

062743

CENTRAL AMERICA:
SOME OBSERVATIONS ON ITS
COMMON MARKET, BINATIONAL CENTERS,
AND HOUSING PROGRAMS

REPORT OF
HON. ROY H. MCVICKER, Colorado
OF THE
SUBCOMMITTEE ON INTER-AMERICAN AFFAIRS
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

PURSUANT TO

H. Res. 84

A RESOLUTION AUTHORIZING THE COMMITTEE ON
FOREIGN AFFAIRS TO CONDUCT THOROUGH STUDIES
AND INVESTIGATIONS OF ALL MATTERS COMING
WITHIN THE JURISDICTION OF SUCH COMMITTEE



AUGUST 4, 1966

Printed for the use of the Committee on Foreign Affairs

U.S. GOVERNMENT PRINTING OFFICE

WASHINGTON : 1966

66-746

Y4. F76 / 1
: C 33

06-87-78

COMMITTEE ON FOREIGN AFFAIRS

THOMAS E. MORGAN, Pennsylvania, *Chairman*

CLEMENT J. ZABLOCKI, Wisconsin	FRANCES P. BOLTON, Ohio
OMAR BURLESON, Texas	E. ROSS ADAIR, Indiana
EDNA F. KELLY, New York	WILLIAM S. MAILLIARD, California
WAYNE L. HAYS, Ohio	PETER H. B. FRELINGHUYSEN, New Jersey
ARMISTEAD I. SELDEN, Jr., Alabama	WILLIAM S. BROOMFIELD, Michigan
BARRATT O'HARA, Illinois	J. IRVING WHALLEY, Pennsylvania
L. H. FOUNTAIN, North Carolina	H. R. GROSS, Iowa
DANTE B. FASCELL, Florida	E. Y. BERRY, South Dakota
LEONARD FARBSTINE, New York	EDWARD J. DERWINSKI, Illinois
CHARLES C. DIGGS, Jr., Michigan	F. BRADFORD MORSE, Massachusetts
LINDLEY BECKWORTH, Texas	VERNON W. THOMSON, Wisconsin
HARRIS B. McDOWELL, Jr., Delaware	JAMES G. FULTON, Pennsylvania
WILLIAM T. MURPHY, Illinois	
CORNELIUS E. GALLAGHER, New Jersey	
ROBERT N. C. NIX, Pennsylvania	
JOHN S. MONAGAN, Connecticut	
DONALD M. FRASER, Minnesota	
RONALD BROOKS CAMERON, California	
BENJAMIN S. ROSENTHAL, New York	
EDWARD R. ROYBAL, California	
JOHN C. CULVER, Iowa	
LEE H. HAMILTON, Indiana	
ROY H. McVICKER, Colorado	

BOYD CRAWFORD, *Staff Administrator*
 ROY J. BULLOCK, *Senior Staff Consultant*
 ALBERT C. F. WESTPHAL, *Staff Consultant*
 FRANKLIN J. SCHUPP, *Staff Consultant*
 ROBERT F. BRANDT, *Staff Consultant*
 HARRY C. CROMER, *Staff Consultant*
 PHILIP B. BILLINGS, *Staff Consultant*
 MARIAN A. CZARNECKI, *Staff Consultant*
 MELVIN O. BENSON, *Staff Consultant*
 JUNE NIGH, *Senior Staff Assistant*
 HELEN C. MATTAS, *Staff Assistant*
 HELEN L. HASHAGEN, *Staff Assistant*
 LOUISE O'BRIEN, *Staff Assistant*
 MARY LALOS, *Staff Assistant*
 DORIS B. MCCrackEN, *Staff Assistant*
 JEAN E. SMITH, *Staff Assistant*
 ROBERT J. BOWEN, *Clerical Assistant*

SUBCOMMITTEE ON INTER-AMERICAN AFFAIRS

ARMISTEAD I. SELDEN, Jr., Alabama, *Chairman*

BARRATT O'HARA, Illinois	WILLIAM S. MAILLIARD, California
DANTE B. FASCELL, Florida	J. IRVING WHALLEY, Pennsylvania
OMAR BURLESON, Texas	H. R. GROSS, Iowa
LINDLEY BECKWORTH, Texas	F. BRADFORD MORSE, Massachusetts
RONALD BROOKS CAMERON, California	
JOHN S. MONAGAN, Connecticut	
EDWARD R. ROYBAL, California	
ROY H. McVICKER, Colorado	

ROBERT F. BRANDT, *Staff Consultant*
 HELEN L. HASHAGEN, *Staff Assistant*

CONTENTS

Foreword.....	Page V
Introduction.....	VII
I. The Central American Common Market:	
A. The Legacy of the Past.....	1
B. The Economic Integration Movement.....	2
C. Observations on Central American Economic Integration.....	3
II. Binational Centers.....	8
III. Housing.....	11
Appendixes:	
I. A Report on Central America's Common Market and its Economic Integration Movement.....	13
II. Binational Centers.....	31

FOREWORD

This report has been submitted to the Subcommittee on Inter-American Affairs by the Honorable Roy H. McVicker, of Colorado, a member of the subcommittee. The views expressed in the report are Mr. McVicker's and do not necessarily reflect those of the membership of the Subcommittee on Inter-American Affairs.

The report includes some valuable observations on the Central American Common Market. It also contains an interesting suggestion for improving the operation of binational centers, and his observations on U.S. financed housing programs.

This report is provided by the Subcommittee on Inter-American Affairs in the hope that the information therein will prove useful to the Congress.

ARMISTEAD I. SELDEN, Jr.,
Chairman, Subcommittee on Inter-American Affairs.

INTRODUCTION

This report is an outgrowth of a mission that I undertook to Central America to attend the installation of the new U.S. Director of the Agency for International Development's Regional Office, Central America and Panama (ROCAP), and to review the plans and progress of the Central American economic integration movement.

For over a decade the five Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua—have worked quietly and persistently to create an integrated economic unit among themselves. Their overall objective has been to turn five small markets into a larger, more efficient one.

At present the populations of the five countries are: Costa Rica, 1.4 million; El Salvador, 2.8 million; Guatemala, 4.2 million; Honduras, 2.1 million; Nicaragua, 1.6 million. Together, these represent a potential market of over 12 million people.

The complex economic factors involved in the Central American undertaking do not inspire dramatic headlines. Yet the fact that five nations with a history of internecine feuding are managing to put the common good above national prejudices is an exciting development that merits attention.

While credit for the heartening developments in Central America rests squarely upon the Central Americans themselves, the United States has played a significant complementary role. In recent years, the United States, through the Agency for International Development (AID), has lent sympathetic encouragement to the Central American integration movement, demonstrated by the more than \$83 million made available for Central American Common Market purposes. How effectively those funds have been utilized is, of course, of concern to the Congress and the American people.

The following report is devoted largely to the economic integration movement. During my stay in Central America and Panama, I also observed two other matters that I believe may be of interest to the committee. These concern our binational centers and certain housing programs in Panama and El Salvador. Consequently, I have included some observations regarding these programs.

I. THE CENTRAL AMERICAN COMMON MARKET

A. THE LEGACY OF THE PAST

In order to appreciate the measure of contemporary achievements in Central America, it is necessary to know the obstacles confronting the men who have dedicated themselves to the progress of their region through economic integration.

Perhaps the most debilitating feature in Central America has been the partition of the California-sized isthmus into five separate political entities.

Spain had ruled the region as a single unit. During the empire, Guatemala City was the seat of government as well as the center of cultural and economic life. There the Spanish Government founded such notable institutions as the University of San Carlos (1562) and the Academy of Sciences.

In 1824 the old Captaincy General of Guatemala achieved independence, becoming a federal republic with the name "United Provinces of Central America." Guatemala City, the ancient seat of Spanish government, became the capital of the fledgling country. At that time, the Province of Guatemala contained about 661,000 people, more than the other four component states combined.

Unhappily, the new nation was far from "united." The republic was rent by such divisive factors as unequal development between the center of government, which had long received special attention, and the outlying areas; an absence of communications, with a corresponding isolation and spirit of localism in the provinces; and political conflicts between those who defended a strong central government and those who backed local autonomy. These forces sparked almost incessant civil war for 13 years. In 1838 the federation dissolved, and Central America, in the words of the great Argentine, Sarmiento, made "a sovereign state of each village."

That fragmentation was to have deep economic repercussions upon the resulting five countries. Lacking broad national markets, during the 19th century the Central American economies grew to specialize in one or two commodities for export. The individual governments, eager to attract private foreign investments to develop their resources, promoted the process of production for export by offering special concessions, government subsidies, and other forms of preferential treatment. Roads and railways were then built to connect production areas with ports leading to foreign markets. Each country lived as if it were an island, dependent upon maritime transportation as the only effective channel of transportation. Overland conveyance was limited to foot travel or donkeys on jungle and mountain paths. Meanwhile, production for internal consumption remained primitive.

Thus, the prosperity of the Central American countries came to rest heavily upon a few export commodities—coffee, sugar, bananas, cattle, and lumber. But the vagaries of the world market brought a perpetual cycle of "boom or bust."

Since achievement of independence, more than 20 futile attempts have been made to unite Central America politically. As time passed, and each country developed its own singular institutions, the chances for political union seemed slim. The little nations, sometimes bitterly at odds with one another, occasionally even resorted to invading each other's territory.

B. THE ECONOMIC INTEGRATION MOVEMENT

In the years following World War II, a number of Central Americans became keenly aware that economic development, and consequently social progress, could not be achieved under existing conditions. This recognition created a desire to end overdependence upon one or two agricultural exports and to stimulate the growth of national industries. At the same time, there was a realization that the small domestic markets in each country made industrial development behind national tariff walls costly and wasteful, and that heavy capital outlays for complex capital goods industries could not be justified by the limited scope of the individual markets. As a result, there began a search for alternatives for the economic impasse.

Fortunately for Central America, at that time the economic ministers of the five countries were exceptionally able men, each concerned for the welfare of his country but not limited in outlook by chauvinistic concepts. Interestingly, three of the economic ministers had trained in economics in the United States—Manuel Noriega Morales of Guatemala and Jorge Sol of El Salvador at Harvard, and Alfredo Volio of Costa Rica at the University of Maryland. A fourth, Enrique Delgado, of Nicaragua, received part of his training at Georgetown University while serving at the International Monetary Fund in Washington. The fifth, Marco Antonio Batres, of Honduras, was a lawyer who had for years been connected with the Honduran economy.

In a series of informal talks, these men found that they shared similar preoccupations and began to search for means to remove the economic barriers between their countries. How the present concept of merging the five economies grew; how the apprehensions and antagonisms of vested interests were overcome; how permanent Central American agencies were created to administer aspects of the integration movement; and how international organizations such as the United Nations and the Inter-American Development Bank, as well as the United States, supported Central American initiatives, make a fascinating saga of multinational cooperation.

We are fortunate in having available a recent comprehensive study of those developments prepared by the Department of State at my request, and reprinted here in the appendix, page 13. The report is of great historical value, since it draws upon interviews with participants in the Central American integration movement as well as upon documents.

But over and above its usefulness for historical purposes, the report presents an encouraging account of the possibilities of transforming human institutions, however embedded in custom and practice, through multinational cooperation. Moreover, unlike the European Common Market, the Central American endeavor engages the participation of so-called underdeveloped nations. Thus, the report documents a novel departure in international collaboration with significant

and hopeful lessons for other nonindustrial regions. Of course, the circumstances from which the Central American experience evolved are not duplicated precisely in other areas of the world. Nevertheless, the Central American experiment does provide tangible evidence of the benefits attainable by underdeveloped countries in other regions through cooperative efforts.

