farmland in Central America, however little of it is being farmed and that which is being utilized, is farmed in less than an efficient manner. The preference of the peoples in all the countries to live in the temperate high areas has led to the underuse of the more fertile

land located in the hot and steamy Caribbean coastal lands. It is estimated for example, that corn, which is usually grown in the cooler plateau regions, would reach maturity in one third the time if it were grown in the coastal regions.¹⁶ With the exception of coffee and bananas, the agricultural effort in Central America is carried out at a bare subsistence level. As the population increases at a greater rate than farm output, it will become necessary to import more and more of the basic staples, thus further reducing the chances for capital accumulation. This low level of productivity eliminates the opportunity for rural progress and for any significant improvement in the welfare of the people involved. The typical pattern of land utilization is the shifting from plot to plot by the farmer. After a parcel of forest has been cleared and then used for a few seasons, the heavy growth of weeds and grass make it undesirable for further use and it is abandoned for another plot. This cycle is then repeated again and again. The final result of this system of farming is a virtual no money economy which contributes nothing to the progress of rural communities or to the economic development of the country as a whole.¹⁷ The problem of agriculture may be resolved into two broad areas: 1. The export market, consisting primarily of coffee and bananas and 2. The domestic market, composed of the basic staples such as corn, beans, and rice. Needless to say, fluctuations in world demand for coffee and bananas has caused alternating periods of feast and famine for the Central American nations. There have been countless attempts to stabilize the prices of these products in the world market, however with little success. Tremendous sums of research money have been spent on these two products and as a result, they are today being produced as efficiently as possible. A probable solution to this dilemma lies in the diversification of

products in the export market. The soil, climate, and proximity of large markets to the area makes profitable growing of citrus fruits, melons, and tomatoes a distinct possibility. Of course this is a long range solution and tremendous effort would have to be expended before these crops begin to show a profit, however it is imperative that the countries relieve themselves of the difficulties encountered in a two crop economy.

Although considerable funds have been expended in improving the coffee and banana crops, the same cannot be said for the staples grown for home consumption. In fact, production of these basic products is so lagging the population increase that improved efficiency and profits in the export crops are more than absorbed by the inefficiency demonstrated in growing the staples. The quality of seed is poor, tools are rudimentary, and the use of fertilizers is practically unknown, all of which combine to cause a very low productivity. The solution to this problem is not diversification, but rather a research and educational program to increase both utilization of land and efficiency of growing the crops. The success of these proposals would substantially increase export income and provide the necessary funds to finance advancements in other sectors of the economy.

Transportation

Another major deterrent to the economic growth of Central America is the lack of adequate means of transportation, especially in the area of farm to market roads. This lack of adequate means of transportation retards the development of a national market for agricultural products and perpetuates the present system of subsistence farming with its low productivity output. The five countries have a total highway network of slightly more than 22,000 miles, however less than one half of this total may be considered as improved

roads. The figure itself is meaningless unless it can be compared to a known standard. If we compute miles of highway per 1000 square miles of land, the result for the entire Central American area is 125, while a similar figure for the United States is 1130. Within the area itself there are large variations from El Salvador with a figure of 475 to Honduras with a figure of 20.¹⁸

Lack of adequate highways would not be so great a drawback if the countries were well supplied with railroads, however this is not the case. The five republics have approximately 2000 miles of various gauge track or about 12.5 miles per 1000 square miles of land. In addition, these roads do not form an integrated system but are rather isolated segments usually operating between the port cities and the capitals or agricultural producing regions. Air transportation is the only mode of conveyance that may be considered adequate, however the expense of carrying produce is much too great for air travel to become a serious consideration at this time.¹⁹

The hope for the future lies in the development of an integrated system of roads and highways. It would not be economically feasible to attempt to build a railway system to the extent necessary to satisfy minimum requirements. A large portion of the present equipment, both rails and rolling stock, is in very poor condition and it would require an enormous amount of money just to repair what is in use without even considering expansion. The start for any highway system must be the completion of the Inter-American Highway - the name given to the Central American section of the Pan-American Highway. The purpose of the Pan-American Highway is to connect all the countries of the western hemisphere by means of a good all weather road. Although construction began on the highway prior to World War II, numerous delays have been encountered which have prevented its completion even to the

present day. The technical and financial assistance of the United States will probably be necessary not only to complete the main arteries, but to initiate the expansion of secondary roads into the agricultural regions.

Education

The correlation between education, literacy, and economic development in any nation is a well established fact. In Central America the higher per capita income of Costa Rica, compared to incomes in the other four countries, reflect in part the relatively higher percentage of the adult population who have been educated. Numerous studies throughout the world have indicated this relationship to be true and we may safely assume that elevating the educational level in Central America will be accompanied by an increase in the level of income. In order to insure that scarce capital resources are utilized to the maximum extent possible, an educational expansion plan must be developed that will best satisfy the needs of the area. In addition to reducing the high level of illiteracy, especially among the younger people, a program of vocational training in various fields of agriculture, commerce, and industry is urgently required. To achieve these ambitious objectives, Central America will have to raise the level of expenditures currently appropriated for education. Although the accumulation of funds is always a problem in Central America, it is felt that the business community would perhaps support such a tax increase since the long range benefits to the individual businessman and to the entire economy would more than offset the immediate costs.

The major effort however, should be in the field of primary education, including the training of additional teachers and the construction of additional facilities. Primary schools are the chief instrument for reducing

the mass illiteracy and providing the basic instruction in such diverse and important fields as hygiene and government. The curricula of the secondary schools, while currently emphasizing preparation for college, will have to be broadened to include teaching the general vocational skills required for Central America. Although a few specialized technical schools exist at present, a great increase is required especially in the previously mentioned fields of agriculture and business.

The employers of the region should also assume responsibility for improving the skills of their workers. On the job training and after hours instruction related to increasing efficiency and broadening the experience of workers would be beneficial to both employers and employees alike.

The traditional product of the Central American university has been trained in either law, medicine, or civil engineering. Although these graduates are vital and necessary, it will require in addition, a new breed of men to hasten the Central American economy into the modern world. This new breed must consist of graduates who have been educated in business and public administration, agriculture and scientific research; men in whom has been instilled the scientific and professional leadership to face up to a highly challenging problem. This will not be a simple transformation for the universities. Besides the inertia built over the years, there exists a feeling of mutual distrust between the universities and the business world which might tend to restrict progress in this area. Both sides must overcome this distrust and realize that cooperation with each other will have tremendous, far reaching advantages.

Summary

Although we have discussed but three problem areas, there are numerous other obstacles blocking the path of further economic development. One is the existing inequalities in the development level of the individual countries. Costa Rica for example, has habitually been the last to ratify all mutual economic treaties and agreements in the fear that her higher standard of living would suffer by becoming involved with the lesser developed nations. This problem is also present in the individual countries to a large extent where the "haves" possess little inclination to share their wealth with the "have nots". In spite of the fact that all the countries were once united, there are very strong feelings of nationalism present which disdain any type of union, even if only economic in nature. The industrial area possesses a number of obstacles, the primary of which is the critical shortage of electric power which precludes any large expansion of manufacturing capacity.

From a purely economic point of view the principle deterrent to growth in the area, which reappears again and again, is the severe lack of capital funds. Unless more financial resources, both public and private, are made available for the development of these countries, progress will be impossible. All the high hopes and dreams for a better life are pointless unless the money is available to launch the various programs. The Common Market is a start, and it is felt that the application of honest effort from all the people could result in a forward looking and progressive economy for the entire Central American area.

CHAPTER IV

PROGRESS OF THE CENTRAL AMERICAN COMMON MARKET TO DATE

Although the Central American Common Market has been in existence under full ratification of the membership of the five countries for only a short period of time, (Costa Rica did not ratify until 1963), positive results have already been noted. It is still too early to attempt a prediction of the final outcome, but the accomplishments are encouraging. This chapter will discuss some of these favorable trends and while not professing to cover all the areas in the economic integration program, it will deal with those considered to be most important.

Foreign Investment

The Central American Common Market has taken a number of forward looking steps to increase the inflow of foreign investment to the region. In accordance with article XIX of the Managua Treaty, the countries have established nearly uniform tax incentives for industries. Table I presents a comparison of country by country industrial development incentives and the Central American Common Market industrial development incentives. The guiding principles of the incentives are the size of plant, degree of local content, and number of new jobs created. Industries are classified into three groups as follows:

1. Those that produce industrial raw materials and capital goods, consumer goods, containers or semi-finished goods which use at least 50% Central American raw materials by value.
2. Those that produce consumer goods, containers or semi-finished goods which use a "high percentage", but less than 50%, of local materials and realize substantial foreign exchange savings.

TABLE I

COUNTRY BY COUNTRY INDUSTRIAL DEVELOPMENT INCENTIVES

	Costa Rica ^a		El Salvador		Guatemala		Honduras ^b		Nicaragua ^c		CACM	
Income tax	100%	5 yrs. ¹	100%	5 yrs.	100%	5 yrs.	100%	5 yrs.	100%	5 yrs.	100%	8 yrs.
	50%	5 yrs. ¹	50%	5 yrs.	50%	5 yrs.	75%	5 yrs. ²	50%	5 yrs.		
Tax on capital	100%	5 yrs. ¹	100%	5 yrs.	100%	5 yrs.	100%	5 yrs.	100%	5 yrs.	100%	10 yrs.
	50%	5 yrs. ¹	50%	5 yrs.	50%	5 yrs.						
	Subject to waiver											
Tax on installation, production & sales	by Municipal authorities		100%	5 yrs.	100%	5 yrs.	100%	5 yrs.	90%	5 yrs.	---	---
			50%	5 yrs.	50%	5 yrs.						
Custom duties												
Building materials	99%	10 yrs.	100%	10 yrs.	100%	10 yrs.	100%	no limit	100%	no limit	---	---
Machinery & equipment ..	99%	10 yrs.	100%	10 yrs.	100%	10 yrs.	100%	no limit	100%	no limit	100%	10 yrs.
Maintenance needs	99%	10 yrs.	---	---	100%	10 yrs.	100%	10 yrs.	100%	10 yrs.	---	---
Fuel	99%	10 yrs. ³	---	---	100%	10 yrs. ³	100%	10 yrs.	100%	10 yrs.	100%	5 yrs. ³
Raw materials	99%	10 yrs.	100%	10 yrs.	100%	10 yrs.	100%	10 yrs.	100%	10 yrs.	100%	5 yrs.
											60%	3 yrs.
											40%	2 yrs.

1) The term for incentives depends on the benefits to the economy, but is never more than 10 years.

2) The Honduran Industrial Development Law provides for 5 years of total exemption plus 75% on profits reinvested in fixed assets in the following 5 years.

3) Except gasoline.

4) In addition to the listed benefits, municipal authorities may grant 5-year waiver of land and local taxes; total waiver of export taxes is granted, and import duties on competing products may be trebled.

5) In addition to the listed benefits, total waiver of export taxes is also granted.

CENTRAL AMERICAN COMMON MARKET INDUSTRIAL DEVELOPMENT INCENTIVES

	Import Duties and Consular Fees				Fuel	Income Tax	Tax on Capital		
	Equipment		Raw Materials						
Group 1A—Now	100%	10 years	}	100%	5 years	100%	8 years*	100%	10 years*
				60%	3 years				
				40%	2 years				
Existing	100%	6 years		100%	3 years	100%	2 years*	100%	4 years*
Group 2B—New	100%	8 years		50%	2 years	50%	2 years		
Existing	100%	5 years		---	---	---	---	---	---
Group 3C	100%	3 years		---	---	---	---	---	---

*Term extendable for 2 additional years for producers of raw industrial materials or capital goods, if at least 50% by value are local.

