

Development Discussion Papers

Central America Project Series

The Access of Central America to Export Markets: Diagnostic and Policy Recommendations

José Tavares

Development Discussion Paper No. 693
April 1999

© Copyright 1999 José Tavares
and President and Fellows of Harvard College

Harvard Institute for
International Development

HARVARD UNIVERSITY



DEVELOPMENT DISCUSSION PAPERS

CENTRAL AMERICA PROJECT SERIES

A PROJECT OF HARVARD UNIVERSITY, INCAE AND
THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



The Access of Central America to Export Markets: Diagnostic and Policy Recommendations

José Tavares

Abstract

This paper offers an overview of the status of Central America's access to export markets. It reviews the creation, evolution and current status of the Central American Common Market (CACM), as well as the status of trade relations between Central American nations and countries outside the region. Central America's trade is characterized by a short list of very important clients where the United States is prominent, a non-diversified export base relying on agricultural products and textiles and an increasing dependence on *maquila* exports. The regional trade area has not yet attained the status neither of a fully developed common market nor of a free trade area. The paper lays out the different strategies for Central America to secure access to the important US market, in the wake of NAFTA and preferential access of Mexican exports to the United States. The main risks Central America faces are: the unilateral nature of the Caribbean Basin Initiative agreement, increasing differential between Mexico's and Central America's access to the US market and the risk of being left out of both NAFTA and a Southern American trade area. Finally, this paper delineates the components of a trade strategy that would improve and secure access to foreign markets. First, work to secure access to the United States market by negotiating both with the US *and* US partners on as many trade and ancillary issues as possible. Second, pursue better trade relationships with markets that are large and close geographically as well as culturally such as Mexico, Venezuela and South America. Third, take regional integration seriously. It is the best available avenue to increase credibility as a partner and creating a larger internal market.

Keywords: trade integration, trade liberalization, Central America, NAFTA

JEL codes: F0, F1, O5

José Tavares, Ph.D. is a Development Associate at the Harvard Institute for International Development (HIID).

**The Access of Central America to Export Markets:
Diagnostic and Policy Recommendations**

José Tavares

Table of Contents

1.	Introduction	1
2.	Regional Integration in Central America	4
2. 1	The Process of Regional Integration.....	4
2. 2	The Regional Institutions.....	11
2. 3	The Central American Common Market in Comparative Perspective	12
2. 4	Trade Flows	15
2. 5	Trade Agreements with Other Areas and Countries	21
3.	Central America, Mexico and the United States: Characterizing Differential Access.....	27
3. 1	Pre-determinants of differential access.....	27
3. 2	The North American Free Trade Agreement versus the Caribbean Basin Initiative	30
3. 3	Access to the U.S. Market: the Options for Central America.....	43
4.	Central American Access to Foreign Markets: a Strategy	47
4. 1	The priorities of a Central American Trade Strategy.....	47
4. 2	The Role of Regional Integration	52
5.	Conclusions.....	56
	References.....	58
	Appendix I: Acronyms in the paper: Spanish-English Correspondence.....	61

**The Access of Central America to Export Markets:
Diagnostic and Policy Recommendations**

José Tavares

List of Tables

Table I:	Central America Calendar of Tariff Disarmament	8
Table II:	Institutions for Economic Integration in Central America	12
Table III:	An Overview of Trade Areas	13
Table IV:	Central America's Trade Negotiations	22
Table V:	Exports to the U.S, 1988 - 1996.....	34
Table VI:	Manufacture Exports to the U.S., 1988 - 1996	34
Table VII:	Agricultural Exports to the U.S., 1998 - 1996	34
Table VIII:	Textile Exports to the U.S., 1988 - 1996	40
Table IX:	Textile Exports and Maquila Exports from Mexico and Central America to the U.S. - 1996.....	42
Table X:	Regional Trade in the Americas	49

List of Figures

Figure I:	Distance to Partners / Distance to Markets	14
Figure II:	StdDev GDPpc / Average GDPpc of Trading Partners	15
Figure III:	Share of Imports from Central America	16
Figure IV:	Share of Exports to Central America	17
Figure V:	Share of National in Regional Imports from Central America	18
Figure VI:	Share of National in Regional Exports to Central America.....	19
Figure VII:	Central American Exports by Region	20
Figure VIII:	Shares of U.S. Imports Market – Central America & Mexico.....	33
Table IX:	Share of Top Five Export Products – Costa Rica to the U.S.	36
Figure X:	Share of Top Five Export Products – Guatemala to the U.S.	36
Figure XI:	Share of Top Five Export Products – Honduras to the U.S.	37
Figure XII:	U.S. Import Charges as Share of U.S. Imports SITC 0	38
Figure XIII:	U.S. Import Charges as Share of U.S. Imports SITC 8	38
Figure XIV:	Share of Textile Exports in Overall Exports – Central America	40

List of Boxes

Box 1:	An Early View on Central America Integration	5
Box 2:	Trade with Central America: The View From the U.S.....	10

**The Access of Central America to Export Markets:
Diagnostic and Policy Recommendations**

José Tavares

1. INTRODUCTION

In the past decade peace and democracy have been restored in Central America.¹ Parties involved in the violent conflicts of the 1980s have signed peace agreements and the countries in the region now have democratically elected cabinets. Moreover, after years of macroeconomic instability and economic stagnation, the countries in the region have resumed economic growth. In Central America, sustained economic growth is widely believed to be the most important instrument to consolidate peace and democracy.

The access of Central American goods to external markets coupled with the attraction of foreign investment and tourism constitutes one of the key strategies in the quest for economic growth. The governments of the region see secure access to the United States market as a pivotal issue, given the enduring status of the United States as the most important commercial partner of Central America.² Access to other markets, such as Mexico and more recently the Dominican Republic has also been of interest to policy-makers and businessmen in Central America. The process of regional trade integration, which was revived in the early 1990s after a period of stagnation, is another possible way to expand the “home” market of Central American firms. Nonetheless, both the differences in economic development among Central American countries as well as the infancy of political stabilization in some of those countries limit the enthusiasm for the process of regional integration.

Central and North America, taken together, exhibit extreme disparities in per capita Gross Domestic Product and country size. The three northern neighbors, United States, Canada and Mexico, are continental-sized economies while both Central American and Caribbean countries are characterized by their small economic size. While the United States and Canada are industrialized, developed market economies with levels of GDP per capita above U.S. \$20,000

¹ In this paper, Central America refers to Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, the signatories of the Central American Common Market (CACM).

per year,³ Mexico and Central America are developing economies in which economic and political liberalization are still in progress. In these economies, the processes of internal market deregulation and reform of the public sector advance apace with those of trade and investment liberalization.

Of the less developed countries in the region, Mexico has been the most successful in securing access to the key market in the hemisphere, the United States. Mexico has enjoyed a unique position in U.S. foreign and domestic policy discussion due to the combined effects of the size of the Mexican economy and its proximity to the United States. The signing of the North American Free Trade Agreement (NAFTA)⁴ has been the natural outcome of the high degree of interdependence between the two large neighbors. Political considerations were preeminent. The U.S. saw trade integration as a means not only of promoting trade in goods but also as a way to stem the wave of Mexican migrants towards the north.⁵ NAFTA has since become the quintessential instance of a trade agreement between a developed and a developing country.

Since most Central American exports to the U.S. compete directly with Mexican exports, the emergence of NAFTA constituted a wake up call in Central America as far as the importance of secure external markets is concerned. Central America, however, has not developed its “case” for trade integration with the United States. The small size of the local economies and the absence of geographical contiguity to the U.S. diminish its relevance to U.S. policy-making. Though Central American exports are extremely exposed to the U.S. market, the importance to the U.S. of trade with Central America is relatively small, particularly if each of the countries is viewed independently.⁶ The same holds for migration. Though important for the region the magnitude of migratory flows does not place them high in the American agenda.

Central America enjoyed some preeminence in American politics at the height of the Cold War, when left-wing governments were considered a potential threat to U.S. interests. American security concerns were important enough to prompt a unilateral effort to expand access to the

² Responsible for close to half of total imports from and exports to the region. See, for instance, SIECA (1998).

³ See World Bank (1998).

⁴ Henceforth NAFTA.

⁵ The importance of political considerations in trade agreements is not a novelty. The European Community, it is widely acknowledged, extended membership to Mediterranean countries such as Greece, Spain and Portugal as a way of consolidating the new democracies emerging in those countries as well as their economies. One of the benefits of such stabilization was to prevent further migratory flows from the Mediterranean countries, which had historically been important.

⁶ As measured, for instance, by the share of imports from Central America in total U.S. imports. See more on this

U.S. market for Central American and Caribbean countries,⁷ in the form of the Caribbean Basin Initiative (CBI).⁸ In addition to the different relevance of Mexico and Central America to current American interests, the political climate in the United States has now turned decidedly against an extension of the NAFTA. The intense political debate that preceded NAFTA ratification spurred major dissensions within political parties as well as a face-off between labor unions and corporate interests. This has led to a recognized backlash against NAFTA which, however unfairly, has progressively come to be seen as a risky unilateral American concession.⁹

In view of the above, Central America needs to reevaluate the importance of different markets for its exports. While the dimension and relative proximity of the United States market makes it a prime target for examination, other markets deserve close attention. Moreover, as regional integration gains steam and Central American countries advance free trade with other countries and trade areas, two needs arise. The first is to determine the current status of trade with different areas, as far as trade negotiations and volume of trade are concerned. The second is to establish priorities on the basis of the potential of the different export markets. This paper attempts to pursue precisely those two functions: diagnostic and policy advice.

The paper is organized as follows. Section 2 gives an overview of the process of regional trade integration, including the importance of regional trade flows and the situation of the different trade agreements between Central American countries and countries outside the region. Section 3 discusses trade with the U.S. by comparing the status of Mexican and Central American goods as far as access to the U.S. market is concerned and presenting the evolution of trade with the U.S. for major product categories. In this section we also discuss the different trade strategies Central America may pursue to facilitate access to the U.S. market. Section 4 presents policy recommendations to improve Central America's general access to foreign markets and Section 5 concludes.

below.

⁷ See Pastor (1993).

⁸ Henceforth CBI.

⁹ The most common illustration of such backlash is the inability of Chile, which has thrived economically on a record of macroeconomic stability, to translate its role model status into NAFTA access. This in spite of the considerable support Chile has garnered in administration and corporate circles, its small economic size and considerable distance to the U.S. market.

2. REGIONAL INTEGRATION IN CENTRAL AMERICA

2.1. The Process of Regional Integration

Regional integration in Central America has been a long and arduous process. Movements towards economic and political integration tend to be greeted with an enthusiasm that gradually leads to disappointment. In the colonial era, the Spanish administrated the region as a whole, under the Vice-Royalty of Guatemala. When Central America achieved independence in the early 19th century, it broke into different states that nonetheless kept a measure of coordination under the centralized government of the United Provinces of Central America. This federation broke down to be later revived in 1921 as the Republic of Central America, which included only Guatemala, El Salvador and Honduras.¹⁰ This arrangement would later be abandoned but the rationale for integration has remained intact. The common language and shared cultural traits, the geographical proximity and, last but not least, the small size of the economies and the similarity of economic structure, all point towards the benefits of regional integration.¹¹

The 1950's in Central America saw the signing of a series of bilateral trade agreements that paved the way for the creation of a trade area in the 1960s. As early as April 1960, the nations of El Salvador, Guatemala and Nicaragua signed a Tripartite Treaty and in December of the same year a General Treaty of Economic Integration, uniting those countries into a qualified free trade area. The other two nations in the region, Honduras and Costa Rica, joined to the General Treaty in April 1962 and in November 1963, respectively. The treaty established the aim of building a common market in the region, the Central American Common Market,¹² which was to evolve towards a free trade zone and the adoption of a common external tariff. The signatory states liberalized trade of goods originating in their territories by exempting those goods from import and export taxes as well as any other charges related to international commerce, be they at the national or any other government level. The exceptions to this norm were considered in the Annex A, and were meant to be progressively included into the free trade regime. This treaty

¹⁰ Nicaragua declined to participate in order not to compromise its bargaining with the United States over a possible second canal in the region. In Costa Rica the accession agreement was not approved in a parliamentary vote. The superior interest in regional integration by the three northernmost countries in Central America is a feature of the political economy of the region.

¹¹ Box 1 presents an early 20th century defense of integration that keeps much of its force today.

¹² Henceforth CACM.

also created a uniform Central American customs form to be used by all countries in the region, proposed guidelines on internal production, sales and distribution taxes, prohibited unfair trade practices, awarded construction companies equal status across Central America and mentioned bank and industrial integration. In parallel, the Constitution of the Organization of Central American States was signed, adding a political dimension to regional integration. In 1963 a Protocol to the General Treaty of Economic Integration created a common customs code, the CAUCA.

Box 1: An Early View on Central American Integration

The possibilities of Central American integration inspired academic interest outside of the region as early as 1922. In an article in the *American Economic Review** following the creation of the Republic of Central America, the economist Harry Collings tried to understand whether the economic environment in Central America justified federation and how a federation could favor economic development. Collings points the attention of readers to the “similarity in religion, interests aptitude and...ability.” The connections went beyond culture: “Economically all the countries are confronted with the same problems – the development of their natural resources, which are largely agricultural, and the creation of facilities for placing their products more readily in the hands of the ultimate consumer, either at home or abroad.” In an era that predated the phenomenon of tourism, it is only natural that this resource was to be ignored in 1922.

Collings also refers to the major hindrances to the development of the region. The priority list reads well as a current checklist for the promotion of trade. Collings mentions:

1. government stability
2. reduction of government expenses
3. reform of the currency and banking system
4. creation of better conditions for borrowers and lenders in foreign investments
5. the development of transportation, both railroad and shipping
6. the stimulation of foreign trade

The author believes regional integration can be instrumental in promoting political stability, the region’s autonomy vis-à-vis the exterior and the development of the region’s exports to the rest of the world.

* Collings, Harry (1922), *The Economic Basis of Federation in Central America*, *American Economic Review Papers and Proceedings*, 12, 1, pp. 168-176.

In the past, Central America has pursued import-substitution policies including import tariffs, which discourage exports. To counteract their effect on exports policy-makers introduced counter measures such as preferential trading, export processing zones, temporary import regimes, direct export subsidies and exchange controls.¹³ In 1960, Central America toughened its protectionist policy by creating a common external tariff that was well above the individual country's tariffs it was replacing. As an added distortion, the exchange rate was overvalued for most of the period. Similarly to other Latin American countries, this protectionist stance was meant as a catalyst for industrialization and economic growth.¹⁴ Most of the import restrictions have not been of a quantitative nature.

In 1985 Costa Rica promoted the idea of reform of trade policy and the reduction of the external tariff and, together with other countries, abandoned the common external tariff. A customs and tariff agreement finally brought into place a common external tariff in the region. In 1993, the Protocol of Guatemala established the objective of achieving economic union through voluntary and consensual agreement by the states.¹⁵ This Protocol delineates the phases of economic integration to be pursued in the future, namely: the perfecting of the free trade zone; the coordination of foreign commercial relations; the perfecting of the common tariff and the creation of a Customs Union; the increase in mobility of factors of production; monetary and financial integration.

The coordination of foreign trade policy has met with some success, particularly when Central America presented a common front in hemispheric trade talks, such as the recent Free Trade in the Americas meetings and in negotiations with Chile and the Dominican Republic. That the external tariff is not truly common and the ubiquitous tendency to exclude certain products from liberalization has led to the break-up, in practical terms, of the common Central American front.¹⁶ Guatemala and El Salvador are currently discussing the possibility of pursuing a full customs union, possibly involving the disappearance of border checks. Juarez (1998) and

¹³ See Willey (1997) for a description and an analysis of the effectiveness of these policies in Central America.

¹⁴ Though a period of growth followed the creation of the Central American Common Market, there is no evidence that it was due to the desired import substitution effect. The rise of Central America's export prices, instead, seems to have been at the origin of the growth period. Mendéz and Rousslang (199??) estimate the effect of the common tariff on GDP and find it to be negative.

¹⁵ It has been ratified by the five Central American states and Panama's ratification is still pending.

¹⁶ In the case of the Dominican Republic, it has been agreed to elaborate 5 bilateral lists, with the resulting compounding of the problems with treaty implementation.

Polanco (1998) mention the potential that this two-country union may act as a catalyst for Central American regional integration.

Article III of the General Treaty of Economic Integration grants free access to all the products originating in the region. The exceptions, as of 15 July 1998 according to SIECA (1998), were coffee, sugar, ethyl alcohol, flour, oil and cigars.¹⁷ In 1995, the Central American countries have reviewed their customs policy and adopted a new tariff disarmament schedule that refers to goods produced in the region and those imported from third countries.¹⁸ The objective is to decrease tariffs on primary goods in a pre-agreed and relatively short period. The maximum tariff for intermediate goods and capital goods not produced in the region would be 0%, for primary goods and intermediate goods produced in the region between 5 and 10% respectively. The maximum tariff for final goods would be limited to 15%. Table I below presents the proposed calendar of tariff disarmament for each of the five countries.

Dispositions on rules of origin have been adopted and generally follow the recommendations of the World Trade Organization (WTO)¹⁹ based on the principle of change in tariff classification by which a product is considered as originating in a country if the inputs used for its production and the output that emerges fall into different classifications.²⁰ A regional ruling on fair competition came into place in December 1995,²¹ also following WTO guidelines and applying to commercial transactions both within the region and with third countries. The objective is to confront trade subsidies and dumping practices through compensatory and anti-dumping tariffs. An agreement on safeguard measures applying to imports from countries outside the region has been signed. It allows regional producers to apply for safeguards when imports cause substantial harm to their production.²² Finally, the protection of intellectual property rights was first considered in a 1968 document, but only came into effect in 1975. Its guidelines still apply today.