C. OBSERVATIONS ON CENTRAL AMERICAN ECONOMIC INTEGRATION

I will not attempt to summarize the detailed account of the development of the Central American integration movement presented in the appendix, but will offer some personal observations.

I was much impressed by the caliber of the men whose vision, persistence, and dedication are largely responsible for the creation of the Central American Common Market. Moreover, the results of their labors are palpable. The integration movement has generated within the region a certain self-confidence and optimism, vital factors without which economic development and social progress cannot be achieved.

The region is now vibrant with change, growth. Indeed, the nations of the isthmus are rapidly shedding those characteristics associated with the derisive term "banana republics."

Although the idea for economic cooperation germinated in the early 1950's, the Central American Common Market (CACM) in its present form dates from the signing of the General Treaty for Central American Economic Integration in December 1960. The treaty was not fully ratified until 1963 when Costa Rica finally joined, but the CACM began to operate in June 1961. Hence, the CACM has been operative for only 5 years.

Those 5 years have brought remarkable innovations. Under the terms of the agreement, the five participating countries have abolished tariffs on 95 percent of all imports originating in the area, while applying common tariffs to 98 percent of all imports from external sources. As a result, intraregional trade has more than quadrupled, from \$32.7 million in 1960 to \$142.2 million in 1965. Significantly, this dynamic growth derived fundamentally from a great expansion of trade in industrial products, now estimated at more than 70 percent of the total.

Existence of the Common Market proved to be a strong incentive for investment. As economic cooperation among the five nations became a habit and the resulting benefits began to be felt in each, internal political stability improved and political hostilities in the region cooled. A peaceful population of over 12 million, growing at perhaps the highest rate in the world, forms an attractive market, with rising expectations based on an increasingly high rate of development. Foreign investment figures for the period reveal a growing confidence in the region's future. Whereas direct private capital investment from abroad was \$17.1 million in 1960, it jumped to \$57.9 million in 1963, and leaped to \$130 million last year.

Increases in the gross national products of the five Central American countries have been heartening. Last year they ranged from 5 to 8 percent for four of the five nations. Even in the fifth, Costa Rica, a 4 percent increase in GNP was achieved despite substantial damage to its agriculture by the eruption of the Irazú volcano. Thus,

despite high population growth rates that range from about 3 to 4 percent, the Central American Common Market countries were able to attain the per capita growth standard of 2.5 percent set by the Alliance for Progress in the Charter of Punta del Este.

What do these cold statistics mean in human terms? Stretching from downtown San Salvador to the airport runs what is called the miracle mile, actually 5 miles. I am told that 2 years ago there was nothing bordering this road but weed patches and slum towns. Today, on both sides of the avenue, there are dozens and dozens of new buildings housing small industries and businesses. Many bear familiar U.S. names, attesting to the ability of the Common Market to attract investments vital to growth. These new factories are producing dacron and rayon fabrics for men's trousers, phonograph records, paper bags, batteries, copper wire, and electric light bulbs.

Similarly, in Guatemala, cotton textiles, paint, kitchen stoves, automobile tires, spark plugs, and glass containers are now manufactured and sold throughout Central America. Nicaragua has underway a plant to produce refrigerators, as well as factories to assemble radios, phonographs, and TV sets for the Central American market. Costa Rica is now assembling automobiles. In Honduras, a new textile mill began to operate late in 1965, and cigars, fibre glass chairs and desks, and boots and shoes are being manufactured for sale throughout the region.

All this new activity spells employment for the Central American people. With steady employment come salaries, creating purchasing power which in turn sparks the establishment of new industries. As the economies expand and more people find remunerative work, there is social mobility. No longer are men and women destined by birth to eke out pitiful livings. Children can attend school with reasonable expectations of finding employment commensurate with their educational level and acquired skills.

Indeed, in areas of Central America previously characterized by a huge chasm between the few fortunate families and masses of peasants, a middle class is rapidly developing. The rise of this middle class is the best guarantee against Communist agitators and other demagogues.

Most observers of the Central American Common Market become eloquent when discussing its achievements. An "economic miracle" and an "economic wonder" are among the most frequently heard paeans. Certainly, in its first 5 years, the Central American Common Market has been a phenomenal success.

Yet able Central Americans who run the Common Market institutions insist that the five countries must vest an increasing amount of authority in regional organizations if the market's economic gains are to be solidified. I met with Pedro Abelardo Delgado, the dynamic Salvadoran who heads the Common Market's Permanent Secretariat (SIECA) at SIECA's headquarters in Guatemala City. Dr. Delgado emphasized a theme that I was to hear repeatedly: that the Central American countries must strive constantly to expand the scope of their integrated activities.

In fact, the economic integration movement is much more comprehensive than the creation of a common internal market. For example, the Common Market countries have established a regional development bank to assist in financing projects which will spur economic integration. The Central American Bank for Integration (CABEI)

was formed with each Central American government subscribing \$4 million in capital. Each of the governments paid in \$2 million initially, and CABEI opened its doors for business September 1, 1961, on one floor of the Central Bank Building in Tegucigalpa, Honduras.

CABEI has become a major source of loan funds for industrial expansion within the common market. As of June 30, 1966, utilizing funds obtained from Agency for International Development (AID) and the Inter-American Development Bank as well as its own capital, CABEI had made 98 loans totaling \$32.6 million to the private sector throughout the region. These loans have made possible expansion of existing factories and introduction of new factories, producing a variety of products ranging from plywood, metal pipe, turpentine and cement, to ball point pens, rubber shoes and nylon stockings.

The United States, through AID, has provided CABEI some \$5 million in grants for organizational costs and technical assistance, and \$62.5 million in loans. Of the U.S. loans extended to CABEI, \$15 million were destined for industrial purposes; \$2.5 million for feasibility studies; and \$10 million for mortgages on housing in the five countries. More than half of the total U.S. credits—a \$35 million loan agreement signed in July 1964—is part of a \$47 million Fund for Economic Integration to finance regional infrastructure projects such as roads, telecommunications facilities, and power installations. The remaining \$7 million has been contributed in \$1.4 million shares by each of the Central American countries. Incidentally, the Fund for Economic Integration was originally proposed by President Kennedy during his meeting with Central American Presidents in Costa Rica in March 1963.

There are other examples of progress toward Central American economic integration. A task force has been set up to study the possibility of a common currency. The five nations maintain different currencies, ranging in value from the Guatemala quetzal which is on par with the dollar, to the Costa Rican peso at 6.62 to the dollar. Meanwhile, to facilitate the use of Central American currencies in making payments among member countries, a clearinghouse established in Tegucigalpa in 1961 by the central banks of the five republics is already settling local accounts in the area's new currency, the Central American peso, which is at par with the U.S. dollar. Last year the clearinghouse handled over \$112 million in transactions.

Central American integration leaders see the establishment of a union to harmonize monetary, credit, and foreign exchange policies as the next step. In 1964, the five nations' central banks did adopt an agreement for the creation of a Central American Monetary Union, but national economic policies still rest with the individual governments.

Meanwhile, plans are going forward to promote a common regional marketing system for corn, beans, and rice, the staple foods of much of the population; to establish a set of uniform fiscal incentives to be offered to attract foreign investment; to establish a customs union by 1970 by combining present arbitrary and conflicting customs systems into one unified service, after which equalized tariff revenues would be distributed among the member countries regardless of port of entry, and service would allow through shipment of imports without inspection at borders.

Over and above efforts to obtain free trade, a common tariff, and a common industrial policy (components of the present Central

American Common Market), Central American integration leaders are striving to forge regional links in other fields. Joint commissions are now working on coordinated labor laws, health missions, and other activities related to social change.

I witnessed in action a moving and encouraging example of a multinational social program in action. The educational systems of the region represent a severe obstacle to development. Except in Costa Rica, where the literacy rate is 88 percent, literacy rates in the Common Market countries are distressingly low: El Salvador, 48 percent; Guatemala, 30 percent; Honduras, 47 percent; Nicaragua, 40 percent. While shortages of teachers, classrooms, and materials are factors, the problem goes deeper. The school systems have failed to provide curricula that parents can relate directly to the future welfare of their children. As a result, dropouts are high, occurring mainly in the second and third grades.

The United States, through AID's ROCAP, has joined with the Ministers of Education of Central America and Panama in a project to prepare and provide textbooks and teachers' guides in reading, writing, arithmetic, social studies, and sciences for use by elementary schoolchildren. The new books and teaching methods are designed to make education in Central America more practical and meaningful.

At ROCAP's office in Guatemala City I saw a lovely white-haired lady from Arizona, Mrs. Victoria de Sanchez, presiding over conferences in at least a dozen rooms in which representatives from each of the CACM countries were composing the new texts together. Mrs. de Sanchez has been a spark plug of the program from its outset, helping to conceive the idea and to bring it to fruition.

As of June 1966, 5½ million copies of 12 different textbooks had been published for the use of 1.3 million students and 58,400 teachers in the first 4 grades of the public schools in the CACM countries and Panama. At the conclusion of the project in 1970, it is expected that 11.5 million books will have been made available for 6 grades of elementary schooling.

The ultimate benefits of the program to the peace and security of the hemisphere as well as to the common good of Central America are incalculable. Obviously, children who are given an education which enables them to become gainfully employed are assets to modernizing societies. At the same time, people who are provided an opportunity to make something of themselves in their own environment are unlikely to succumb to Communist blandishments.

The textbook program is but a small part of the efforts of AID's Regional Office for Central America and Panama in support of the Central American integration movement. A summary of ROCAP's role and responsibilities can be found in the appendix, pages 24, 25.

As for the future direction of the Central American integration movement, a number of North and Central Americans with whom I spoke foresee some difficulties for the CACM countries in the common market's heavy emphasis upon industrialization. They point out that agriculture is and will remain for some time the principal occupation of the bulk of the populace and the chief means by which the countries earn foreign exchange with which to purchase capital equipment for industrial expansion. Consequently, they feel that agricultural activities should become an equal concern of the CACM.

It seems to me that U.S. assistance should be directed toward encouraging a greater regional commitment toward reform of the agricultural sector. This should include regional efforts to diversify agricultural production from the traditional coffee, cotton, and banana crops. The endeavor may have to include everything from research and experimental stations, to extension services, to credit for small farmers participating in the undertaking. In some instances it may include land redistribution matters.

If the road to regional cooperation on agricultural questions looks steep, it is nevertheless vital to get on with the venture before the industrial expansion sparked by the Common Market tilts the regional economy askew.

I am confident that the Central Americans can approach their agricultural problems with the same vigor, persistence, and spirit of cooperation that they have demonstrated in constructing their remarkable Common Market experiment.

The experiences of my trip reaffirmed my basic support for the U.S. role in support of Central American economic integration. I think ROCAP has proved to be an extremely effective instrument for furthering Alliance for Progress goals in Central America. Above all, it is heartening to note that Central American initiative and self-help, bolstered by timely U.S. assistance, are producing tangible results of fortunate consequence for the peace and security of the entire hemisphere.

II. BINATIONAL CENTERS

While in Guatemala I had an opportunity to become acquainted with the operations of the Instituto Guatemalteco Americano, a binational center.

Binational centers are nonpolitical, nonprofit cultural institutions, founded largely on local initiative, incorporated under the laws of the host government, and governed by boards of directors chosen from U.S. citizens resident in the host country and citizens of that country. The purpose of the binational centers is to provide a meeting ground for people interested in learning more about the United States. There are presently 132 such centers in 29 countries, 112 of these in the Latin American Republics.

Binational centers sponsor various cultural activities, such as programs by visiting U.S. symphonies, choral and theater groups, and ballets. Probably their most popular function is the teaching of English.

Some of the binational centers receive some form of U.S. assistance, such as books for their libraries, English teaching specialists, teaching materials, and occasionally cash grants.

