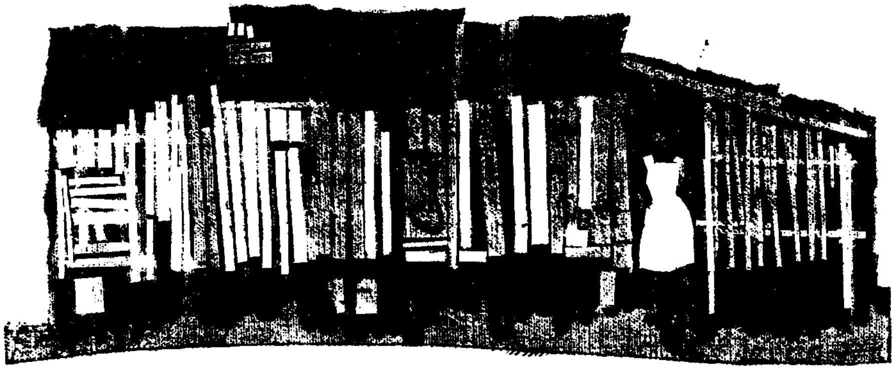


Togetherness In Central America

GLADYS DELMAS

MEXICO CITY

THE SEAL of Guatemala bears five sprigs of coffee leaves, those of Nicaragua and El Salvador five volcanoes, the flags of Honduras and Costa Rica five stars—all representing the five states of Central America. These symbols of union have been sheer hyperbole since the Federal Republic of the United Provinces of Central America, heir to the Spanish Captaincy General of Guatemala, dissolved in blood in 1838. Various political attempts at reunion in the ensuing century and a quarter have proved abortive: too often they were prompted by a dictator's desire for a friendly government on his borders. The urge toward reunion has nevertheless burned for a hundred years.

Politically, a Republic of Central America is still only a gleam in the eye; but economically it has become almost an accomplished fact since the establishment of the Central American Common Market (CACM). Since the General Treaty on Central American Economic Integration went into effect in 1961, trade between the five states has increased fourfold. It grew from 7.5 per cent of total exports in 1960 to nearly twenty per cent today. More important, the prospect of a larger market has greatly stimulated investment. Dozens of American companies have set up new plants or enlarged old ones in Central America. The Japanese are coming in force, as are the British, Germans, and Dutch. Central Americans themselves are investing in their own countries instead of sending their money abroad. Industry at home, often in joint ventures with foreigners, now provides a quicker way to get rich. As a result, during the 1960's the regional economy has been growing at an average annual rate of six per cent, compared with 4.5 per cent in the 1950's.

But it is not only in statistics that one can measure the impact of economic integration. There is a new spirit of enterprise—and a feeling of pride—in these previously somnolent countries once dedicated almost entirely to the production of coffee, bananas, cotton, and sugar. Central American pride stems not only from the response to a new idea but from the sense that the idea itself was theirs. Far from being a program imported from Washington with trimmings of aid, it grew almost unnoticed by the United States over a period of nearly ten years from a network of bilateral treaties intended to free particular products of which one country or another had a surplus. The concept of a common market was already in the background, first propounded in 1948 by Dr. Raúl Prebisch, then head of the United Nations Economic Commission for Latin America (ECLA), and not particularly in the good graces of the United States because of his *dirigiste* views. Interest in it spread to a group of Central American economists. Preliminary studies were made, contacts established, and a climate created.

Step by Step

The first concrete step toward the establishment of a common market was taken in 1958 when a Multilateral Treaty on Free Trade and Central American Economic Integration was signed at Tegucigalpa, Honduras. The treaty set up a customs union to be arrived at in ten years, and established free trade within the area for a specified list of articles. In order to persuade the weaker states, and particularly Honduras, to join, the experts came up with the idea of "integration" industries to manufacture for the whole area products that had had to be imported until that time. These were to be allotted one to each state, would immediately enjoy tariff protection, preferential duties on imports of machinery and raw materials, and free trade, on condition that they maintain certain standards of quality at a fair price and in sufficient quantity. In the minds of the planners, these industries were to be of a size that would have been uneconomic in any of the small national markets; their monopolistic aspects were adopted to prevent duplication and the squandering of scarce resources.

