THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

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I. INTRODUCTION

Integration and unionism are not new terms to Central Americans. The nations of Costa Rica, Guatemala, Honduras, El Salvador, and Nicaragua[1] established the Federation of Central American States immediately after their independence from Spain in 1821. While these countries are sometimes considered part of South America, they have their own characteristics that separate them from their Latin American neighbors and make the countries in the region less homogenous than they might appear at first glance.

After World War II, the region enjoyed relative stability. There was an average increase of its annual Gross Product (5.2 percent) between 1950 and 1978, which was a result of both the stability of the world markets and local efforts. The region shared some common characteristics during that time: export sectors were determinant, agriculture was the backbone of the economies, industry began to develop, and the financial services and service industries expanded.[2]

Central American economies have always been focused on agriculture, a factor which makes the area vulnerable to the unstable international commodities markets.[3] After World War II, Central America was not only dependent on the prices the international community was willing to pay for their products, but was also confronted with more serious domestic problems such as the need for economic development (including the diversification of economic activity), and the lack of democracy, and political participation.[4]

During the 1940s, Central America's natural resources were not being fully exploited. Only nine percent of its land was being cultivated, 52 percent of its land was forest, and the population was only 6.5 million, but increasing at a high rate.[5] These factors help explain the severe

1. Strictly speaking, Panama and Belize were never considered part of Central America. Panama has become more involved in the region's policy decision-making in recent years, but Belize has not attempted to participate in any of the region's integration attempts. ALFREDO GUERRA-BORGES, EL DESARROLLO ECONOMICO, HISTORIA GENERAL DE CENTROAMERICA DE LA POSTGUERRA A LA CRISIS 1945-1979, at 13, 16 (1981).

2. *Id.* at 13.

3. Their dependence on various products during different stages of their histories has made the region vulnerable to the unstable international commodities markets. *Id.* at 16.

4. ROGER D. HANSEN, CENTRAL AMERICA: REGIONAL INTEGRATION AND ECONOMIC DEVELOPMENT 3-16 (1967); ALFREDO GUERRA-BORGES, INDUSTRIAL DEVELOPMENT IN CENTRAL AMERICA 1960-1980, at 46-54 (1985).

5. GUERRA-BORGES, *supra* note 1, at 14.

underdevelopment during that time. After being hit heavily by the recession of 1929 and World War II, an attempt was made to diversify the region's exports.

In the 1950s and 1960s, the region's annual growth averaged 4.6 percent.[6] By 1954, the region had a population of nine million with a per capita income of $175.[7] Income generated during that period helped the economies import their capital and technology needs, without incurring much debt. Exports continued to be crucial to the region's economies. In addition to coffee, which all of the countries exported, and bananas, exported mostly by Honduras and Costa Rica, the region began exporting cotton, sugar, meats, and other products, making them less economically vulnerable and less dependent upon a single product. Between 1950 and 1960, exports grew at an average rate of 7.5 percent per year.[8] There was also some degree of experimentation with manufactured products and some level of industrialization was achieved. In fact, industrial development boomed in the 1960s, followed by moderate growth levels in the 1970s. At that time, the small size of each country's economy, the lack of available raw materials, and the lack of necessary infrastructure served as obstacles to complete industrialization.

Additionally, in the 1960s, the financial services sector expanded both in the services they provided and as to the instruments being used. By 1961, the five nations had a Central Bank system.[9] The existence of Central banks permitted the creation of other financial intermediaries, such as commercial banks, development banks, and insurance and investment companies. Central Bank assets went from $339 million in 1960 to $636 million in 1970, a growth rate of 6.5 percent a year.[10] Although foreign investment was high in the two largest commercial banks of Honduras, Atlantida, and Bank of America, foreign investment in commercial banks overall was minimal.[11]

Despite Central America's relative political stability since World War II, armed conflicts and civil unrest swept the area during the late 1970s and early 1980s. Recent economic initiatives include the modernization of infrastructure and the diversification of economic

6. *Id.* at 17.
7. *Id.* at 37.
8. *Id.* at 19.
9. *Id.* at 42.
10. GUERRA-BORGES, *supra* note 1, at 43.
11. *Id.* at 44.

activities and exports, including the improved utilization of natural resources. Only lately has industrialization been afforded the attention it deserves.