I have asked the Department of State to furnish additional background information on the operations of the binational centers. This is included in the appendix, page 31.

My contact with the binational center in Guatemala City convinced me that it is an effective means for developing and perpetuating better relations between our countries through cultural activities. The Instituto's administration is truly binational, with the board of directors composed equally of Guatemalans and resident Americans. Their goal—better relations between our two countries—is accomplished through maintenance of a good library, art exhibits and concerts, and especially, classes in English and commercial subjects.

The intense desire among Guatemalans to learn English is astonishing. Their interest is so ardent and persistent that the Instituto is hard pressed to provide the number of teachers required for the 3,000 registered students. The Instituto's roster of teachers includes only 8 full-time American teachers and 17 part-timers. There are also 18 non-Americans, fluent in English, who help out on a part-time basis.

Surely, there is no better way to build bridges of understanding between two nations than by broadening their means of communication. Yet the shortage of teachers is limiting the Instituto's ability to meet the enthusiastic demands of the Guatemalan people.

I was deeply troubled by the limitations imposed on the program by the shortage of qualified teachers. The United States could remedy the situation simply by funding for and recruiting the necessary teachers. But that type of U.S. Government sponsorship would extinguish the distinctive feature of binational centers—their local initiative.

As I thought over the problem, a possible solution occurred to me for securing the teachers without undue recourse to Federal aid. Why not tap the resources of our school districts at home, on a kind of people-to-people basis? My idea was to send teachers from the Denver metropolitan area to the binational center in Guatemala City on a sabbatical basis for a year to teach English as a foreign language.

I broached the idea with Instituto officials and educators in the Denver area, receiving an enthusiastic response. Then I queried the Department of State and the U.S. Information Agency regarding the feasibility of the undertaking. With excellent cooperation on the part of all concerned, the plan already is in operation.

Briefly, here is how it functions: The school superintendents were informed of the plan, and in turn requested the approval of their school boards. Teachers then were informed of the opportunity and requested to write a letter to their superintendent if interested. The qualifications required of our teachers were an undergraduate degree or higher in one of the following fields: English, Spanish, linguistics, Latin American studies, education, anthropology, sociology, archeology, economics, political science, library science, journalism; a minimum of 3 years of teaching experience, and good health. Proficiency in Spanish was not demanded.

Teachers were asked to accept a position for a full year, to teach 25 hours weekly, and to take part in the binational center's activities program. They are to be paid by receiving a sabbatical stipend from the school district and \$2,400 from the binational center. If necessary, and with the approval of the director of the Instituto, teachers could supplement their income by obtaining additional employment while in Guatemala. Teachers would also be free to use leisure hours in research projects. The grant includes 4 weeks' leave during the course of the year.

The result was a flood of serious inquiries, and the director of the Instituto flew to Denver to select four teachers from among the plethora of talent that had come forward. Among those chosen are a man who teaches English, two who teach Spanish, and a lady who instructs the sixth grade in all subjects. They received orientation regarding Guatemala and the operation of binational centers from a USIA-Washington staff man. Three of the Denver teachers are now in Guatemala, and the fourth is scheduled to follow shortly.

The families of the teachers were able to accompany them to Guatemala through the generosity of an anonymous donor who provided funds for their travel. The necessity of resorting to the benevolence of a private citizen, however, is cause for apprehension for the future success of similar enterprises. People are not likely to undertake—nor should they be expected to—a year's separation from their families. Assured funds should be available for this type of expense.

The Denver-Guatemala arrangement is by way of a pilot project. I am convinced that this type of program, if expanded to other school districts in the United States, could provide the binational centers in Latin America with a tremendous infusion of talented, trained, qualified, and enthusiastic personnel, all with teaching degrees and experience. They would enable the binational centers to realize their full potential without creating an expensive new bureaucracy.

Furthermore, it seems to me, the purposes of the Alliance for Progress would be greatly served by providing a two-way opportunity to contribute to inter-American understanding: on the one hand, our teachers would fill a vital gap in Latin American binational centers; on the other hand, their experiences in Central and South America would enrich their own knowledge, enhancing their competence in their classrooms back home.

III. HOUSING

In Panama I visited several housing projects, funded through U.S. assistance. One apartment house I saw, financed by a Social Progress Trust Fund loan, administered by the Inter-American Development Bank, was literally tattered and torn, although only about 5 years old. The tenants are supposed to pay \$3.50 a week rent and have paid nothing for 2 years. The building and grounds looked totally uncared for.

Another apartment, less than a mile away, which was rehabilitated by Panama's housing agency and converted to a cooperative, was strikingly different in appearance. This project, benefiting from a U.S. bank loan and AID's technical assistance, looked new and exuded pride and loving care. The inhabitants purchase their apartments through small monthly payments and none are in arrears. In addition, a credit union has been established where deposits from members are in turn loaned back for improvements to the individuals' apartments.

The difference in these two buildings reflects the dramatic difference that American foreign aid has recently undergone.

In El Salvador, I went through the Miramont middle-class housing project. A major loan from a New York bank backed by our guaranty has made possible a housing project for the middle class. Miramont houses sell from \$8,000 to \$11,000, with 10 percent downpayment. Interest rates are at approximately 9 percent overall.

A waiting list of hundreds and hundreds testifies to the success of this new venture. Interestingly, the Alliance for Progress was given top billing on the Miramont billboards and American private investment companies were given equal billing.

The Foreign Affairs Committee has made improved housing in the Americas a priority objective and much needs to be done. I have emphasized, as have my colleagues, that the officials in AID do not seem to be pushing the housing guaranty program in Latin America, in spite of the spectacular success of projects that are underway or have been completed. Dispensing with the direct use of U.S. Government dollars, Government guaranties are used to attract private money. This works in Latin America as it does in our own country.

The officials of AID, by cutting some bureaucratic redtape and reducing the enormous amount of checking and duplication of forms, could and should stimulate these projects. They have not pushed as hard as they might or should.

Greater reliance on U.S. private investment, more private ownership of housing through cooperatives and credit unions—that which we take for granted—means so much more than just giving out our dollars. The fact that it did not happen a decade ago—and there has been much waste—does not preclude our reaching constructive agreements with our Latin American neighbors in excitingly new and vital directions.

APPENDIXES

APPENDIX I

A REPORT ON CENTRAL AMERICA'S COMMON MARKET AND ITS ECONOMIC INTEGRATION MOVEMENT

(Observations on the history, operations, and U.S. support of increasingly successful international agreements among Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica)

CONTENTS

	Page
Introduction.....	13
Section I. Genesis and progress of the Central American Common Market and the integration movement.....	14
Section II. Growth and patterns of trade, industry, and investment.....	21
Section III. Role of the United States.....	23
Summary of Central American economic data.....	27

INTRODUCTION

During the last 2 weeks of January 1966 a brief but comprehensive study was made of the Central American Common Market (CACM). The time seemed propitious. The General Treaty for Economic Integration by which Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica agreed to establish the Common Market had marked its fifth anniversary and the CACM itself was approaching the close of 5 years of activity under that agreement. The Comité de Cooperación Económica del Istmo, the first of the Central American economic integration bodies, was about to meet for the first time in 3 years to evaluate the integration movement in conjunction with the United Nations Economic Commission for Latin America (ECLA) which had been highly instrumental in bringing the partner countries into integration channels. President Johnson had, in his January 1966 budget presentation to the Congress, once again confirmed the strong interest by the U.S. Government in Latin American integration and the high priority it gives to such movements.

A concomitant consideration was the forthcoming presentation to the Congress of the appropriation bill for the Agency for International Development (AID) which has been keenly interested for more than 4 years in the CACM, more or less paralleling the course of the Alliance for Progress—an interest indicated by its funding more than \$83 million for CACM purposes. This sum is apart from the loans and grants made by AID to the five individual nations (and Panama) and the additional financial assistance provided by the United States through other U.S. agencies and the international organizations such as the Inter-American Development Bank (IDB).

It is stressed here that this statement on the U.S. assistance to the CACM should in no way be construed as depreciating the efforts of the Central Americans themselves who not only fathered the idea for economic fusion but contributed virtually all of the direction and economic means for the erection of this historic economic edifice.

The United Nations and the U.S. Government are not alone in showing high interest in the Central American mechanisms and success in knitting together their economic interests. As indicated by publications and correspondence, close observation is manifested in the world's principal centers of marketing and finance on the ability of the five small, generally underdeveloped countries to bind their economic relations despite political differences and national and private interests.

This remarkable ability by the Central Americans has resulted in the virtual elimination of tariff barriers among themselves and an increase of internal trade among them to more than four times what it was 5 years ago. There is continued dependence on exports of the traditional staples of coffee, bananas, cotton, cattle, and sugar but a marked difference in the character of their imports as industrialization gains stronger roots in once almost totally agricultural lands. Central America in area is roughly the size of California and has a population of about 12 million that is rising at a rate close to, if not, the highest in the world.

Seeking firsthand knowledge on the CACM has led to the examination of numerous governmental, quasi-governmental and private reports and publications and to many interviews, often at great length with extremely busy persons, both those in the Central American organizations, the national governments in those countries and U.S. Government officials directly concerned with the integration movement.

For purposes of convenience this report is divided into three sections. These are devoted to (1) the genesis and progress of the Common Market and the economic integration movement together with an indication of their future course; (2) a summary of the trade, internal and external, of the five member countries; (3) a review of the U.S. contributions to the CACM and the movement.

Attached to the report is a five-page compendium "Summary of Central American Economic Data" whose statistics include on foreign and intraregional trade, population, education, health, agriculture, transportation, electric power production, financial assistance from the United States and international organizations.

FEBRUARY 4, 1966.

SECTION I. GENESIS AND PROGRESS OF THE CENTRAL AMERICAN COMMON MARKET AND THE INTEGRATION MOVEMENT

In considering the preparation of a report on the genesis and progress of the Central American Common Market and the economic integration movement, it appeared appropriate to accept the view of a Central American authority who had pioneered in the movement from its beginning. He divided the history of the movement into three periods—1951–58, 1958–60, and 1960 onward to the present. This report is therefore based on that division of three periods and, in large part, on the recollections of Central Americans who had participated as pioneers in the movement.

PERIOD 1951–58

In the years immediately following World War II when Central America retained wartime prosperity by continued high production to meet the world demand for their traditional commodities—coffee, sugar, bananas, cattle, and lumber—a few among them wondered whether they were not again at the height of the economic cycle that followed World War I. Would Central America, they felt, again plunge into deep economic depression as it did in the 1920's and 1930's when its products commanded lower prices than even the low production costs of which their fincas were capable? Was there a way out of this economic rollercoaster of prosperity in wartime and misery in peacetime?

Luckily for Central America the Economic Ministers of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica were at the time farsighted men who discussed among themselves means to establish economic stability. Three of them, incidentally, had trained in economics in the United States—Manuel Noriega Morales, of Guatemala, and Jorge Sol, of El Salvador, at Harvard, and Alfredo Volio, of Costa Rica, at the University of Maryland. A fourth, Enrique Delgado, of Nicaragua, received part of his training at Georgetown University while serving at the International Monetary Fund. Marco Antonio Batres, of Honduras, was a lawyer who had for years been connected with the Honduran economy.

As the five groped for solution in informal talks in twosomes and threesomes with others of like mind in the area, they communicated informally with officials of the Economic Commission for Latin America of the United Nations (ECLA) of which Dr. Raul Prebisch, the Argentine economist, was then secretary-general, and Jose Antonio Mayobre was its field representative. ECLA officials observed also that Central America should develop "within"—that is, establish larger internal markets and new industries—as well as look to the outside world for their means of livelihood. They saw that Central America had two factors in its favor: (1) the smallness of the five countries, each one unfeasible as a national market,

made them a dramatic case for becoming partners in a Common Market, and (2) success toward common economic relations had greater possibility than in other areas for they had a long tradition of close relationship—they were a unit for 300 years under the Spanish Captaincy-General of Guatemala and were united as one nation from 1823 to 1842.