The next step toward a common market went much further. In February, 1960, the Presidents of Guatemala, Honduras, and El Salvador met in the village of El Poy at the junction of their three countries and agreed upon a Treaty of Economic Association that simply turned upside down the provisions of the previous treaty. Instead of a small list of products enjoying free trade, all articles except a small list of exceptions were freed. The burden of proof thus no longer fell on the bureaucracies but on those most concerned and best informed—the entrepreneurs themselves. Furthermore, a time limit was built into the treaty. By June of this year, all but two per cent of intraregional trade will be completely free. (The main exceptions are oil, sugar, and coffee —oil because each of the five countries has its own refinery, a status symbol; sugar and coffee because international quotas are jealously guarded.) This has made the system economically irreversible and politically immune. "I'm not sure the three Presidents realized exactly what they were signing," one of the architects of the treaty told me. "They may have thought it was just another declaration of Central American unity." In December of that same year, the Economic Ministers of Guatemala, Honduras, and El Salvador were joined by the Nicaraguan minister in a meeting at Managua. There they signed the General Treaty on Central American Economic Integration, now the basic document governing the Common Market. Costa Rica hesitated for nearly three years before finally joining in September, 1963. The door remains open for Panama, but with its canal-centered economy and its free-port privileges, it does not lend itself so easily to integration.

If the United States came late into Central American economic affairs, it has since given its enthusiastic support. In 1962 a Regional Office for Central America and Panama (ROCAP) was set up for liaison with the institutions of the CACM and to administer AID funds in support of regional integration, and has established a warm and close relationship with them. "These young Central American economists could hold their own anywhere," one U.S. official said. Even unbending opposition to the monopolistic aspects of the integration-industry concept has not soured the U.S.-Central American relationship. Indeed, the Central Americans hope to see ROCAP acquire greater authority than the national Agency for International Development missions, since ROCAP emphasizes regional development. "Some of these AID national development projects run counter to our own," the Central Americans say, "or at least they disturb our order of priorities."

The regional organizations have been an important factor in the success of the Common Market. Their keystone is the Secretariat—known as SIECA—created by the General Treaty to serve the two councils charged with executing the treaty. One council, composed of the Economic Ministers, meets at least half a dozen times a year; the other, composed of their deputies, meets much more frequently. Their frequent meetings have played an important part in the dynamics of integration. (The Latin-American Free Trade Association [LAFTA], which includes eight South American nations and Mexico, has no such mechanism and has bogged down in petty bickering.) Equally important has been the role of the Secretariat, which by its constant production of well-documented and forward-looking position papers has often made policy as much as implemented it.

There are also a planning commission and a technical research institute, as well as a host of others. Most important from a practical point of view are the Central American Bank for Economic Integration and a Central American Clearing House. The latter uses an imaginary Central American peso, at par with the U.S. dollar, for its transactions. The region has enjoyed monetary stability for some time—the stability of poverty, it is sometimes said. The Central American Bank has resources of about $100 million, of which the greater part comes from the United States, earmarked for various regional purposes. Nearly seventy per cent of its loans so far have been for private industry, but officials say the pattern will change shortly as the governments come forward with projects that can qualify as integrationist. Its department of industrial development is a main source of economic intelligence in an area hitherto distinguished by doubtful statistics and business secretiveness.

While the Central American Common Market is undoubtedly the creation of the bureaucracy, private enterprise is enthusiastically co-operating. There are Central American chambers of commerce and industry, regional associations of private banks, newspaper publishers, doctors—and even volunteer firemen. The Central American Institute of Business Management, founded by businessmen, offers training for future executives with the help of Harvard's School of Business Administration.

Keeping Up with the Economists

It is significant that the most active and effective of these regional bodies are those concerned with economics, although the political organization, a sort of miniature Organization of American States known as ODECA, dates back to 1951. Under its auspices, the five Foreign Ministers have met sporadically, usually to indulge in rhetoric about "the soul of Central America." Their main accomplishment has been to abolish visas for nationals traveling from one country to another within the area. Recently, however, ODECA has shown more life. Commissions are working on regional co-ordination of labor laws, social security, health, and the promotion of tourism. A free-textbook program for primary grades is well under way; the textbooks, although printed separately, are to be the same for all five countries.

This new political impulse toward integration is attributed by the irreverent to the Foreign Ministers' jealousy of their colleagues in economics who have been grabbing so much of the limelight lately. But as economic integration becomes more complex, political decisions will be needed to keep it going. Indeed, although this first stage has been startlingly successful, the really difficult part lies ahead.