Central America's first attempt at market integration came under the auspices of the Central American Common Market (CACM), or, more commonly, Mercomun.[12] The CACM was intended to structure the economic development of the region by stimulating the region's growth and intraregional exports.[13] CACM's main objectives were the creation of a customs union, joint industrial planning, the elimination of tariffs, the adoption of a Common External Tariff (CET),[14] and the creation of the Central American Bank of Economic Integration (CABEI). The CABEI is considered by some to be the only part of the integration effort that has remained functional.[15]

It is difficult to determine how the nations of Central America will react to free trade. The implementation of the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) may help create freer trade in Central America. Already demonstrating an enthusiasm for openness, Costa Rica made a surprising "debt-for-nature" swap in 1991 whereby a portion of its debt was sold at a discount to benefit the Costa Rican rainforest.[16] More recently all the countries have announced the privatization of their telephone companies.[17]

Are these changes beneficial to the region right now or must we wait and see how similar projects develop in other Latin American countries which started this trend toward integration? To understand the possible answers to this question, it is imperative to examine the economic history of the region and its integration effort in order to assess

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12. Albert S. Golbert & Yenny N. Gingold, *Latin American Economic Integration: An Overview of Trade and Investment Developments in ANCOM, CACM, and LAFTA*, 7 SYRACUSE J. INT'L L. & COM. 183, 188 (1979).

13. *See* GUERRA-BORGES, *supra* note 1, at 47.

14. FRANKLIN R. ROOT, INTERNATIONAL TRADE AND INVESTMENT 535-39 (7th ed. 1993).

15. LAWRENCE W. TULLER, DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN 161-62 (1993).

16. *Rainforest Alliance Completes $600,000 Debt for Nature Swap*, INST. INVESTOR, Mar. 4, 1991, *available in* LEXIS, Nexis Library, ARCNWS File.

17. Fernando Berguido & Carlos Vásquez, *Beyond NAFTA—Central America, Privatization of Telecommunications in Central America*, 1 NAFTA: L. & BUS. REV. OF AMERICAS 165, 165 (1995).

how these neo-liberal ideas affect Central America and the future role of the CABEI.

II. THE INTEGRATION MOVEMENT: THE CENTRAL AMERICAN COMMON MARKET

A. *Development and Goals*

The CACM was the first attempt towards economic integration in Latin America and the Caribbean. The region's integration was essentially created on June 16, 1951, by the 9th Resolution of the IV Session Period of the Economic Commission for Latin America (ECLA).[18] The Central American Isthmus Economic Cooperation Committee, a committee composed of the economy ministers of the five Central American countries, was assigned the task of developing the course of economic integration.[19]

Integration was a slow process which began with agreements between El Salvador, Guatemala, and Nicaragua in 1951, between El Salvador and Costa Rica in 1953, and between El Salvador and Honduras in 1957 (which had been initially signed in 1918).[20] According to their preambles, these agreements established more than just economic relations. They were "free trade and economic integration" agreements,[21] which provided for the free trade of certain listed products, efforts to continually increase the number of products on the list, and an agreement to establish a common tariff.[22] Other areas of agreement included nondiscrimination in tax matters, the coordination of economic policies with respect to third nations, and the use of most favored nation status among them. Moreover, the agreements established an "exception clause," which denied concessions to nonmember nations that were not granted to other CACM member nations; created rules to regulate the free convertibility and exchange of currencies; and prohibited the discriminatory treatment of funds transferred among them.[23]

Two noticeable characteristics of the agreements were their short terms of between one and four years, and each party's right to remove any