Source: "Central America" published by The International Guide to
Planning and Expansion. 1964

3. Those that are not classified in the preceding groups.²⁰

Groups one and two are further divided into new vs. expanding firms. New industries are described as those which will manufacture items not produced in the region or those produced by rudimentary methods which are unsatisfactory in either quality or quantity. Also eligible for this classification are those industries which, through the utilization of machinery, equipment, or advanced production techniques, achieve a fundamental change in their characteristics.²¹ These new characteristics must be conducive to a greater volume of output, an improvement of the product and lower costs of production. Expanding industries are all those that are not classified as new industries.

A comparison of the maximum incentives granted by the development laws of the individual countries reveals a striking similarity. This similarity may be attributed to the tendency of the Central American countries to imitate each other in legislation of this type, particularly in view of the nature of their economies and socio-economic problems.²² All countries grant more incentives to new industries than to expanding industries. Honduras and Nicaragua draw further distinctions between necessary and convenient industries. As shown in Table I the CACM wide incentives are more generous than the national laws in most instances.

Existing firms now enjoying benefits in a member country may continue to do so but may secure better terms, equivalent to those enjoyed by a competitor in any member country, or enjoyed by those firms operating under CACM agreements.

Another factor that may influence firms to build plants more rapidly is that the incentives granted under national laws must be "used" within one

year after they have been granted. To encourage new industries, the CACM has established a system whereby a protective outer tariff will be available as soon as local production is sufficient to meet at least half of the Central American demand for the product. Window glass, light bulbs, and machetes are examples of products that have already qualified for tariff protection.²³

The response of foreign investors to the Central American Common Market has been quite gratifying to local officials and it indicates the degree of confidence in the CACM and in the opportunities available in the region. Some of the international firms that have been attracted by the market potential of the area and the countries where located are listed as follows:

El Salvador

Barreiros of Spain in a joint venture with local businessmen has invested \$1,000,000 in a truck and tractor plant.

Esso and Shell have built a refinery and a fertilizer plant.

Unilever of Holland and H. de Sola in Industria Unisola S. A. have agreed to jointly manufacture margarine, detergents, dentifrices, dehydrated foods and toiletries.

A number of German firms, unidentified at present, are to join local interests in establishing a \$2,000,000 plastics plant.

Jack Waite Mining Company, U. S. affiliate of Canadian Javelen Ltd., has contracted to reopen the Montecristo gold and silver mines.

Kimberly-Clark has become majority stockholder in a paper manufacturing plant.

Manhattan International has licensed a local firm to manufacture shirts.

Honda Motors of Japan has opened a motorcycle assembly plant that will eventually expand to include automobile assembly.

Volkswagen has invested \$1,200,000 in an automobile assembly plant.

Eberhard Faber has agreed to a joint venture to manufacture pencils, erasers, rulers and other office equipment.

Costa Rica

Westomatic of Tampa, Florida is majority owner of a plant producing water heaters and refrigerators with expansion to include washing machines planned.

Allied Chemical has opened a \$7,500,000 chemical refinery plant.

Products de Concreto has obtained U. S. loans to construct a concrete products plant.

Guatemala

General Tire and Rubber has obtained integration status for its tire and tube plant.

Univex of Canada is a minority stockholder in an electrical equipment plant.

Fuller Company has invested in a joint venture to manufacture brushes and associated products.

Honduras

Standard Fruit, American Factors, and Stokely-Van Camp are partners in a multi-million dollar pineapple canning plant intended to supply world markets.

Evans Products of Michigan has invested in an existing plywood factory with the hope of expanding into a million dollar export operation.

Nicaragua

Nestle is a joint owner of a \$3,500,000 powdered milk operation.

General Mills is half owner of a large flour mill.

Cie Generale d'Enterprise Electriques de Paris has constructed a dry cell battery factory.²⁴

Although the above list may seem impressive, CACM officials are convinced that the region will soon attract considerably more industry once potential investors realize that the CACM is a reality with a future and not just another attempt at union predestined to failure.

Foreign Trade

Central American foreign trade, both imports and exports, has been increasing at a rapid rate as indicated in Table II. Although the world market price for the basic export commodities has been decreasing and is considered serious, it has caused less concern than was usually the case in the past. This lessening concern is due to the fact that the two primary export commodities, coffee and bananas, although the major source of foreign capital, are decreasing in importance. Coffee, which in 1955 accounted for 55% of the total export value of the area, in 1962 was responsible for only 42% of foreign receipts.²⁵ A similar pattern is true for bananas during the same time period, as their percentages dropped from 18% to 13%. The present indications are that, as the area continues to expand into the manufacturing field, the "colonial economy" aspect will slowly diminish although never disappear.

Intra-regional Trade

Table III indicates the rapid expansion of trade between the five countries. In 1950, \$8,300,000 was the total value of intra-regional trade. In 1962, the figure increased to over \$50,000,000 and recent estimates have predicted a value of over \$100 million for 1964. Prior to 1962, the majority of the trade consisted of cattle, corn, sugar, and a negligible amount of manufactured goods. Since 1962, manufactured goods have become the principle item of commerce in the area. Although intra-regional trade has traditionally accounted for less than 5% of total trade value, by 1962, it had risen to nearly 10% of the value. It is expected that the intra-area trade will eventually be equal to 25% of the total trade.

To facilitate the handling of intra-regional trade, the Central American Clearing House was established in October 1961, at Tegucigalpa, Honduras, to

TABLE II
CENTRAL AMERICAN WORLD TRADE*

IMPORTS				
COUNTRY	1953	1960	1962	1963
GUATEMALA	80	138	137	150
EL SALVADOR	72	122	125	162
HONDURAS	62	72	80	92
NICARAGUA	51	72	98	107
COSTA RICA	74	110	114	127
TOTAL CACM	339	514	554	638

EXPORTS				
COUNTRY	1953	1960	1962	1963
GUATEMALA	100	117	114	140
EL SALVADOR	89	117	136	153
HONDURAS	68	63	79	105
NICARAGUA	46	56	82	127
COSTA RICA	80	86	85	109
TOTAL CACM	383	439	496	634

*Values in millions of U. S. Dollars.

Source: First National City Bank of New York. 1964.

TABLE III
INTRA-CACM IMPORTS*

	1950	1955	1960	1961	1962
GUATEMALA	.5	1.9	7.3	10.3	13.0
EL SALVADOR	3.7	4.1	12.7	14.4	18.3
HONDURAS	2.8	4.9	7.4	8.3	13.8
NICARAGUA	1.1	1.1	3.4	1.8	3.4
COSTA RICA	.2	.9	1.9	2.0	1.9
INTRA-CACM TOTAL	8.3	12.8	32.7	36.8	50.4
% YEARLY INCREASE	--	10.9	21.1	12.6	36.9
TOTAL CACM IMPORTS	208.5	360.6	513.9	548.8	554
INTRA-CACM IMPORTS AS % OF TOTAL IMPORTS	4.0	3.6	6.7	7.2	9.2

*VALUE IN MILLIONS OF U. S. DOLLARS

Source: Business Reports, March 1964, Published by Business International.

promote the use of Central American currencies for transactions among the member nations, thereby avoiding the use of United States dollars as the primary means of accelerating economic integration. The local currencies are computed on their relative value to an adopted monetary unit, the Central American "peso", which is pegged at par with the dollar. During 1962, this institution cleared in excess of \$24 million. In 1963, a total of \$53 million passed through the agency, showing an increase of 114% over 1962, and representing almost 90% of the total value of the intra-regional trade.²⁶ The Clearing House also provides technical advice and assistance to the central banks of the member countries and is working closely with the CABEI to concord the fiscal policies and procedures of the Common Market. The Clearing House is also developing a plan that would establish the Central American peso as a common monetary unit for permanent use throughout the area.

Tariffs

The procedure initially instituted to promote intra-regional trade was the elimination of import and export duties on 95% of all products traded in the area. The remaining 5% are presently subject to gradual tariff reductions which will terminate in complete free trade in 1966. In many cases however, the gradual reduction was subsequently deemed unnecessary and in these cases, free trade was adopted ahead of schedule. The CACM is also well on its way towards adopting a common external tariff schedule for all imported goods. Early in 1963, common tariffs were declared on more than 90% of all imported items which represented over 1200 separate headings of goods.²⁷ As with the intra-regional trade schedule, 1966 should see the adoption of a common tariff for all imported goods.



Central American Bank For Economic Integration

Although the original plan of the bank was to finance four types of operations, namely; infrastructure projects such as roads and power facilities, long term investments in integrated industries, investment in agricultural projects, and assisting those industries adversely effected by the advent of a common market, it has assumed other important duties in furthering the goal of economic integration. It has financed various studies concerned with future transportation and power requirements and has acted as the coordinating agency in getting numerous regional projects off the ground.

As of June 1964, the bank had assets of \$60 million of which \$20 million was supplied by the member countries, \$30 million from the U. S. Agency for Industrial Development (AID), \$6 million in industrial credit loans from the Inter-American Development Bank (IADB), and \$4 million from the Bank of America. Thus, within a few short years since its introduction into the capital market, the bank has developed into an attractive source of funds for investors and in so doing has helped reduce the chronic regional problem of lack of capital.

The Bank charges $6\frac{1}{2}\%$ interest on U. S. dollar loans and $7\frac{1}{2}\%$ interest on local currency loans. Although the loans are normally for a period of seven years, both the time and interest features are quite flexible, depending upon the individual case. At the beginning of 1964, the bank had on loan over \$16 million in more than fifty regional projects.²⁸

GNP and Per Capita Income

During the period 1958-62, the GNP of Central America rose an average of 3.4% annually while the population was increasing at a 3% rate. The net result was an increase of less than one percent in the per capita GNP. Although the

latest statistics are not available, information culled from various sources indicates that the GNP of the area increased at a considerably faster rate than did the population during the period 1962-64. It is felt that this gap will continue to widen as the effects of the Common Market become more and more apparent in Central America.

TABLE IV
ECONOMIC INDICATORS
(CENTRAL AMERICA - AGGREGATE)

	1958	1960	1962
Population - thousands	10,167	10,811	11,446
GNP - millions of dollars	2,222	2,365	2,549
Per capita GNP - dollars	243	243	245

Source: First National City Bank of New York

Tourism

A further outgrowth of the economic integration union occurred in January 1964, when the Secretariat for the Integration of Tourism in Central America was established. It was believed by many officials that the independent efforts of the various countries to promote tourism were quite inadequate to entice many travellers to visit the region, but by combining the tourist budgets of all the countries into one fund, an adequate share of the market could be obtained. Although no figures are yet available, it is felt that this combining of funds cannot help but to increase tourism in Central America. It is also quite obvious that this venture can be attributed mainly to the common market movement.



Summary

Central American world trade is rapidly expanding. Although intra-area trade has traditionally accounted for only a small portion of the total trade, it now accounts for more than 10% of the total and is still increasing. Through the efforts of the CACM economic infrastructure, especially the CABEL, a broad program of coordinated development has been undertaken. These massive integration efforts combined with abundant natural resources are presenting profitable opportunities for both local and foreign investors. Although the CACM is still quite young, it has demonstrated that it is capable of producing positive results on many fronts.

CHAPTER V

SUMMARY AND CONCLUSIONS

Summary

Though it got underway in earnest less than five years ago, the Central American Common Market already has eased tariffs on 98% of all the goods made and traded among the five countries. This has opened sizable new markets for the Central American businessmen who were formerly restricted to trading within their own countries because of the high tariff barriers. Intra-regional trade should account for at least 25% of the total trade value by 1970.

The CACM is also attracting a rising number of new business ventures. Some are financed by the AID while others are obtaining their funds from the CABEI. A considerable number however, are being financed by private capital, as companies from countries such as the United States, Germany, and Japan scramble to get in on the ground floor of the developing economic movement.