One of the main problems is how to achieve balanced development among the five countries in order to prevent two or three from reaping the major benefits. At present the chief beneficiaries appear to be Guatemala, Nicaragua, and particularly El Salvador. Costa Rica came in late, and the eruption of the volcano Irazú disrupted its economy for two years thereafter. But it is Honduras, as the poorest and most backward of the five, that feels left out in the cold. A vast empty country with practically no roads or any of the infrastructure necessary for industry, Honduras has more illiterates than the others, and its small elite has been constantly drained by political exile.

Two devices for equalization are built into the Central American Common Market: the integration industry and an agreement on similar fiscal incentives to industry. This last Honduras has not yet ratified: it wants to be able to offer greater inducements than the others. The Ministers of Economy in January of this year agreed, but also respectfully asked Honduras to get on with other legal procedures so as to tidy up the CACM structure. At the same time, they asked the Central American Bank to give priority to Honduran projects and offered technical assistance.

There are other heartening examples of how the five are looking at development from a regional rather than a narrowly national basis. When President Kennedy visited Central America in 1963, he proposed that a fund be put at the disposal of the Central American Bank for the "infrastructure of integration." The United States has contributed $35 million and each country an additional $1.4 million. They themselves decided to give priority to roads—connecting roads rather

than those that would open up their own virgin lands. And Honduras, because of its greater need, will get more than its share of these funds. The other four are thus channeling not only American munificence toward a weaker partner but part of their own contribution as well.

And yet, no utopian idea exists that all five must immediately arrive at the same level. As Carlos M. Castillo, director of the United Nations Economic Commission for Latin America's office in Mexico, has said: "A policy of balance is that in which the five countries organize and cooperate among themselves to overcome the chief difficulties standing in the way of the development of each, be it overpopulation in El Salvador, lack of transportation and port facilities in Honduras, or the need for industrial investment in Nicaragua. This is what each country needs, in addition to its own hard work—and no more."

Sore Points

The integration industry on which Honduras originally counted to assure it a share in regional prosperity remains a sore point. The United States, with its anti-monopoly credo, has instructed the Central American Bank that no U.S. funds are to be used to finance such industries. Only two are actually under way: a tire plant in Guatemala and a caustic soda and insecticide plant in Nicaragua. Honduras has had trouble in deciding what it should ask for. At one point, shoe polish was considered—an idea with little future until more Central Americans can afford shoes. An industry for production of flat glass has been approved, but in view of the state of Honduran roads, breakage threatens to be considerable.

Still, in spite of the slight success of the integration-industry concept, Central Americans cling to it. It is their own, and a popular notion is that the United States opposes it not entirely on anti-trust principles but out of fear that cheap Central American labor working in modern plants could produce competitive products for the world markets. Others reproach us for being too rigid in our thinking, wanting to apply to developing areas ideas that are chiefly applicable to developed ones. In any case, Central Americans are pragmatists and have devised a way to bypass U.S. objections and also those of El Salvador, which as the most dynamic of the five does not see much advantage in monopoly either. Through this special arrangement, they grant a protective tariff and other privileges as soon as a company shows that it can supply fifty per cent of the market, with acceptable standards of quality and price. This is a reversal of the original process: instead of five governments creating a monopoly, the individual businessman decides he can make one *de facto*.

A related problem is the proliferation and duplication of small industries, particularly assembly plants. Already there are signs of private cartel arrangements to protect a home market. Honduran beer, for instance, considered the best in the area, used to be available in Guatemala—until new breweries sprang up there. The Central American General Treaty, unlike the Treaty of Rome, has no anti-cartel clauses; in the present state of economic intelligence they will be difficult to devise.

ANOTHER DIFFICULTY is that the boom so far has been entirely industrial. Agriculture, the mainstay of all five economies, has received little attention and no co-ordination of policy. (The five, in fact, fought bitterly last year over their respective coffee quotas.) The overwhelming part of agricultural production (coffee, bananas, sugar, cotton, and recently beef) is for export. The region imports a substantial part of its food, although the soil is one of the richest in the world, and the climate, from lowlands to highlands, ranges from tropical to temperate. As the industrial population grows, more food for home consumption must be produced. Traditionally this has come from small peasant plots. Agrarian reform is hardly mentioned since there is a general understanding that the export income derived from the big plantations is a necessary motor of the development process. But without upsetting the applecart there is increasing concern to diversify crops and to process agricultural products. However, each country has a program aiming at agricultural self-sufficiency; there has so far been no attempt at specialization or complementation—although food has been one of the most important items of intraregional trade.