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18. *See* GUERRA-BORGES, *supra* note 1, at 47; *see also* HANSEN, *supra* note 4, at 2.
19. *Id.*
20. GUERRA-BORGES, *supra* note 1, at 47-48.
21. *Id*. at 48.
22. *See* HANSEN, *supra* note 4, at 25-26.
23. *See* GUERRA-BORGES, *supra* note 1, at 48-49.

product from the free trade list.[24] Although these characteristics might be viewed as weaknesses, they are understandable when one examines the relatively small size of the region, its dependency on the one main export of coffee, and the weaknesses of their infant industries.

In June 1958, the Multilateral Treaty of Free Trade and Economic Integration was ratified,[25] which gave birth to the CACM and included provisions which the earlier bilateral agreements had already established. Moreover, it added rules of origin and set a term of ten years within which to achieve full integration.[26] By 1969, 98 percent of customs and import tariffs were equal among Central American countries, with the exception of Honduras, which refused to sign some of the agreements.[27]

On December 13, 1960, El Salvador, Guatemala, Honduras, and Nicaragua decided to expedite their economic integration by signing the General Treaty of Economic Integration (General Treaty).[28] The decision to accelerate the pace of integration was a response to several factors, including: the decline in the price of Central American exports outside the region, bilateral agreements which had given confidence to the countries, and recent support of the integration process by the United States after its initial distrust. In the General Treaty, the four nations agreed to create a free trade zone within five years and a common trade tariff to be imposed in dealings with nonmember countries. Both of these goals were ultimately met, something unmatched by any other integration movement in Latin America.[29]

B. Achievements and Failures of the Central American Common Market

In general, the CACM was an attempt to structure the economic development of the region. One of the greatest achievements of integration was the creation of a framework and environment of confidence among the nations that increased intraregional trade. Between 1960 and 1968, trade between the five countries grew from $33 million to $258 million, a growth rate of 29 percent per year.[30] Twenty-four percent

24. *Id.*
25. *Id.* at 49; *see also* HANSEN, *supra* note 4, at 25.
26. GUERRA-BORGES, *supra* note 1, at 49; ROOT, *supra* note 14, at 536.
27. GUERRA-BORGES, *supra* note 1, at 50.
28. *Id.* at 52; *see also* Golbert & Gingold, *supra* note 12, at 187-92.
29. GUERRA-BORGES, *supra* note 1, at 53.
30. *Id.* at 54.

of the total trade of the countries was intraregional.[31] In Guatemala, intraregional trade represented 35 percent of its total trade in 1970. In El Salvador, it represented 40 percent in 1968.[32] Trade was, by far, the most successful achievement of the CACM. Other projects, such as the Clearinghouse (a mechanism to facilitate commerce and payments in the region), and the creation of a common economic unit, were not nearly as successful as the increase in intraregional trade had been.

The CACM also stimulated the region's growth and intraregional exports. The World Bank estimated that between 1962 and 1965, more than twenty percent of Central America's increase in industrial production was due to manufacturing exports to the region.[33] In El Salvador and Costa Rica, for example, industrial production for exports reached 30 and 35 percent, respectively.[34]

Central American nations proved that they were willing to play the free trade game. Although import tariffs protected their growing industries, they were never as high as those of South American countries or of the United States.[35] In 1959, tariffs were uniform due to a regional agreement, greater protection was given to consumer goods, less protection was given to raw materials produced outside the region, and almost no tariffs were imposed on capital products such as machinery and technology.[36] Tax incentives, including tax exemptions for capital goods and a lenient income tax for importers of those products, helped the rapid growth of industrialization.[37]

The region also learned to export a variety of products never before imagined; manufacturing increased as agriculture lost some ground, and intraregional trade expanded enormously. In addition, temporary integration helped create economies of scale and specialization, as well as a better use of resources. By the late 1960s, each country had developed industries with their own particular characteristics. Guatemala, for example, was strong in pharmaceuticals, drugs, tires, soaps and detergents, glass products, fruits, vegetables, and paper products. El Salvador became strong in the fertilizer, electrical supplies,

31. *Id.*
32. *Id.*
33. *Id.* at 38.
34. GUERRA-BORGES, *supra* note 1, at 38.
35. *Id.*
36. *Id.*
37. *Id.*

textile, leather shoes, and cardboard industries. Nicaragua maintained its strength in vegetable oils, synthetic resins, and insecticides.