¹⁷ As referred to in the Reglamento Centroamericano sobre el Origen de Mercancías.

¹⁸ The products that are treated as exceptions to the general policy have important consequences. See Box II.

¹⁹ Henceforth WTO.

²⁰ The Reglamento Centroamericano sobre el Origen de Mercancías.

²¹ The Reglamento Centroamericano sobre Prácticas Desleales de Comercio

²² The Reglamento Centroamericano sobre Medidas de Salvaguardia.

TABLE I – CENTRAL AMERICA CALENDAR OF TARIFF DISARMAMENT*

GUATEMALA

TYPE OF GOOD	1 Jan 97	1 Sept 97	1 Jan 98	1 Jan 99
Capital Goods		0%		
Capital Goods produced in Central America	14%		12%	10%
Raw Materials	0%			
Intermediate Goods with DAI of 10%	9%		7%	5%
Intermediate Goods with DAI of 15%	14%		12%	10%
Final Goods with DAI of 20%	19%		17%	15%

EL SALVADOR

TYPE OF GOOD	1 Jan 97	1 Jan 98	1 Jul 98	1 Jan 99	1 Jul 99
Capital Goods	0%				
Raw Materials	0%				
Intermediate Goods with DAI of 10%	9%	8%	7%	6%	5%
Intermediate Goods with DAI of 15%	14%	13%	12%	11%	10%
Final Goods with DAI of 20%	19%	18%	17%	16%	15%

HONDURAS **

TYPE OF GOOD	1 Jul 96	1 Jan 97	31 Dec 97	31 Dec 98	31 Dec 99	31 Dec 00
Capital Goods	3%	1%				
Raw Materials*	1%					
All Other Raw Materials			3%	1%		
Intermediate Goods with DAI of 10%			5%			
Intermediate Goods with DAI of 15%			10%			
Final Goods			19%	18%	17%	15%

** To be used in medicinal and agricultural uses.

NICARAGUA

TYPE OF GOOD	1 Jan 97	1 Jul 99
Capital Goods produced in Central America	5%	
Capital Goods not produced in Central America	0%	
Raw Materials produced in Central America	5%	
Raw Materials not produced in Central America	0%	
Intermediate Goods produced in Central America	10%	5%
Intermediate Goods not produced in Central America	0%	
Final Consumption Goods	15%	10%

COSTA RICA***

TYPE OF GOOD	DAI Base 1997	Jan 98	Jul 98	Jan 99	Jul 99	Jan 2000
Capital Goods	5%	2%	1%	0%		
Raw Materials	5%		0%			
Intermediate Goods with DAI of 10%	10%	9%	8%	7%	6%	5%
Intermediate Goods with DAI of 15%	15%	14%	13%	12%	11%	10%
Final Goods with DAI of 20%	20%	19%	18%	17%	16%	15%

*** For certain specific goods and those subject to a tariff rate over 20%, the tariff reduction will be linear until the year 2000, with the exception of some agricultural goods for which the year 2005 applies.

Source: SIECA (1998).

*As of 22 June 1998.

Actors in the region frequently allude to the incompleteness or imperfect character of regional trade integration. An expression frequently heard was that regional trade integration “was not for real.” Reasons invoked as jeopardizing the benefits of integration include :

- the exclusion of important sectors from free trade;²³
- the choice of sectors not subject to liberalization in bilateral trade agreements is made in an ad-hoc manner, as a “knee-jerk” response to private sector interests;²⁴
- the existence of cartels in shipping, air freight and the poor road infrastructure;²⁵
- the number of trade agreements within the region and with third parties, stretching the capacity of regional and national institutions to bring them into force;²⁶
- the insufficiency of internal sources to provide credibility to the liberalization process and the resulting need for external sources of credibility.²⁷

Several of the same policy-makers referred to some of the benefits of integration as it exists today, which include:

- a larger market for Central American exports;²⁸
- increased power of negotiation in trade talks;²⁹
- an “emulation” effect that leads Central American countries to initiate trade talks with third parties after a specific country has initiated them;³⁰ the emergence of a truly regional lobby supporting regional integration. This is mostly made of private sector representatives, usually federations of medium-sized enterprises.³¹

²³ Such as Estrada (1998) and Urizar (1998). The latter referred particularly to cement, sugar and chicken.

²⁴ See Gonzalez (1998) and Urizar (1998).

²⁵ See Alonso (1998), Estrada (1998) and Zamora (1998).

²⁶ As in Alonso (1998), Polanco (1998), Lizano-Fait (1998) and Urizar (1998).

²⁷ Among others factors, the political dimension does not seem to be working well as a complement to trade and economic integration. See Alonso (1998), Gonzalez (1998) and Urizar (1998).

²⁸ As in Carrillo (1998) and Zamora (1998).

²⁹ Referred in Estrada (1998).

³⁰ Gonzalez (1998), particularly in the case of Costa Rica’s negotiations with Mexico and subsequent trade negotiations.

³¹ See Alonso(1998) and Estrada (1998).

For regional integration to become a meaningful part of the region's agenda the above comments should be heeded. The importance of furthering regional integration as a stepping stone to achieve better access to export markets, the U.S. in particular, is highlighted below.

Box 2: Trade with Central America: The View From the U.S.

The United States Department of Trade (USTA) submits every year to the House Committee on Foreign Affairs a report on individual country trade practices.* These are a very good way to perceive how the United States Government sees trade with Central America and to identify what the region has to do to become more attractive to the U.S. The structure of the reports is revealing: there are sections on the country's macroeconomic environment, including exchange rate and debt policy, but the most voluminous are "Significant Barriers to U.S. Exports," "Protection of U.S. Intellectual Property" and "Worker Rights."

Each Central American country is a case in itself but there are issues that recur in most of the individual country reports. These are generally positive as far as the overall macroeconomic environment is concerned and all acknowledge that change is occurring in all areas and in the right direction. A shift from non-tariff barriers to tariffs and the undergoing tariff disarmament under the Central American Common Market (CACM) is recognized and applauded. Even if change is in the right direction, the current situation is still seen as problematic and warranting policy action in key areas. The most problematic areas are:

Protection of Intellectual Property Rights – Enforcement of international standards is a problem. Counterfeits are widely available. Speculators register trademarks with the purpose of extracting compensation from international companies and litigation to remove these are long and expensive.

Customs Procedures – The need for customs specialists implies extra costs. Customs brokers enjoy monopoly and must be nationals. Formulas lead to overvaluation of exports. Occasional arbitrary customs valuation. Delays add to cost and lead to destruction of perishables. In some countries steep secondary customs costs exist.

Special Taxes – Luxury, consumption and sales taxes. Some taxes on imported goods charged in cascading fashion.

Sanitary Regulations - Eliminates some markets and impedes the growth of other.

Government Procurement – Disqualification of foreign bidders for failure to comply with detailed procedures with no possibility of changes. Lengthy and costly appeal processes. Lack of transparency.

Worker's Conditions – Poor enforcement of child labor laws. Occasional lay-off of union organizers.

The U.S. products that are most affected vary. Property rights issues affect mostly video and sound recordings, books, trademark clothing, cable broadcasts and medicines; sanitary regulations harm imports of fresh food, meat and poultry and special taxes tend to fall on fruit, tobacco, soft drinks and imported goods not considered basic foodstuffs. In sum, bureaucratic expediency and transparency, simplification of sanitary regulation, streamlining of the tax system and enforcement of property rights seem to be the policies that could lead to the best improvement in the image of Central American countries as trade partners to the United States.

* See Trade Department (1998), 1997 Country Reports on Economic Policy and Trade Policies, http://www.state.gov/www/issues/economic/trade_reports/index.html

2.2. The Regional Institutions

Central America has developed a number of regional institutions in order to facilitate progress in trade integration and trade openness in general. One of the earliest institutions which has remained pivotal due to its role of providing technical and logistic support to the decision concerning economic integration is the SIECA, the Secretariat for Central American Economic Integration. It was created in the General Treaty of Economic Integration, signed in 1960, with the purpose of general coordination of the integration effort. The Protocol of Tegucigalpa in 1991 created the Central America's Integration System (SICA) but kept SIECA as the body responsible for the economic matters within this system. In 1993, the Protocol of Guatemala created the Subsystem of Central American Economic Integration in its present form which we now describe.

The process is led by the Presidents of Central American countries, which make joint decisions in the context of regional Presidential Summits. The executive element of the integration process depends on a series of ministerial meetings. The Council of Ministers of Economic Integration involves only those specifically responsible for the integration process (Ministers of the Economy) and the presidents of the Central Banks. The Inter-sectorial and Sectorial Council of Ministers assemble only the ministers involved with the particular issues being discussed, for example agriculture or banking. The Executive Committee of Economic Integration, made up of nominees of the Ministries of the Economy and responding before the Council of Ministers, approves specific projects and programs. The Secretariat for Central American Economic Integration, SIECA, provides logistical and technical support. The Consultative Committee of Economic Integration is mainly a consultative body made up of representatives of the private sector. Table II presents an outline of the institutional framework of Central American integration, discriminating the responsibilities by institution.

TABLE II
INSTITUTIONS FOR ECONOMIC INTEGRATION IN CENTRAL AMERICA*

INSTITUTION	WHO SITS ?	MISSION	RESPONDS TO
Council of Ministers of Economic Integration	- Ministers of Economy - Presidents of Central Banks	Policy decision and coordination	Presidents Summit
Intersectoral Council of Ministers of Economic Integration	- Ministers of Economy - Ministers of other branches	Policy decision	
Sectoral Council of Ministers	- Ministers of one branch	Policy decision on specific area	
Executive Committee of Economic Integration	- Representative of each country	Execution of the policy decisions	Council of Ministers of Economic Integration
SIECA**	- Secretary General (nominated by the Council of Ministers of Economic Integration) and technicians	Technical and administrative; Proposal	Council of Ministers of Economic Integration
Consultative Committee of Economic Integration	Representative of the private sector	Consultative	SIECA
Central American Bank for Economic Integration (BCIE)		Project Financing	

*Does not include education and research institutions such as the Central American Public Administration Institute (ICAP) and the Central American Institute for Industrial Research and Technology (ICAITI). ** Includes the SCA, Secretariat of Agriculture and Poultry, the SMCA, Secretariat of the Monetary Council and the SITCA, Secretariat for Tourism Integration.

2.3. The Central American Common Market in Comparative Perspective

At this point it is useful to briefly describe the Central American Common Market in the context of the major trade agreements in the world. We have collected data on Gross Domestic Product, both absolute and per capita, as well as distance to major markets. The year is 1995 and the agreements under scrutiny are, in addition to the CACM, NAFTA, MERCOSUR and the Andean Pact in the Americas, EFTA and the European Union in Europe. As shown on Table III below, Central America is the smallest trade area in terms of sum of absolute Gross Domestic Product of the trading partners. The total product of the CACM is more than 6 times smaller than that of the next smallest trade area, Andean Pact. Moreover, as a trade group, the CACM displays the lowest average GDP per capita of the trade areas: at 1321 U.S. dollars (1995) per

head, its GDP per capita comparable only to that of the Andean Pact, more than 3 times smaller than that of MERCOSUR and more than twelve times smaller than the average for NAFTA.

TABLE III – AN OVERVIEW OF TRADE AREAS

	Number Countries	GDPpc	GDP	Distance To Markets	Std Dev GDP	Std Dev GDPpc	Distance To Partners
CACM	5	1321.5	7594.3	9073.1	4661.8	830.0	1225.3
Andean Pact	5	2110.7	47078.66	9701.5	30674.2	888.1	1812.7
MERCOSUR	4	4963.7	252229.9	10265.16	295359.5	2280.7	1119.5
NAFTA	3	16326.7	2689602	8777.1	3531988	11050.4	2458.6
EEC	15	21958.0	598371.4	6071.5	670245.9	7080.3	1403.6
EFTA	4	31754.8	185185.9	6183.7	108337.1	7538.2	1644.6

Source: International Monetary Fund Direction of Trade Statistics (1997) and Wei (1998).

The average distance to markets³² is relatively high for Central America, MERCOSUR being the only trade area at a higher average distance. However, average intra-regional distance³³ is the smallest in absolute terms and, as Figure I shows, Central America displays the second lowest ratio of intra-regional distance to distance to markets. This suggests the potential of regional integration once elements such as a reasonable intra-regional transport infrastructure are in place³⁴. The region also displays a low standard deviation of GDP per capita, even if, as shown in Figure II, divided by average per capita GDP, it is one of the highest of the trade areas³⁵. This regional income inequality may have a positive effect in intra-regional trade as far as differences in GDP per capita reflect differences in factor endowments and thus potential for specialization.

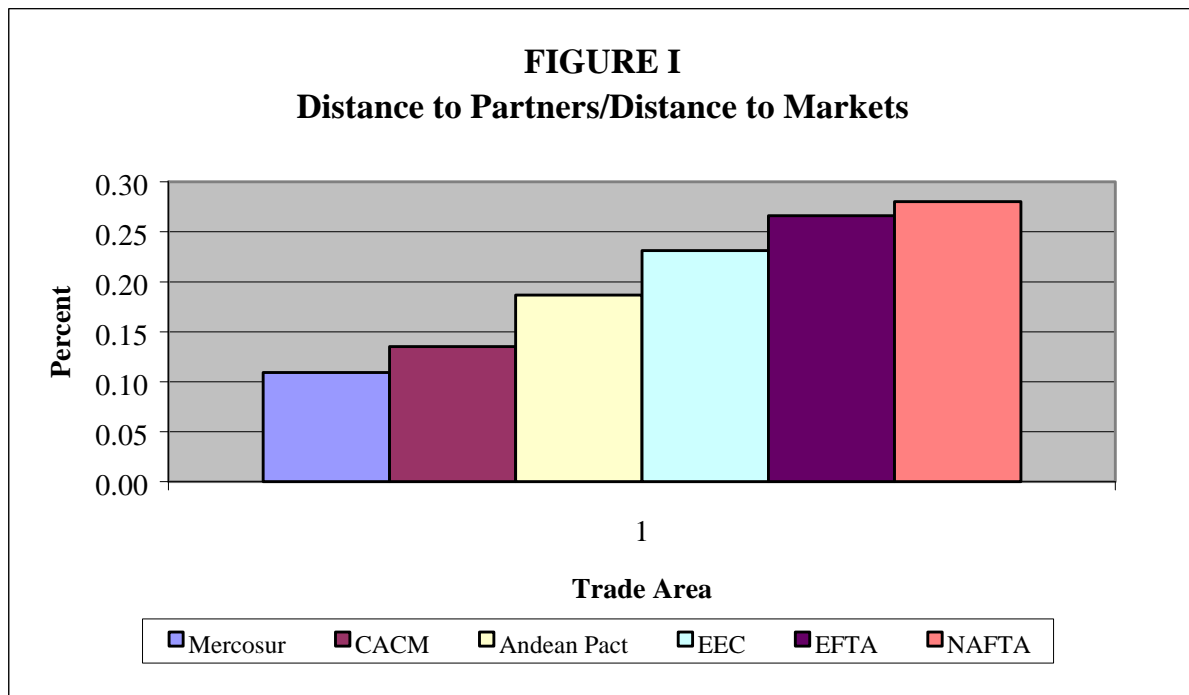
³² Defined as the average bilateral distance between Central American countries and 68 countries, including the 63 most important trading countries on the basis of volume of trade and the five Central American countries. The list of the 63 trading countries is available in Frankel, Stein and Wei (1995).

³³ Defined as the average bilateral distance between countries in the same trade area.

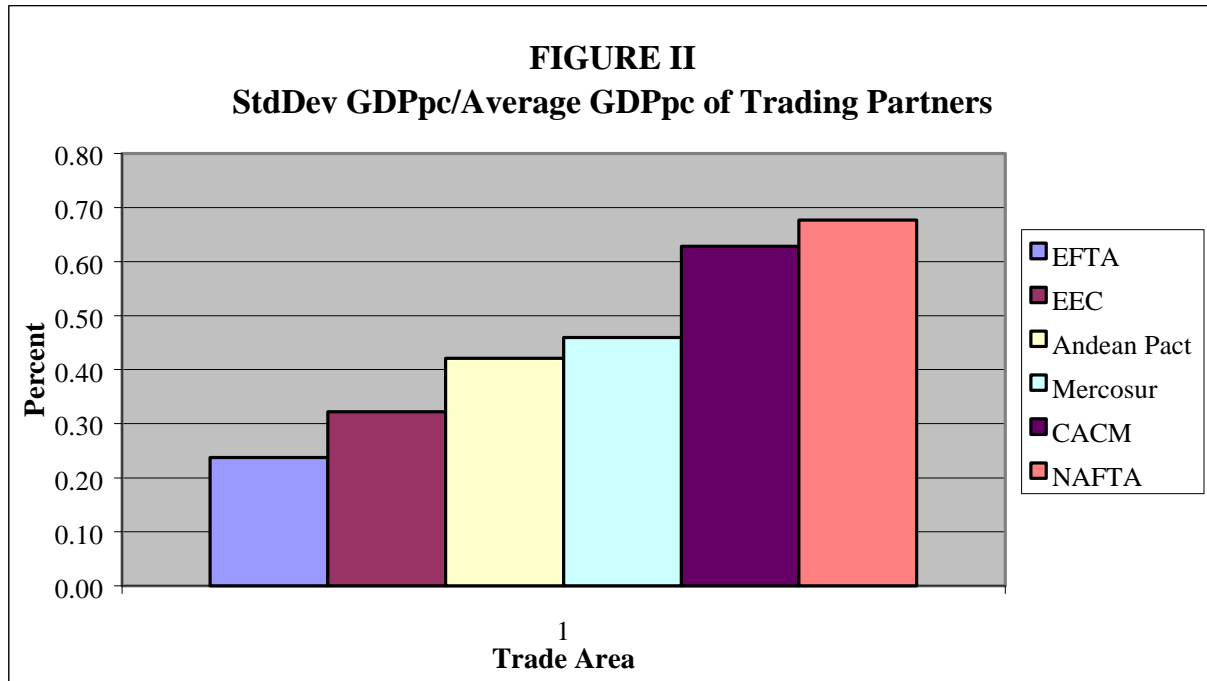
³⁴ The region with the lowest ratio is MERCOSUR, suggesting it may be a natural trading bloc that will very likely deepen its ties in the future. For Central America, as will be mentioned below, this fact compounds the risk of being left out of both North and South American trade.