The common market movement has extended itself far beyond simple tariff reductions. The countries are tackling joint problems and establishing regional institutions for finance, education, trade, and investment. They have integrated their tourist promotion efforts under a single secretariat. A monetary council is promoting a unified currency using the peso on par with the U. S. dollar. A uniform code of tax incentives has been adopted by four of the countries. Further developments are possible even including that elusive goal of complete political union.

Traditionally agriculture has been the major industry in the five Common Market countries. The fact that population growth has risen at a faster rate than has agricultural income and that Central American countries turn out to



have industrial opportunities does not diminish the tremendous importance agriculture still has in generating purchasing power in these countries. It is vital that a segment of the economy that supplies over one-half of the value of exports should not be neglected in the race to industrialize the region.

The most frustrating moments encountered in writing this paper were the attempts made to obtain the vital statistical data of Central America. The sources used ranged from official United Nations publications to weekly issues of Time Magazine. Although the various United Nations publications should be considered to be the primary source of all statistics, all were not available to the authors despite seemingly infinite attempts to obtain them. It was therefore necessary to resort to other sources for the information. These included, in addition to scholarly works on the region, the publications of private societies and associations who usually had a commercial interest in the Central American area. The figures quoted in many instances are, in the opinion of the authors, the most probable however, not necessarily the absolute truth. Since many of the statistics from different sources varied to a very great extent, it is doubtful if anybody knows the real truth.

Conclusions

In any analysis of the Central American Common Market three main factors stand out as an indication of the bright future for the market. These are:

1. In spite of local political unrest, both internal and between some of the countries, the activities of the integration movement have been carried on without interruption.
2. The program as originally mapped out by the countries is progressing on schedule and indeed, in many instances, it is well ahead

of schedule.

3. The enthusiasm of those most active in the CACM, both public and private, has been overwhelming. It is this latter factor, the attitude of the men involved, that is Central America's most valuable asset as it strives to better itself economically and to take a more active role in the modern society of tomorrow.

Much of the experience gained in Central America can be useful to other underdeveloped nations of the world as they strive to gain an economic foothold in their drive towards prosperity. Needless to say, the pattern followed by the CACM cannot be duplicated exactly by other nations, however, valuable lessons can be learned through a review of the studies effected and the methods utilized by the CACM for the treatment of common problems in the area.

The ultimate significance of regional integration in Central America reaches far beyond the boundaries of this limited study. It is quite evident however, that the CACM is meeting the challenging test of the concept of economic regionalism under the most difficult circumstances of physical, social, and economic underdevelopment. The Central American Common Market still has weaknesses, but the success of operations to date has laid a firm foundation for future economic growth.

FOOTNOTES

FOOTNOTES

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³Franklin D. Parker, The Central American Republics (London: Oxford University Press, 1964), p. 81.

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⁵Parker, op. cit., p. 82.

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⁷Victor L. Urquidi, Free Trade and Economic Integration in Latin America (Berkeley: University of California Press, 1962), p. 92.

⁸William R. Gignax, "The Central American Common Market", Inter-American Economic Affairs, 16: 59, Autumn, 1962.

⁹Keller, op. cit., p. 271.

¹⁰"The Central American Common Market", Latin American Business Highlights, 12:4, Third Quarter, 1962.

¹¹Urquidi, op. cit., p. 98.

¹²Joseph C. Mills, "Development Policy and Regional Trading Arrangements: The Case of Latin America", Economic Development and Cultural Change, 13:62, October, 1964.

¹³Latin American Business Highlights, Third Quarter, 1962, loc. cit.

¹⁴Latin American Business Highlights, Third Quarter, 1962, op. cit., p. 5.

¹⁵Gignax, op. cit., p. 61.

¹⁶Gignax, op. cit., p. 72.

¹⁷ Albert S. Muller, Agriculture in Central America (Vol. XI of The Caribbean Series, ed. A. Curtis Wilgus: 11 vols., Gainesville: University of Florida Press, 1951-61) p. 135.

¹⁸ Robert W. Bradbury, Trade and Transportation: Dynamic Factors in Central American Development (Vol. XI of The Caribbean Series, ed. A. Curtis Wilgus: 11 vols.; Gainesville: University of Florida Press, 1951-61), p. 157.

¹⁹ Ibid., p. 163.

²⁰ "Latin America's Merging Market: The Challenge of Economic Integration", Business International, (January, 1964), p. 42.

²¹ Joseph Pincus, The Industrial Development Laws of Central America (Washington: International Cooperation Administration, 1961) p. 15.

²² Ibid., p. 7.

²³ Business International, January, 1964. op. cit., p. 41.

²⁴ Business International, January, 1964. op. cit., p. 41-3.

²⁵ Committee For Economic Development, Economic Development of Central America, (New York: Committee For Economic Development, 1964), pp. 109-10.

²⁶ "Central American Common Market", Latin America Reports, 7:70, April 1964

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²⁸ Ibid.

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APPENDICES

I. MULTILATERAL TREATY ON FREE TRADE AND CENTRAL AMERICAN ECONOMIC INTEGRATION

The Governments of the Republic of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica, desirous of intensifying and strengthening their common bonds of origin and brotherhood, and with a view to effecting the progressive integration of their economies ensuring the development of their markets, promoting the production and exchange of goods and services and raising the standards of living and employment of their respective populations, thereby contributing to the re-establishment of the economic unity of Central America, have agreed to conclude the present Multilateral Treaty on Free Trade and Central American Economic Integration, which shall be progressively implemented, and for that purpose have appointed as their respective plenipotentiaries:

H.E. The President of the Republic of Guatemala: José Guirola Leal, Minister of Economic Affairs;

H.E. The President of the Republic of El Salvador: Alfonso Rocha, Minister of Economic Affairs;

H.E. The President of the Council of Ministers, exercising the powers of the Executive of the Republic of Honduras: Fernando Villar, Minister of Economic Affairs and Finance;

H.E. The President of the Republic of Nicaragua: Enrique Delgado, Minister of Economic Affairs;

H.E. The President of the Republic of Costa Rica: Wilburg Jiménez Castro, Vice-Minister of Economic Affairs and Finance;

who, having exchanged their respective full powers, found in good and due form, have agreed as follows:

Chapter I

TRADE RÉGIME

Article I

With a view to creating a customs union between their respective territories as soon as conditions are favourable, the Contracting States hereby agree to establish a free-trade régime, which they shall endeavour to perfect within a period of ten years from the date on which the present Treaty enters into force. To that end, they resolve to abolish as between their territories the customs duties, charges and conditions hereinafter mentioned, in respect of the commodities specified in the appended schedule constituting annex A to this Treaty.

Consequently, the natural products of the Contracting States and the articles manufactured in their territories, provided that they are included in the aforesaid schedule, shall be exempt from import and export duties as well as taxes dues and charges levied on imports or exports or on the occasion of importation or exportation, whether they be of a national, municipal or any other nature and whatever their purpose.

The exemptions stipulated in this article shall not include charges for lighterage, wharfage, warehousing or handling of goods or any other charges which may legitimately be levied for port, warehouse or transport services; nor shall they include exchange differentials resulting from the existence of two or more rates of exchange or from other exchange regulations in any of the Contracting States.

When a commodity or article included in the annexed schedule is subject to internal taxes, charges or duties of any kind levied on production, sale, distribution or consumption in any of the Contracting States, the State concerned may levy an equivalent amount on similar goods imported from another Contracting State.

Article II

Goods originating in the territory of any of the Contracting States and included in the schedule appended to this Treaty shall be accorded in all the Contracting States the same treatment as domestic goods and shall be exempt from any quota or other restrictions except for such measures as may be legally applicable in the territories of the Contracting States for reasons of public health, security or police control.

Article III

Goods originating in any of the Contracting States and which are not included in the annexed schedule shall be accorded unconditional and unlimited most-favoured-nation treatment in the territory of the other Contracting States.

The above treatment shall not, however, be extended to concessions granted pursuant to other free trade treaties concluded between Central American States.

Article IV

The Contracting States, convinced of the necessity of equalizing their customs tariffs and firmly determined to establish a customs union between their territories, undertake, subject to the opinion of the Central American Trade Commission referred to hereinbelow, to equalize the duties and other charges imposed by them individually on imports of goods listed in the schedule appended hereto, or which may be subsequently included therein, and on their principal raw materials and the necessary containers.

For the purposes indicated in the preceding paragraph, the Commission shall prepare and submit to the Contracting Governments, within a period, not exceeding one year, the appropriate draft contractual agreement or agreements for the equalization of import duties.

Article V

The Governments of the Contracting States shall endeavour to refrain from obtaining or granting customs exemptions on imports from outside Central America of articles produced in any of the Contracting States and listed in the schedule appended hereto.

The Contracting States shall further endeavour to equalize the advantages granted by them to industries producing any of the articles listed in the schedule, to the extent that such advantages might, in the opinion of the Central American Trade Commission, entail unfair competition in the said goods.

Article VI

Subject to the opinion of the Central American Trade Commission, the schedule appended to this Treaty may be extended by mutual agreement between the Contracting States, by means of additional protocols and in accordance with their respective constitutional procedures.

Article VII

In order that they may enjoy the advantages stipulated in this Treaty, the goods listed in the schedule appended hereto shall be entered on a customs form, signed by the exporter and containing a declaration of origin. That form shall be produced for inspection to the customs officers of the countries of origin and destination, in conformity with annex B of this Treaty.

Article VIII

The Central Banks of the Contracting States shall co-operate closely with a view to preventing any currency speculation that might affect the rates of exchange and maintaining the convertibility of the currencies of the respective countries on a basis which, in normal conditions, shall guarantee the freedom, uniformity and stability of exchange.

Any of the Contracting States which establishes quota restrictions on international currency transfers shall adopt the measures necessary to ensure that such restrictions do not discriminate against the other States.

In case of serious balance of payments difficulties which affect or are apt to affect the monetary and payments relations between the Contracting States, the Central American Trade Commission, acting of its own motion or the request of one of the Governments, shall immediately study the problem for the purpose of recommending to the Contracting Governments a satisfactory solution compatible with the multilateral free trade régime.

Chapter II

DISCRIMINATORY PRACTICES

Article IX

Subject to the provisions of the bilateral Central American treaties in force and to any provisions that may be agreed upon in future treaties between Central American States, the Contracting States agree to the following provisions with a view to ensuring a broad application of the principle of non-discrimination in their trading relations:

a) Any goods not included in the schedule appended to this Treaty and subject to quota restrictions imposed by a Contracting State shall, upon importation from the territory of another Contracting State or upon exportation to such a territory, be accorded treatment no less favourable than that accorded to similar goods of any other origin or destination;

b) No Contracting State shall establish or maintain any internal duty, tax or other charge on any goods, whether or not included in the appended schedule, originating in the territory of another Contracting State, nor shall it enact or impose any regulations regarding the distribution or retailing of such goods, when such charge or regulations place or tend to place the said goods in an unfavourable position by comparison with similar goods of domestic origin or imported from any other country;

c) Should a Contracting State establish or maintain a place of business or an agency or grant special privileges to a specific establishment to attend exclusively or principally, permanently or occasionally to the production, exportation, importation, sale or distribution of any goods, such State shall grant to the traders of the other Contracting States equitable treatment with respect to purchases or sales which the said place of business, agency or establishment effects abroad. The institution concerned shall act in accordance with private business practice and shall afford the traders of the other countries reasonable opportunity to compete for participation in such purchases or sales.

Chapter III

INTERNATIONAL TRANSIT

Article X

Each of the Contracting States shall ensure full freedom of transit through its territory for goods proceeding to or from another Contracting State.

Such transit shall not be subject to any deduction, discrimination or quota restriction. In the event to any traffic

congestion or any form of force majeure, each Contracting State shall handle consignments intended for its own population and those in transit to the other States on an equitable basis.