Early in 1951, when the Korean war was underway and the prices of Central American commodities continued high in foreign markets, Dr. Prebisch inquired of the five ministers if it were possible to create larger markets within Central America and accelerate industrialization and economic development. He invited them to the fourth ECLA meeting, taking place in Mexico City, to think aloud on what Central Americans could do themselves toward creating means toward stability. Most of the Ministers accepted the invitation. At the time, there was little if any thought of a "Common Market"—the present concept of merging the five economies. They thought more in terms of removing economic barriers among themselves for the products of new industries producing goods not then made in Central America and by offering prospective industrial investors a five-country market, an offer none of the five could make individually. As "unionistas," these leaders ideologically favored political and economic union among the five republics but as practical men they sought to avoid antagonisms from vested interests and therefore worked toward common ground for establishing new industries, like fertilizer factories.

ECONOMISTS SUCCEED FIRST

It is perhaps only coincidental, but nevertheless significant, that political and economic organizational efforts came about in close proximity, with the economists succeeding first.

June 16, 1951, is considered the beginning date of the Central American Common Market and economic integration movement. On that day at the ECLA meeting in Mexico City, the United Nations created the Economic Cooperation Committee of the Central American Isthmus (Comité de Cooperación Económica del Istmo Centroamericano) to collaborate with ECLA in exploring means of creating more economic stability within the five republics, and, in a second agreement, the Central Americans pledged to coordinate their governmental infrastructure projects insofar as feasible, so that roads, for instance, connected at predestined points for continuation in both countries.

Four months later, in San Salvador on October 15, 1951, the Charter of San Salvador was signed creating the Organization of Central American States (ODECA), a regional political organization within the framework of the United Nations, to enable member countries to expedite consultation among themselves. Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua became members, with Panama eligible to join.

As related by one of the Ministers who had attended the ECLA meeting, the Ministers returned from Mexico City only to be jeered generally as "dreamers." Few saw the two agreements as anything but empty formalities. In any case, not many took the agreements seriously enough to even examine their meaning.

Slowly work toward economic unity began. ECLA and the five Ministers agreed that Dr. Prebisch should tour the five countries to explore ways by which the June 16 resolution could be implemented. With two ECLA officials—Victor L. Urquida and Cristobal Lara, both of Mexico—Dr. Prebisch spent 10 days or more in each of the countries, talking with government officials, businessmen, agricultural producers, exporters. At the time, Central American countries were in an isolationist mood and actually regarded each other like completely foreign powers. Honduras and El Salvador had a free trade agreement dating to 1918 but the other countries did not see it as a model.

In a report on his findings, Dr. Prebisch pointed out possible fields for economic cooperation among the five and presented his proposals to the first meeting of the Economic Ministers, based on the June 16 resolution, held in Tegucigalpa in August 1952. The seeds for the Common Market were planted there. The Ministers decided to create the "Comité de Cooperación Económica del Istmo Centroamericano," comprising the five Economic Ministers, and to meet annually. ECLA was named to be the Comité's secretariat and perform the technical work of the Comité. Gustavo Martínez Cabañas, of Mexico, a high official of the U.N.'s Technical Assistance Program, noted that the United Nations could finance the costs of surveys to implement the Central American idea. No government opposed this program since none apparently felt it was affected by it.

CLIMACTERIC AT TEGUCIGALPA

At the Tegucigalpa meeting, two institutions were born. One was ICAITI (Instituto Centroamericano de Investigación y Tecnología Industrial) as a sort of "Bureau of Standards" for Central America. The other was ESAPAC (Escuela Superior de Administración Pública en América Central) for training high-level public administrators. Both subsequently were set up under United Nations auspices ICAITI in Guatemala City and ESAPAC in San Jose, Costa Rica (see ROCAP pamphlet entitled "Organizations Advancing Economic Integration and Development in Central America and Panama" issued in 1965).

Thus, the Tegucigalpa session set the program for economic unity into motion and, in retrospect, was a peak point in the integration movement.

The 1951-58 period, in summary, saw the pledges for common effort at the ECLA sessions in Mexico City and Tegucigalpa and ECLA's formation of ICAITI and ESAPAC which united the countries of the Isthmus institutionally, including Panama. ECLA also began studying possibilities for new industries in the region, including pulp and paper, glass and fertilizer.

Tremendous technical work was accomplished—establishment of comparable tables of statistics, common nomenclature for products, studies of tariff systems. For example, NAUCA (Nomenclatura Arancelaria Uniforme Centroamericana), resulted after a tedious 3-year study of nomenclature. Some of the countries were involved with nonregional countries like the United States, the United Kingdom, and France in most-favored nation agreements. The 1951-58 period saw the Central Americans thus involved abandoning these agreements for others which included the "Clausula Centroamericana de Excepcion." This clause provided that concessions given by the Central American countries to each other were not applicable to non-Central American countries.

NETWORK OF TREATIES A "MOSAIC"

In this "first era" the foundations for unity were furthered by the signing of bilateral free trade agreements. These were similar to the El Salvador/Honduran agreement. El Salvador and Guatemala set up networks of such treaties with four countries and each of the other three had at least two trade treaties calling for the removal of barriers on domestically produced goods and increased inter-country trade. By 1958, the network of treaties had developed into what was described as "an intricate mosaic rather than a clear picture—there were treaties, but there was no uniformity, no common purpose, and no system."

PERIOD 1958-60

These activities began making it apparent that a multilateral treaty was required to govern the trade relations and industrialization of the five countries, a need which became acute in 1957. Preparatory work, it was felt, had been completed and the five countries were ready to embark on a tightly drawn common program.

By 1958 the general conception had changed with relation to expansion of industry. Economists looked to development of a common price system for products domestically produced; an open field of investment by which the nationals of every country received treatment equal to that given its own nationals; a common tariff which would some day lead to a customs union; elimination of all payments restrictions within Central America; cooperation among central banks on foreign exchange transactions through a Central American clearinghouse (which went into effect in 1961 in Tegucigalpa and cleared about \$112 million in 1965); create new industries protected by Central American countries under an industrial treaty known as "Regimen Industrial de Integración".

These multilateral treaties were to replace the bilaterals in fact, although the old treaties would legally remain in force. The treaties in force allowed a commodity to enter a country after it had been specifically named in a "positive list" appended to the treaty in effect. In 1958, a long "positive list" of free trade items was developed. The list carried "things easy to trade because they did not raise much antagonism on the part of vested interests and were taken from the bilateral agreements already in effect," a Central American authority noted. In 1959, fewer items were placed on the list and in 1960 it apparently was almost impossible to add commodities.

In the period 1958-60, eight agreements were reached. The first of these were the Multilateral Treaty of Central American Free Trade and Economic Integration, and the "Convention on the System of Central American Integrated Indus-

tries," signed on June 10, 1958. They culminated with two treaties signed in Managua on December 13, 1960, namely, the General Treaty of Economic Integration which included means to set up SIECA (Secretaría Permanente de Integración Económica Centroamericana), and the instrument to establish the Central American Bank for Economic Integration.

The Treaty on Integrated Industries, some thought, would provide monopoly privileges and thus would be unworkable. El Salvador and Costa Rica opposed it while Honduras and Nicaragua favored it. Guatemala apparently held its counsel. At this time it is operative in a manner that provides protection and incentives on one hand, to a single plant in a particular industry, but allows competition to challenge the established plant by a graduated system of incentives.¹ In 2 years the multilateral and bilateral treaty structure had run its course so that by 1960 the countries reached an impasse. This, a Central American authority said, was the only year in which the Ministers exchanged remarks in anger. "There was mistrust and frustration." But there was also common agreement that if Central America were to go into a Common Market "full blast," marginal industries would suffer and some means would be required to provide for modernization of plants and working capital and thus enable them to compete. Thus, the idea for the Central American Bank was conceived and its fruition came about with the aid of the United States about which more will be said later.

Dissension prevailed, three countries—Honduras, Guatemala and El Salvador—decided to join forces and quietly signed a Treaty of Economic Association on February 6, 1960. Nicaragua, shocked by this development, insisted on participation. The tripartite treaty, thus, accomplished the purpose of spurring Nicaragua and Costa Rica into entering the general treaty, which is now in force, and the way was opened for all five countries to enter on equal terms by the referred-to agreements in Managua in December 1960. Since Costa Rica had not yet ratified the 1958 treaties and thus was not an operating member, it reportedly was not taken aback as much as Nicaragua. The tripartite agreement of February went far to establish free trade by the adoption of a "negative list". This meant, in effect, that only items listed on that list were exempt from moving freely among the five countries. The negative list was composed mainly of primary products exported to the outside world—sugar, bananas, coffee, cotton, etc. It also included commodities like wheat since some countries exported and others imported the grain and a common level of protection was difficult to attain.

1960 ONWARD

The period following the general treaty signing of 1960 up to the present time has seen implementation of that treaty. "What you see in the Common Market today," said a participant, "is what was created in 1960 and 1961."

As reported in a SIECA publication in March 1963, ("Economic Integration of Central America and the Role of the Alliance for Progress,") the general treaty "is called a major step forward" for the following reasons:

"(1) The unique approach to trade liberalization, which freed almost all products specifically originating in the respective territories of the five states rather than freeing specific products and leaving all others under control. This had the effect of removing 95 percent of the articles traded intraregionally immediately after the general treaty became effective and the remaining 5 percent in no more than 5 years, or by 1966. (This timetable is being maintained in nearly every aspect.)

"(2) Recognition that freer trade was only an initial step toward economic integration. This led to the immediate development of institutions for the execution of regional economic policy: the Permanent Secretariat of the General Treaty for Central American Economic Integration (SIECA), the Central American Bank for Economic Integration, and the Central Exchange Clearinghouse."

At present, more than a score of official, quasi-official and private organizations are helping advance the integration movement (ROCAP publication "Central American Organizations Advancing Economic Integration in Central America and Panama").

The aforementioned SIECA publication pointed out further that the "Declaration of the Peoples of America," attendant to the Charter of Punta del Este which set up the Alliance for Progress, urged the Americas to "accelerate the integration of Latin America so as to stimulate the economic and social development of the continent" and said "this process has already begun through the General Treaty of Economic Integration of Central America and, in other countries, through the Latin American Free Trade Association."

¹ See sec. II, p. 21.

In the years following the general treaty, the internal free trade list has been amended to where at the beginning of 1966, less than 3 percent of the products are restricted. A customs union by 1970 is in prospect, some authoritative Central Americans believe, and even "perhaps" a monetary union and a stock exchange by that date. National treatment for all citizens of Central America while recognized in principle is still to be made fully effective. The industrial incentives law is awaiting ratification by Honduras. Cooperation between the central banks and the Ministers of Economy has increased.

There have been obstacles. Honduras has refrained for about the last 18 months from ratifying measures adopted by the other four countries on the grounds that it is unable, in its present economic circumstances, from taking advantage of opportunities afforded to all the countries. (Steps to alleviate this situation formed a high point of the Comité de Cooperación Económica at its meetings in Guatemala in January of 1966.) Costa Rica did not fully ratify the general agreement of 1960 until 1963. Little progress had been made toward harmonization of the tax laws, on unification of social security laws, unification of laws on cooperatives and securities.