³⁵ Interestingly, NAFTA is the other trade area with a high value of this measure, certainly due to the large absolute difference between Mexico's and its partners GDP.

Brada and Mendez (1985) attempt to quantify the effect of several trade agreements on trade volume, by separating the potential trade creation effects into “environment effects” and “policy effects”. The first measures how average distance between trading partners and their average per capita GDP contribute to trade creation while the policy effects measure the relative effectiveness of the trade agreement itself in creating trade. The Central American Common Market has environmental trade creation effects that are comparable to those of EEC and EFTA³⁶: the short average distance between economies compensates for the low average per capita GDP of Central American countries. Moreover, trade creation due to policy factors is higher for Central America, suggesting that policies favoring trade integration may be particularly effective in Central America.



³⁶ And larger than those of the Andean Pact and the Latin American Free Trade Association.



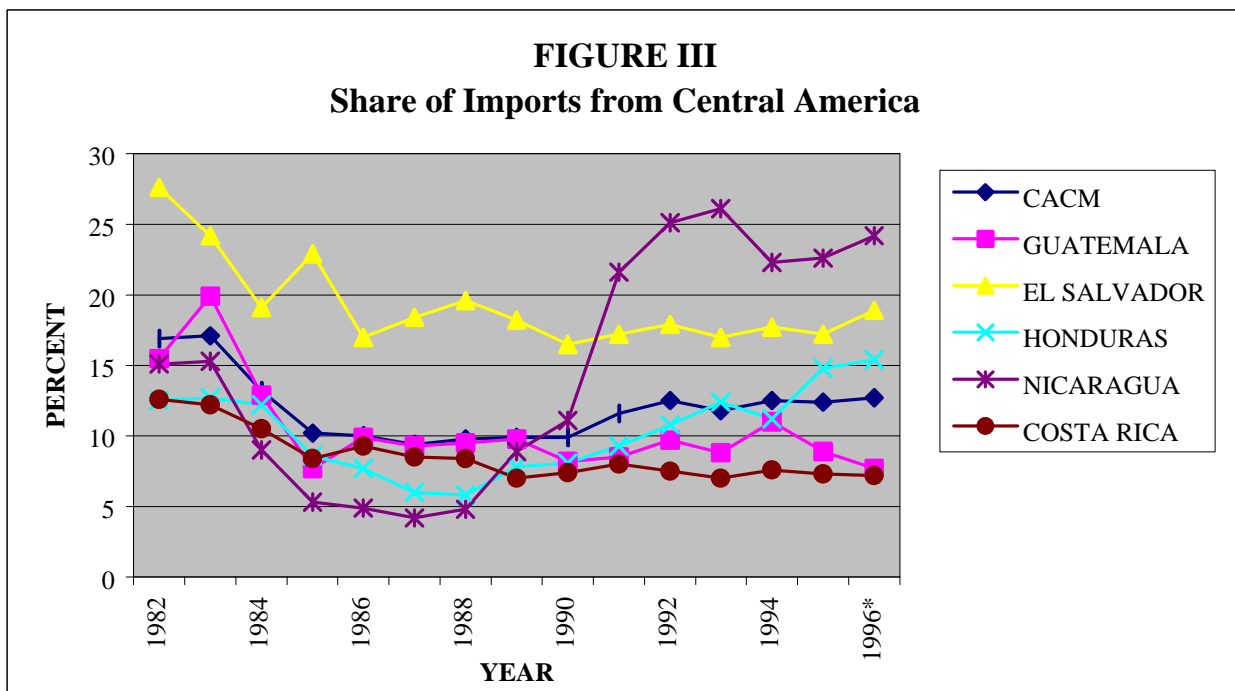
2.4. Trade Flows

The volume of trade flows between Central American countries is substantial, both in absolute terms and relative to the size of their economies³⁷. The five countries in the region present similar trade structures as far as the importance of their client markets is concerned. After the United States and on a par with the European Union, the Central American Common Market is the most important market for the countries in the region. The CACM is responsible for absorbing around 20 percent of the exports from Central American countries. The importance of these flows has generally increased steadily since the 1960's. However, the regional political conflicts of the mid-eighties have halted and temporarily reversed the growth of intra-regional trade, that has nonetheless recovered in the early 1990's.

Figures III and IV show the value of imports from and exports to the CACM as a share of the total amount of imports and exports. We also present the average for the CACM. As can be verified, every country in the region, with the exception of Nicaragua, imported relatively more

³⁷ [Note on early flows from SIECA].

in the early eighties than they do now. For all five countries, imports from the CACM have increased in recent years since the late 1980's, early 1990's. The most dramatic fluctuation on the decrease and on the increase is for Nicaragua, which experienced the most serious political difficulties in the eighties. In the last few years Nicaragua displays the highest relative volume of imports from the region, around 25% of its total imports. El Salvador has consistently imported more from the region than all other country in the region. Guatemala and Costa Rica, on the other hand, have imported less. The levels of CACM imports for Costa Rica, Guatemala and Honduras have tended to moved together.



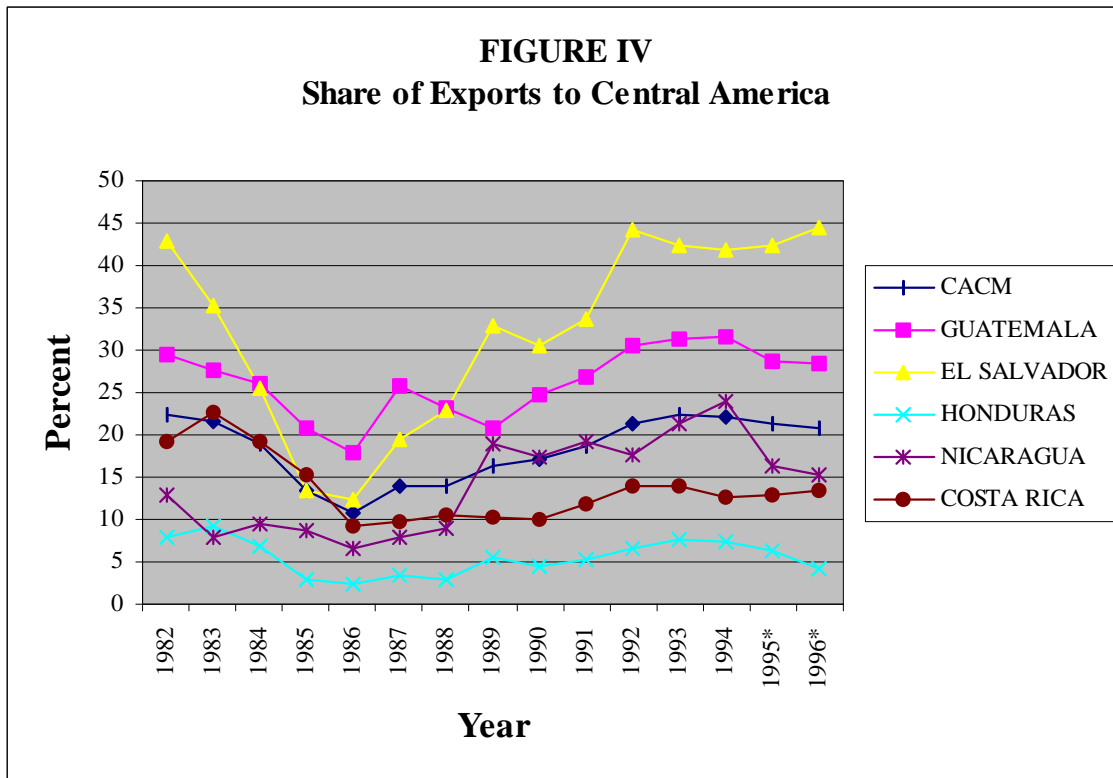
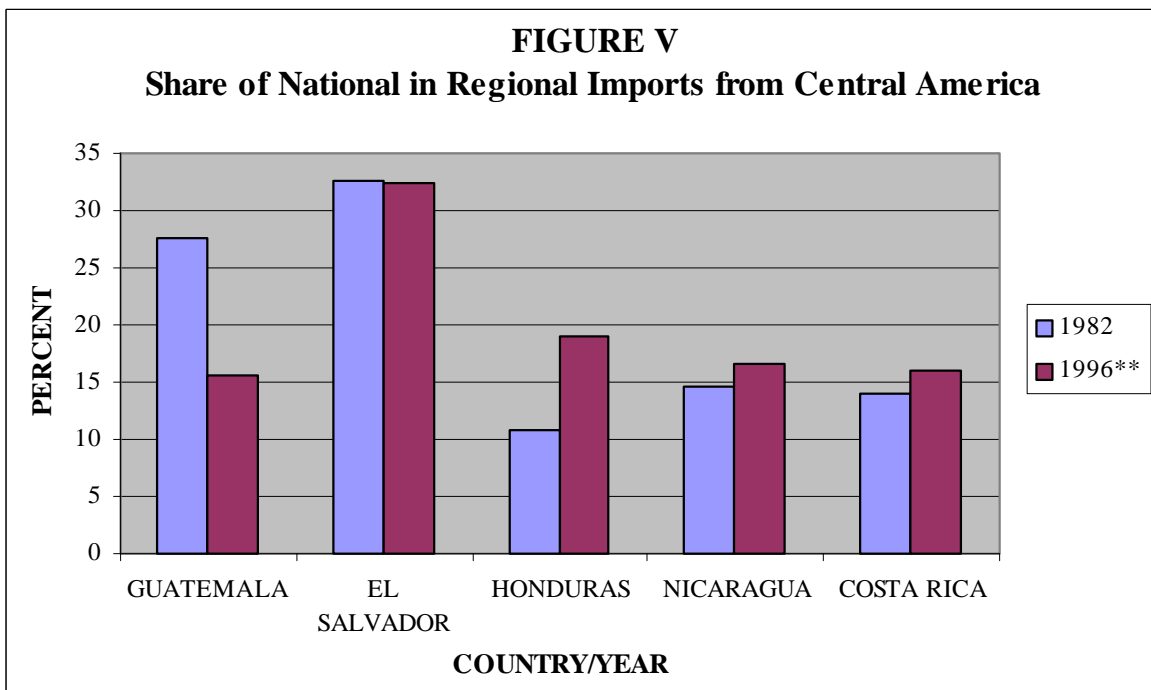


Figure IV presents the share of exports to Central America in each country’s total exports. As with imports from the region, again El Salvador tends to be well above the other countries in the importance of its transactions to the region. Exports to Central America are around 40 percent of El Salvador’s total exports, making the CACM the most important export market for this country. Guatemala also depends on Central America for a relatively high share of its exports (30 percent)³⁸. For Costa Rica and Honduras, on the other hand, Central America is relatively unimportant as an export market, with less than 15% of their total exports going to the region. The crises of the eighties are also reflected in a decrease of the importance of intra-regional trade.

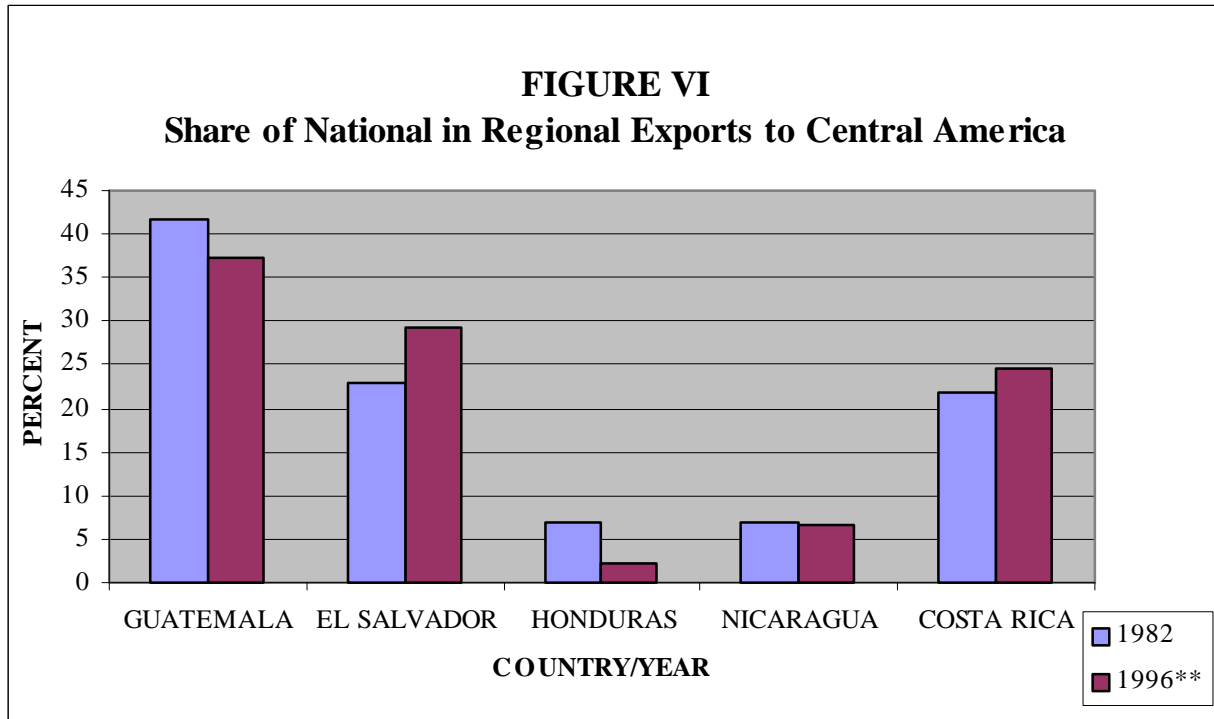
Figures V and VI present the weight of each Central American country in the region’s total trade for the years 1990 and 1996, that is, since trade in the region has regained an upward trend. Consistently with the importance of Central American trade for their economies, Guatemala and El Salvador are responsible for the largest share of regional transactions, both for imports and for

³⁸ Both Polanco (1998) and Juarez (1998) mention that Guatemala is the country that “most benefited” from regional

exports. Guatemala, however, has lost importance as an exporter and as an importer since 1990, decreasing its share of total imports from 27 to 16 percent. El Salvador, on the other hand, maintains its status as the major importer and has gained importance as an exporter between 1990 and 1996. Costa Rica is an substantial exporter to the region, even if exports are not as important as a share of its total exports. Honduras and Nicaragua, on the other hand, are meaningful as importers but not as exporters.



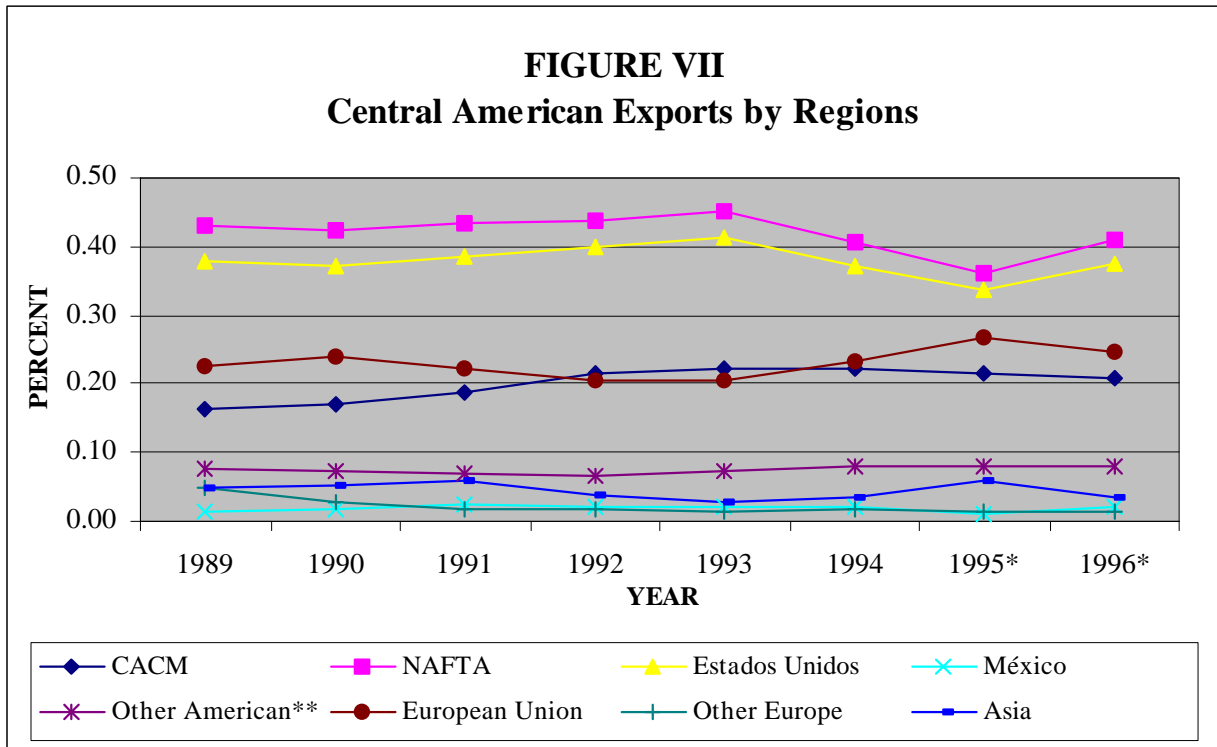
integration.