The big problem, however, even from a narrow business point of view, remains social. Of the twelve million people in the area, only a third at most participate in the money economy, which makes the total number of consumers hardly greater than the population of the San Francisco Bay area. Except in Costa Rica, approximately two-thirds of the people are illiterate, and one per cent of the population—again except for Costa Rica—absorbs a quarter of the national income. These inequities are not new; they have been deplored for generations. What is new is the economic impulse to change them. Growing industries have a very immediate interest in a growing internal market—a market the existing plantation economy could afford to ignore.

Today industrial development through the Common Market presents the politicians—and the military—with a new alternative in a region famous for its political upheavals. In El Salvador, for instance, traditionally in the grip of a few wealthy families to whom the middle-class military were subservient because they had no choice, the administration of Colonel Julio Rivera has found in the CACM a broader base and a means to start a gradual transformation of the social structure. As economies become more sophisticated, as the business climate becomes as important as the sun and the rain, there is less patience with old-line squabbles about personality and patronage.

Hitching onto Success

The achievement of the Central American Common Market is being felt beyond its borders and has provoked some shamefaced comments among the nine big Latin-American nations whose attempts to form a free-trade area are proceeding much more sluggishly. "If the little fellows can do it, why can't we?" asks a LAFTA official. "Look at the profit they're reaping."

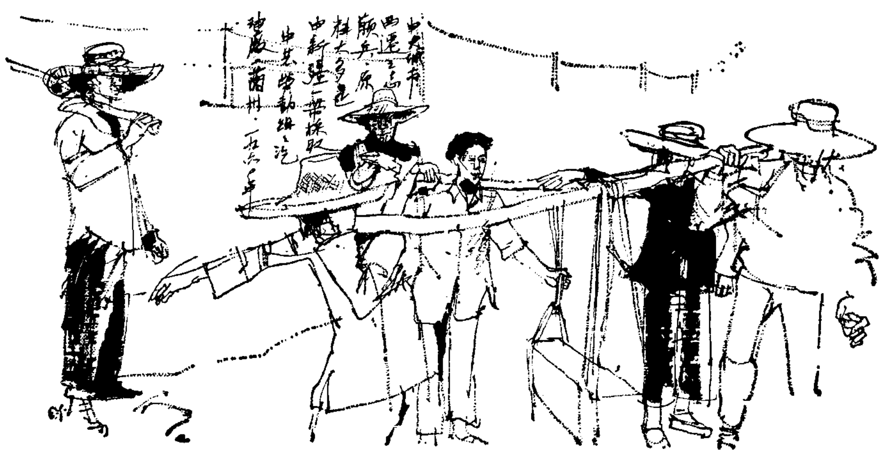
Several Latin-American countries, notably Venezuela and Colombia, are investigating ways and means of hitching onto this success. Mexico has gone further than any of the others. It has proclaimed 1966 the "Year of Central American Friendship," and in January President Díaz Ordaz made state visits to all five CACM countries and to Panama, seeking economic ties as well as friendship. The relationship be-

tween Mexico and the Central American countries is less than clear, however. The detachment of Chiapas, now Mexico's southernmost state, has no more been forgotten in Guatemala than that of Texas in Mexico. Mexico's political position—opposition to military dictatorships and to the Inter-American Peace Force in the Dominican Republic, as well as its relations with Cuba—differs radically from that of the Central American governments. Furthermore, its trade balance is already highly unfavorable to Central America ($12 million in exports versus $0.5 million in imports) and its traditional exports compete with Central America's.

Nevertheless bonds exist and will doubtless increase. Many Central Americans have studied in Mexico. Mexico has, in a modest way, its own Alliance for Progress in the region, sending vaccines, improved seeds, and technical help of various sorts. Several Mexican companies have invested in Central America; Mexico has opened a line of credit with the Clearing House, and a Mexican shipping line has established a regular service with the Pacific ports. President Díaz carried matters a good deal further, with a loan of $5 million to the Central American Bank and an offer to buy a million dollars' worth of bonds as soon as these become available. What has struck Central Americans is that Mexico's terms are more generous than those of the United States: only seventy per cent of the money is tied to purchases in Mexico, while the rest may be spent anywhere; U.S. loans specify that the money must be spent either in the United States or Central America.

Mexico has not offered great sums, of course, but it is the first time one Latin-American nation has come forward to help another. "We do not yet have much capital to export," a Mexican economist said, "but we do have experience in setting up industry in a primitive economy. We understand the problems better than the international giants—and we also talk the language."