An indication of the future course of the Central American Common Market and the integration movement may be seen in the following news article prepared by ROCAP and the U.S. Information Service in Guatemala for distribution on February 4:

"INTEGRATION EXPANSION SUGGESTED AT CENTRAL AMERICAN MEETING

"The Comité de Cooperación Económica del Istmo Centroamericano has adjourned its ninth meeting after hearing suggestions for broadening and intensifying aspects of the regional integration beyond the Central American Common Market itself and adopting a series of resolutions designed to extend regional economic activities.

"The Comité is comprised of the Economic Ministers of Guatemala, El Salvador, Honduras, Nicaragua, and Costa Rica, the partner countries in the Common Market. It is the pioneer body of the integration movement, having been organized by a resolution of the United Nations Economic Commission for Latin America in Mexico City almost 15 years ago. The Comité meets periodically to review and evaluate the progress of the integration movement.

"Addresses at the Comité's week-long sessions by the leaders in the movement, suggested the need to extend the regional activities beyond the terms of free trade, common tariff, common industrial policy—components of the Common Market itself—in order to attain a higher level of integration. They said they recognized that this implied entering into more extensive common relationships with regard to education, agriculture, transportation, health, labor, and communications.

"Among those who spoke in this vein were Dr. Pedro Abelardo Delgado, secretary-general of the Secretaría Permanente del Tratado General de Integración Económica Centroamericana (SIECA); Dr. Manuel Noriega Morales, director of the Instituto Centroamericano de Investigación Tecnológica Industrial (ICAITI) and a founding member of the Comité when he was Minister of Economy of Guatemala; and Dr. Alberto Puentes Mohr, head of the Misión Conjunta de Programación para Centroamérica. The El Salvador Minister of Economy, Abelardo Torres, remarked that the movement's emphasis should be on "integration" and not on the Common Market.

"The Comité agreed that special recognition be given to Honduras which was reported generally as developing more slowly than its four partners. To help hasten Honduran economic growth, the Comité agreed to a five-point program which included: (1) Honduras should receive industries which could be established there economically under the special system of industrial promotion, (2) recommended that the Central American Bank for Economic Integration, the World Bank and the Interamerican Development Bank facilitate loans for Honduran industry, (3) approved a protocol broadening the special benefits Honduras could be given under the Uniform Fiscal Incentive Treaty, (4) recommended that Central American integration institutions draft programs especially for Honduras, and (5) suggested the United Nations and other agencies increase their technical assistance to Honduras, especially on the preparation and execution of projects.

"The Comité also adopted resolutions recommending the establishment of a number of subordinate groups including:

"(1) a Central American Coffee Commission comprised of representatives of governmental and nongovernmental bodies to be responsible of coordinating internal and external sales of coffee including reaching agreement on a Central American policy regarding the International Coffee Agreement;

"(2) a Central American Commission for Industrial Coordination to be comprised of presidents of development banks and institutions and planning offices with the participation and advice of private interests; its main function would be to implement existing treaties for selecting and promoting regional industries.

"A Central American Transport Council and Commissions on fiscal matters and economic and financial legislation also were recommended.

"In support of the proposed Central American Institute for Educational Loans, the Comité suggested in a resolution that member governments establish national commissions to study the project and make their recommendations. The Institute would be established on the lines of a proposal presented by the Organization of Central American States (ODECA) in San Salvador, and the Consejo Superior Universitario Centroamericano (CSUCA) in San Jose, Costa Rica." (End News Article)

PER CAPITA PRODUCTIVITY AND GNP

With reference to the Honduran case mentioned in the news article above, statistics attributed to the Joint Planning Mission for Central America dramatized the "high" and "low" members in economic development among the five countries.

In 1950, per capita production in Honduras, at the bottom, was 86 percent of the regional average, while in Costa Rica, at the top, it was 118 percent. Fifteen years later, in 1964, production in Honduras, still at the bottom, had declined to 74 percent of the regional average while that in Costa Rica, still at the top, had climbed to 180 percent. Productivity in Honduras, it was stressed, is going up in absolute terms but not in relative terms.

Central America's gross national product in 1950 was put at \$1.761 billion. In 1965 the GNP was estimated to have doubled to approximately \$3.6 billion. (See "Summary of Central American economic data" p. 27.)

FOREIGN CAPITAL AND CREDIT

How much foreign capital does Central America require for economic development at its present pace? An estimate provided by a top integration movement official placed the amount at about \$140,000,000 annually over the next 10 years, or until 1975. He reached this estimate by the following calculation: Total capital formation required in the next 10 years is \$8.2 billion or about \$820 million each year. Of this annual sum, Central Americans can produce about \$680 million—all but \$140 million.

"Never in the history of Central America," he said, "have the Central American countries had so much credit as now, in general terms, although perhaps a specific activity might not be open to this credit. The problems are: (1) Not enough of a middle class has been developed which can save earnings for investment. The upper class, where the wealth is concentrated, is not risk-minded. It is still sending money abroad, although apparently not as much as previously. (2) Neither the governments or private elements in Central American have taken enough advantage of the available credit and much of the credit is still in the pipelines. In addition, international institutions like AID, the World Bank and IDB have too many regulations."

FOOD PRODUCTS AND PRICES

A sidelight on the Common Market was supplied by the owner-manager of a supermarket catering to the well-to-do in one of the better residential areas of Guatemala City: Five years ago, before the advent of the CACM, he said he imported about 90 percent of his packaged food products. Today, he imports only about 20 percent, the remainder coming from the various food processors established in the five countries under the impetus of the CACM. Principal commodities now imported are breakfast cereals, alcoholic beverages, high quality confections, and fancy foods. The quality of the Central American products, he said, compares favorably with those previously imported, mainly of medium grade or somewhat above.

Unfortunately, prices of the Central American goods are near the level of the imports despite the absence of high tariffs on the Central American goods. This high price situation is due, in a large part, according to U.S. marketing technicians, to the archaic distribution system which burdens the products with excessive profits, thus limiting access to the mass market.

However, the distribution system is in the process of modernization and considerable progress is noted in several areas. Costa Rica is the outstanding example of the modernization trend.

EFFECTS OF POLITICAL CHANGE

One of the more remarkable facts of the Central American Common Market history is that the movement has been kept relatively free of impediments by political changes and shifts in government among the five countries. The ministers have met informally and often on short notice. Although each country in the period 1951-65 had at least four or five economic ministers (El Salvador apparently had seven), and although diplomatic relations were sometimes suspended among them (Costa Rica and Honduras, for example, were without relations for about 2 years), the work of economic integration went ahead.

In the times of absence of diplomatic relations, a Central American observer, the economic ministers continue to meet as members of the Council of Ministers or as members of the governing boards of ICAITI and ESAPAC and sometimes to develop common views for international conferences and name representative speakers. There have been differences but these have been ironed out, despite heated discussion and strong clashes of interest.

PANAMA AND THE COMMON MARKET

With regard to Panama, a SIECA authority has pointed out that Panama has been represented in the meetings of the Central American Economic Cooperation Committee (Comité de Cooperación) as an observer, since 1952, and has "actively participated in the activities of the various economic integration organizations since 1959."

As a result of the meeting of the Presidents of the six countries of the Isthmus and President Kennedy in San José in March 18-20, 1963, governmental representatives of Central America and Panama agreed in Antigua, Guatemala, in September 1963, to "carry on a process of gradual and progressive association based on an initial free trade and preferential treatment schedule, which would be amplified later through successive negotiations." (SIECA publication, the Central American Common Market, volume 2, Guatemala, December 1964.)

Noteworthy also is the following excerpt from a report in the Chase Manhattan Bank's quarterly "Latin American Business Highlights" of the second quarter, 1963:

"Panama's reluctance to enter as a full member stems from the fact that the economy has close ties with the United States. In order to join, Panama would have to match its tariff rates with the other member countries and thus would mean large tariff increases on U.S. imports. However, as an associate member, Panama will likely negotiate other agreements similar to the Free Trade and Preferential Treaty signed earlier this year (1963) with Costa Rica and Nicaragua. The Treaty provides for free trade in 100 products between Panama and Costa Rica, and in 60 products between Panama and Nicaragua."

The Panama case may reach a climax in mid-1966 after SIECA presents a study on the points of view of Central America as a whole and Panama as a single country. This study is expected to be completed in May. However, it is considered Panama is unlikely to enter into a definitive agreement until after completion of negotiations with the United States regarding the Panama Canal.

"AN ECONOMIC WONDER"

What remains to be done to bring about complete economic integration and its attendant institutions bulks large on the horizon both in the eyes of economic experts and entrepreneurs. What has been already done, however, is little short of an economic wonder, even with the advantages of common language, traditions, and contiguous territory. As "The Report by the Committee on Foreign Law of the Association of the Bar of the City of New York" said in June 1962:

"The lusty young movement known for convenience as the 'Central American Common Market' (has accomplished) * * * practical economic cooperation which has astonished even many of its ardent advocates, and machinery for resolving disputes which contains the seed of a regional system of law and judiciary."

Central Americans are justly proud of their accomplishment.

"Although Central America is presently one of the less developed regions in Latin America," says the SIECA publication 'Economic Integration of Central America and the Role of the Alliance for Progress' of March 1963, "the efforts toward economic union is one of the most notable examples of self-help to be found in the entire area. The Central American Common Market is the work of the Central Americans and is viewed by us as our main hope in moving towards a

higher stage of development and much greater economic growth. It is our main response to the challenge of the Alliance for Progress. The success in this integration effort is a symbol of what we can do. It means that we Central Americans have faith in our own capacities to move ahead and gain greater economic, social, and political stability."

SECTION II. GROWTH AND PATTERNS OF TRADE, INDUSTRY, AND INVESTMENT

The General Treaty for Central American Economic Integration of 1960 was not fully ratified until 1963, when Costa Rica finally joined. However, the Central American Common Market actually began to operate in June 1961. Its progress in the 5 years since then has been impressive.

This is most apparent in the growth in trade among the five members. In 1960 it was under \$8 million. It is expected that the final figures for 1965 will show an increase to about \$130 million. This growth has confounded the experts who estimated that the CACM would not top the \$100 million figure until about 1968.

Another important change that has occurred is in the composition of exports from one country to another. The percentage of trade of manufactured and semimanufactured goods is greater today than trade of natural products. In 1960 the regional trade was made up of 59 percent in agricultural products and 41 percent in industrial goods. In 1964 the division has shifted to 32 percent for the first group and 62 percent for the second one. In other terms, trade in agricultural and forest products increased substantially 73 percent over the period, but that in industrial goods was up a phenomenal 400 percent.

During the first semester of 1965, the items that increased faster were: (1) Manufactured products which represented 43 percent of the total; (2) food products which amounted to 28 percent; and (3) chemical products, 15 percent.

The foreign trade of the Common Market has increased at an impressive rate in recent years, and particularly has spurred forward in the last 3 years. The value of exports rose 37 percent and the value of imports 39 percent between 1960 and 1964, and both have continued advancing in 1965. The foreign trade total reached alltime highs in 1964 with totals of about \$540 million for exports and \$650 million for imports.

The composition of imports has changed substantially. The inflow of machinery and raw materials is rising sharply, while imports of durable consumers' goods and foodstuffs are increasing slightly.

GROWTH RATES

Although the region has run a persistent deficit in its foreign trade account, other items in the capital account of the balance of payments have compensated such losses.

While it is always difficult to isolate out the factors which are conducive to growth, there is good reason to believe that the increases in GNP attained by the five Central American countries in the last 5 years can be attributed in good part to the existence and stimulus of the Common Market. Growth rates last year ranged from 5 to 8 percent for four of the five members, while, even in the fifth, Costa Rica, a 4-percent increase was achieved despite continued substantial damage to its agriculture by volcanic activity. Despite the high population growth rates of between 3 to 4 percent (which are among the highest in the world) the CACM countries have thus been able to reach the per capita growth standard of 2.5 percent set by the Alliance for Progress.