A very important issue is the relative importance of the different client markets for Central American countries. In other words, who do Central American countries export to? Figure VII presents the value of exports to the major clients of Central America as a share of total exports. We collected the data for the period 1989 to 1996 and for the CACM, NAFTA, Other American, European Union, Other European and Asia³⁹. The United States and Mexico, members of NAFTA, are included due to their importance, actual or potential. The first important feature that stands out is the remarkable stability in the relative importance of the various markets. Even though there is a decrease in the exports to North America in 1994 and 1995, following the ratification of NAFTA, exports to this area pick up in 1996. In 1996 exports to NAFTA countries are around 40 percent of total Central American exports. The behavior of exports to NAFTA follow almost perfectly exports to the United States, which at 37 percent for 1996, are responsible for the lion share of exports to the North American trade area. Mexico, on the other hand, is almost irrelevant as an export market: exports to Mexico are an average of 2-3% of total

³⁹ NAFTA corresponds to Canada, the United States and Mexico, before and after the actual ratification of the NAFTA agreement.

exports and there is not a discernible upward trend in the period. In spite of its proximity and cultural ties, Mexico as a client of Central America is less important than distant Asia and relatively distant South America⁴⁰.



After NAFTA, the next two most important markets for Central America are the European Union and the CACM itself, each responsible for purchasing between 20 and 25 percent of total Central American exports. Their importance changes over time but never has strayed much in relation to each other: intra-regional trade was more important in the 1992 and 1993 but the European Union recovered its position as the second most important market in 1994. It is important to note the little importance of both Asia and South America as clients of the CACM countries. Moreover, the significance of these markets has not changed noticeably in the period of study.

⁴⁰ Which shows up as Other American in the graph.

2.5. Trade Agreements With Other Areas and Countries⁴¹

Table IV below presents the several agreements being negotiated by Central American countries. SIECA (1998) classifies the agreements as coordinated, converging and unified. Some negotiations are coordinated, that is, they imply the exchange of information between Central American countries; in converging negotiations the type of reciprocity is thought of in advance so that, while negotiating separately at their preferred rate, countries are able to achieve similar results.

However, several policy-makers in the region refer the difficulties of coordination among Central American countries. One of the most conspicuous problems seems to be the different weight given to the private sector. Guatemala and Honduras seem to have a stronger presence of private sector representatives on trade negotiations. Some, as Gonzalez (1998), see this as leading to a lack of continuity in the negotiating teams⁴², a tendency to mix private and public priorities and a lack of general technical expertise. Others, such as Estrada (1998), see it as an expedient way of giving the government negotiation teams a sense of the priorities of the economic agents. Another issue is the rate of liberalization. Costa Rica seems to be more expedient than its regional partners, as mentioned in Gonzalez (1998). Urizar (1998) mentioned that the association of Guatemala and Honduras decreases the velocity at which the first can liberalize.

⁴¹ In this section we will not discuss issues of trade access to the United States, which will be taken up in a later section.

⁴² As different private representatives seat at different times as their topic of interest is addressed.

TABLE IV - CENTRAL AMERICA'S TRADE NEGOTIATIONS

NUMBER OF PARTS	AGREEMENT AND TYPE OF NEGOTIATION		
	COORDINATED	CONVERGING	UNIFIED
Multilateral			
	WTO		
<i>Plurilateral</i>			
	FTAA		
<i>Bilateral</i>			
			United States
		Mexico	
			Canada
			Panama
			CARICOM
			Dominican Republic
			MERCOSUR
			Chile
			European Union
			China Republic
	Colombia		
	Venezuela		

Source: SIECA (1998).

Multilateral Agreements

Even though Central American countries are all members of the GATT agreement, the negotiations were pursued in individual fashion and thus resulted in different end agreements. Nicaragua has been involved in the GATT since 1950, Costa Rica since 1990, El Salvador and Guatemala since 1991 and Honduras since 1994. In 1994 all the countries in the region entered the World Trade Organization and its subsidiary agreements⁴³. The five countries have thus committed to cuts in and harmonization of tariff levels during the 1995-2004 time period. In the agricultural sector, the commitment is to convert non-tariff barriers into tariff barriers⁴⁴. SIECA (1998) provides a list of specific agreements for the five Central American countries. Currently, regional documents on custom valuation, sanitary measures and technical norms are being devised. An agreement on services is also being developed, consistent with the WTO agreement on services.

⁴³ Such as trade in services (GATT) and on intellectual property related to commerce (ADPIC).

⁴⁴ Following the philosophy of making the protection enjoyed through tariff equivalent to those of non-tariff barriers. Since this resulted in very high tariffs for some goods, it was agreed to give minimal access through "tariff contingents", quantities not subject to any barrier. These quantities will be progressively increased.

The other key multilateral agreement that all of the countries of Central America actively participate in is the Free Trade in the Americas (FTAA). The FTAA was initiated by the United States in an attempt to encompass the various trade agreements in North, Central and South America with the objective of encouraging overall trade openness in the continent. In part it was a response by the United States to the pressure of other countries in the Americas for access to United States markets. The FTAA negotiations suffered from the need to accommodate a large number of countries which who want to pursue trade openness at different paces. The FTAA negotiations were launched in 1998 at the Summit of the Americas in Santiago, Chile. Given that several specialized committees have been created on several topics of interest in an attempt to make concrete progress towards free trade. The five Central American countries have had a very active role in furthering these talks, as illustrated by the fact that all are represented as president or vice-president of various committees⁴⁵. An important element that was recently added to the negotiations is the special attention given to issues of small economies, an area of interest, especially important to the countries of Central America and the Caribbean⁴⁶. Developments on this front are important for Central America since all of its economies share problems associated with small scale. Since the Santiago summit there is a commitment to conclude negotiations by 2005 and attain concrete developments by the end of the century. With that objective in mind, an administrative secretariat of the FTAA has been created to provide logistical support. However, the most important determinant of the speed of advancement of the FTAA agreement lies with the possibility of the U.S. Congress granting fast-track authority to the Clinton administration, a possibility that seems improbable at the moment⁴⁷.

Mexico and Canada

Trade between Mexico and Central America has typically displayed a surplus in favor of Mexico, whose main export is oil but which also exports a great variety of consumer goods and manufactures, autos in particular. Central American exports, on the other hand, focus on a very few specific products and register important fluctuations over time. Of the five countries in

⁴⁵ These specialized committees focus on market access, investment, services, public procurement, dispute settlement, agriculture, intellectual property, subsidies and anti-dumping and competition policies.

⁴⁶ The consultative group on small economies is presided by Jamaica and has Guatemala in the Vice-Presidency.

⁴⁷ The chiefs of state have proposed that the negotiations for FTAA be launched, with or without fast-track.

Central America, Guatemala and Costa Rica are responsible for the largest volume of transactions with Mexico.

Costa Rica was the first country in Central America to liberalize trade with Mexico. The 1991 Costa Rica – Mexico trade agreement was very comprehensive: in addition to addressing tariff and non-tariff measures, it produced a set of side agreements on services, investment, intellectual property and business travel. Trade has increased substantially between the two countries, and the bilateral deficit in favor of Mexico has increased. El Salvador, Honduras and Guatemala are currently pursuing joint trade agreements with Mexico. There are claims that the agreements are close to completion, though the process has been dragging on for years.⁴⁸ The negotiations between Nicaragua and Mexico have been problematic and were suspended at one point, first and foremost because of disagreements on access to a number of very competitive Nicaraguan agricultural products. Agreement, however, has finally been reached⁴⁹, and covers issues including trade in goods, services, investments and intellectual property. Manufactures are subject to a progressive tariff reduction in four phases. Once all five countries conclude trade negotiations with Mexico, the need will arise to consolidate these treaties into a Free Trade Treaty between Mexico and Central America.

The other NAFTA partner, Canada, is also a target for Central American as far as trade access is concerned. In 1998, the countries in the region have drafted a framework agreement on trade and investment between Central America and Canada, outlining their joint objectives as far as trade and investment cooperation are concerned. Costa Rica has already signed a bilateral agreement with Canada with regard to investment, aimed at complementing a future trade agreement.

*Panama and the Caribbean Basin*⁵⁰

Geographically part of Central America, Panama has traditionally pursued its own trade objectives primarily determined by economic and political ties to the United States and the

⁴⁸ The length of the process has been ascribed, on the Central American part, to a lack of real willingness on the part of Mexico to liberalize, namely by keeping a variety of non-tariff barriers in place. In this context it is often said that the Costa Rica – Mexico trade agreement has not really granted access to Costa Rican products and that there is a need to avoid this in future agreements. See Alonso (1998), Carrillo (1998) and Estrada (1998).

⁴⁹ According to SIECA (1998), to be implemented from July 1998.

⁵⁰ In this section we will not discuss specifically the Caribbean Basin Initiative, which will be discussed in another section of the paper.

existence of the Panama Canal⁵¹. Panama has enjoyed preferential treatment in terms of access to Central American countries based on bilateral trade agreements. Though limited to a small list of products, Central American imports from Panama have been larger than exports. Clearly the potential exists for Panama to exploit its canal infrastructure and relatively advanced financial sector to become a service provider for Central America. However, there is no clear political will in Panama to pursue this avenue⁵².

Panama took the initiative in 1996 to suggest more inclusive negotiations. In 1997, the Summit of Central American Presidents, of which Panama is part, instructed the Ministers of External Commerce to initiate negotiations on a free trade agreement between the two parts. The intention of the negotiations is to go beyond trade issues *strictu sensu* and address the topics of investment, services, intellectual property, public procurement and fair trade practices. An important feature is that Central America participates in the negotiations as a single part.

Central American and Caribbean countries share the benefits of access to the U.S. market through the Caribbean Basin Initiative. As such they share an interest in securing what is essentially a unilateral concession on the part of the United States⁵³. The countries in the Caribbean, in addition, are grouped in the Caribbean Common Market⁵⁴. Contacts between Central America and the CARICOM have been conducted mainly through ministerial conferences, the last of which took place in San Jose in 1996. The following areas of immediate action were brought up at that summit: economic relations, tourism and the fight against drug trafficking. There is no concrete commitment as far as a trade agreement is concerned.

Trade negotiations between Central American countries and the Dominican Republic have been recently concluded after a period of talks initiated in December 1997. A negative list of products, for which trade is not free, has been adopted⁵⁵. There seems to be political will on both parts to go further in economic integration, capitalizing on cultural and geographic ties⁵⁶. Furthermore, the wider experience of the Dominican Republic in the tourism and *maquila*

⁵¹ Several of the policy makers interviewed saw the possibility of increased trade and investment relations with Panama as dependent on Panama's expression of interest. See Polanco (1998)

⁵² See Burgues (1998), Estrada (1998) and Garcia (1998).

⁵³ More on CBI, in particular its differences with NAFTA, in a section below.

⁵⁴ Henceforth CARICOM.

⁵⁵ This is a method considered less vulnerable to protectionist pressures than the opposite procedure of specifying the products for which trade is free.

⁵⁶ Interviews with industrial associations and policy-makers in the region have revealed a strong support in the private sector for this trade agreement, specially given the virtual non-existence of local industry and the small size

industries make it attractive as a source of knowledge transfer. For the first time an agreement has been concluded in which the five Central American countries negotiated as a joint bloc.

European Union

Trade between the region and the European Community is undertaken mostly under the Generalized System of Preference, which restricts imports of certain products to the European Union. In 1995 the first joint forum between both regions was put in place. The main objective, from the point of view of the Central American countries, is to increase the levels of commerce between the two regions. In June 1996 the Council of Ministers of the European Union approved the new GSP regime, giving Central America a more favorable status, equivalent to that already enjoyed by the Andean countries.

South America

Chile is the country in South America with which talks on improving access to Central American products is most advanced. This is due mostly to Chile's broad policy of pursuing trade openness with other countries in the hemisphere. Chile proposed the signing of a trade agreement with Central America but the region has expressed its preference for a lower profile agreement⁵⁷. However, representatives of all countries have expressed interest in starting negotiations toward a trade agreement in the preparatory meeting of the second Summit of the Americas. In the Summit of the Americas it was agreed what the negotiations would proceed at a faster pace. A treaty covering investment has already been signed between the parts.

Central America has pursued relatively few contacts with the two trade arrangements in South America, the Andean Pact and MERCOSUR. In the Andean Pact, Colombia and Venezuela are the most important partners of Central America⁵⁸, whose economic size and geographical proximity make them potentially important partners to Central America. The viability of a trade agreement between the two regions, it has been agreed, is medium to long run

of the economy. See Alonso (1998) and Zamora (1998) .

⁵⁷ This seems to be in tune with the view of local industrialists, expressed in Camara de Industrias de Costa Rica (1998). industrialists in Costa Rica reason that, if Chile wants to open unilaterally, there is no need for Central America to reciprocate.

⁵⁸ Together with Mexico, they are referred as the group of three (G3). This probably reflects their potential importance for Central America as trade partners since these three countries are characterized by considerable economic significance coupled with very close proximity to Central America.

in nature. The objective should be to make more inclusive the list of products that are covered by the free trade lists. With the countries of MERCOSUR the panorama is even less auspicious. There is a framework agreement that aims to facilitate trade and investment between MERCOSUR and Central America, signed in 1998. But a formal trade agreement has neither been signed nor is expected to be signed in the close future.

Other

A good number of maquila factories owned by Korean and Chinese exist in Central America. In 1997 a first summit between Central American countries (including Belize) and Taiwan took place. The objective was to study whether the conditions are in place to facilitate a trade agreement between the two areas. A Chinese-Central American Fund for Development has been created, with the contributions of Taiwan (240 million U.S.D) and Central American countries and Belize (10 million U.S.D each) to be invested in regional projects over the period of 12 years.

3. CENTRAL AMERICA, MEXICO AND THE UNITED STATES: CHARACTERIZING DIFFERENTIAL ACCESS

As documented above, the United States is the most important client of Central America. This is true for most of the countries in the region⁵⁹. Following the ratification of NAFTA, Central American and Mexican exports face very different access to the U.S. market. This section of the paper explores the determinants of differential trade access granted to the two regions and characterizes it.

3.1. Pre-Determinants of Differential Access

Economic context

The first and most striking fact that arises when comparing the economies of Mexico and those of Central America is the difference in absolute sizes. While Mexico is one of the 10 most populous countries in the world, with a population above 80 million, all of the Central American countries have less than 10 million inhabitants. Differences in population correspond to

substantial differences in Gross Domestic Product, made starker by the fact that Mexico has a higher GDP per capita than any of the Central American countries⁶⁰. This difference in scale is an important element at the origin of differential access.

Central America and Mexico also differ in their status as suppliers of the United States. Mexico is currently the third largest overall supplier of the United States, after Canada and Japan. Textiles is the most important export of both Mexico and Central America to the U.S. but while in 1996, Mexico was the largest U.S. supplier with 11.63% of the U.S. market, Central American countries are not quite as important. In textiles Honduras is the seventh and El Salvador the 11th U.S. supplier in rank of importance⁶¹. Taken together, the five Central American countries export almost as much textiles to the U.S. as Mexico, respectively 10 and 12 percent in 1996. As a result of NAFTA ratification, the Central American share of the U.S. market has increased in the last few years at a much lower rate than the Mexican share. As a result, Central America as a whole increased from 7.5 percent to 10 percent between 1994 and 1996 compared with an increase from 5.1 percent to 11.6 percent for Mexico. The difference in rates of growth is substantial and illustrates the potential benefits of improved access to the U.S. market.

Mexico also ranks high as a client of the United States. The sheer size of the Mexican market grants it importance in continental terms. Moreover, geographical proximity, strong migratory flows that nurture cross-border relationships and a higher GDP per capita for Mexico than for Central America all contribute to extend the range of American products that find a market in Mexico.

Mexico's advantage over Central America in terms of distance to the United States is strengthened by the fact that a substantial portion of the *maquila* industry is located in northern Mexican states, a short haul away from the states of Texas and California. Air and maritime freight from Central America has to compete with truck hauling from northern Mexican states. Better road links with Mexico and easier transit through Mexico⁶² are thus important elements of any Central American strategy to improve access to the U.S. market.

⁵⁹ The most notable exception is EL Salvador, whose most important client in recent years is the CACM.

⁶⁰ According to World Bank (1998), Mexico's GDP per capita in 1996 was 3670 U.S.D, while that of Central American countries ranged from 2640 U.S.D for Costa Rica to 380 for Nicaragua.

⁶¹ See Table VIII below and INCAE (1997).

⁶² Several of the private sector representatives interviewed mentioned the restrictions to transit of Central American trucks through Mexico. Some of these restrictions have been inscribed in the Costa Rica – Mexico free trade

Political context

Political reality works to reinforce the difference in economic standing between Mexico and Central America in the U.S. market. However, whereas some political facts are immutable, others can be counterbalanced by intelligent and purposeful policies on the part of Central America. The first and most important political fact is the common border between Mexico and the U.S.. Given the continental dimension of both countries a shared border leads to an array of shared problems that require close cooperation. The border is one of the most porous in the world: through it a great number of Mexicans cross over to find temporary or permanent jobs in the United States. Mexicans are the main source of migrant labor, legal or illegal, in the United States. Their number is estimated by Hinojosa-Ojeda et al. (1995) to be around 5 million in 1995, to which a population of over 20 million Mexican-Americans has to be added. This population forms the backbone of the increasingly vocal Hispanic community and is an important element in any U.S. policy debate that affects Mexico.