Looking farther into the future, Mexico aspires to be the link between Central America and the Latin-American Free Trade Association. How this could come about has not yet been spelled out, but Central America's chief hope of a market for export industry lies within Latin America. Mexico and Central America have the fastest-growing economies in the hemisphere. It is natural that for all their differences and incompatibilities, they should try to get together. After the unforeseen success of the Central American Common Market, no one dares to minimize the possibility of a new economic pattern for the entire region.



Shanghai's Repentant Capitalists

ROBERT GUILLAIN

OF ALL THE CITIES open to foreigners, Shanghai (along with Peking) is the best the Chinese have to show. They have not merely touched the place up, they have spent a great deal of energy trying to beautify it. The celebrated Bund, for example, the international Strand of former times, has become a green park. In the old days, the banks of the Whangpoo saw two worlds pass without greeting among the picturesque but noisy confusion of capitalists in their foreign cars and barefoot coolies unloading steamers. Bankers and businessmen leaving the proud buildings that hugged the quays overlooked all the homeless of the harbors, the dockside thieves, the beggars, the poor fishermen living in sampans.

Today, the Bund serves as a thoroughfare and a place to take walks. Everything is orderly and clean. There are benches where one can sit and look at the river. The jade waters bear junks, floats of logs pulled by small craft, and ferries crowded with Chinese. Today, junks without wings outnumber those whose bamboo-ribbed sails looked like the wings of bats—sails have been replaced by the diesel engine.

Nanking Road runs nearby. Once the principal commercial street and center of a famous quarter, it has again achieved great animation on its sidewalks and in numerous shops crowded with buyers. The only thing missing is the traffic of a great city. Except for the buses loading and unloading their crowds, there is almost nothing. Parked cars are almost unknown. Yet the automotive lineup certainly is richer than in either Wuhan or Shenyang. Little three-wheeled trucks and larger ones built in Shanghai pass occasionally. The city must keep them jealously to itself, because they are seen nowhere else.

Although Bubbling Well Road has kept up its buildings dating from the days of capitalism, it has changed its name and the once celebrated Race Course has become a People's Park. When I saw this transformation begin in 1955, I thought that all those beds of roses and banked chrysanthemums would have only an ephemeral existence. Not at all. The park, which fills the oval of the former track, has even more flowers now, and the groves planted at that time have already grown tall. People stroll on shaded paths. They swim in a pool. There is even a man-made stream for canoeing.

On Nanking Road, practically anything one wants is on sale, from a photographic enlarger to a nylon toothbrush, with radios, watches, clothing, and lipstick in between. But who buys lipstick?—I've never seen any lips that were red. As everywhere else in China, there are two price scales: very cheap for necessities and very, very expensive for the rest. But shoppers are many and they're buying. Obviously, "there's money there" and enough of it for purchases that are not utilitarian. A really fine art shop sells painted scrolls, woodcuts, artists' supplies and paper for calligraphy, and books of Chinese art in reproduction.

In Shanghai commerce has been socialized, of course, and all shops belong in one of the following categories: state department stores, co-operative stores or stores with mixed management ("state-private," they're called). For the last year or two, the régime has tried to encourage light industries—after having neglected them—so as to make available a greater variety and quantity of consumer goods.

Another change has taken place since my visit of 1955: heavy industry made up a mere thirteen per cent of Shanghai's production at the beginning of the first Five-Year Plan (1953), I was told by a spokesman for the city government during the regulation introductory briefing; today, it accounts for fifty per cent. Shanghai has built steelworks, chemical plants, and factories for machine tools. The one I visited in Yangpu, with 5,200 workers, manufactures about forty different types of machines; the factory is proudest of its grinding machines, some of which attain very great precision. The stock from which the workshops have been outfitted appears mixed in origin and age, but the factory functions and looks alive.

Shanghai also produces equipment for the mining industry, for steel, and for the manufacture of chemical fertilizers. At the Exhibition Hall (until recently the House of Sino-Soviet Friendship) I was shown the prototypes of machines and installations dating from 1963 and 1964: high-precision lathes, grinding machines, milling machines, vertical lathes for large-dimension work, giant diesel engines, giant compressors, a 25,000-kilowatt turbogenerator made in Minghao. From the Shanghai tractor works were shown a 7-hp. cultivator with a great many uses, a light tractor, a heavy (35-hp.)