According to the Central American Bank for Economic Integration, private investment rose about 18 percent in 1964, over the level of 1963, and continued growing in 1965 in all sectors of regional economy, especially in the fields of construction and industrial activities. Credit expansion has also occurred, giving more liquidity to the Central American economy. Whereas the formerly fragmented and insignificant individual markets ranging from 1 to 4 million people had little to attract United States and other foreign investors, the Common Market with over 12 million is gradually becoming the free world's newest economic showcase. In recent years there have been innumerable new companies started or old ones enlarged to provide an ever-expanding line of consumer goods for the Central American people.

A great number of U.S. firms are taking advantage of the new opportunities for investment in the Central American Common Market. Among them are: Alcoa Aluminum Co.; B. F. Goodrich; Colgate-Palmolive; Esso Standard Oil; Texaco

Oil Co.; Standard Oil Co.; Max Factor & Co.; General Tire & Rubber Co.; Glidden Co.; Nestle Co.; Allied Chemical Co.; Pittsburgh Des Moines Steel Co.; Reynolds Aluminum Co.; United Fruit Co.; Westinghouse Electric Co.; IBM; Sears Roebuck, and many others.

The old image of the "banana republics," exporting coffee, bananas, sugar, and cocoa and importing most of their consumer goods is rapidly changing under the thrust of the Market.

The growth of manufacturing and service industries which has occurred to date is only the start of what must happen if the small region is to have the economic basis to provide a better life for its exploding population. On the other hand, the agriculture section has been relatively little affected by the Common Market. The export sector continues to be still made up of agriculture products. Internally the huge subsistence or semisubsistence agricultural sector produces and consumes only a small portion of its potential. The growth of the canning and packing industry is promoting the start of modern, industrialized farming operations, but these still make up but a tiny percentage of the total.

VARIETY OF INDUSTRIES

According to the Central American Bank for Economic Integration, industrial production has increased almost 35 percent in the last 4 years, surpassing the rate of growth of the regional economy. The expansion has come largely from increased output and from existing capacity and, to some extent, from addition to existent plants, although in the last 2 years a great number of new industries have been established. Light industries are predominant, but recently, new industries in the field of petroleum refinery, fertilizers, metal structures, wires and cables, and detergents have emerged. At present, plants of caustic soda, insecticides, sulfuric acid, synthetic fibers, plate glass, bottles and containers, electrical appliances, and rubber tires are under consideration or construction.

Direct private investment from abroad has also increased rapidly from \$17.1 million in 1960 to \$57.9 million at the end of 1963. During the last 2 years this tendency has been maintained. Between 1960 and 1964 the net inflow of long- and short-term capital reached an annual average of \$68.2 million, about 25 percent higher than the prior 3 years. This inflow of resources stimulated the region's economic development and supported the expansion of imports.

The allocation of development capital in a community of developing countries was recognized early by the CACM's planners as an issue crucial to the market's success and it was to deal with this that the Regime for Integration Industries was established. The main purpose of this instrument was to give a special status to large-scale industries that needed access to the entire CACM to operate efficiently. Only two industries have so far been designated—a tire plant in Guatemala and a caustic soda in Nicaragua. The latter, however, has stated that it would not oppose the entrance of another firm into the market providing it accepted the same regulations and controls to which it is subjected.

Since this policy has proven difficult to implement, the member countries in January 1963 incorporated a Special System of Promotion of Productive Activities which seeks to stimulate large investments through offering a uniform system of tariffs for designated items once production starts, providing that the project capacity covers at least 50 percent of the regional.

Another instrument, the Treaty for Uniform Fiscal Incentives on Industrial Development was signed in 1962. It has not yet become effective since Honduras has not ratified the agreement and all five countries must do it before it can become effective. Consequently, new industries coming into the market do so under the auspices of the incentive law in the country where they are located. Honduras has been holding up ratification since it claims she should be given special treatment due to her claim that her economy is less developed than the other four.

To facilitate the use of Central America currencies in making payments among the member countries, a clearing house was established by the central banks of the five republics. This now clears between 85 to 90 percent of the payments for trade among the Central American members. Balances are calculated in terms of a monetary unit known as the Central American peso, which is at par with the U.S. dollar. While the five countries have different currencies ranging in value from the Guatemalan quetzal which is on par with the dollar, to the Costa Rican peso with 6.62 to the dollar, it is hoped that at some time in the future, the Central American peso can become the common unit for the area. More recently, in 1964, to harmonize monetary, credit and foreign exchange policies, an agreement on the establishment of a Central American Monetary Union was adopted by the

same banks. Steps toward the creation of a security market have already been taken.

The achievement of complete monetary union, however, is clearly some way off. The five countries at the moment retain unimpaired responsibility for their national economic policies. The Central American tradition of monetary management is a responsible one and the problem of runaway inflation has not arisen in the CACM as it has in Brazil, Argentina, Chile, and Bolivia amongst others. Delicate political decisions are involved in the transition toward complete monetary union and Central American integration leaders doubt that this is in the cards for quite a few years to come.

RESPONSIBILITY OF ORGANIZATIONS

Within the institutional framework, the general responsibility of promoting the political, economic, and social policy corresponds to the Organization of Central American States (ODECA); the formulation of specific economic policy belongs to the Central American Economic Council, formed by the five Ministers of Economy, and its implementation is carried out by the Executive Council and the Permanent Secretariat of the General Treaty (SIECA). As indicated in the ROCAP publication on Central American organizations, many other regional agencies are actively working on different fields of the integration program including the Central American Institute of Technology (ICAITI); the Joint Planning Mission; and the Central American School of Public Administration. Among the Central American private organizations the Central American Institute of Business Management (INCAE) and the Federation of Central American Chambers of Commerce and Industry (FECAICA) should be mentioned.

Finally, among the governmental lending agencies providing technical and financial assistance to the program are: the United Nations, the Inter-American Development Bank, Export-Import Bank, World Bank, and AID through ROCAP.

An important private source of capital for Latin America is ADELA (Asociación para el Desarrollo Económico de Latinoamérica).

PROJECTIONS AND PERSPECTIVES

According to different indicators, as well as analysts, the Central American economy should continue to move ahead in the years to come. Unless a decline occurs in the world's prices of its major export crops, production, income, and employment will continue rising.

It is the feeling of the Central American Bank that by the end of 1966, Central American intraregional trade could reach the \$150 million mark. At the same time as the Common Market expands, the regional transportation and communication network completed, financial resources increased, and competition intensified, there will be greater incentives for private initiative to increase its efforts and take better advantage of the new opportunities of an expanding area.

As the agricultural sector is modernized, it should provide for an increased improvement in the living standard of the population's bulk and this will expand internal demand. The efforts already underway to increase Central American exports should improve the balance-of-payments position and through adequate fiscal and monetary policy, economic stability within a program of economic growth should be achieved.

In this process, the local private sector is expected to play a major role. At the same time, it is hoped that the flow of funds from foreign loans and private direct investments will increase thereby supplementing internal resources available for reaching the desired goals. To attract foreign capital to the area a full-scale program of promotional activities at regional level, is about to be launched. Moreover, Central America is sympathetically watching the movement already started towards the integration of the Latin American economy. The Central Americans hope to be able to make their contribution to making Latin America one of the growth regions of the world.

SECTION III. ROLE OF THE UNITED STATES

From the viewpoint of at least two Central American authorities who have participated from the beginning in the integration movement, the U.S. Government held to a "wait and see" position during the movement's formative years from 1951 to 1958. The United States became more active during the meeting of

President Jose Maria Lemus of El Salvador with President Eisenhower in Washington in 1958. After that the U.S. position "completely changed" and it adopted a position of increasingly vigorous support for the movement.

As it happened, they said, the then Minister of Economy of El Salvador, Alfonso Rochac, had accompanied President Lemus to Washington. During the visit, Mr. Rochac saw Thomas Mann, then Assistant Secretary of State for Latin American Affairs. They were close friends, Mr. Mann having been Ambassador to El Salvador. Mr. Mann was reported to have asked Mr. Rochac:

"Why is the Common Market not working? We consider it a great thing and want it to work. What can we do for it? We're willing to help in any way we can."

Mr. Rochac was said to have explained that the main impediment was that the movement had reached an impasse: the countries were unwilling to add commodities to the positive list and unwilling to face competition. Support, he was reported as adding, was needed to get the movement moving again.

Mr. Mann's reply was that "a real Common Market" should be created. He was said to have advanced the suggestion that instead of negotiating on each item for placement on the positive list, barriers be reduced on all commodities with some common exceptions.

Shortly afterward, two State Department specialists arrived in Central America to consider prospects for helping the movement to advance. They were Ambassador Harry Turkel, long active in Latin American affairs, and Isaiah Frank, who had much experience with the European Common Market. George Blowers, Vice President of the Export-Import Bank, also visited the area.

During this period of discussion, the idea arose among the Central Americans and Washington officials that if the movement were to go forward "full blast" marginal industries would suffer and means should be provided for modernization of plants and working capital to compete. The suggestion for a Central American bank or fund emerged in this period and Mr. Mann was said to have declared that the United States was ready to contribute to this fund or bank. The visits are credited by these Central Americans to have inspired the Tripartite Treaty of Economic Association in 1960 by Honduras, El Salvador, and Guatemala. This treaty went far toward establishing free trade since it adopted a "negative list," meaning that all items produced should move freely except those on that list.

Following this initial effort, the State Department in 1961 assigned Arthur W. Marget, an economist of broad experience in government and academic life, to Central America to explore further possibilities of U.S. assistance. Dr. Marget was an exponent of the Central American idea while he was with the Federal Reserve System in Washington and after he had visited the area in 1957. He resigned from his post as director of the System's Division of International Revenue to go to Central America.

FORMATION OF ROCAP

In the spring of 1962, on the suggestion of Dr. Marget that his duties be amplified and taken over by a group of specialists in view of his impending retirement, the State Department's Agency for International Development set up a group of experts to help the Central American organizations in their planning. With the Alliance for Progress in full swing, the State Department established in July of that year a special advisory mission whose objective was to help advance the region's economic and social integration and development by supporting the efforts of organizations which Central Americans themselves have formed for these purposes. The first members of the mission began activities in August of 1962 and, shortly afterward, on September 5, Dr. Marget died of heart failure at a Guatemala City conference of U.S. officials while discussing integration. He is buried in Guatemala. His home in Antigua, where he and his wife had planned to retire in 1963, has become the property of SIECA and is named the Marget Memorial Library and Conference Center as an indication of the esteem in which he was held by Central Americans.

This mission, fulfilling the letter and spirit of the Alliance, is the regional office for Central America and Panama, known by the initial letters of its name as ROCAP. It is now staffed by approximately 50 American personnel, drawn from the Departments of State (Foreign Service and AID officers), Defense (Geodetic Survey), Commerce (Bureau of the Census). Personnel drawn from the Departments of State, Commerce, Defense, Labor, and Agriculture and others, include specialists in agriculture, customs, census, public health, education, transportation, engineering, law, credit unions, and cooperatives. At present, ROCAP is headed

by two State Department officers. Its Director is Oliver L. Sause and its Deputy Director is Francis A. Linville. Both are veteran U.S. Government officials with long years of experience in economic and foreign affairs. Mr. Sause, prior to his arrival in Guatemala in January of this year, had served for 4 years as director of Central American affairs in the State Department and AID.