Mexico has been the focus of great attention in the wake of the NAFTA treaty negotiations. Much of this increased U.S. attention has concentrated on the need to increase both the efficiency and democratic responsiveness in Mexico's political institutions. The motivation is to transform Mexico into a more credible counterpart to the other NAFTA partners, the United States and Canada. In addition, Mexico's democratization became a political necessity as labor, environment and right-wing groups in the United States stressed Mexico's deficient record on political liberties as a justification not to facilitate access to the U.S. market. This stress on democratization associated with labor and environmental considerations is likely to remain important since it has become an acceptable way to respond to labor groups' demands for protectionism. However slow the pace or complete the process of democratization is, Mexico is widely recognized in the United States as a country undergoing important institutional changes. Public opinion in the U.S. recognizes NAFTA access as the catalyst of those changes and is conscious sees it, implicitly or explicitly, as the counterpart of granting access to the U.S. market.

Central America is undergoing economic and political liberalization parallel to Mexico's. It is also embarking on a process of institution building that will consolidate these reforms.

agreement.

However, unlike Mexico, Central America has not received important attention in the U.S. media. The region is thus seen essentially in the same light as in the last years of the cold war. In political terms, this is the most important condition affecting access to U.S. markets of Central American exports. Even if information about political and economic reforms of Central America reaches the U.S. public, the latter is unlikely to ascribe it the credibility (and the importance) of Mexico's reforms. Establishing the connection between the political reforms in Central America and improved economic conditions, of which access to the U.S. market is key, is an important element of any Central American strategy.

3.2. The North American Free Trade Agreement versus the Caribbean Basin Initiative

The two legal frameworks that set the stage for trade between the United States and Mexico, on the one hand, and Central America, on the other, are the North American Free Trade Agreement and the Caribbean Basin Initiative. In this section we outline the main characteristics of both of these agreements and their implication for trade in the region.

A treaty versus a unilateral concession

The main difference between NAFTA and CBI is the fact that the former is a treaty between countries and the latter is an U.S. law, unilaterally brought into existence and that can be revoked at will. As an agreement between sovereign states NAFTA is the result of bilateral negotiations that involved concessions on both parts. The treaty nature gives NAFTA characteristics of permanence and coverage that the Caribbean Basin Initiative does not have.

An additional characteristic of the NAFTA treaty is its broad coverage: it does not only give Mexican products, in general, better access to the U.S. but includes provisions concerning trade in services, public sector procurement rules, intellectual property rights and investment. There are two agreements that were signed in parallel to NAFTA, on labor law and the environment. The CBI, on the other hand, mentions protection of labor rights as recognized internationally as a precondition for country eligibility but does not mention the environment. Moreover, NAFTA establishes institutional structures to further cooperation in the protection of the environment and labor rights. It explicitly delineates mechanisms to solve disagreements over these two issues. These are precisely the issues that have the largest potential to be the support for U.S.

protectionist pressures in the future: they are politically charged and thus difficult to be resisted by politicians. It is clear how vulnerable this makes Central American relative to Mexican export access in the U.S. market.

NAFTA establishes an agreement toward common standards including the mutual recognition of institutions that evaluate conformity with technical norms. More importantly, it provides legal protection by establishing a common conflict resolution mechanism that unfolds in three pre-determined stages: consultation, reference to the Free Trade Commission and creation of an arbitration panel. This minimizes the possibility of Mexico being threatened by Section 301 of the Foreign Trade Law. According to this regulation the U.S. can sanction unilaterally countries that violate trade law or discriminate against the U.S.. As non-traditional barriers become more important in international trade relations, this conflict resolution mechanism is an invaluable asset to Mexican exporters.

Safeguard actions are actions initiated by an aggrieved party harmed by the exports of a particular good. In the case of U.S. imports from Mexico these actions are excluded unless Mexican imports represent a substantial fraction of total U.S. imports of the product and, moreover, are said to contribute in an important way to the harm caused. These actions can only be raised unilaterally during the first 10 years of the NAFTA agreement and can be in place for a maximum of 4 years. After this initial ten-year period, any action needs to be agreed to by the exporting country and this country has to be compensated for losses. CBI countries may be protected from safeguard actions but this is not legally clear cut: in particular, the circumstances, time limits and compensation are not made explicit⁶³. As far as anti-dumping actions are concerned, NAFTA establishes a mechanism that substitutes national courts in the evaluation of these actions. The commission evaluating the grievance will include specialists from the 3 countries. CBI countries have to appeal to the courts of the country in question, a much more costly and untimely process.

The Caribbean Basin Initiative (CBI) derives from unilateral concessions by the United States and is thus able to be revoked at any moment if it ceases to suit the interests of the United States. It is a law approved by the U.S. Congress that the U.S. president could unilaterally suspend; the concessions to a given country may be limited if it has failed to comply with its obligations. Since the CBI is a unilateral concession, its interruption does not lead to any

substantial loss of benefits or rights on the part of the United States (the CBI does not concede to the United States preferential access to CBI markets or any similar rights). Moreover, the similar nature of the benefits associated with the CBI and the Generalized System of Preferences (SGP), adjustments or the suspension of the latter may lead to the concomitant suspension of CBI benefits.

Another, non-quantifiable but important benefit of NAFTA over CBI is the added credibility it lends to the extensive Mexican liberalization currently under way. This came to a very concrete manifestation when the United States bailed out Mexico following the 1994 exchange-rate crisis. The retreat in Mexico's liberalization path that could have resulted from the liquidity crisis was averted and strongly signaled to the international community the U.S. commitment to Mexico's liberalization. Central America's problem is not only the decision to liberalize; in the eyes of the international community it is also necessary to find sources of credibility for the liberalization process. These sources may be harder to find internally rather than externally through a closer economic relationship with the United States.

Access by product

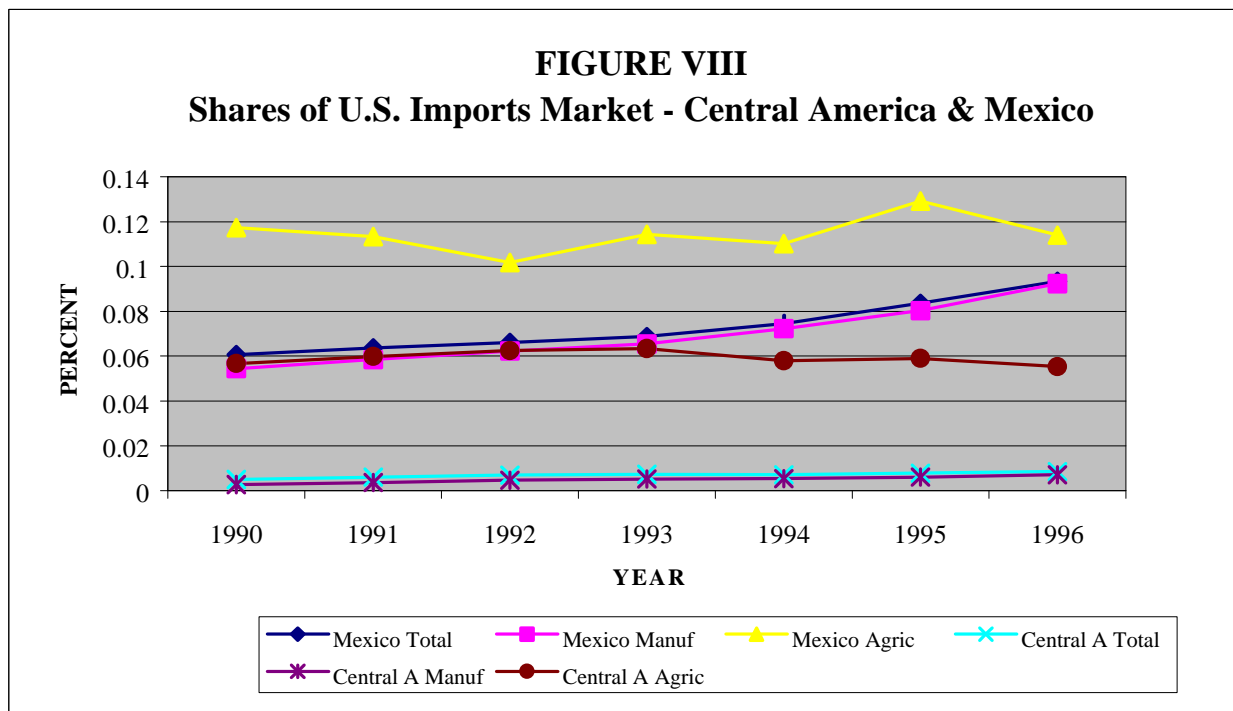
Beyond the issues having to do with the larger nature of NAFTA and CBI, the important issue is the different access that products originating in these areas have to the U.S. market. Central American products enter the U.S. market under less favorable conditions, particularly insofar as some key products are concerned. Gonzalez (1997, p. 154) mentions a study that computes the reduction in dollars paid in tariffs if CBI countries were to become members of NAFTA: they are estimated at 217 U.S.D at the current level of transactions, 60% of which concern Central American exports. Textiles, apparel and shoes and canned tuna are the most important products that are harmed by higher tariffs than the corresponding Mexican products.

Tables V through VII below present Central American and Mexican exports to the United States from 1990 to 1996. Figure VIII presents the market shares of Mexico and Central America in total U.S. imports for these products. The first fact to note is that both Mexico and Central America and Mexico have seen the value of their exports to the U.S. rise in this period. This rise is particularly marked in manufacturing and in overall U.S. imports. In agriculture, the increase in Mexican and Central American exports is modest. Figure VIII presents the figures as

⁶³ See INCAE (1997).

a percentage of total U.S. imports. There, we find that while Mexico's share of U.S. imports has risen from around 6 percent to over 9 percent in both Manufacturing and Total imports, Central America's share has remained at very low levels. In agriculture, both Mexico's and Central America's share of U.S. agricultural imports have remained essentially constant.

Moreover, the exports of Central American countries to the United States remain largely concentrated in a few products and sectors. Traditional agriculture exports are still important in the panorama of Central America trade, but a consensus has developed that regional economic growth has to rely on diversification into textiles and other manufactures⁶⁴. As Leamer et al. (1997) point out, countries that have successfully developed have been able to shift from



⁶⁴ In Costa Rica, the country with the most diversified export base in the region, textiles account for 1/3 of all exports.

TABLE V - Exports to the U.S.

1988 – 1996

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Costa Rica	774	962	1005	1154	1412	1541	1647	1843	1974	2323
El Salvador	284	245	238	303	384	488	609	812	1074	1346
Guatemala	433	609	794	899	1081	1194	1283	1527	1673	1990
Honduras	441	461	491	557	782	914	1098	1441	1796	2322
Nicaragua	1	0	15	60	69	128	167	239	350	439
CA	1933	2277	2543	2972	3727	4266	4804	5862	6774	8421
Mexico	-	27186	30172	31130	35211	39917	49494	62101	74297	85938
World	-	473396	49602	488453	532665	580659	66325	743445	795289	87067
			8				6			1

Units: Million 1996 U.S.\$. Source: U.S. Trade Department.

TABLE VI – Manufacture Exports to the U.S.

1988 – 1996

	1990	1991	1992	1993	1994	1995	1996
Costa Rica	564	639	839	951	1049	1162	1229
El Salvador	116	157	233	332	493	694	931
Guatemala	250	389	535	632	682	812	914
Honduras	156	242	423	574	733	1033	1366
Nicaragua	1	2	6	24	43	95	192
Total CA	1085	1429	2036	2513	3000	3796	4743
Mexico	21236	23000	27098	31382	40357	50528	60966
World Exports	389584	393820	434256	480016	557871	629632	659867

Units: Million 1996 U.S.\$. Source: U.S. Trade Department.

TABLE VII – Agricultural Exports to the U.S.

1988 – 1996

	1990	1991	1992	1993	1994	1995	1996
Costa Rica	400	475	535	552	550	637	682
El Salvador	109	130	134	134	92	89	101
Guatemala	497	472	503	510	548	648	660
Honduras	260	213	251	231	238	280	277
Nicaragua	8	40	44	74	77	71	80
Total CA	1274	1329	1466	1501	1505	1724	1800
Mexico	2632	2514	2385	2707	2860	3780	3713
World Exports	22426	22184	23447	23664	25949	29261	32568

Units: Million 1996 U.S. Source: U.S. Trade Department.

agricultural products to labor-intensive manufactures⁶⁵. In part due to the prominence of agricultural exports like coffee and bananas in Central American exports, the terms of trade (and the real exchange rate) of these countries exhibits much larger volatility than the Asian countries⁶⁶. Diminishing the dependence on traditional exports is thus a way to decrease exchange-rate uncertainty.

Food and live animals and *Miscellaneous manufactures*⁶⁷ account for the overwhelming share of exports from the region. Figures IX through XI present the market shares for the top 5 exports to the U.S. of Costa Rica, Guatemala and Honduras in the period 1992 to 1996. The products are classified at the three-digit level of the SITC. The most noticeable feature is the large share of these five products in overall exports, whatever the country considered. The combined shares are in the range of 60 to 70 percent of total exports. This gives an idea of how much there remains to be done in terms of export diversification in Central America.

Though losing importance as share of exports, as evidenced by Figure VIII, the agricultural sector remains key. The access of agricultural products such as meat and sugar is free of tariffs but subject to other types of restrictions, including quotas. Most of the agricultural products face quantity restrictions and no future relaxation are agreed. Mexico, on the other hand, benefits from progressive disarmament of trade barriers on agricultural products. Milk products and cotton will be subject to preferential treatment after 2003; sugar will be freed of some restrictions in 2001 and after 2010 it will enter the U.S. free of tariffs or quotas; some tobacco products are already tariff-free and others will be subject to progressive decrease of tariff barriers⁶⁸.

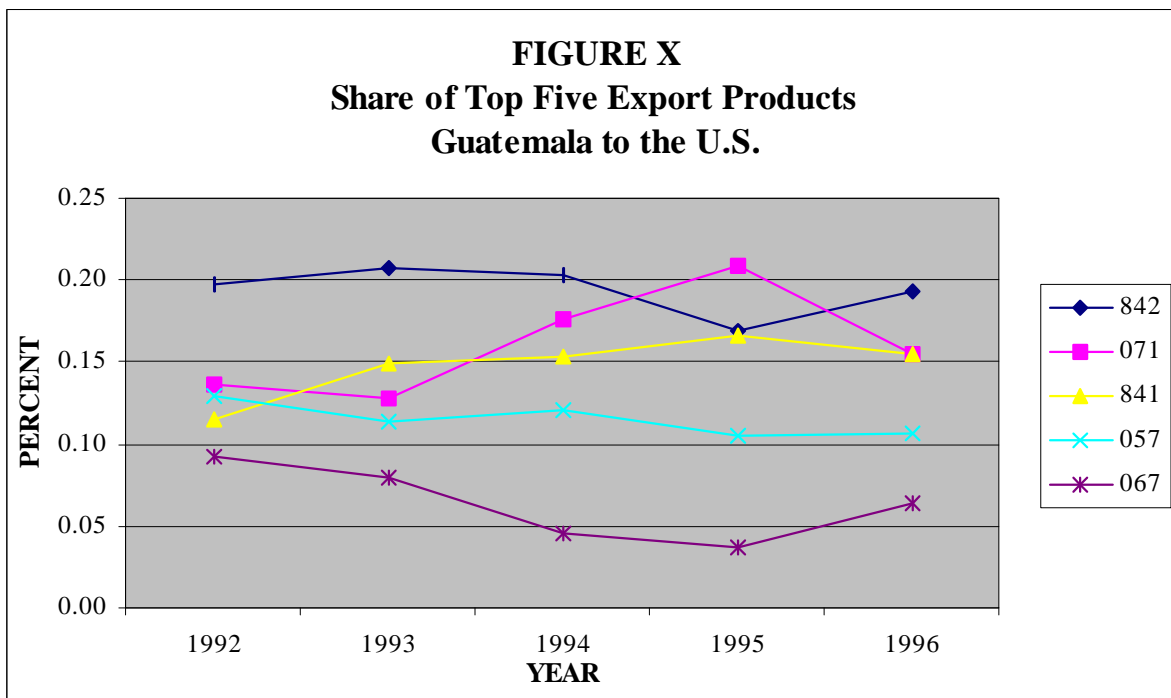
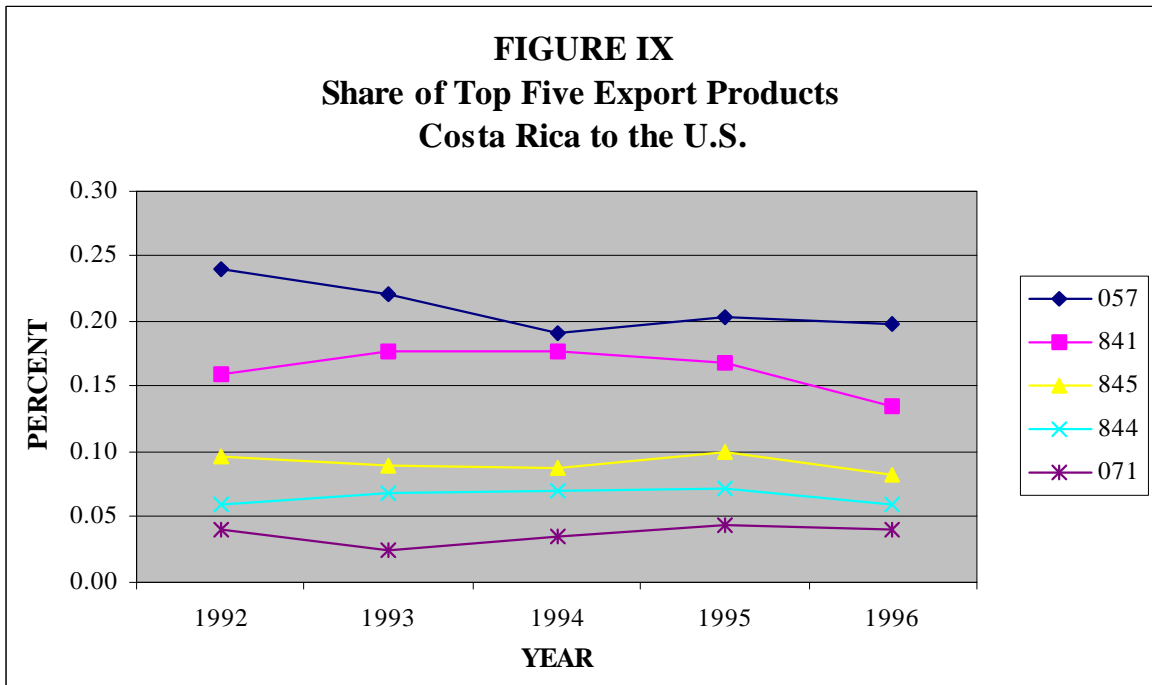
The sectors of oil and derivatives and watches and parts are also excluded from preferential treatment within CBI. Moreover Mexican exports of these categories will be progressively freed of barriers while no similar evolution is expected for Central American exports.