Transit operations shall be carried out by the routes prescribed by law for that purpose and subject to the customs and transit laws and regulations applicable in the territory of transit.

Goods in transit shall be exempt from all duties, taxes and other fiscal charges of a municipal or other character imposed for any purpose whatsoever, except charges generally applicable for services rendered or for reasons of security, public health or police control.

Chapter IV

EXPORT SUBSIDIES AND UNFAIR BUSINESS PRACTICES

Article XI

No Contracting State shall grant any direct or indirect subsidy towards the export of any goods intended for the territory of the other States, or establish or maintain any system resulting in the sale of such goods for export to any other Contracting State at a price lower than the comparable price charged for similar goods on the domestic market, due allowance being made for differences in the conditions of sale or in taxation and for any other factors affecting price comparability.

Any measure which involves fixing of prices or price discrimination in a Contracting State shall be deemed to constitute an indirect export subsidy if it involves the establishment of a sales price for specific goods in the other Contracting States which is lower than that resulting from normal competition in the market of the exporting country.

However, tax exemptions or refunds of a general nature granted by a Contracting State with a view to encouraging the production in its territory of specified goods, shall not be deemed to constitute an export subsidy.

Similarly, any exemption from internal taxes chargeable in the exporting State on the production, sales or consumption of goods exported to the territory of another State shall not be deemed to constitute an export subsidy. Furthermore, the differences resulting from the sale of foreign currency on the free market at a rate of exchange higher than the official rate shall not normally be deemed to be an export subsidy; in case of doubt, however, on the part of one of the Contracting States, the matter shall be submitted to the Central American Trade Commission for its consideration and opinion.

Article XII

As a means of precluding a practice which would be inconsistent with the purposes of this Treaty, each Contracting State shall employ all the legal means at its disposal to prevent the exportation of goods from its territory to the territories of other States at a price lower than their normal value, if such exportation would prejudice or jeopardize the production of the other States or retard the establishment of a domestic or a Central American industry.

Goods shall be considered to be exported at a price lower than their normal value if their price on export is less than:

a) the comparable price, in ordinary trading conditions, of similar goods destined for domestic consumption in the exporting country; or

b) the highest comparable price of similar goods on their export to any third country in ordinary trading conditions; or

c) the cost of production of the goods in the country of origin, plus a reasonable addition for sales cost and profit.

Due allowance shall be made in each case for differences in conditions of sale or in taxation and for any other factors affecting price comparability.

Article XIII

If, notwithstanding the provisions of this chapter, an unfair business practice is discovered, the State affected shall take steps with the competent authorities of the other State to

ensure the elimination of that practice and, if necessary, may adopt protective measures, provided that the matter is then referred to the Central American Trade Commission for study and appropriate recommendations.

Chapter V

TRANSPORT AND COMMUNICATIONS

Article XIV

The Contracting States shall endeavour to construct and maintain lines of communication to facilitate and increase traffic between their territories.

They shall also endeavour to standardize the transport rates between their territories as well as the relevant laws and regulations.

Article XV

Commercial and private vessels and aircraft of any of the Contracting States shall be accorded in ports and airports of the other States open to international traffic the same treatment as is extended to national vessels and aircraft. The same treatment shall be extended to passengers, crews and freight of the other Contracting States.

Land vehicles registered in one of the Contracting States shall enjoy the same treatment in the territory of the other States, for the duration of their temporary stay there, as is accorded to vehicles registered in the State of visit.

Motor transport undertakings of any Contracting State engaged in providing inter-Central American services for passengers and freight shall enjoy in the territory of the other States the same treatment as domestic undertakings.

Private vehicles and vehicles which are not used for the regular inter-Central American transport of persons and goods shall be admitted to the territory of the other Contracting States under a temporary duty-free importation system and shall be subject to the relevant legislative provisions.

Vessels of any Contracting State plying between the ports of Central America shall be subject, in the ports of the other States, to the same coastal shipping régime as domestic vessels.

The provisions of this article shall not affect the duty to comply with the formalities of registration and control prescribed in each country in respect of the entry, stay or exit of vessels, aircraft or vehicles for reasons of public health, security or police control, public policy or fiscal necessity.

Article XVI

The Contracting States shall endeavour to improve the telecommunications systems between their respective territories and shall direct their combined efforts towards the attainment of that objective.

Chapter VI

INVESTMENTS

Article XVII

Each of the Contracting States, acting within the framework of its constitution, shall grant national treatment to capital investments made by nationals of the other States, and shall recognize the right of such persons to organize or manage production, commercial or financial undertakings, or to participate therein, on the same footing as its own nationals; each Contracting State shall also extend equitable and nondiscriminatory treatment to applications for transfers of funds accruing from capital investments made by nationals of the other States.

Chapter VII

CENTRAL AMERICAN TRADE COMMISSION

Article XVIII

The Contracting States agree to establish a Central American Trade Commission, to which each of the Contracting States shall appoint a representative; the Commission shall meet as frequently as its work may require or at the request of any of the Contracting States.

The Commission or any of its members may travel freely in the Contracting States to study matters within the Commission's competence in the field, and the authorities of the Contracting States shall provide them with whatever information and facilities may be necessary for the proper discharge of their functions.

The Commission shall have a permanent secretariat, which shall be under the responsibility of the General Secretariat of the Organization of Central American States.

The Commission shall adopt its rules of procedure unanimously.

Article XIX

The functions of the Central American Trade Commission shall be as follows:

a) To propose to the Contracting States measures conducive to the development and improvement of the Central American free-trade zone referred to in this Treaty as well as measures designed to attain the objectives of Central American economic integration, and to prepare a specific plan for such purposes including a customs union and the establishment of a Central American common market;

b) At the request of one or several Governments to study questions and matters relating to the development of inter-Central American trade, in particular those connected with the application of this Treaty, and to propose measures for the solution of any problem which may arise;

c) To study production and trade in the Contracting States, to recommend additions to the appended schedule and to take appropriate measures to ensure:

i) the standardization of customs tariffs and regulations;

ii) the establishment of a single fiscal system for articles under State monopoly and for goods subject to production, sales and consumption taxes;

iii) the conclusion of agreements designed to avoid double taxation in the matter of direct taxes;

iv) the improvement of inter-Central American transport through the conclusion of appropriate agreements;

v) the application of the decimal metric system of weights and measures.

d) To collect and analyse statistics and other data relating to trade between the Contracting States.

In fulfilling these functions, the Commission shall avail itself of the reports and studies made by other Central American and international organizations and agencies.

The Central American Trade Commission shall give priority attention to the problem of equalizing customs tariffs and shall submit to the Economic Council of the Organization of Central American States, for consideration at its ordinary sessions, draft contractual agreements covering the greatest possible number of products.

Article XX

The competent authorities of the Contracting States shall collect, classify and publish the statistical data relating to import, export and transit operations carried out under the terms of this Treaty, in accordance with the rules laid down, by mutual agreement, by the Central American Trade Commission and the statistical organizations of the Contracting States.

Chapter VIII

INDUSTRIAL INTEGRATION

Article XXI

With a view to promoting industrial development consistent with the purpose of this Treaty, the Contracting States shall adopt, by mutual agreement, measures designed to further the establishment or expansion of regional industries directed towards a Central American common market and of particular interest to the economic integration of Central America.

Chapter IX

GENERAL PROVISIONS

Article XXII

The Contracting States shall adopt, as a basis for their customs tariffs and statistics, the Uniform Central American

Article XXIII

The nationals of any Contracting State shall enjoy in the territory of all other Contracting States national treatment in commercial and civil matters, in accordance with the internal legislation of each State.

Article XXIV

Considering that this Treaty is specifically Central American in character and is designed to lay the foundations for a customs union of the Contracting States and for the progressive integration of their economies, the Contracting States agree that before signing or ratifying any multilateral agreements relating to commodities, trade or customs concessions, and before acceding to any international organization established under those agreements or negotiating any arrangements within the framework of such an organization, they shall consult each other with a view to agreeing, if possible, on a common and united policy.

The Contracting States shall also endeavour to adopt a common position at inter-American or world economic conferences or meetings.

The Contracting States agree to maintain the "Central American exception clause" in any trade agreements they may conclude on the basis of most-favoured-nation treatment with any countries other than the Contracting States.

The Contracting States declare that, in concluding this Treaty, they are prompted by the desire to establish closer mutual links, as States of Central America governed by the special principles of a Central American public law. To that end, they agree that if any of the trade agreements they may conclude with other countries or their participation in other international arrangements should constitute an obstacle to this Treaty, particularly as a result of the provisions embodied in the other treaties permitting other countries to claim no less favourable treatment, they shall renegotiate or, as the case may be, denounce them at the earliest opportunity, with a view to avoiding the difficulties or prejudice which might ensue for the Contracting States as a result of claims of that nature.

The Contracting States also undertake not to conclude any new agreements with other countries which are contrary to the spirit and purposes of this Treaty and, in particular to the provisions of this article.

Article XXV

The Contracting States agree to settle amicably, in the spirit of this Treaty, and through the Central American Trade Commission, any differences which may arise in the interpretation or application of any of its provisions. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitral tribunal, each Contracting State shall propose to the Secretariat of the Organization of Central American States the names of three judges from its Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots a tribunal composed of five arbitrators, no two of whom may be nationals of the same State. The award of the arbitral tribunal shall require the concurring votes of not less than three members, and shall be binding on all the Contracting States so far as it contains any ruling concerning the interpretation or application of the provisions of this Treaty.

Article XXVI

Any provisions of this Treaty which are broader in scope than those contained in other trade treaties between Central American countries shall prevail over the latter.

With a view to promoting the consolidation and enlargement of the multilateral free trade régime, the Contracting States shall endeavour to extend free trade zones established by virtue of bilateral treaties.

Article XXVII

With a view to the gradual application, whenever advisable, of the free-trade régime established by virtue of the present Treaty, the Contracting States may conclude special protocols for the adoption of temporary régimes introducing progressive tariff reductions, which shall be carried into effect by stages and shall be applicable to products not listed in annex A with the ultimate purpose of incorporating them in the said annex.

The Contracting States may also, in like manner, establish special temporary régimes for products not included in annex A which may be subject to import or export quota restrictions.

In exceptional cases and for specified products, there may also be established, by means of additional protocols between all of the Contracting States, a free trade régime applicable only to certain specified Contracting States and providing for progressive reductions in customs tariffs with the remaining country or countries, with the ultimate aim of securing the incorporation of the products concerned in annex A.

Chapter XI

FINAL PROVISIONS

Article XXVIII

This Treaty shall enter into force, in the case of the first three States to ratify it, on the date of deposit of the third instrument of ratification; and in the case of the States which ratify it subsequently, on the date of deposit of the relevant instruments of ratification.

This Treaty shall remain valid for a period of ten years from the initial date of its entry into force; it shall be tacitly renewable for successive periods of ten years.

Any Contracting State may denounce this Treaty by giving notice to that effect not later than six months before the date on which the initial or any subsequent period of validity expires. Denunciation shall take effect, for the denouncing State, as from the date of expiry of the relevant period of validity of the Treaty. The Treaty shall remain in force as between the other Contracting States so long as at least two States continue to be parties thereto.

This Treaty shall be submitted for ratification in each Contracting State in conformity with their respective constitutional or legislative procedures.

The General Secretariat of the Organization of Central American States shall act as depository of this Treaty and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States. It shall also notify the Contracting States of the deposit of the relevant instruments of ratification as well as of any denunciation which may occur within the prescribed time-limit. When the Treaty comes into force, it shall also transmit a certified copy thereof to the Secretary-General of the United Nations, for registration in conformity with Article 102 of the United Nations Charter.

IN WITNESS WHEREOF the respective plenipotentiaries have signed this Treaty.

DONE at the City of Tegucigalpa, D.C., Honduras, this 10th day of June 1958.