Headquarters of ROCAP are in Guatemala City, seat of the integration movement's secretariat, SIECA; the region's "Bureau of Standards," ICAITI; the Joint Planning Mission for Central America and INCAP (Instituto de Nutrición de Centroamérica y Panamá). Some of its specialists are based in other Central American capitals. ROCAP members travel frequently throughout the isthmus to maintain close communication with U.S. Government and Central American agencies.

ROCAP'S RESPONSIBILITIES

ROCAP's activities can be broken down into two general areas. The first encompasses all aspects involved in the support of Central American economic integration, and the second entails specific responsibilities as the field extension of AID/Washington's office of Central America and Panama affairs.

In fulfillment of its primary area of responsibility, ROCAP works closely with the Central American agencies. It also maintains liaison with the United Nations Economic Commission for Latin America (ECLA) in Mexico City which, as has been noted, has been closely connected with the integration movement from its beginning.

As the field extension of AID/Washington's Office for Central America and Panama Affairs, ROCAP is responsible for carrying out the U.S. role in specific regional projects such as the textbook development program. It also provides loan, legal and engineering services to all U.S. AID missions within the region as well as helping in coordinating programs like the six-country rural mobile health and malaria eradication program. In addition it has fostered broad and intensive studies like the transportation study, regarded as the most intensive ever made in Latin America with its report encompassing two large volumes; public administration and governmental planning seminars; census projects, cadastral surveys. It also cooperates with private enterprise with modern marketing services, assistance to American industrial and commercial companies interested in the region's opportunities, and in training top-level managers of firms in the region through a joint project operated by a regional private organization of business leaders.

ROCAP's marketing project is unique and is directly based on the Common Market requirements. The five member countries, prior to the CACM, might be likened to five States in the United States if these States had been commercially isolated for 400 years. The pre-Common Market situation of Central America was as though Massachusetts, New York, Pennsylvania, New Jersey, and Connecticut would have been separated by customs barriers and factors of nationalism thus limiting their industrial and merchandising activities to within their own borders.

Suddenly, the barriers are lifted by the new CACM and Central American industrialists, wholesalers, and retailers may freely move their products and services to other areas, and become eager to develop the opportunities opened by free trade; however, they are not familiar with modern methods of establishing contacts in new marketing areas, determining market possibilities, and developing distribution. "Operation Market" seeks to bring these businessmen modern marketing and distributive knowledge quickly and efficiently, and thus help spread the benefits of more and better products at lower prices to the consumer.

In summary, ROCAP concentrates on the regional implications of economic integration while the local AID missions in each country strengthen national economic development. Close coordination and cooperation of the two spheres of activity are essential to the region's overall economic and social development, and ROCAP maintains close liaison with the local AID missions and U.S. Embassies as well as with the Central American and other international agencies which contribute to Central American economic integration.

SUPPORT OF PRESIDENTS KENNEDY AND JOHNSON

Establishment of ROCAP and furtherance of its activities are indications of the support provided the Central American integration movement both by Presidents Kennedy and Johnson. President Kennedy met with the six presidents of the countries of Central America and Panama at San José, Costa Rica, March 18-20, 1963, and signed the Declaration of Central America adopted by the seven

Presidents there. The declaration points out that "the best hope for the development of the region is through economic integration" and pledges "the creation of a Central American Economic Community which will establish relationships with other nations or regional groups having similar objectives." This included establishment of a fund.

President Johnson, in signing a \$35 million loan for Central American development on July 29, 1965, at the White House, pointed out: "They (the five Central American Republics) have in a series of acts of the highest statesmanship, embarked upon a process of integrating their economies, which is one of the really most exciting undertakings of our world today * * *. In all the world there are no dreams so stirring or so exciting or so inspiring as those that we can dream realistically and reasonably now in our own hemisphere."

The \$35 million loan, made under the Alliance for Progress, represents the bulk of the financing for new roads and communications, electric power grids, industrial parks, grain silos, and other marketing facilities. The total program will cost \$42 million, with \$7 million contributed in \$1.4 million shares by Costa Rica, El Salvador, Honduras, Guatemala, and Nicaragua.

The U.S. loan and the other \$7 million in Central American credits will be administered by the Central American Bank for the Public Projects. Applications for loans will be considered on the basis of the contribution of the project to a regional, rather than a national development. The loan will be repaid in dollars within 40 years with interest at the rate of 1 percent during a 10-year grace period and 1 1/4 percent thereafter.

The \$35 million credit represents slightly more than half of the loans and grants already provided to the Central American Bank by the United States over the past 4 years. The previous assistance totaled \$32,500,000 to be used for relending for industrial purposes and mortgages on housing in the five countries.

FUNDS FOR CENTRAL AMERICA

In addition to the \$67,500,000 made available by the United States in loans and grants to the Bank, ROCAP's budgets from its inception in 1962 through fiscal year 1966 total \$15,900,000. Much of these latter funds are devoted to technical assistance to the various Central American organizations with which ROCAP cooperates. It should be pointed out that this 4-year total surpassing \$83 million is apart from the loans and grants provided to the countries individually through AID and other U.S. assistance agencies and through the international financial institutions such as the Social Progress Fund of the Inter-American Development Bank, the IDB itself, and the World Bank. (See "Summary, Central American Economic Data" appended to this report.) Finances made available through these means also contribute toward the social and economic development of the isthmian countries and hence toward their well-being regionally.

Private enterprise in the United States also is assisting in the region's integration movement. A dramatic example in this respect is the advertising campaign being conducted by the Advertising Association of the West (AAW) which is sponsoring free publicity for the Central American countries with an estimated value of more than \$500,000, on radio, television, in newspapers and magazines in the Western States of the United States as an indication of international good will by private U.S. citizens under the Alliance for Progress.

As indicated earlier, ROCAP assists in social as well as economic development. Three projects merit special attention. These are in the fields of education and public health.

In education, ROCAP has joined with ODECA and the Ministers of Education of Central America and Panama in a 5-year textbook program which by the end of 1965 had resulted in the printing of about 8,900,000 textbooks and teachers' guides for the use of the approximately 1,300,000 schoolchildren in the first 4 grades of the elementary public schools of the 6 countries and their approximately 60,000 teachers.

These textbooks, printed in commercial printeries in each of the countries issuing them, are developed at the Central American Regional Textbook Development Center in Guatemala City. Books already printed help instruct youngsters in reading, writing, mathematics, social science, and geography. Children and their teachers in the upper two grades are expected to receive books suitable for them in the coming year. Many children previously had no textbook of any kind.

A regional mobile rural health program was inaugurated at ODECA's headquarters in San Salvador in 1962 to establish mobile units in each of the six countries of the isthmus providing curative and preventive medical services where no health services exist or are deficient. At present 56 vehicles regularly visit 443 communities each week, treating an average of 2,500 persons daily in areas with a population of more than 2 million inhabitants. The program which is administered by each of the six countries with the cooperation of the AID missions in each country also assists in community development services. These include installation of community health centers, sewage and potable water systems, garbage disposal programs, public baths, laundries and libraries, small industries and athletic fields. Community committees for development projects are encouraged. ROCAP notes that "for health and community education, more than 12,800 meetings have been held with an attendance of more than 250,000. Through these meetings and active participation of the citizens in self-help community development projects, attitudes are changing with the development of a sense of responsibility and pride in their local organizations and achievements."

In addition, ROCAP works with the Consejo Superior Universitario Centroamericano headquartered in San José, whose purpose is to effect coordination and cooperative development of higher education in Central America. CSUCA's aims are to bring about specialization of the national universities in particular branches of learning, including the sciences, for all the region's students and thus avoid duplication (and weaker institutions) in each of the five participating countries. CSUCA receives assistance through various sources, including the Interamerican Development Bank.

SUMMARY OF CENTRAL AMERICAN ECONOMIC DATA

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Region	Index
Gross national product (in millions of dollars):							
1962.....	469	659	1,080	418	400	3,026	100
1963.....	490	718	1,170	433	430	3,241	107
1964 ¹	510	765	1,240	455	465	3,435	113
GNP per capita (1964, in dollars).....	367	278	288	207	291	286	-----
Total gross investment (in millions of dollars):							
1962.....	68.5	63.6	108.0	56.4	57.3	353.8	100
1963.....	70.0	73.3	139.0	59.7	73.4	415.4	117
1964 ¹	68.4	86.8	167.0	59.9	80.2	462.3	131
Percent investment to GNP:							
1962.....	14.6	9.6	10.0	13.5	14.3	11.7	-----
1963.....	14.3	10.2	11.9	13.8	17.1	12.8	-----
1964.....	13.4	11.3	13.5	13.1	17.2	13.4	-----
Gold and foreign exchange reserves, Dec. 31, 1964 (in millions of dollars).....	21.6	58.1	62.7	21.2	42.1	205.7	-----
Government finances, fiscal year 1964 (in millions of dollars):							
Revenues.....	65.2	84.2	98.1	46.8	52.6	346.9	-----
Expenditures.....	73.4	81.8	110.1	50.0	45.5	360.8	-----
Balance or deficit.....	-8.2	+2.4	-12.0	-3.2	+7.1	-13.9	-----
Total public debt (in millions of dollars):							
1964.....	123.3	22.8	102.7	50.3	25.8	324.9	-----
Percent of GNP.....	24.2	3.0	8.3	11.0	5.5	9.4	-----

¹ Estimated.

Source: Economic Data Book, GNP and gross investment at 1962 prices; CAP's for investment; CAPTO Circular A-62 for Government Finances and Public Debt.

SUMMARY OF CENTRAL AMERICAN ECONOMIC DATA—Continued

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Region	Index
Foreign trade (in millions of dollars): ¹							
(a) Exports:							
1962.....	93	136	117	81	82	509	100
1963.....	95	154	154	83	100	586	115
1964.....	113	178	158	95	118	662	130
Average annual rate increase (percent).....	10.2	14.4	16.2	8.2	20.0	14.1	-----
(b) Imports: ²							
1962.....	113	125	133	80	97	548	100
1963.....	125	152	166	95	111	649	118
1964.....	139	191	202	102	137	771	141
Average annual rate increase (percent).....	10.9	23.0	23.0	12.9	18.7	18.7	-----
Intraregional trade (in millions of dollars):							
(a) Exports:							
1962.....	1.9	18.3	13.0	13.8	3.4	50.4	100
1963.....	(³)	(³)	(³)	(³)	(³)	105.4	142
1964.....	15.3	34.9	29.8	18.4	7.0	105.4	209
(b) Imports:							
1962.....	3.5	22.1	11.2	8.9	4.7	50.4	100
1963.....	4.0	27.9	19.8	13.3	6.8	71.8	142
1964.....	8.5	39.2	26.4	18.0	13.3	105.4	209
Cost of living index (Dec. 31, 1964, (1958 equals 100))	114	100	100	110	100	105	-----

¹ Including intraregional trade.² Cost, insurance, and freight.³ A recent upward revision in the regional totals has not yet been distributed by country.

Sources: IMF for foreign trade; SIECA for intraregional trade.