Contrary to what some believe, the "Soccer War" between El Salvador and Honduras during June and July of 1969 severed relations between the two countries and also disrupted economic relations in the entire region,[38] but it was not the cause of the CACM's collapse. The CACM's failure was due to an array of social, political, and economic problems.[39] Industries generated few jobs, especially disadvantageous to densely populated countries like El Salvador, while rural areas remained virtually unchanged.[40] The majority of the region's population was excluded from the economic expansion of the region, and the economic powers of the past, which had maintained the status quo for many years, merely changed their occupations from growers and exporters to bankers and industry owners.

III. THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI)

A. *History and Development*

The CABEI was created in 1961 within the framework of the CACM as a source of, and mechanism for, financing the development and integration of the region.[41] Its overall purpose was to provide a centralized mechanism to coordinate the efforts and goals of the CACM, although limited to only the financial aspects of those efforts.[42] Article 2

38. *See* Helmut Nuhn & Peter Greiner, *Causas y Desarrollo de los Agudos Conflictos Comerciales and El Mercado Comun Centroamericano*, 48 REVISTA DE LA INTEGRACION Y EL DESARROLLO DE CENTROAMERICA 1, 21-27 (Jan.-June 1991). This war is known as the Soccer War because after the relations between the two countries had deteriorated significantly, it was time for the World Cup playoffs. Three games between them ended in bloodshed in Honduras and many fans of both countries were injured. The last game did not cause the war; it merely sparked the armed conflict between the two nations.

39. *Id.*

40. Richard Bernal, *Regional Trade Arrangements in the Western Hemisphere*, 8 AM. U. J. INT'L L. & POL'Y 683, 683-84 (1993).

41. The bill that created CABEI was signed on December 13, 1960, and went into effect May 8, 1961. Constitutive Agreement of the Central American Bank for Economic Integration (CABEI), 32 (1960) (Guatemala, El Salvador, Honduras, and Nicaragua) [hereinafter Constitutive Agreement]. Inaugurated formally on May 31, 1961, the CABEI opened its offices on September 1, 1961, in Tegucigalpa, Honduras. CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI, 1991/92) XXXI ANNUAL REPORT [hereinafter CABEI XXXI ANNUAL REPORT].

42. To that end, the Bank successfully completed two major projects: regional highways which, in 1963, connected the major production, distribution, consumption points and ports, and

of its Constitutive Agreement provides that it shall "promote the economic integration and the balanced economic development of the Central American countries."[43] Article 2 highlights areas in which its financing should concentrate, including infrastructure, regional industries, the agropequarian sector, and other enterprises requiring expansion, rehabilitation, modernization, or modification in order to improve their efficiency and competitiveness.[44] Other highlighted areas include services, the promotion of trade inside the region and with nonregional countries, social development, the conservation and protection of natural resources and the environment, and the financing of research and development.[45]

During the 1960s, the CABEI took advantage of the relative stability of the region and of global conditions that favored borrowing abroad. Although intraregional commerce continued to grow, the area needed new capital because industrial investment was lagging, the balance of payments was suffering, and some of the region's markets were already saturated, especially consumer products.[46] The decrease in the value of its exports and the effects of the OPEC crisis severely disrupted the region's economies and caused Central America to borrow heavily from abroad. El Salvador, Costa Rica, and Honduras borrowed from commercial banks that were eager to lend because of the liquidity in world markets at that time.[47] Guatemala, on the other hand, borrowed some from commercial banks, but continued borrowing from multinational institutions and development agencies. It was not until interest rates skyrocketed at the end of the 1970s that the region realized the heavy burden it had placed on itself. The effects of the interest rate increases were felt immediately. From 1973 to 1979, the debt per capita ratio almost tripled (from $115 to $342).[48] Cumulatively, foreign debt exceeded exports by 21 percent. In Costa Rica, Nicaragua, and Honduras,

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the integration of telecommunications throughout the region in 1971. GUERRA-BORGES, *supra* note 1, at 56.