For the Government of Guatemala:

1. With reservation to article XXV of this Treaty, in accordance with the provisions of paragraph 3, subparagraph b) of article 149 of the Constitution of the Republic.

2. With the reservations made by Guatemala to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

José Guirola Leal
Minister of Economic Affairs

For the Government of El Salvador:

With the reservations made by El Salvador to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Alfonso Rochac
Minister of Economic Affairs

For the Government of Honduras:

With the reservations made by Honduras to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Fernando Villar
Minister of Economic Affairs and Finance

For the Government of Nicaragua:

With the reservations made by Nicaragua to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Enrique Delgado
Minister of Economic Affairs

For the Government of Costa Rica:

With the reservations made by Costa Rica to the schedule of articles covered by the free trade agreement (annex A), as indicated in the notes to the said schedule.

Wilburg Jiménez Castro
Vice-Minister of Economic Affairs and Finance

2. AGREEMENT ON THE REGIME FOR CENTRAL AMERICAN INTEGRATION INDUSTRIES

The Governments of the Republic of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,

Having regard to the objectives of the Central American Economic Integration Programme which was undertaken through the Central American Economic Co-operation Committee and, in particular, to article XXI of the Central American Multilateral Free Trade and Integration Treaty,

Desirous of strengthening the natural and traditional bonds of brotherhood which unite their countries, and of co-operating towards the solution of their common economic problems,

Having as their basic aim the improvement of the living standards of the Central American peoples and the rational use, for that purpose, of their natural resources, and being convinced that, within the economic development programmes of the Central American Isthmus, the integration of their economies offers favourable prospects for the expansion of trade between their countries and for a more rapid industrialization process on the basis of mutual interest,

Have decided to conclude the present Agreement, which prescribes a Régime for Central American Integration Industries, and for that purpose have appointed as their respective plenipotentiaries:

H. E. the President of the Republic of Guatemala: José Guirola Leal, Minister of Economic Affairs;

H. E. the President of the Republic of El Salvador: Alfonso Rochac, Minister of Economic Affairs;

H. E. the President of the Council of Ministers exercising the powers of the Executive of the Republic of Honduras: Fernando Villar, Minister of Economic Affairs and Finance;

H. E. the President of the Republic of Nicaragua: Enrique Delgado, Minister of Economic Affairs; and

H. E. the President of the Republic of Costa Rica: Wilburg Jiménez Castro, Vice-Minister of Economic Affairs and Finance

who, having exchanged their full powers, found in good and due form, have agreed as follows:

Article I

The Contracting States undertake to encourage and promote the establishment of new industries and the specialization and expansion of existing industries within the framework of Central American economic integration, and agree that the development of the various activities which are or may be included in such a programme shall be effected on a reciprocal and equitable basis in order that each and every Central American State may progressively derive economic advantages.

Article II

The Contracting States declare their interest in the development of industries with access to a common Central American market. These shall be designated Central American integration industries and shall be so declared jointly by the Contracting States, through the agency of the Central American Industrial Integration Commission established in conformity with article VIII of this Agreement.

The Contracting States shall regard as Central American integration industries those industries which, in the judgement of the Central American Industrial Integration Commission, comprise one or more plants which require access to the Central American market in order to operate under reasonably economic and competitive conditions even at minimum capacity.

Article III

The application of the present Régime to the Central American integration industries is subject to signature by the Contracting States, in respect of each of the said industries, of an additional protocol stipulating:

- a) the country or countries in which the industrial plants covered by this Régime are to be initially situated, the minimum capacity of the said plants and the conditions under which additional plants are to be subsequently admitted into the same or other countries;
- b) the quality standards for the products of the said industries and any other requirements that may be deemed convenient for the protection of the consumer;

- c) the regulations that may be advisable as regards the participation of Central American capital in the enterprises owning the plants;
- d) the common Central American tariffs which shall be applied to the products of Central American integration industries; and
- e) any other provisions designed to ensure the attainment of the objectives of this Agreement.

Article IV

The products of plants which form part of a Central American integration industry and which are covered by the present Régime, shall enjoy the benefits of free trade between the territories of the Contracting States.

The products of plants which form part of the same industry but which are not covered by the Régime, shall enjoy in the Contracting States successive annual reductions of ten per cent in the applicable uniform Central American tariff, from the date specified in the relevant additional protocol. As from the tenth year, such products shall enjoy the full benefits of free trade.

Except as provided in the preceding paragraph and in any other provisions of this Agreement or of the additional protocols, all trade in commodities produced by the Central American integration industries shall be governed by the provisions of the Central American Multilateral Free Trade and Economic Integration Treaty.

Article V

In conformity with the provisions of article IV of the Central American Multilateral Free Trade and Economic Integration Treaty, the Central American Trade Commission shall give priority consideration to the equalization of the customs duties and other charges levied upon imports of commodities that are similar to or substitutes for the commodities produced by the Central American integration industries covered by the additional protocols to this Agreement, as well as upon imports of raw materials and of the containers necessary for their production and distribution.

Article VI

Since the Contracting States intend to grant to the Central American integration industries ample fiscal incentives, the enterprises owning industrial plants covered by the present Régime shall enjoy, in the territory of the countries where such plants are or may be established, the benefits and exemptions prescribed by the national legislation of the country concerned.

Article VII

Except in cases of emergency, the Governments of the Contracting States shall not grant customs duty exemptions or reductions below the Central American common tariff on any imports from countries outside Central America of goods which are equal or similar to or substitutes for goods manufactured in any of the Central American countries by plants of industrial integration industries; nor shall they apply to such imports preferential exchange rates equivalent to such exemptions or reductions.

The Governments and other State bodies shall also give preference in their official imports to the products of the Central American integration industries.

Article VIII

In order to ensure due application of this Agreement and of the additional protocols, the Contracting States agree to establish a Central American Industrial Integration Commission, to which each of the Contracting States shall appoint a special representative; the Commission shall meet as frequently as its work may require or at the request of any of the Contracting States.

The Commission or any of its members may travel freely in the Contracting States in order to study matters within the Commission's competence in the field, and the authorities of the Contracting States shall provide them with whatever information and facilities may be necessary for the proper discharge of their functions.

The Commission shall have a permanent secretariat which shall be under the responsibility of the General Secretariat of the Organization of Central American States.

The Commission shall adopt its rules of procedure unanimously and shall prescribe the regulations relating to the conduct of matters within its competence, in particular the regulations relating to the conditions and form in which, in each specific case, the views of private enterprise shall be heard.

Article IX

Individuals or bodies corporate desiring the incorporation of a given plant into the present Régime shall present an application to that effect to the Secretariat of the Central American Industrial Integration Commission and accompany it with the required information.

When the Secretariat has sufficient information available, it shall advise the Commission of the application. If the Commission finds that the project meets the aims of this Agreement, the application shall be referred for an opinion to the Central American Research Institute for Industry or to any other person or body that the Commission considers competent. Such opinion shall take into account the technological and economic aspects of the project and, in particular, the market prospects, and the costs incurred shall be borne by the interested parties.

The Commission shall decide on the project on the basis of the said opinion, and if it finds the project capable of being realized, shall make whatever recommendations it considers pertinent to the Governments of the Contracting States on the conclusion of the protocol covering the industry concerned and on the conditions to be stipulated.

When the project refers to a plant which forms part of an industry already covered by a protocol, the Commission may, in conformity with the terms of the relevant protocol and of this article, declare that the plant shall be admitted to the benefits of the present Régime and advise to that effect the Governments of the Contracting States.

Article X

The Central American Industrial Integration Commission shall submit an annual report on its activities to the Contracting States.

The Commission shall periodically carry out studies with a view to enabling the Governments to evaluate the results of the application of the present Régime.

The Commission may propose to the Contracting States measures favourable to the development of the Central American integration industries and to the efficient functioning of their plants. The Commission may also propose to the Governments any measures necessary to resolve any problems arising from the application of this Agreement.

Article XI

The Contracting States agree to settle amicably, in the spirit of this Agreement, any differences which may arise in the interpretation or application of any of its provisions or of the additional protocols. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitral tribunal, each Contracting State shall propose to the General Secretariat of the Organization of Central American States the names of three judges from its Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots, a tribunal composed of five arbitrators, no two of whom may be nationals of the same State. The award of the arbitral tribunal shall require the concurring votes of not less than three members and shall be binding on all the Contracting States so far as it contains any ruling concerning the interpretation or application of the provisions of this Agreement and of the additional protocols.

Article XII

This Agreement shall be submitted for ratification in each Contracting States in conformity with their respective constitutional or legislative procedures.

This Agreement shall come into force on the date of deposit of the last instrument of ratification. It shall remain in force for twenty years and shall be tacitly renewable for successive periods of ten years.

Any Contracting State may withdraw from this Agreement provided that notice of withdrawal is given not later than two years before the date on which the initial or any other subsequent period of validity expires.

If a Contracting State gives notice of withdrawal after the prescribed time limit but before a new period of validity has commenced, such notification shall be valid, but the Agreement shall remain in force for two further years after the beginning of the new period.

In the event of denunciation of this Agreement, the same shall remain in force as regards its additional protocols until the expiry of the latter.

Should a Contracting State denounce this Agreement, the other Contracting States shall determine whether the Agreement shall cease to have effect between all the Contracting States or whether it shall be maintained between such Contracting States as have not denounced it.

The additional protocols to this Agreement shall be approved in conformity with the constitutional or legislative procedures of each country.

Article XIII

The General Secretariat of the Organization of Central American States shall act as depository of this Agreement and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States. It shall also notify the Contracting States of the deposit of the relevant instruments of ratification as well as of any denunciation which may occur within the prescribed time-limit. When the Agreement comes into force, it shall also transmit a certified copy thereof to the Secretary-General of the United Nations, for registration in conformity with Article 102 of the United Nations Charter.

Transitional Article

In order to promote an equitable distribution of the Central American industrial integration plants, the Contracting States shall not award a second plant to any one country until all of the five Central American countries have each been assigned a plant in conformity with the protocols specified in article III.

IN WITNESS WHEREOF the respective plenipotentiaries have signed this Agreement.

DONE in the city of Tegucigalpa, D. C., capital of the Republic of Honduras, on 10 June 1958.

For the Government of Guatemala:

With a reservation regarding article XI of this Treaty, in accordance with the provisions of paragraph 3, sub-paragraph b) of article 149 of the Constitution of the Republic.

José Guirola Leal
Minister of Economic Affairs

For the Government of El Salvador:

Alfonso Roehac
Minister of Economic Affairs

For the Government of Honduras:

Fernando Villar
Minister of Economic Affairs and Finance

For the Government of Nicaragua:

Enrique Delgado
Minister of Economic Affairs

For the Government of Costa Rica:

Wilburg Jiménez Castro
Vice-Minister of Economic Affairs and Finance

APPENDIX C

Annex I

CENTRAL AMERICAN AGREEMENT ON THE EQUALIZATION OF IMPORT DUTIES AND CHARGES

The Governments of the Republics of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica,

Bearing in mind the commitments contracted under the terms of the Multilateral Treaty on Free Trade and Central American Economic Integration, signed at Tegucigalpa on 10 June 1958, and being convinced that, if the Central American free-trade area is to be established in its final form within ten years, pursuant to the provisions of the said Treaty, their respective customs tariffs must be equalized,

Have decided to conclude the present Agreement, and for that purpose have appointed as their respective plenipotentiaries:

H.E. The President of the Republic of Guatemala: *Eduardo Rodríguez Genís*, Minister of Economy;

H.E. The President of the Republic of El Salvador: *Alfonso Rochac*, Minister of Economy;

H.E. The President of the Republic of Honduras: *Jorge Bueso Arias*, Minister of Economy and Finance;

H.E. The President of the Republic of Nicaragua: *Enrique Delgado*, Minister of Economy;

H.E. The President of the Republic of Costa Rica: *Alfredo Hernández Volio*, Minister of Economy and Finance;

who having exchanged their full powers, found to be in good and due form, have agreed as follows:

Chapter I

SYSTEM OF EQUALIZATION OF IMPORT DUTIES AND CHARGES

Article I

The Contracting States agree to establish a common tariff policy and decide to set up a Central American import tariff consistent with the integration and economic development requirements of Central America. To this end, they agree to equalize import duties and charges within not more than five years from the date on which the present Agreement enters into force.