1965

	Population (millions)	Annual growth rate (percent)	Agricultural land	
			1,000 square miles	Acres per capita
Costa Rica.....	1.4	4.1	3.9	1.8
El Salvador.....	2.8	3.2	4.7	1.1
Guatemala.....	4.2	3.0	8.0	1.2
Honduras.....	2.1	3.3	16.3	5.0
Nicaragua.....	1.6	2.9	6.8	2.7
Total.....	12.1	3.2	39.7	2.2

Agricultural output, 1964-65

[1,000 metric tons]

	Bananas	Coffee	Corn	Cotton	Meat	Sugar
Costa Rica.....	355	43	64	-----	42	115
El Salvador.....	-----	112	184	84	37	77
Guatemala.....	110	99	620	74	46	145
Honduras.....	350	25	310	-----	36	34
Nicaragua.....	20	31	130	105	35	109

Population, urban and rural, 1963

[In thousands]

	Urban	Rural	Total	Percent	
				Urban	Rural
Costa Rica.....	457	868	1,325	34	66
El Salvador.....	1,030	1,627	2,657	39	61
Guatemala.....	1,437	2,841	4,278	34	66
Honduras.....	504	1,642	2,146	23	77
Nicaragua.....	627	909	1,536	41	59
Total.....	4,055	7,887	11,942		
Percent.....	34	66	100		

Education and Health

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Life expectancy..... Years.....	60	51	44	45	50
Doctors..... Persons per doctor.....	2,580	5,010	4,130	4,600	2,830
Infant mortality..... Per 1,000 live births.....	66	71	86	44	54
Hospital beds..... Per 100,000.....	600	155	258	209	261
Diet..... Calories.....	2,555	1,975	2,175	2,200	2,200
Literacy..... Percent.....	88	48	30	47	40
Primary school pupils..... 1,000's.....	231	354	353	259	194
Secondary school pupils..... 1,000's.....	31	26	28	15	9
Primary school teachers..... 1,000's.....	9	8	11	9	5
Primary schools..... Number.....	1,805	2,640	4,107	3,668	2,082

Industrial origin of gross domestic product, percentages of total GNP, 1962

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Agriculture and forestry.....	33.4	32.0	30.4	44.5	38.2
Manufacturing.....	14.0	16.3	13.2	12.6	12.7
Mining.....		.7		.9	1.7
Electricity, gas, water.....	1.0	.9	.8	.8	1.4
Construction.....	3.9	1.4	2.1	3.9	2.8
Transport, communications, storage.....	3.9	3.4	6.1	5.7	5.0
Wholesale, retail trade.....	9.7	28.3	26.2	13.5	20.0
Banking, insurance, real estate.....	3.0	2.3	1.9	.9	1.7
Ownership of dwellings.....	5.5	5.8	7.6	7.0	5.6
Public administration and defense.....	11.5	7.4	5.6	4.2	5.3
Services.....	14.1	6.5	6.1	6.0	5.6
Total.....	100.0	100.0	100.0	100.0	100.0

Economically active population in Central America (age groups 15 to 64)

[In thousands]

	1950		1963	
	Number	Percent	Number	Percent
Agriculture, forestry.....	1,560.0	64	1,920.5	61
Mining.....	8.0		7.5	
Industrial manufacture.....	266.5	11	349.0	11
Construction.....	67.7	3	108.0	3
Utilities.....	5.0		9.7	
Trade.....	135.9	6	199.8	7
Transport, communications.....	42.8	2	79.8	3
Services and others.....	333.6	14	469.9	15
Total.....	2,419.5	100	3,144.2	100

Transportation

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Roads (miles).....	12,763	5,727	8,040	2,249	4,111
Percent of total.....	38	17	25	7	13
Vehicles registered.....	28,260	26,000	41,990	15,000	13,530
People per vehicle.....	45	102	96	130	116
Railway mileage.....	861	403	775	869	234
Public service.....	213	403	581	68	234
Private service.....	648	-----	194	801	-----

Estimated electric power production—1964

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
Million kilowatt-hours.....	550	330	410	120	220
Per capita kilowatt-hours.....	400	120	95	56	140

Financial assistance to Central America—1946 to June 1964

[Millions of dollars]

Total cumulative U.S. financial assistance:

AID and predecessor agencies:

Loans.....	\$113.3
Grants.....	153.9
Total.....	262.2
Social Progress Trust Fund.....	45.7
Food for peace.....	31.3
Export-Import Bank.....	69.9
Inter-American Highway.....	94.8
Other economic programs.....	15.9
Total.....	522.8

Assistance from international organizations:

IBRD.....	174.4
IFC.....	1.0
IDA.....	25.5
IDB.....	37.1
UNTA.....	11.6
UNST.....	4.5
Total.....	254.1

Total..... 776.9

APPENDIX II

BINATIONAL CENTERS

HISTORY

Binational cultural centers began in Buenos Aires. In 1927 in that city an organization was formed by Argentines who had lived and studied in the United States. These Argentines wanted to maintain contacts and friendships with the American people and with each other. To do this they created a cultural institution—one which would support itself and its cultural activities by fees earned from the teaching of English to Argentines and the teaching of Spanish to resident Americans. Today there are 132 centers of this type in 29 countries; 85 percent or 112 of them in 19 Latin American nations.

In the 39 years since the first center was established in Buenos Aires, binational centers have taught English, Spanish, Portuguese, and even Quechua to hundreds of thousands of people and loaned books to interested persons in their cities. Millions have attended concerts, art exhibits, and other cultural activities in the centers. Public program attendance in fiscal year 1965, for example, reached 3,378,113.

The U.S. Government was not involved in the binational center program until World War II, when Nelson Rockefeller, Coordinator of Inter-American Affairs, became interested and wanted to provide some practical encouragement to these centers. By 1945, 28 binational centers were receiving some kind of help from the U.S. Government. The help provided included books for libraries, and occasional grants of money, but English teaching specialists and teaching materials were the most important form of aid. The cultural sections of the U.S. embassies began supporting and encouraging the centers in appropriate ways. Throughout the world in fiscal year 1965, all forms of support from the U.S. Information Agency totaled \$2,722,619 (\$2,007,890 of this in Latin America) but for every dollar spent by the 132 centers, 72 cents was raised locally; for each American employee provided them, the centers hired 35 people.

Over the years refinements have been made in the type of assistance given to centers and the type of programs which the centers are trying to carry out. It is now general practice for the United States to provide an executive director to administer the large centers. In fact, worldwide personnel costs account for \$1,980,258 of the total USIA support figure mentioned in the preceding paragraph. Direct assistance usually consists of supplies, teaching equipment, support for lectures and seminars, etc. This assistance may be for special projects as well as defraying a center's operational deficit.

The English, French, Russians, and other countries have also created networks of cultural centers. Those of Communist countries, usually termed "friendship societies," are thinly veiled propaganda devices.

The unique value of the U.S.-assisted centers has been their status as local organizations. Founded largely on local initiative, the centers offer a direct means of activating interest in the United States. In those areas where the official activities of foreign governments are regarded with suspicion, a binational center, which has local sponsorship, frequently finds wider acceptance. The binational center remains under the control and guidance of the local board of directors—people from the community. They were founded because the local population wanted them and they have retained their local character. They have proved to be the kind of institutions envisaged by the first founders in Buenos Aires nearly 40 years ago.

ORGANIZATION

Binational centers are nonpolitical, nonsectarian, nonprofit cultural institutions. They are incorporated under the laws of the host government and governed by boards of directors chosen from U.S. citizens resident in the host country and citizens of that country. The board members are sincere, dedicated individuals who are working toward the same goals as the United States; their dedication is the strength of the binational center program.

Class A binational centers are eligible to have American personnel assigned from Washington, they may receive cash grants from the local USIS post, and direct media support from USIA. In 1965 there were 76 class A centers throughout the world, 61 of them in Latin America. Ordinarily, a center of this type has only an executive director assigned, although in special circumstances directors of courses or activities may be included. A recent development in the Latin America areas has been the assignment of student affairs specialists to binational centers located in important university cities.

Class B binational centers are not afforded American personnel, but may receive cash grants from the USIS post and direct media support from USIA. In 1965 there were 56 class B centers throughout the world, 51 of them in Latin America. Class B centers are obliged to hire teachers and administrative personnel locally, and to pay them from center funds.

Class C binational centers receive neither personnel, cash grants, nor direct media support. All were founded by the initiative of their local citizens—people willing to lend their prestige and often give their time to an institution which identifies them with the United States. While most persist stubbornly despite the lack of practical U.S. support, some are short lived.

ACTIVITIES

The teaching of English is the biggest and best known of center activities. In this field, particularly in Latin America, the centers have no peer and many are obliged to turn away students for lack of room.

The center's teaching activities very often go beyond their own quarters. Ministries and educational institutions request seminars for local teachers and special English courses are provided for university faculties. For some years the Lima binational center has provided special English classes for the Foreign Ministry's diplomatic school. The center in Monterrey, Mexico, has taken over the teaching of English at the state university located in that city, and the class B center at Chiclayo, Peru, does the same for a national agricultural college located nearby. The student affairs specialist in Caracas is a professor at the national university, turning over his salary to a university student activities fund administered by the binational center. Many centers have contracts for teaching employees of host country, American, and other foreign companies.

The centers also perform services as clearinghouses for information and applications for study in the United States, for testing and screening scholarship candidates, providing orientation for those who are successful, and providing information on American universities and educational systems. Almost all centers help organize and provide for meetings of associations of persons who have studied in the United States.

Binational centers in many cities are the focal point of the cultural life of the community. This is particularly true in the provincial centers, but even in sophisticated capital cities such as Lima, Santiago and Bogotá, the centers have been singled out for praise by leading newspapers for their contribution to the cultural scene.

Speakers and lecturers of national and international renown are programmed at binational centers and center-sponsored forums bring together young, future leaders of government and business under conditions propitious to an appreciation and understanding of democratic traditions and values. In cooperation with the United States program of cultural presentations abroad, centers have sponsored outstanding American symphony orchestras, ballets, and theater groups.

Center libraries provide both lending and reference services. Their primary function is to make information about the United States, in both English and the national tongue, available to nationals of the host country. At the same time, works on the host country are included in center libraries for the information of United States citizens residing or visiting there.

There is no limit to the kind of activities centers undertake. They organize and staff American studies programs, seminars on economic development, discussion groups, host country and American folk dancing, among their wide gamut of educational, cultural, and social activities.

PROBLEMS

For at least the past decade it has been generally agreed by those who understand the binational center system, that the centers are one of the most effective means we have of telling America's story to the world. At the same time there has been an awareness that, except in a few cases, the centers do not approach

their potential. More than 10 years ago a perceptive foreign service officer gave two reasons why BNC's were failing to do the job he thought they could do: (1) The shortages of American personnel; and (2) the financial pressures which obliged the centers to concentrate on English teaching programs at the expense of other equally important activities. In 1962 an examiner's report to the Bureau of the Budget observed that the following obstacles contributed to the unfulfilled potential of the BNC's: (1) Inadequate buildings ("In short, the centers were not inviting. They obviously tell the local population that the United States is not much interested in its cultural center"), (2) self-financing philosophy ("The centers often have trouble enough supporting their English language activities without undertaking, even relatively inexpensive, additional cultural activities"), and (3) insufficient American staffing.

These problems exist to this day despite giant steps which have been taken in the very recent past to correct them. Binational centers continue to limp along with a shortage of personnel (particularly in American teachers), dingy and inadequate buildings, and the lack of sufficient program funds.

Binational center fact sheet (1965-66)

	Total	Latin America
Number of binational centers class A and B (1966).....	132	112
Number of countries.....	29	19
Dues paying members.....	42,456	32,193
Cumulative class registration.....	279,136	211,639
Public program attendance.....	3,378,113	2,139,758
Volumes in libraries.....	598,413	405,813
Local staff.....	5,339	3,608
U.S. Grantees and FSS personnel.....	130	101
Full-time teachers.....	640	
Full-time U.S. teachers.....	412	
Part-time teachers.....	2,448	
Part-time U.S. teachers.....	873	
Expenditures.....	\$7,115,639	\$4,993,816
Local income.....	\$7,095,064	\$5,175,332
USIA cash grants.....	\$518,420	\$335,644
USIA personnel costs.....	\$1,980,258	\$1,502,456
USIA materials grants.....	\$234,517	\$169,790
Total USIA support.....	\$2,722,619	\$2,007,890
USIA support as percent of costs.....	28	28
Number of binational center buildings owned.....	36	27