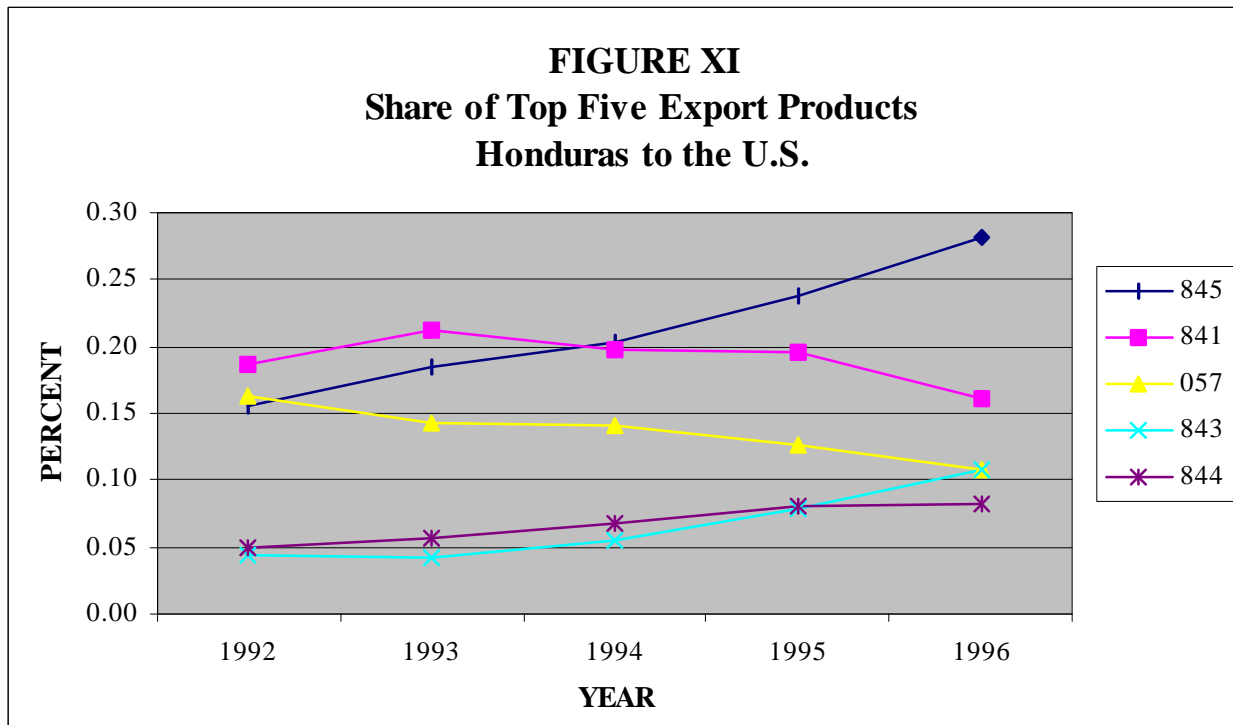
⁶⁵ These authors find a non-linear relationship so that low and high capital per worker countries produce few manufactures, whereas at middle levels of development, GDP growth is extremely closely related to increased production of manufactures. Countries with slightly higher GDP per capita than Central America have much larger net exports of manufactures than this region.

⁶⁶ Leamer et al. (199??) estimate the five-year standard error for predicting the terms of trade at 20 % in Central America compared with 9% in the major Asian exporters. The standard error for predicting real exchange rates is respectively, 25% and 10% for the two regions.

⁶⁷ Respectively sectors 0 and 8 of the Standard industry Trade Classification, henceforth SITC.

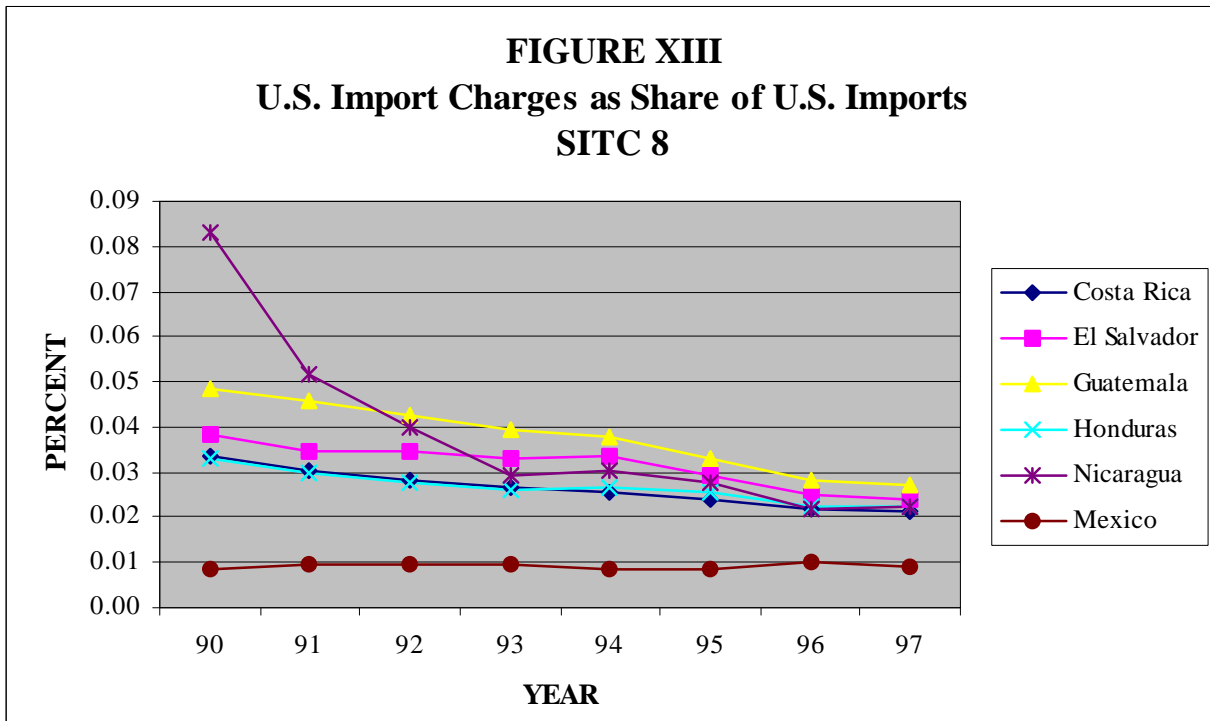
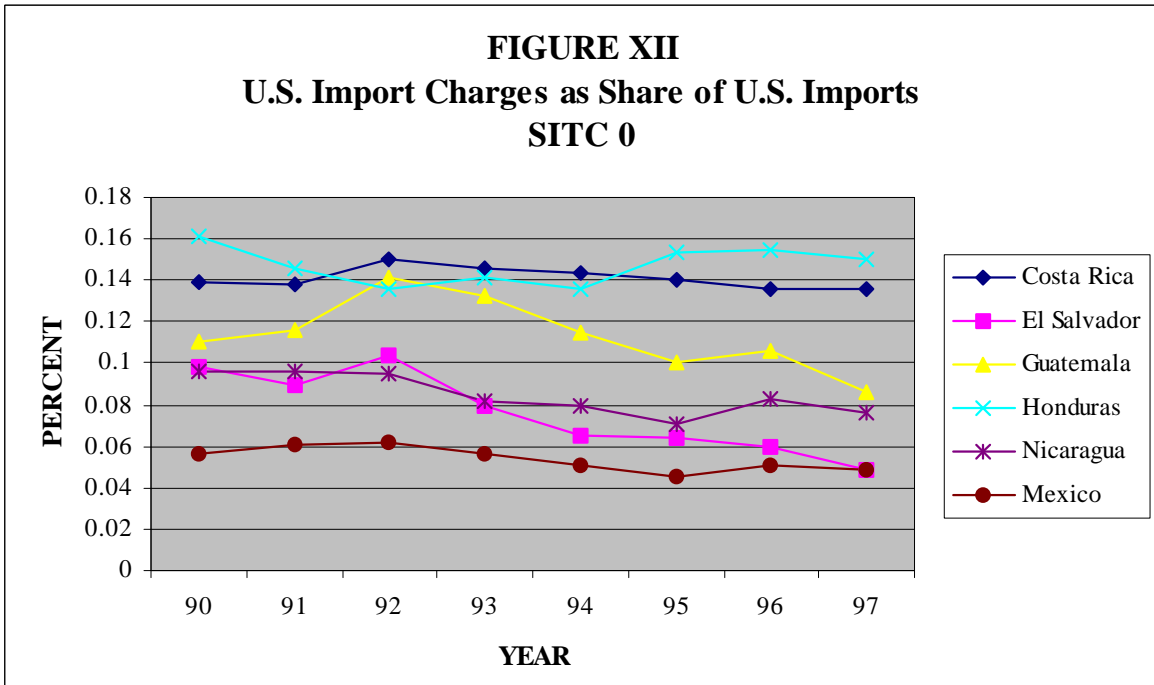
⁶⁸ See INCAE (1997) as well as Gonzalez (1997, p.43) for a list of products and their conditions of access within the CBI and NAFTA.





Figures XII and XIII present the evolution of U.S. import charges as a share of U.S. imports from Mexico and each of the Central American countries. We look at the most important export sectors for Central America, those including Food and Animal Products and Miscellaneous Manufactures⁶⁹. This is a measure of protection that goes beyond the tariff rate that is formally imposed on imports to reflect the amount that is effectively charged as a percent of total value. For sector SITC 0 we find that charges on food products are higher for Central American countries than for Mexico by around 0.5 percent points and that this difference has remained relatively constant. In sector SITC 8 the difference between Mexico and Central American charges is more substantial: while Mexico faces a 1 percent import charge, Central American countries face between 2 and 2.7 charges. The estimates by Clark and Tavares (1998) on the sensitivity of the volume of Central American exports to U.S. export charges tell U.S. that these with Mexico may have a substantial effect on the region's exports. Moreover, these differences are likely to increase in the future if the NAFTA agreement is implemented.

⁶⁹ In the future we want to compile figures on the charges



Textiles

Textiles are currently and are likely to remain the most important export sector for Central America and Mexico in terms of their transactions with the United States. Preferential access by Mexico is thus an issue of the utmost relevance. According to Gonzalez (1997) the average tariff level for Mexican textiles entering the U.S. was 7 percent in 1996. For CBI countries it was 7.6 percent and for Asian countries 11.5 percent. In addition to this level difference, there will be a progressive decrease of barriers to Mexican exports while no similar decrease is expected concerning Central American (or CBI) exports. As mentioned above the virtual elimination of non-tariff barriers by the U.S. against Mexican exports does not correspond to similar policy concerning CBI countries. Figure XIV presents the share of textiles in overall Central American exports to the U.S. for each Central American country.

Almost contemporaneously with NAFTA ratification, a study by the World Bank suggested that Central America stood to lose about 4 percent of its earnings from the export of apparel as a result of NAFTA⁷⁰. Mexican textile exports to the U.S. have indeed risen vigorously. But U.S. textile imports from El Salvador, Honduras and Guatemala have also increased substantially. Costa Rican exports presently show no substantial growth but they stand at higher levels as a result of previous growth. Research conducted by Hinojosa-Ojeda et al. (1995) estimates that the effect of NAFTA on Central America is negligible. These results, however, cannot ascertain the impact of tariff reductions currently under way and scheduled for the coming years.

As for textiles, shoes and leather products, they are generally excluded from preferential treatment within CBI unless completely assembled from U.S. made components. Whereas most categories of textile exports from Central America may be subject to quantitative restrictions in case the U.S. invokes the need for safeguards, Mexican exports in the same category are explicitly freed of this threat and may only be subject to tariffs. Only for NAFTA members is a progressive decrease in tariff barriers agreed.

⁷⁰ See World Bank (1994, p.4).

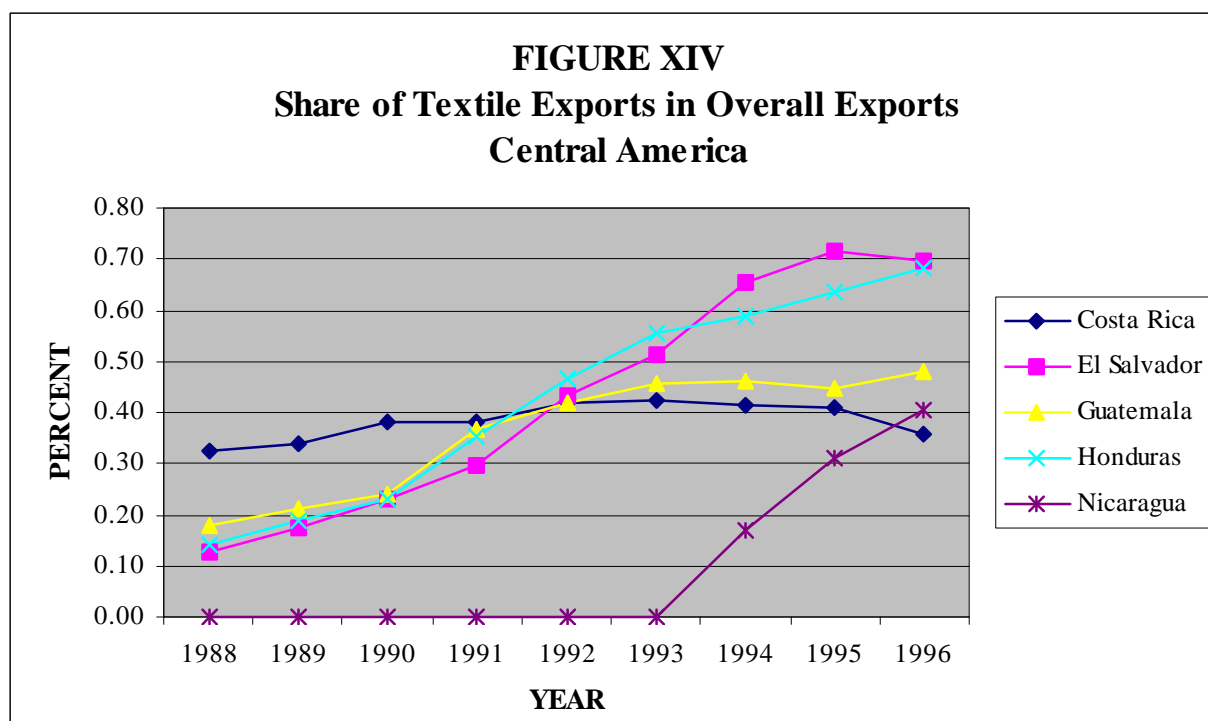


TABLE VIII - Textile Exports to the U.S.
1988 - 1996

	1988	1989	1990	1991	1992	1993	1994	1995	1996
Costa Rica	250.1	326.8	381.4	438.8	589.2	652.6	684.8	756.9	710.0
El Salvador	35.7	42.4	54.4	90.3	165.8	251.2	397.9	582.2	748.1
Guatemala	77.4	129.2	190.6	329.7	451.1	545.7	591.2	682.3	805.9
Honduras	61.9	86.7	112.8	195.5	365.0	506.2	644.8	918.5	1222.6
Nicaragua	-	-	-	-	-	-	28.5	73.9	142.1
Total CA	425.1	585.1	739.2	1054.3	1571.1	1955.7	2347.2	3013.8	3628.7
Mexico	-	-	-	-	-	1127.0	1594.0	2565.8	4231.5
World	-	-	-	-	-	-	31386.5	34648.6	36389.5

Units: Million 1996 U.S.\$\$. Source: U.S. Trade Department.

The rules of origin that apply to Mexican exports are not only more lax but also more easy to evaluate, leading to a lower likelihood of trade disputes and thus decreased uncertainty facing producers. Mexican products have to change tariff classification to benefit from expedite entry into the U.S. market⁷¹. The two main criteria are those of the 'change in tariff classification' and of regional content. The first criterion applies to a large part of the goods and applies when a product is classified in a tariff category different from the inputs that entered its production. The criterion of regional content is stricter in that it demands a higher percentage - 50 to 60 percent of the value - but is only applicable in some cases and there are no restrictions in terms of the percentage of value added in each country.

Articles from a CBI country, on the other hand, are subject to the following rules:

- 1.) be cultivated, produced or manufactured in a CBI country or, alternatively, be turned into a "new and different" product;
- 2.) have a local content of at least 35 percent of more of the product's value when it enters the U.S.. Products can also meet the local content requirement with 20 percent CBI content and 15 percent U.S. content.