The Signatory States shall maintain the Standard Central American Tariff Nomenclature as the basis of the customs tariff for imports.

Article II

For the purposes of article I hereof and of article IV of the Multilateral Treaty on Free Trade and Central American Economic Integration, the Contracting States agree to adopt forthwith the tariffs and tariff denominations specified in Schedule A. They likewise agree to establish an interim system of exemptions, with a view to progressive equalization, in respect of the items included on Schedule B. The two schedules form an integral part of the present Agreement.

Article III

The Contracting Parties, besides aiming at tariff equalization in conformity with article IV of the Multilateral Treaty on Free Trade and Central American Economic Integration and with a view to expediting the establishment of the Central American

import tariff, pledge themselves, with respect to additions to Schedules A and B, to observe, by preference, the following order of priorities:

- a) Commodities in respect of which the immediate or progressive liberalization of trade is provided for under the terms of bilateral free-trade treaties concluded between the Contracting Parties to this Agreement;
- b) Goods manufactured in Central America;
- c) Imported goods for which goods produced in Central America may be substituted over the short term;
- d) Raw materials, intermediate products and containers, priority being given to those required for the production and sale of the items included in the foregoing subparagraphs; and
- e) Other goods.

Article IV

Once tariff equalization has been achieved in respect of the items comprised in the groups of products referred to in the foregoing article, the Contracting States pledge themselves to apply to these same items multilateral free-trade treatment within not more than five years, without exceeding the ten-year time limit stipulated in article I of the Multilateral Treaty for the establishment of the free-trade area in its final form.

Article V

The Parties engage not to impose or levy any tax other than those provided for in this Agreement on imports of goods included in Schedules A and B. The bases for valuation adopted are the c.i.f. import value in the case of the *ad valorem* part, and, for the specific component, the standard physical units set forth in Schedules A and B.

If any of the Signatory States is not in a position to abolish consular fees immediately in respect of the goods included in Schedules A and B, it shall be entitled to maintain the fees as such, discounting the value they represent from the *ad valorem* part of the duty and/or charge agreed upon. The term "duty and/or charge agreed upon" shall be understood to mean the duty and/or charge immediately applicable by all Parties to the goods included in Schedule A; that which all Parties pledge themselves to reach by the end of the interim period, in the case of goods included in Schedule B; and the tariffs established by any of the Parties with a view to progressive equalization in respect of the goods included in Schedule B and to attainment of the stipulated standard duty by the end of the interim period.

In the case of items which are equalized at levels below the consular fees—either immediately (Schedule A) or by the end of the interim period (Schedule B)—the Signatory States shall not charge consular fees.

Article VI

The Contracting States agree to the establishment of fixed equivalences, solely for equalization purposes, between the currency units in which each country's tariff duties are expressed and a common currency unit equivalent to the United States dollar. These equivalences, which are those existing at the date of signature of the present Agreement, are established as follows:

Guatemala, 1 quetzal; El Salvador, a currency unit equivalent to the United States dollar; Honduras, 2 lempiras; Nicaragua, a currency unit equivalent to the United States dollar; and Costa Rica, 5.67 or 6.65 colons, according to the exchange provisions applicable to the item in question. If a country makes any change in the equivalence of its currency unit *vis-à-vis* the United States dollar in respect of goods included in Schedules A and B, it shall be under the obligation to alter its tariffs immediately in the proportion necessary to maintain equalization.

Article VII

In order to make the equalization of import duties and charges effective, the Contracting Parties shall renegotiate any multilateral or bilateral pacts that remain in force with non-signatories of the present Agreement whereby tariffs lower than those established herein are consolidated, and shall release themselves from the consolidation commitment assumed within not more than one year from the date of deposit of the corresponding instrument of ratification of this agreement. Likewise, the Contracting Parties undertake to refrain from signing new agreements or tariff concessions with other countries which are contrary to the spirit and objectives of the present Agreement and, in particular, to the provisions of this article.

Article VIII

Wheresoever the duty agreed upon for a specific product is higher than the tariff in force in one or more of the Contracting Parties, the countries concerned shall apply, in all inter-Central American trade not covered by the free-trade régime, the lower tariff in force, unless the Central American Trade Commission decides otherwise.

The preferential tariffs which the Parties pledge themselves to establish are set forth in Schedule A and in Annex 6 of Schedule B (this annex forms an integral part of the schedule in question).

"Tariff in force" shall be understood to mean the sum of the tariff duties, consular fees and other duties, charges and surcharges levied on imports of the goods listed in Schedules A and B at the time the present Agreement is signed. Legal rates and charges for services rendered are not included.

As this Agreement is specifically Central American in character and constitutes one of the bases for the customs union of the Contracting Parties, the Signatory States agree to maintain the "Central American exemption clause" with respect to third countries, to the extent that the application of the preferential tariff system established by the present article is concerned.

Article IX

The Schedules appended to this Agreement shall be expanded, by agreement among the Contracting States, through the signing of successive protocols and in accordance with respective constitutional procedures.

Chapter II

CENTRAL AMERICAN TRADE COMMISSION

Article X

The Signatory States agree to set up a Central American Trade Commission, made up of representatives of each of the Contracting Parties, which shall meet as often as its work requires or when any of the Contracting States so requests.

The Commission (or any of its members) shall be entitled to travel freely in the territory of the Contracting Parties in order that matters within its purview may be studied on the spot, and the authorities of the Signatory States shall provide such information and facilities as it/they may need for the discharge of its/their functions.

The Commission shall have a permanent Secretariat, which shall be responsible to the Secretariat of the Organization of Central American States.

The Commission shall adopt its own rules of procedure unanimously.

Article XI

The following shall be the terms of reference of the Central American Trade Commission:

a) To recommend to the Contracting Parties measures conducive to the establishment of the Central American customs tariff referred to in this Agreement;

b) To study, at the request of one or more Governments, topics or matters relating to the development of tariff equalization and in particular to the implementation of the present Agreement, and to propose the measures that should be adopted in order to solve such problems as may arise;

c) To study production and trade activities in the signatory States and recommend additions to Schedules A and B;

d) To act as the agency responsible for co-ordinating tariff equalization, taking into special consideration the progress made in this field by virtue of bilateral treaties signed between Central American countries, with a view to submitting early proposals for standard duties and charges and endeavouring to promote their adoption by all the Contracting Parties. In this connexion, the Parties undertake to notify the Commission of bilateral tariff equalization agreements as soon as these are negotiated;

e) To study the various aspects of the maintenance of uniformity in the application of the Standard Central American Tariff Nomenclature and to recommend to the Contracting Parties such amendments as may seem advisable in the light of experience and from the standpoint of increased diversification of production in Central America;

f) To take steps calculated to establish and maintain uniformity in customs regulations.

In the discharge of its functions, the Commission shall utilize the studies carried out by other Central American and international bodies.

Chapter III

GENERAL PROVISIONS

Article XII

The Contracting Parties agree to renegotiate at the request of any one of their number, and through the Central American Trade Commission, the standard duties and charges agreed upon and the standardized tariff classification. The renegotiation shall affect only those goods in respect of which it is applied for.

Decisions in this connexion shall be adopted by the unanimous vote of the States for which the Agreement is in force. In any event, every change shall be introduced at uniform levels.

Article XIII

The Signatory States agree that differences arising in connexion with the interpretation or application of any of the provisions of this Agreement shall be settled amicably, in accordance with the spirit of the Agreement, through the Central American Trade Commission. In the event of failure to reach agreement, controversies shall be decided by arbitration. To form the tribunal of arbiters, each of the Contracting Parties shall submit to the Secretariat of the Organization of Central American States the names of three magistrates from its respective Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and Government representatives to this Organization shall choose by lot five arbiters to form the tribunal, each of whom must be of a different nationality. The ruling of the tribunal of arbiters shall be awarded on the affirmative vote of at least three of the mem-

bers present, and shall have the effect of *res judicata* for all the Contracting Parties in respect of any point settled in connexion with the interpretation or application of the provisions of this Agreement.

Chapter IV

INTERIM SYSTEM

Article XIV

To facilitate the equalization of import duties and charges in the case of products with respect to which, for economic, fiscal or other motives, it is impossible to establish a standard tariff to be applied immediately by all Parties, the Contracting States establish an interim system of progressive equalization.

The Contracting States agree to adopt progressively, for the goods included in Schedule B, the standard duties given in column I of the said Schedule, each Party conforming to the time limit (column II), to the initial tariffs (column III) and to the tariff denomination established therein.

The first change in the initial tariffs shall be introduced twelve months after the date on which the present Agreement enters into force, and succeeding modifications shall be affected for periods of 12 months exactly, until the duty agreed upon is reached.

In annexes 1 to 5 of Schedule B, the tariffs applicable by the Contracting Parties during each year of the interim period are set forth. These annexes form an integral part of Schedule B.

When progressive equalization is being put into effect, the annual decrease or increase in tariffs which must be introduced by each Contracting Party shall not be less than the quotient resulting from division of the total amount of the decrease or increase to be effected by the number of years in the interim period. This commitment shall be binding on the Contracting States except in so far as, during the interim period, they may have introduced annual changes exceeding those agreed upon.

This interim system does not preclude the immediate adoption of the standard duty by a group of countries smaller than the total number of the Contracting Parties, or release the remaining country or countries from the commitment to attain the said standard duty by means of progressive equalization.

When the interim period ends for each of the goods or articles included in Schedule B, these shall be automatically transferred to Schedule A.

Chapter V

FINAL PROVISIONS

Article XV

This Agreement shall be submitted by each State for ratification in conformity with its pertinent constitutional and legal procedure and shall enter into force, for the first three countries to deposit the instrument of ratification, on the date of deposit of the third such instrument, and, for countries acceding thereafter, on the date of deposit of their respective instruments of ratification. Its duration shall be twenty years from the date of its entry into force, and it shall be tacitly renewed for successive ten-year periods.

The Contracting States agree that the tariff equalization of goods included in Schedule B shall be completed by the end of the interim period which shall begin upon the entry into force

of the Agreement. Consequently, they agree to effect progressive tariff equalization within the time limit established at the end of the interim period, without changing the year-by-year tariffs established in the relevant annex of Schedule B, each State taking as a base the level which it would have reached if it had deposited its instrument of ratification upon the entry into force of the Agreement.

The present Agreement may be denounced by any of the Signatory States at least two years before the date of expiry of the initial period or of the succeeding periods during which it is in force. Denunciation shall become effective for the denouncing State at the date on which the corresponding period of validity of the Agreement ends, and the Agreement shall remain in force for the other Parties so long as at least two of them continue to uphold it.

Article XVI

The present Agreement shall be deposited with the Secretariat of the Organization of Central American States, which shall send certified copies to the Chancelleries of each of the Contracting States and shall also notify them of the deposit of the pertinent instruments of ratification, as well as of any denunciation which may take place within the time limits established in that connexion. Upon the entry into force of the Agreement, it shall also transmit a certified copy to the Secretariat of the United Nations for registration in conformity with Article 102 of the United Nations Charter.

Provisional article

With respect to the implementation of article X of this Agreement, the Contracting Parties agree that preferential duties shall not be applicable to the items or sub-items of the Standard Central American Tariff Nomenclature which are included both in annex A of the Multilateral Treaty and in Schedules A and B of the present Agreement.