Moreover, CBI products only benefit if exported directly from the beneficiary country to the U.S.. As become clear, the rule applying to the CBI is more subjective in nature than the one applying to Mexican exports.

Maquila

The export industry in Latin America is fundamentally one of *maquila*, assembling pieces that are cut in the United States out of material originating or not in that country. The U.S. has increased efforts to make countries use material (*tela*) originating in the U.S.⁷². The resulting products can enter the U.S. under the tariff classification 9802.00.80 (commonly known as

⁷¹ NAFTA allows for a given amount of imports not originating in NAFTA countries to be imported free of duties, as long as the *tela* be produced in a NAFTA country or it be cut or assembled in one of the countries. This is the only exception where access is given to a product non-originating in a NAFTA country. Gonzalez (1997) suggests this is a way to get around the very strict rules of origin in the textile sector.

⁷² This has led to a complaint by the U.S. against Costa Rica in the World Trade Organization. See World Trade Organization (1996).

commerce 807, the number of the former classification). With the exception of Nicaragua, whose trade volume with the U.S. is very small⁷³, more than 70 percent of textile exports from Central America to the U.S. is *maquila*. The more a country trades with the U.S. the more of *maquila* it does. In causal terms it is probably the opposite that holds. For Mexico, an impressive 99 percent of textile exports are done through *maquila* arrangements.

TABLE IX - Textile Exports and Maquila Exports from Mexico and Central America to the U.S. - 1996

Country	Exports	Maquila Exports	% of Maquila
Costa Rica	710.0	650.0	91.7
El Salvador	748.1	609.0	81.5
Guatemala	805.9	584.0	72.5
Honduras	1222.6	972.0	79.5
Nicaragua	142.1	32.7	23.1
Mexico	4231.5	4195.5	99.2

Units: Million 1996 U.S.\$. Source: U.S. Trade Department, as cited in Gonzalez (1997).

As to employment, Willmore (1997) reports that in 1995 the maquila processors employed 80.000 people in Guatemala and around 50.000 in Costa Rica, El Salvador and Honduras. A substantial fraction of the workforce is female. In total, over 235.000 people in Central America are employed in the maquila in Central America, which compares favorably with the 176.000 employed in the older and more established free trade zones of the Dominican Republic. This bodes well for Central America's capacity for export growth in response to U.S. demands.

The *maquila* process is intimately related with net foreign investment, given that most of the production is undertaken by subsidiaries of U.S. firms. Given the more predictable legal and political environment created by the NAFTA agreement, U.S. investment is more easily attracted to Mexico than Central America. Private investment in Mexico faces decreased uncertainty and better guaranties in Mexico and this advantage relative to Central America is perceived to become more important with time unless new developments in Central America's access to the U.S. market occur.

⁷³ The small amount of *maquila* can be evidence of non American origin of investments in Nicaragua. [mention politics]

3.3. Access to the U.S. Market: the Options for Central America

Given the differences in access and institutional support between Mexican and Central American trade with the United States, what are the options open for Central America to close the gap? Here we summarize the benefits and difficulties of the several strategies available⁷⁴.

Accession to NAFTA

The political atmosphere in the U.S. does not favor the enlargement of NAFTA at this moment in time. In the 1992 election, the debate over NAFTA led to intense scrutiny in labor and environmental circles and the emergence of extreme positions against the agreement. The debate that was spurred by an independent candidate (Ross Perot) and from within the Democratic Party (Richard Gephardt) left NAFTA associated with a bad name. Political events in Mexico and the financial crisis in Mexico have further associated NAFTA with the idea of a ill-conceived concession on the part of the United States. In the 1996 campaign several presidential contenders, from both the Democratic and the Republican camp, have kept the issue of NAFTA alive, not always shining a good light on it. The debate over "fair" trade, once focused on Japan, has now included NAFTA as a straw man. An evaluation of NAFTA by the Department of Commerce reflects the lingering public doubts over the benefits of NAFTA.

While it is not foreseeable that these anti-NAFTA currents will be able to threaten the current treaty, they make it harder to pursue enlargement. The current administration does not seem interested in spending political capital on this issue. Its request for "fast-track" authority over NAFTA enlargement, meant to be approved jointly with the Uruguay Round agreement, has been withdrawn and is unlikely to get support in the near future⁷⁵.

Chile's inability to become a NAFTA member in spite of its image of a model economy suggests the enormous difficulties any reforming economy will have in accessing NAFTA, particularly when one considers the support of the American administration and business community to Chile's entry into NAFTA.

⁷⁴ Gonzalez (1998, starting p.113) presents the pros and cons of these several approaches to ameliorate Central American access to the U.S. market.

⁷⁵ The fast-track procedure is meant to facilitate trade agreements between the U.S. and other countries. It has to be pre-approved by Congress and, under its provisions, Congress bounds itself to vote, within a certain time limit and without amendments, agreements presented by the executive.

Access to NAFTA means entering an already closed agreement. This means the terms of the agreement will not differ from those agreed between the United States, Canada and Mexico. A false expectation that may arise is that special consideration will be given to Central America's special characteristics. NAFTA pre-defined rules applied to Central America imply costs and benefits that need to be evaluated.

Moreover, NAFTA extension requires the acceptance of the three current members of the treaty, which may or may not be automatic. It is unlikely, however, that most of the resistance does come from countries other than the United States.

Free Trade Agreement with the United States

The greatest advantage of a Free Trade Agreement between Central American countries and the United States is its flexibility: while it does not raise the issue of NAFTA access in U.S. politics, it makes possible a formal tie with NAFTA later on. It would be possible for the degree of trade liberalization to be as close as possible to current NAFTA standards.

Moreover, parallel agreements in the spirit of NAFTA's accessory treaties on areas such as labor, the environment, and intellectual rights could be signed so as to facilitate a link with NAFTA in the future.

A Free Trade Agreement implies mutual concessions, which increases the expected life of the agreement. On the other hand some of these concessions may make the agreement harder to implement. One issue that comes to mind is that of Central American dependence on tariff revenues. Following the path of Free Trade Agreement(s) with the United States may facilitate the presentation of a "Central American case" before the U.S. administration. By taking this initiative independently of Caribbean countries, Central America may gain in coherence what it loses in economic clout.

Until recently, the feeling among observers and policy-makers was summarized in Gonzalez (1997): "neither a free trade agreement nor NAFTA adhesion are, in this moment, valid options, and should not be considered at this moment"⁷⁶.

⁷⁶ Translated from Spanish.

From the Caribbean Basin Initiative to NAFTA parity

The Caribbean Basin Initiative (CBI), which came into effect in January 1984, was motivated by the desire of the United States to combat the influence of left-wing movements in the region. Given its national security justification and the small size of the countries involved, the initiative did not spur much internal debate in the U.S.. The administration seems willing to consider the enhancement of the CBI into NAFTA but has displayed so far little enthusiasm. NAFTA parity has an element of unilateral concession that will leave access to the U.S. market liable to be challenged by the executive power of the U.S..

For the last three years there has been a NAFTA parity project under consideration. Initiated in Congress or by the Executive itself, the four projects to date have failed to materialize⁷⁷. Presented between March 1993 and February 1996, they have been progressively weakened until, in the last one, the difference between proposed benefits for CBI countries and NAFTA conditions differed substantially. While in the first project there is no conditionality, in the last three there are 13 different criteria of eligibility introduced. The failure of these projects has to do with the following causes: interest group opposition; generalized opposition to free trade and lack of political commitment on the part of the administration. Labor groups in particular have been very active. The administration, which in the 80's not only supported openness to the region's exports but also was the driving force behind an initiative such as the CBI, seems to have lost interest in the region.

In June 1997 two new projects of parity were introduced, one of which was close to being approved. The dismantling of the Uruguay Round has shaken the U.S. textile industry by dismantling the protectionist Multifibre Agreement, to have full effect in 2005. *Tela* producers in particular fear Asian competition. This may be an opportunity for a strengthening of ties with the geographically close region of Central America. The protection of *tela* production has been the motivation for recent changes in rules of origin. Co-production schemes between the U.S. and the CBI countries are now seen as a possibility to support the main American *tela* producers, Sara Lee and Fruit of the Loom. There is clearly a fatigue with the NAFTA theme that spills over to the debate of NAFTA parity.

The high number of countries involved and their diversity complicate the issues and the building of a "case" with the U.S. administration. Whereas Central American countries are

connected by land to Mexico and the other NAFTA countries, the Caribbean countries are island economies; Caribbean countries draw most of their sustenance from tourism while tourism is still a nascent industry in Central America, whose economies are comparatively diversified; the Caribbean countries draw substantial amounts of financial aid from former colonizing powers; GDP per capita of the Caribbean countries is actually higher than that of Central American countries. The main common element between the countries included in the CBI is that they are “in the United State’s backyard”, something that may be more relevant in defense terms than in trade terms. These defense considerations played a major part in the creation of CBI but future integration, it may be argued, has to be based on different fundamentals.

In the aftermath of Hurricane Mitch the fate of the region has attracted enough interest in Central America to create support for CBI-enhancement as part of a relief package for the region.⁷⁸ According to Lande (1999), there is a high likelihood that the urgency of the disaster favors passage of CBI enhancement, whereas the passage of an omnibus trade bill is less and less likely.

Trade Initiative with the Americas

The political and economic costs that would arise if the U.S. does not keep its word on trade integration with Latin America are very high and the economic costs are important too. This decreases the likelihood that the Trade Initiative with the Americas (TIA) will not see progress in the future. The question that emerges is how much progress and at what pace: the likely strategy the U.S. administration would pursue if not interested in the TIA would be delay.

But the initiative is not vague only as the timetable is concerned. The geographical (continental) scope of the agreement makes it vulnerable to several pitfalls. The countries involved are very diverse and have widely varying degrees of involvement with the U.S. trading system. The TIA may become ineffective due to the faster pace of regional agreements such as Mercosur. A probable and highly undesirable result for Central America is for it to be left somewhere between NAFTA and Mercosur, without really increasing access to the U.S. economy.

⁷⁷ Gonzalez (1997) presents a good summary of the characteristics of these different projects.

⁷⁸ See HIID and INCAE (1998) for an evaluation of the costs of the Mitch disaster and a layout of strategies for recovery and long-term economic growth.

Another vulnerable element of the TIA is that the political element seems to be the predominant U.S. motivation. The ambition to "carve up" a natural territory for U.S. exports as Europe and Asia further their regional trade agreements loomed large in the administration's thinking about the TIA. This makes the TIA particularly dependent on the U.S. perception of benefits from a multilateral trading system.

Last but not least, by being bundled with such a diverse array of countries, Central American countries may lose their capacity to build an independent case, warranted by their small size and their geographical proximity to the United States. Central America, considered within the Latin American context, is likely to have very small bargaining power. The division of Central American countries into different and possibly self-defeating positions is a strong possibility.

4. CENTRAL AMERICAN ACCESS TO FOREIGN MARKETS: A STRATEGY

4.1. The Priorities of a Central American Trade Strategy

Central America seems to be naturally evolving towards a general strategy of trade liberalization. Agreements with Mexico, the Dominican Republic, Chile, Panama and others, in addition to the United States are on top of the trade agenda. This multi-front approach Central America seems to be developing makes sense. As shown by Clark and Tavares (1998) there are regions of the world and, in particular, of the Americas, that have an unexpectedly low level of transactions with Central America, even after controlling for factors such as size of the markets, GDP per capita of the trading partners and bilateral distance between the economies. The authors show that regions like the Andean Pact and Mercosur and countries like Mexico trade less with Central America than the factors above would lead the U.S. to predict. Given this, a strategy of simultaneous trade liberalization with several countries makes sense. However, given the scarce technical and political resources of the region and its past difficulties with implementing a *de facto* liberalization in the context of the CACM it is essential to prioritize.

United States and NAFTA partners

The United States is the largest customer of the region and, given the size of its economy, is likely to remain so. Moreover, the Mexican experience of growth in exports of manufactures

illustrates the promise of access to the U.S. market. The priority for Central America should thus be to extend the current trade agreements with the U.S. with the aim of preparing the terrain for future NAFTA access or NAFTA parity. However, Central American countries need not raise the issue of NAFTA parity explicitly. In this, Central American countries would differ from Chile, which has kept its project of adherence to NAFTA in the forefront while pursuing an active strategy of strengthening trade ties with other countries and areas.

In their strategy to improve access to the United States market it is crucial for Central American countries to pursue trade agreements with the other NAFTA members. This would facilitate a future agreement with the NAFTA area by confronting potential problems with the U.S. NAFTA partners beforehand. Central American countries are making advances in this direction: Costa Rica signed an agreement with Mexico, which is being followed by the other countries of the region. A trade agreement with Canada is being considered. However, more needs to be done in this area. NAFTA is a three-member area and the interests of the U.S. partners will loom large in any future enlargement decision.

One of the important benefits of signing free trade agreements with NAFTA countries, Mexico and the U.S. in particular, is the creation of joint institutions that would be in place when the conditions arise that facilitate trade access in the future. These common institutions should include explicit conflict resolution mechanisms likely to decrease the risk of trade disputes. Given the current image of the countries of the region in terms of institutional capacity, this would be an important step towards building and signal capacity for more serious commitments in the future.

Trade Initiative with the Americas

The countries of the CACM should also encourage advancement of the Trade Initiative with the Americas. As mentioned above, Central America trades less with South America than factors such as geographical proximity, common language and level of development of exporter and importer would predict. It seems that pursuing trade agreements with this region of the globe has not been a priority for Central America. This should be changed. In addition to direct volume of trade considerations, there is an additional, insurance-type reason, to pursue closer ties with

South America. As Table X below shows MERCOSUR trades relatively little with NAFTA⁷⁹; recently the European Union has become MERCOSUR's major partner. In addition, as seen in Section 2, MERCOSUR is a natural trade area in that the ratio (average distance to partner/average distance to markets) is the lowest for the major trade areas in existence. If an incipient but emerging U.S.-Brazilian rivalry is added to the picture, there is the real risk that Central America finds itself lost between two large trade areas, to the north and to the south. Looking only to the north is not the best way to avoid this risk.

TABLE X – Regional Trade in the Americas – 1997

Country	CACM	NAFTA	MERCOSUR	ANDEAN COMMUNITY
CACM	18	-	-	-
NAFTA	48	49	16	47
MERCOSUR	-	3	25	4
ANDEAN COMMUNITY	-	-	-	11
OTHER-AMERICAS	4	3	9	7
OTHER-REST OF THE WORLD	30	45	50	31

Units: Million 1996 U.S.\$\$. Source: Inter-American Development Bank and U.S. Department of Commerce, as cited in The Economist (1998).

Central America needs to be more attractive to foreign investors. This is particularly important since the region's low domestic saving rates and Mexico's increased attractiveness after the creation of NAFTA both contribute to a relative shortage of funds for regional investment and growth. The signing of free trade agreements with several regional groups has the advantage of guaranteeing investors in the region a wide access to larger markets than just the regional one.

In these free trade agreements, Central America should strive to make the rules of origin as simple and objective as possible, in line with what currently is the case between NAFTA countries. In particular the change from the "new product" rule to the "change in tariff category" rule currently applicable to Mexico is highly desirable.

⁷⁹ See Table X below.

Central America and Mexico

Central America benefits from a proximity to the world's most important market, the United States. Leamer et al. (1997) estimate the distance advantage of Central America relative to the Asian countries in "tariff equivalents", the tariff that, imposed on Central American exports, would make the a product from the region as expensive as an equally priced product from Asia. They find the tariff equivalent to be around 100 % in many products. This distance advantage of Central America is even greater in the case of Mexico, which can plausibly become an important market for the region's exports. Given the proximity to the United States market the region should try to move towards the production of goods that are more "sensitive" to transportation costs.

Mexico is very interested in promoting political and social stability in Central America. Given the need to overcome its own social instability to consolidate the gains from NAFTA, Mexico is very conscious of the potential that internal conflicts in Central America have if they were to spill over the border. In case of persistent social instability in Central America, both geographical and ethnical proximity make a "contagion effect" very likely. The ease with which migratory flows to and through Mexico can emerge is another factor sealing the political fates of the Mexican federation and Central America together. Finally, cultural ties, including a common indigenous heritage and a shared Hispanic culture build in Mexico a genuine interest in Central America's fate. In some occasions, Mexico has behaved as an advocate for Central America close to the United States rather than a threatened competitor. Central America should nurture this important relationship.

Economically Mexico is close to Central America, which is an important client for Mexico's manufactures. Trade liberalization with Mexico can further attract Mexican investors to Central America who will be particularly sensitive to the region's interests in future negotiations for NAFTA access. On the other hand, Central America as an exporter is more important to Mexico than to the United States. In other words, the share of Central American products in Mexican imports is larger than the same share in U.S. imports. This is not likely to change.

The potential effect of the signing of trade agreements with Mexico should not be depreciated. Trade creation resulting from the NAFTA agreement can lead to higher levels of Central American exports if Mexican producers switch to exporting to the United States and thus become less able to satisfy the domestic market. This is more likely to be the case the lower the

elasticity of supply of the Mexican manufacturing sector and the higher the elasticity of the Central American producers. Leamer et al. (1997) document that Central American exports are a much larger share of total Mexican imports than of total United States imports. These authors show that there are incentives for Mexico to increase both its exports and imports under NAFTA. Using alternative growth scenarios in North America, they show that the higher the growth rate of Mexico the more important Central American exports to this country become. As Leamer et al. (1997) put it "there seems to be ample market size in Mexico to accommodate exports of labor-intensive manufactures from Central America". The conclusion has to be that Central America, in its quest for access to the United States market, should not in any way devalue the importance of the Mexican market.