Provisional article

The Signatory States agree that representatives of the Parties for which the Agreement has not entered into force shall be entitled to attend meetings of the Central American Trade Commission as observers with the right to speak but not to vote.

In witness whereof, the respective plenipotentiaries sign the present Agreement at the city of San José, capital of the Republic of Costa Rica, this first day of September one thousand nine hundred and fifty-nine.

For the Government of Guatemala:

Eduardo Rodríguez Genis
Minister of Economy

For the Government of El Salvador:

Alfonso Rochac
Minister of Economy

For the Government of Honduras:

Jorge Bueso Arias
Minister of Economy and Finance

For the Government of Nicaragua:

Enrique Delgado
Minister of Economy

For the Government of Costa Rica:

Alfredo Hernández Volio
Minister of Economy and Finance

I. GENERAL TREATY ON CENTRAL AMERICAN ECONOMIC INTEGRATION

(Managua, 13 December 1960)

The Governments of the Republics of Guatemala, El Salvador, Honduras and Nicaragua.

For the purpose of reaffirming their intention to unify the economies of the four countries and jointly to promote the development of Central America in order to improve the living conditions of their peoples.

Mindful of the need to expedite the integration of their economies, consolidate the results so far achieved and lay down the principles on which it should be based in the future,

Having regard to the commitments entered into in the following instruments of economic integration:

Multilateral Treaty on Free Trade and Central American Economic Integration;

Central American Agreement on the Equalization of Import Duties and Charges and its Protocol on the Central American Preferential Tariff;

Bilateral treaties on free trade and economic integration signed between Central American Governments;

Treaty on Economic Association signed between Guatemala, El Salvador and Honduras,

Have agreed to conclude the present Treaty and for that purpose have appointed as their respective plenipotentiaries:

H.E. The President of the Republic of Guatemala: Mr. *Julio Prudo García Salas*, Minister for Co-ordinating Central American Integration, and Mr. *Alberto Fuentes Mohr*, Head of the Economic Integration Bureau

The H. Junta de Gobierno of the Republic of El Salvador: Mr. *Gabriel Piloña Araujo*, Minister for Economic Affairs, and Mr. *Abelardo Torres*, Under-Secretary for Economic Affairs

H.E. The President of the Republic of Honduras: Mr. *Jorge Bueso Arias*, Minister for Economic and Financial Affairs

H.E. The President of the Republic of Nicaragua: Mr. *Juan José Lugo Marengo*, Minister for Economic Affairs

who, having exchanged their respective full powers, found to be in good and due form, have agreed as follows:

CHAPTER I

CENTRAL AMERICAN COMMON MARKET

Article I

The Contracting States agree to establish among themselves a common market which shall be brought into full operation within a period of not more than five years from the date on which the present Treaty enters into force. They further agree to create a customs union in respect of their territories.

Article II

For the purposes of the previous article the Contracting Parties undertake to bring a Central American free-trade area into full operation within a period of five years and to adopt a standard Central American tariff as provided for in the Central American Agreement on the Equalization of Import Duties and Charges.

CHAPTER II

TRADE REGIME

Article III

The Signatory States shall grant each other free-trade treatment in respect of all products originating in their respective territories, save only for the limitations contained in the special régimes referred to in Annex A of the present Treaty.

Consequently, the natural products of the Contracting States and the products manufactured therein shall be exempt from import and export duties including consular fees, and all other taxes, dues and charges levied on imports and exports or charged in respect thereof, whether they be of a national, municipal or any other nature.

The exemptions provided for in this article shall not include charges or fees for lighterage, wharfage, warehousing or handling of goods, or any other charges which may legally be incurred for port, storage or transport services; nor shall they include exchange differentials resulting from the existence of two or more rates of exchange or from other exchange arrangements in any of the Contracting States.

Goods originating in the territory of any of the Signatory States shall be accorded national treatment in all of them and shall be exempt from all quantitative

or other restrictions or measures, except for such measures as may be legally applicable in the territories of the Contracting States for reasons of health, security or police control.

Article IV

The Contracting Parties establish special interim régimes in respect of specific products exempting them from the immediate free-trade treatment referred to in article III hereof. These products shall be automatically incorporated into the free-trade régime not later than the end of the fifth year in which the present Treaty is in force, except as specifically provided in Annex A.

The products to which special régimes apply are listed in Annex A and trade in them shall be carried on in conformity with the measures and conditions therein specified. These measures and conditions shall not be amended except by multilateral negotiation in the Executive Council. Annex A is an integral part of this Treaty.

The Signatory States agree that the Protocol on the Central American Preferential Tariff, appended to the Central American Agreement on the Equalization of Import Duties and Charges, shall not apply to trade in the products referred to in the present article for which special régimes are provided.

Article V

Goods enjoying the advantages stipulated in this Treaty shall be designated as such on a customs form, signed by the exporter and containing a declaration of origin. This form shall be produced for checking by the customs officers of the countries of origin and destination, in conformity with Annex B of this Treaty.

If there is doubt as to the origin of an article and the matter has not been settled by bilateral negotiation, any of the Parties affected may request the intervention of the Executive Council to verify the origin of the article concerned. The Council shall not consider goods as originating in one of the Contracting States if they originate or are manufactured in a third country and are only simply assembled, wrapped, packed, cut or diluted in the exporting country.

In the cases mentioned in the previous paragraph, importation of the goods concerned shall not be prohibited provided that a guaranty is given to the importing country in respect of payment of the import duties and other charges to which the goods may be liable. The guaranty shall be either forfeited or refunded, as the case may be, when the matter is finally settled.

The Executive Council shall lay down regulations governing the procedure to be followed in determining the origin of goods.

Article VI

If the goods traded are liable to internal taxes, charges or duties of any kind levied on production, sale, distribution or consumption in any of the signatory countries, the country concerned may levy an equivalent amount on similar goods imported from the other Contracting

State, in which case it must also levy at least an equivalent amount for the same respective purposes on similar imports from third countries.

The Contracting Parties agree that the following conditions shall apply to the establishment of internal taxes on consumption:

(a) Such taxes may be established in the amount deemed necessary when there is domestic production of the article in question, or when the article is not produced in any of the Signatory States;

(b) When the article is not produced in one Signatory State but is produced in any of the others, the former State may not establish taxes on consumption of the article concerned unless the Executive Council so authorizes;

(c) If a Contracting Party has established a domestic tax on consumption, and production of the article so taxed is subsequently begun in any of the other Signatory States, but the article is not produced in the State that established the tax, the Executive Council shall, if the State concerned so requests, deal with the case and decide whether the tax is compatible with free trade. The States undertake to abolish these taxes on consumption, in accordance with their legal procedures, on receipt of notification to this effect from the Executive Council.

Article VII

No Signatory State shall establish or maintain regulations on the distribution or retailing of goods originating in another Signatory State when such regulations place, or tend to place, the said goods in an unfavourable position in relation to similar goods of domestic origin or imported from any other country.

Article VIII

Items which, by virtue of the domestic legislation of the Contracting Parties, constitute State monopolies on the date of entry into force of the present Treaty, shall remain subject to the relevant legislation of each country and, if applicable, to the provisions of Annex A of the present Treaty.

Should new monopolies be created or the régime of existing monopolies be changed, the Parties shall enter into consultations for the purpose of placing Central American trade in the items concerned under a special régime.

CHAPTER III

EXPORT SUBSIDIES AND UNFAIR TRADE PRACTICES

Article IX

The Governments of the Signatory States shall not grant customs exemptions or reductions in respect of imports from outside Central America of articles adequately produced in the Contracting States.

If a Signatory State deems itself to be affected by the granting of customs import franchises or by governmental imports not intended for the use of the Government itself or of its agencies, it may submit the matter to the Executive Council for its consideration and ruling.

Article X

The Central Banks of the Signatory States shall co-operate closely in order to prevent any currency speculation that might affect the rates of exchange and to maintain the convertibility of the currencies of the respective countries on a basis which, in normal conditions, shall guarantee the freedom, uniformity and stability of exchange.

Any Signatory State which establishes quantitative restrictions on international monetary transfers shall adopt whatever measures are necessary to ensure that such restrictions do not discriminate against the other States.

Should serious balance-of-payments difficulties arise which affect, or are apt to affect, monetary relations in respect of payments between the Signatory States, the Executive Council, acting of its own accord or at the request of one of the Parties, shall immediately study the problem, in co-operation with the Central Banks for the purpose of recommending to the Signatory States a satisfactory solution compatible with the maintenance of the multilateral free-trade régime.

Article XI

No Signatory State shall grant any direct or indirect subsidy favouring the export of goods intended for the territory of the other States, or establish or maintain any system resulting in the sale of such goods for export to any other Contracting State at a price lower than that established for the sale of similar goods on the domestic market, due allowance being made for differences in the conditions and terms of sale and taxation and for any other factors affecting price comparability.

Any measure involving the fixing of, or discrimination in, prices in a Signatory State which is reflected in the establishment of sales prices for specific goods in the other Contracting States at levels lower than those that would result from the normal operation of the market in the exporting country shall be deemed to constitute an indirect export subsidy.

If the importation of goods processed in a Contracting State with raw materials purchased under conditions of monopoly at artificially low prices should threaten existing production in another Signatory State, the Party which considers itself affected shall submit the matter to the consideration of the Executive Council for a ruling as to whether an unfair business practice is in fact involved. The Executive Council shall, within five days of the receipt of the request, either give its ruling or authorize a temporary suspension of free trade, while permitting trade to be carried on subject to the award of a guaranty in the amount of the customs duties. This suspension shall be effective for thirty days, within which period the Executive Council shall announce its final decision. If no ruling is forthcoming within the

five days stipulated, the Party concerned may demand a guaranty pending the Executive Council's final decision.

However, tax exemptions of a general nature granted by a Signatory State with a view to encouraging production shall not be deemed to constitute export subsidies.

Similarly, any exemption from internal taxes levied in the exporting State on the production, sale or consumption of goods exported to the territory of another State shall not be deemed to constitute an export subsidy. The differentials resulting from the sale of foreign currency on the free market at a rate of exchange higher than the official rate shall not normally be deemed to be an export subsidy; if one of the Contracting States is in doubt, however, the matter shall be submitted to the Executive Council for its consideration and opinion.

Article XII

As a means of precluding a practice which would be inconsistent with the purposes of this Treaty, each Signatory State shall employ all the legal means at its disposal to prevent the export of goods from its territory to the territories of the other States at a price lower than their normal value, if such export would prejudice or be liable to prejudice the production of the other States or retard the establishment of a national or Central American industry.

Goods shall be deemed to be exported at a price lower than their normal value if their export price is less than:

(a) The comparable price in normal trade conditions of similar goods destined for domestic consumption in the exporting country; or

(b) The highest comparable price of similar goods for export to a third country in normal trade conditions; or

(c) The cost of production of the goods in the country of origin, plus a reasonable amount for sales expenses and profit.

Due allowance shall be made in every case for existing differences in conditions and terms of sale and taxation and for any other factors affecting price comparability.

Article XIII

If a Contracting Party deems that unfair trade practices not covered in article XI exist, it cannot impede trade by a unilateral decision but must bring the matter before the Executive Council so that the latter can decide whether in fact such practices are being resorted to. The Council shall announce its decision within not more than 60 days from the date on which it received the relevant communication.

If any Party deems that there is evidence of unfair trade, it shall request the Executive Council to authorize it to demand a guaranty in the amount of the import duties.

Should the Executive Council fail to give a ruling within eight days, the Party concerned may demand such guaranty pending the Executive Council's final decision.

Article XIV

Once the Executive Council has given its ruling on unfair trade practices, it shall inform the Contracting Parties whether, in conformity with this Treaty, protective measures against such practices should be taken.