Furthermore, Mexico may become a back door through which Central American exporters gain access to the U.S. market. Even if there are strict rules of origin that regulate access to the U.S. market, they may be relaxed in the future. U.S. owned *maquiladoras* may find it in their interests to distribute production between Mexico and Central America and lobby for the change; informally because there will be incentives for firms in Mexico to find ways around the rules of origin restrictions. The approach could be to propose to include Central American content (not to exceed present CBI allowed content) as acceptable under NAFTA rules of origin if bundled with Mexican content. This agreement may be favored by Mexico since there would still be an incentive to include Mexican content. It could be politically viable in the U.S. since it does not change anything explicitly: the maximum percentage of CBI content remains at the same level, as well as the acceptable overall foreign content. The *maquiladoras* would probably be the major benefactors as they would be able to diversify production between Mexican and Central American locations.

Finally, there is the migrant issue in the U.S., which has gained momentum in recent years. Gonzalez (1997) reports that the subject of a recent high-rank exchange between Central American and U.S. officials centered on the control of illegal immigrant flows to the U.S.⁸⁰. The connection between more trade/less immigrants is far from clear in research circles but it has been used successfully in the case of Mexico's entry into NAFTA. According to Hinojosa-Ojeda (1995) there were an estimated 1,134 million immigrants from Central America in the U.S., compared with 5,034 million Mexican immigrants. However, the number of illegal immigrants

from Central America is estimated to be about half of the number of Mexican illegal immigrants. This information is relevant for trade negotiations, even if not to be used explicitly. Closer ties between Central America and Mexico can lead to a greater ability by Central America to exploit the migrant issue in its quest for access to the U.S. market.

4.2. The Role of Regional Integration

The Central American Common Market is far from a perfect free market. There are still exceptions to the free movement of goods which, though few in number, are important. As mentioned in Section 2, agricultural products such as coffee, sugar and chicken do not circulate free within the region. There are too many exceptions allowed to the common external tariff and policy-makers in the region mention their ad-hoc nature, in response to particular interests. It becomes clear that governments in the region need to establish their credibility as genuinely interested in the regional integration process. At the same time, regional institutions need a thorough redesign and a clearer mandate. Some see the process of regional integration as being independent or even a (poor) substitute for increased access to foreign markets, the U.S. market in particular. Instead, we believe regional integration to be a *complement*, and an important one, of any strategy to increase access to the U.S. market. Section 3 above outlined what we believe are the main difficulties in securing access to the U.S. market: small importance of the region as a supplier and client of the U.S., poor image stemming from recent history and, last but not least, the lack of credible institutions that “lock in” the political and economic liberalization courses under way. Regional integration may be the more expedient way to improve Central America’s standing on each of these impediments to better access to the U.S. market.

Follow regional logic

Central American countries are small economies however they are looked at: its exports do not affect international prices.

Today, Mexico, Central America and the Caribbean depend much more on intra-regional exports than the United States⁸¹. These economies are also more open to international trade⁸².

⁸⁰ See p. 101 of Gonzalez (1997).

⁸¹ Where intra-regional refers to North and Central America.

⁸² According to Hinojosa-Ojeda et al. (1995) intra-regional exports of Mexico and Central America are around 9 percent of respective GDP in 1993, compared with 0.50 for the United States.

According to Hinojosa-Ojeda et al. (1995, p. 124), intra-regional trade within Central America is sizeable, accounting for 14% of the regions exports in 1992; this is nevertheless below the 25% level in 1980, before war and monetary crises disrupted the local economies.

In spite of the historical efforts at integration and the high level of intra-regional transactions there is poor coordination between Central American countries in the presentation of their “case” for access to the U.S. market. We observe the current lack of coordination as a major shortcoming that needs to be addressed: both *size of the market* and the *coherence of policies* arguments are considerable parts of making a successful case for access to the United States market. Regional integration is an important step towards that goal⁸³. CEPAL (1996) mentions the lack of coordination between entities that conduct the WTO and other negotiations as well as between these and the entities pursuing regional integration as a major problem⁸⁴.

As to the *coherence of policy* argument, Gonzalez (1997) mentions that “the nature of the commercial relationship between Central American countries and the U.S. is very similar among them”⁸⁵. Exports consist of traditional products (coffee, banana, sugar and meat), apparel (assembled in the region out of pieces cut in the U.S.). The strong similarities between Central American economies should facilitate common negotiations of trade liberalization with the United States.

Regional integration could also help countries avoid 'self-defeating' competition. As an example, Costa Rica introduced a generous scheme to subsidize extra regional exports (*Certificados de Abonos Tributarios*, known as CAT's). Introduced in 1972, the scheme gained force in 1984 and in 1992 almost all non-traditional exports were subsidized. Only non-traditional extra-regional exports benefited from tax exemptions and as a result this category of exports rose sharply. But the fiscal cost, rising to around 1.2 percent of GDP in 1989⁸⁶ raised doubts about the cost-benefit of the program. Willmore (1997) shows how the rise of extra regional exports was mostly due to a substitution away from intra-regional exports. This raises

⁸³ In a sense the regional economies are already seen as an integrated economy by local producers. Willmore (1997) reports that some Guatemalan export processors moved to El Salvador as soon as the war ended there. Independently of the causes at the root of this move (which deserve independent attention) this movement of production facilities points to the relatively high mobility that a common culture and institutional background makes possible.

⁸⁴ See CEPAL (1996, p. 91).

⁸⁵ See Gonzalez (1997, p. 65).

⁸⁶ See Willmore (1997, p. 11).

doubts about the benefits from the program, which may have used valuable tax revenues and just changed the final destination of exports that would take place anyway.

The build-up of common regional institutions may help deflect internal regional conflicts. The diffusion of conflict between 'rich' and 'poor' neighbor countries has been a rationale for the opening of the U.S. market to Mexico, as well as EEC's integration of Southern European countries. It should also be part of the motivation for trade integration in Central America.

The national conflicts in the eighties destroyed the regional market. Given the importance of intra-regional trade in Central America, as compared to other areas in the Americas, and the fact that most countries in the region are still recovering from the disruption of the violent conflicts, we are confident that regional trade will play a major role in the recovery of the economies of the region.

Build economic case with the U.S. and Mexico

The most obvious economic argument for regional integration is the creation of a larger market that will be more seriously taken into consideration than the small national markets presently in existence. Access to a common Central American market is a credible bargaining chip in trade negotiations; on the contrary, access to individual markets, negotiated and decided on a national basis, can not be credibly push forward as an element in negotiations. This is particularly true of negotiations with Mexico since the Central American market as a whole is particularly important for this country.

The larger market size will encourage investment flows to the region, one of the key benefits of trade integration. Given the origin of the largest share of exports on the *maquila* industry, facilitating foreign investment is necessary to maintain external balance in further liberalization.

The harmonization of national regulations that should accompany trade integration can greatly facilitate NAFTA accession at a later stage. NAFTA countries will find it much more palatable to negotiate with a single Central American institution and a single set of market regulations than with a series of diverse national institutions.

Further regional integration will also increase the region's bargaining power in the Trade Initiative for the Americas. It will allow Central American countries to keep focused on what

their common interests are and to act coherently whatever the final trade agreement (NAFTA, TIA or CBI-enhanced) eventually bears fruit.

Build political case with the U.S.

A key advantage of regional trade integration is that it will enable Central American countries to demonstrate institutional building capacities. This is a necessary element in strengthening the case for access to the U.S. market. Mexico's experience has made clear the emphasis of U.S. policymakers (and the public) on credible, reliable partners with clear policies. Regional trade institutions in Central America would be the most important step towards building earning credibility as a bargaining partner.

It is likely that labor and environmental issues will be prominent in negotiations leading to increased access of Central American products to the U.S. market. These issues are voiced by strong political constituencies and have been responsible in the past for stalling the approval of "fast track" procedures⁸⁷. Creating a strong regional reputation of valuing labor rights and environmental protection is one of the top priorities in strengthening the political case for trade integration with the U.S. political system.

It is likely that labor and environmental issues will be prominent in negotiations leading to increased access of Central American products to the U.S. market. These issues are voiced by strong political constituencies and have been responsible in the past for stalling the approval of "fast track" procedures⁸⁸. Creating a strong regional reputation of valuing labor rights and environmental protection is one of the top priorities to strengthen the political case for trade integration with the U.S. political system.

Finally, the creation of regional institutions is the most obvious way to build a new, more favorable image of the region with U.S. policymakers and the U.S. public. It has become clear through Mexican experience with NAFTA negotiations that country image is a fundamental element of presenting the case for trade integration before the U.S. public. At this moment, the image of Central American countries, with the possible exception of Costa Rica, is strongly associated with fratricide conflicts and some antagonism towards the United States. This embedded image will take time to be overcome and the creation of a regional image may hasten

⁸⁷ See Gonzalez (1997, p. 32).

⁸⁸ See Gonzalez (1997, p. 32).

that process. A new “brand image” for the region is an absolutely necessary condition to create the willingness in the U.S. public and political system to facilitate access to the U.S. market.

5. CONCLUSION

Central America as a region is extremely open to trade. In the wake of NAFTA ratification and an increasingly integrated world, Central America faces strategic decisions as to the direction of its trade policy. First, the region has a short list of very important clients. The United States is its major trade partner, with approximately are around half of exports going to the U.S. country alone. Together with the European Union and the CACM, it is responsible for around 80 percent of Central American exports. Second, exports are not diversified. Between 80 and 90 percent of the exports of countries in the region arise in SITC trade categories 0 and 8, that is, the Food and Live Animals and the Miscellaneous Manufactures categories that cover, respectively, coffee and other agricultural products and textiles. The top 5 three digit SITC products exported by the typical Central American country account for 50 percent to 75 percent of all exports, for Costa Rica and Honduras, respectively. Third, Central America relies increasingly on *maquila* exports that depend on the localization of foreign investment, which is extremely sensitive to both cost and conditions of access to the U.S. market. Fourth, the regional market is an imperfect free trade zone and an imperfect customs union, which limits the benefits the countries in the region may derive from a larger “home” market, both in itself and as a bargaining tool in trade negotiations with third countries.

Central America faces specific risks in their export markets. First, the Caribbean Basin Initiative, under whose rules Central America’s textiles have enjoyed access to the U.S. market, is a unilateral concession by the U.S. that can also be changed unilaterally also. This makes Central America vulnerable to policy changes it does not control. Moreover, the uncertainty involved limits the potential attractiveness of Central America as a destination for foreign investment. Second, Mexico enjoys preferential and secure access to the U.S. market in the wake of NAFTA ratification. The differential between Mexico and Central America’s condition of access is likely to increase as barriers to trade within NAFTA decrease further. Thirdly, in a continent where both NAFTA and MERCOSUR emerge as strong trade areas, Central America may find itself in the empty middle, with no large export market to rely on. Finally, the most significant political fact standing in the way of improved access to the U.S. market is that the

region's image in the U.S. has been unchanged since the contentious years of the cold war and that image is one of instability and lack of credibility. Changing it may be the most important task before the region.

Central America's strategy of trade liberalization, which seems to be evolving on many fronts, lacks the establishment of clear priorities. First and foremost, given the existing trade links and the potential for growth it has revealed, to secure access to the United States market should be the main objective of the region's trade policy. NAFTA parity seems unlikely in the short to medium run in light of the experience of Chile. Instead the region should negotiate both with the U.S. *and* the U.S. partners on as many trade and ancillary issues as possible. This strategy will remove obstacles to future NAFTA parity status, which probably will require the approval of the U.S. NAFTA partners. Second, Central America needs to pursue better trade deals with markets that are not distant, that are large and that share cultural traits that may facilitate transactions. Empirical studies reveal that markets such as Mexico, Venezuela and South America in general import far less from Central America than their characteristics of size, level of income and proximity would allow. These markets have so far been consistently undervalued in policy initiatives. An advantage of this approach is the prevention of the important risk that Central America finds itself outside a strong NAFTA and a strong MERCOSUR. Third, Central America needs to take regional integration seriously. It is the best available avenue to become a credible partner to trade negotiations, both by virtue of the increase in the internal market and the build up of new institutions that increase the coherence of trade policies and give the region a new image and visibility before its significant trade partners.

REFERENCES

- Alonso, Eduardo (1998), *Personal Interview*, Gerente General, Procomer, San Jose, Costa Rica.
- Brada and Mendez (1985), *Economic Integration Among Developed, Developing and Centrally Planned Economies: A Comparative Analysis*, The Review of Economics and Statistics, 67 (4): 549 - 556.
- Burgues, Antonio (1998), *Personal Interview*, Presidente, CADEXCO, San Jose, Costa Rica.
- Carrillo, Luis (1998), *Personal Interview*, ASIES, Guatemala City, Guatemala.
- CEPAL (1996), *La Integracion Hemisferica: El Grado de Preparacion en el Istmo CentroAmericano y la Republica Dominicana*.
- Collings, Harry (1922), *The Economic Basis of Federation in Central America*, *American Economic Review Papers and Proceedings*, 12, 1, pp. 168-176
- Clark, Ximena and José Tavares (1998), *Determinants of Central American Exports: A Quantitative Approach using the Gravity Equation*, mimeo, HIID.
- Economist, The (1998), *The Road from Santiago*, April 11th 1998, London.
- Estrada, Fanny de (1998), *Personal Interview*, AGEXPRONT, Guatemala City, Guatemala.
- Frankel, Jeffrey, Ernest Stein and Shang-Jin Wei (1993), *Continental Trading Blocs: Are They Natural or Super-Natural?*, NBER WP 4588.
- Garcia, Jose Carlos (1998), *Personal Interview*, Direccion Mercado Comun, SIECA, Guatemala City, Guatemala.
- Gonzalez, Anabel (1997), *El Aceso de los Paises Centroamericanos al Mercado de Estados Unidos*, INCAE, Costa Rica.
- Gonzalez, Anabel (1998), *Personal Interview*, Vice- Ministra de Comercio Exterior, Ministerio de Comercio Exterior, San Jose, Costa Rica.
- HIID and INCAE (1998), *Estrategia para la Reconstrucción y la Transformación de CentroAmérica después del Huracán Mitch*, Harvard Institute for International Development, Cambridge, MA.
- Hinojosa-Ojeda, Raul, Lewis, Jeffrey and Robinson, Sherman (1995), *Regional Integration Options for Central America and the Caribbean After NAFTA*, North American Journal of Economics and Finance.

- INCAE (1997), *Estudio sobre la Paridad con el NAFTA para los Países Centroamericanos*, Costa Rica.
- Juarez, Enrique (1998), *Personal Interview*, Secretaria de Integración Económica, Ministerio de Economía, Guatemala City, Guatemala.
- Lande, Stephen (1999), *Expectation for CBI Enhancement and FTA Negotiating Authority This Session of Congress*, mimeo, Manchester Trade Ltd., Washington DC.
- Leamer, Edward, Guerra, Alfonso, Kaufman, Martin and Segura, Boris (1997), *Central America and the North American Trade Agreement*, mimeo.
- Lizano-Fait, Eduardo (1998), *Personal Interview*, Presidente, Banco Central de Costa Rica, San Jose, Costa Rica.
- Mendéz, José and Rousslang, Donald (199??), *Does The Central American Common Market Benefit its Members?*, Economic Inquiry.
- Pastor, Robert (1993), *The North American Free Trade Agreement: Hemispheric and Geopolitical Implications*, Inter-American Development Bank.
- Polanco, Ileana (1998), *Personal Interview*, Dirección General de Comercio Exterior, Ministerio de Economía, Guatemala City, Guatemala
- Ruano, Hugo (1998), *Personal Interview*, SIECA, Guatemala City, Guatemala.
- SIECA (1998), *Breve Sinopsis de CentroAmerica y el Proceso de Integración en la Decada del 90*, Secretaria de Integración Económica Centro Americana.
- SIECA (1998), Secretaria de Integración Económica Centro Americana, <http://www.sieca.org.gt/publico/>,
- Urizar, Carmen (1998), *Personal Interview*, CIEN, Guatemala City, Guatemala.
- U.S. State Department (1998), *1997 Country Reports on Economic Policy and Trade Practices*, <http://www.state.gov/www/issues/economic/>
- Wei, Shang-Jin and Frankel, Jeffrey (1995), *Open Regionalism in a World of Continental Trading Blocs*, NBER WP 5272.
- Willmore, Larry (1997), *Promotion of Exports in Central America: An Analysis of Second Best Policies*, United Nations, New York.
- World Bank (1994), *Central America and the North American Free Trade Agreement*, Latin America and the Caribbean Regional Office, September 1996.

- World Bank (1998), *World Development Indicators*, CD-ROM.
- World Trade Organization (1996), *Examen de las Politicas Comerciales de Estados Unidos*, Secretariat's Documents, 21 Oct. 96.
- Zamora, Ronney (1998), *Personal Interview*, Director de Investigacion y Asesoría Economica, Camara de Industrias de Costa Rica, San Jose, Costa Rica.

APPENDIX I

ACRONYMS IN THE PAPER: SPANISH-ENGLISH CORRESPONDENCE

Organization	English Acronym	Spanish Acronym
Andean Community Comunidad Andina	AC	CA
Caribbean Basin Initiative Iniciativa Cuenca Caribe	CBI	ICC
Caribbean Community	CARICOM	
Central American Bank for Economic Integration Banco CentroAmericano de Integracion Economica		BCIE
Código Aduanero Uniforme Centroamericano		CAUCA
Central American Common Market Mercado Comun CentroAmericano	CACM	MCCA
Free Trade for the Americas Asociacion de Libre Comercio para las Americas	FTA	ALCA
Multi Fibre Agreement Acordo Multi Fibras	MFA	
United Nations Economic Commission for Central America Commission Economica para America Latina	ECLA	CEPAL
World Trade Organization Organizacion Mundial de Comercio	WTO	OMC