CHAPTER IV

TRANSIT AND TRANSPORT

Article XV

Each of the Contracting States shall ensure full freedom of transit through its territory for goods proceeding to or from the other Signatory States as well as for the vehicles transporting these goods.

Such transit shall not be subject to any deduction, discrimination or quantitative restriction. In the event of traffic congestion or other instances of *force majeure*, each Signatory State shall treat the mobilization of consignments intended for its own population and those in transit to the other States on an equitable basis.

Transit operations shall be carried out by the routes prescribed by law for that purpose and shall be subject to the customs and transit laws and regulations applicable in the territory of transit.

Goods in transit shall be exempt from all duties, taxes and other charges of a fiscal, municipal or any other character levied on transit, irrespective of their destination, but may be liable to the charges usually applied for services rendered which shall in no case exceed the cost thereof and thus constitute *de facto* import duties or taxes.

CHAPTER V

CONSTRUCTION ENTERPRISES

Article XVI

The Contracting States shall grant national treatment to enterprises of other Signatory States engaged in the construction of roads, bridges, dams, irrigation systems, electrification, housing and other works intended to further the development of the Central American economic infrastructure.

CHAPTER VI

INDUSTRIAL INTEGRATION

Article XVII

The Contracting Parties hereby endorse all the provisions of the Agreement on the Régime for Central American Integration Industries, and, in order to ensure implementation among themselves as soon as possible, undertake to sign, within a period of not more than six months from the date of entry into force of the present Treaty, additional protocols specifying the industrial plants initially to be covered by the Agreement, the free-trade régime applicable to their products and the other conditions provided for in article III of the Agreement.

CHAPTER VII

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Article XVIII

The Signatory States agree to establish the Central American Bank for Economic Integration which shall be a juridical person. The Bank shall act as an instrument for the financing and promotion of a regionally balanced, integrated economic growth. To that end they shall sign the agreement constituting the Bank, which shall remain open for the signature or accession of any other Central American State which may wish to become a member of the Bank.

It is, however, established that members of the Bank may not obtain guaranties or loans from the Bank unless they have previously deposited their instruments of ratification of the following international agreements:

The present Treaty;

Multilateral Treaty on Free Trade and Central American Economic Integration, signed on 10 June 1958;

Agreement on the Régime for Central American Integration Industries, signed on 10 June 1958; and

Central American Agreement on the Equalization of Import Duties and Charges, signed on 1 September 1959, and its *Protocol* signed on the same day as the present Treaty.

CHAPTER VIII

TAX INCENTIVES TO INDUSTRIAL DEVELOPMENT

Article XIX

The Contracting States, with a view to establishing uniform tax incentives to industrial development, agree to ensure as soon as possible a reasonable equalization of the relevant laws and regulations in force. To that end they shall, within a period of six months from the date of entry into force of the present Treaty, sign a special protocol specifying the amount and type of exemptions, the time limits thereof, the conditions under which they shall be granted, the systems of industrial classification and the principles and procedures governing their application. The Executive Council shall be responsible for co-ordinating the application of the tax incentives to industrial development.

CHAPTER IX

ORGANS

Article XX

The Central American Economic Council, composed of the Ministers of Economic Affairs of the several Contracting Parties, is hereby established for the purpose of integrating the Central American economies and co-ordinating the economic policy of the Contracting States.

A. CENTRAL AMERICAN ECONOMIC INTEGRATION

The Central American Economic Council shall meet as often as required or at the request of any of the Contracting Parties. It shall examine the work of the Executive Council and adopt such resolutions as it may deem appropriate. The Central American Economic Council shall be the organ responsible for facilitating implementation of the resolutions on economic integration adopted by the Central American Economic Cooperation Committee. It may seek the advice of Central American and international technical organs.

Article XXI

For the purpose of applying and administering the present Treaty and of undertaking all the negotiations and work designed to give practical effect to the Central American economic union, an Executive Council, consisting of one titular official and one alternate appointed by each Contracting Party, is hereby established.

The Executive Council shall meet as often as required, at the request of one of the Contracting Parties or when convened by the Permanent Secretariat, and its resolutions shall be adopted by majority vote. In the event of disagreement, recourse will be had to the Central American Economic Council in order that the latter may give a final ruling.

Before ruling on a matter, the Executive Council shall determine unanimously whether the matter is to be decided by a concurrent vote of all its members or by a simple majority.

Article XXII

The Executive Council shall take such measures as it may deem necessary to ensure fulfilment of the commitments entered into under this Treaty and to settle problems arising from the implementation of its provisions. It may likewise propose to the Governments the signing of such additional multilateral agreements as may be required in order to achieve the purpose of Central American economic integration, including a customs union in respect of their territories.

The Executive Council shall assume, on behalf of the Contracting Parties, the functions assigned to the Central American Trade Commission in the Multilateral Treaty on Free Trade and Central American Economic Integration and the Central American Agreement on the Equalization of Import Duties and Charges, as well as those assigned to the Central American Industrial Integration Commission in the Agreement on the Régime for Central American Integration Industries, as well as the powers and duties of the joint commissions set up under bilateral treaties in force between the Contracting Parties.

Article XXIII

A Permanent Secretariat is hereby instituted, as a juridical person, and shall act as such both for the Central American Economic Council and the Executive Council established under this Treaty.

The Secretariat shall have its seat and headquarters in Guatemala City, capital of the Republic of Guate-

mala, and shall be headed by a Secretary-General appointed for a period of three years by the Central American Economic Council. The Secretariat shall establish such departments and sections as may be necessary for the performance of its functions. Its expenses shall be governed by a general budget adopted annually by the Central American Economic Council and each Contracting Party shall contribute annually to its support an amount equivalent to not less than fifty thousand United States dollars (US\$50,000), payable in the respective currencies of the Signatory States.

Members of the Secretariat shall enjoy diplomatic immunity. Other diplomatic privileges shall be granted only to the Secretariat and to the Secretary-General.

Article XXIV

The Secretariat shall ensure that this Treaty, the Multilateral Treaty on Free Trade and Central American Economic Integration, the Agreement on the Régime for Central American Integration Industries, the Central American Agreement on the Equalization of Import Duties and Charges, bilateral or multilateral treaties on free trade and economic integration in force between any of the Contracting Parties, and all other agreements relating to Central American economic integration already signed or that may be signed hereafter, the interpretation of which has not been specifically entrusted to another organ, are properly executed among the Contracting Parties.

The Secretariat shall ensure implementation of the resolutions adopted by the Central American Economic Council and the Executive Council established under this Treaty and shall also perform such functions as are assigned to it by the Executive Council. Its regulations shall be approved by the Economic Council.

The Secretariat shall also undertake such work and studies as may be assigned to it by the Executive Council and the Central American Economic Council. In performing these duties, it shall avail itself of the studies and work carried out by other Central American and international organs and shall, where appropriate, enlist their co-operation.

CHAPTER X

GENERAL PROVISIONS

Article XXV

The Signatory States agree not to sign unilaterally with non-Central American countries any new treaties that may affect the principles of Central American economic integration. They further agree to maintain the "Central American exception clause" in any trade agreements they may conclude on the basis of most-favoured-nation treatment with any countries other than the Contracting States.

Article XXVI

The Signatory States agree to settle amicably, in the spirit of this Treaty, and through the Executive Council

or the Central American Economic Council, as the case may be, any differences which may arise regarding the interpretation or application of any of its provisions. If agreement cannot be reached, they shall submit the matter to arbitration. For the purpose of constituting the arbitration tribunal, each Contracting Party shall propose to the General Secretariat of the Organization of Central American States the names of three magistrates from its Supreme Court of Justice. From the complete list of candidates, the Secretary-General of the Organization of Central American States and the Government representatives in the Organization shall select, by drawing lots, one arbitrator for each Contracting Party, no two of whom may be nationals of the same State. The award of the arbitration tribunal shall require the concurring votes of not less than three members, and shall have the effect of *res judicata* for all the Contracting Parties so far as it contains any ruling concerning the interpretation or application of the provisions of this Treaty.

Article XXVII

The present Treaty shall, with respect to the Contracting Parties, take precedence over the Multilateral Treaty on Free Trade and Central American Economic Integration and any other bilateral or multilateral free-trade instruments signed between the Contracting Parties; it shall not, however, affect the validity of those agreements.

The provisions of the trade and economic integration agreements referred to in the previous paragraph shall be applied between the respective Contracting Parties in so far as they are not covered in the present Treaty.

Pending ratification of the present Treaty by any of the Contracting Parties, or in the event of its denunciation by any of them, the trade relations of the Party concerned with the other Signatory States shall be governed by the commitments entered into previously under the existing instruments referred to in the preamble of the present Treaty.

Article XXVIII

The Contracting Parties agree to hold consultations in the Executive Council prior to signing any new treaties among themselves which may affect free trade.

The Executive Council shall examine each case and determine the effects that the conclusion of such agreements might produce on the free-trade régime established in the present Treaty. On the basis of the Executive Council's examination, the Party which considers itself affected by the conclusion of these new treaties may adopt whatever measures the Council may recommend in order to protect its interests.

Article XXIX

For the purposes of customs regulations relating to free trade, the transit of goods and the application of the Central American Standard Import Tariff, the Contracting Parties shall, within a period of one year from the date of entry into force of the present Treaty, sign special

protocols providing for the adoption of a Central American Standard Customs Code and the necessary transport regulations.

CHAPTER XI

FINAL PROVISIONS

Article XXX

This Treaty shall be submitted for ratification in each State in conformity with its respective constitutional or legislative procedures.

The instruments of ratification shall be deposited with the General Secretariat of the Organization of Central American States.

The Treaty shall enter into force, in the case of the first three States to ratify it, eight days following the date of deposit of the third instrument of ratification and, in the case of the States which ratify it subsequently, on the date of deposit of the relevant instrument.

Article XXXI

This Treaty shall remain effective for a period of twenty years from the date of its entry into force and shall be renewable indefinitely.

Upon expiry of the twenty-year period mentioned in the previous paragraph, the Treaty may be denounced by any of the Contracting Parties. Denunciation shall take effect, for the denouncing State, five years after notification, and the Treaty shall remain in force among the other Contracting States so long as at least two of them remain parties thereto.

Article XXXII

The General Secretariat of the Organization of Central American States shall act as depositary of this Treaty and shall send a certified copy thereof to the Ministry of Foreign Affairs of each of the Contracting States and shall also notify them immediately of the deposit of each instrument of ratification as well as of any denunciation which may be made. When the Treaty enters into force, it shall also transmit a certified copy thereof to the Secretary-General of the United Nations for the purposes of registration as set forth in Article 102 of the United Nations Charter.

Article XXXIII

The present Treaty shall remain open for the accession of any Central American State not originally a party thereto.

Provisional article

As soon as the Government of the Republic of Costa Rica formally accedes to the provisions of this Treaty, the organs hereby established shall form part of the Organization of Central American States (OCAS) by an incorporation agreement; and the OCAS shall be reorganized in such a way that the organs established

by this Treaty retain all their structural and functional attributes.

IN WITNESS WHEREOF the respective plenipotentiaries have signed the present Treaty in the City of Managua, capital of the Republic of Nicaragua, this thirteenth day of the month of December nineteen hundred and sixty.

For the Government of Guatemala:

Julio Prado García Salas
Minister for Co-ordinating Central
American Integration

Alberto Fuentes Mohr
Head of the Economic Integration Bureau

For the Government of El Salvador:

Gabriel Piloña Araujo
Minister of Economic Affairs

Abelardo Torres
Under-Secretary for Economic Affairs

For the Government of Honduras:

Jorge Bueso Arias
Minister of Economic and Financial Affairs

For the Government of Nicaragua:

Juan José Lugo Marengo
Minister of Economic Affairs

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