43. Constitutive Agreement, *supra* note 41, art. 2.

44. *Id.* art. 2(a)-(d). Although the agreement designed the CABEI to finance only projects of regional interest, it also financed many "local" projects because governments had not submitted projects of regional interest. Telephone Interview with Ing. Antonio Perez Bennett of the CABEI, in Honduras (Feb. 7, 1994).

45. Constitutive Agreement, *supra* note 41, art. 2(e)-(i).

46. GUERRA-BORGES, *supra* note 1, at 73.

47. *Id.* at 74.

48. *Id.*

the figures reached 204 percent, 157 percent, and 145 percent respectively.[49] Only in Guatemala and El Salvador did exports exceed debts.[50]

In the 1980s, Central America experienced heavy indebtedness and violent social conflicts in Nicaragua and El Salvador. During the "lost decade," the CABEI and local governments did not receive much support from international organizations and, as a result, the CABEI lacked the resources necessary to finance all the projects that Central America needed. The few resources which the CABEI could obtain were often tied to special conditions that restricted the use or availability of funds—a factor which impeded implementation of a coordinated and coherent integration plan. In addition, internal sociopolitical problems in each nation and conflicts among them further compounded the problem. Intrarregional trade decreased, and barriers were once again implemented by some nations.[51] Furthermore, the CABEI was unable to recover the debt owed to it by public and private investors who continually defaulted or delayed payment because of poor local economic conditions, war, or natural disasters such as El Salvador's 1986 earthquake.

B. Organizational Structure

The CABEI is an internationally recognized juridical entity that is governed by its own constitutive agreement and bylaws.[52] Its organization is divided into three main bodies: the Board of Governors, the Board of Directors, and the Executive President.[53] The Board of Governors possesses the most authority in the CABEI and is comprised of the Ministers of Economy or the Presidents of the Central Banks of Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica.[54] Some nonregional partners also have seats on the Board.[55] The Governors meet at least once a year; the requisite quorum for meetings is three founding member representatives.[56] The Board of Directors is composed of nine members, five of whom are elected by the founding members and four by

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49. *Id*. at 76.
50. *Id*.
51. ROOT, *supra* note 14, at 536.
52. Constitutive Agreement, *supra* note 41, art. 1.
53. *Id*. art. 9.
54. *Id*. art. 10.
55. *Id*.
56. *Id*. arts. 13, 14.

the nonregional members.[57] The Directors are responsible for the CABEI's daily operations, and they define its policies, administrative structure, and set its reserves.[58] The Executive President must be a citizen of any of the founding countries, and is elected for a period of five years. After each term, a citizen of the next founding country on the rotation is elected, each country getting its fair turn. Designated by the Governors, the Executive President participates in the Board of Governors' meetings without voting, and supervises the CABEI's legal representation and administration.[59]

C. Finances

The CABEI began its operations with eight million dollars in paid capital and a two million dollar donation from the U.S. Agency of International Development (AID).[60] Authorized capital had increased from $8 million to $2 billion by December 1993, 25 percent of which is payable in cash and 75 percent payable on a call basis.[61] The balance of capital and reserves was $805.7 million, as of June 30, 1995.[62] Contributions from founding countries are made in local currencies and are periodically adjusted to maintain their real value; nonregional members pay in U.S. dollars.[63]

By a resolution of its Board of Governors, the CABEI may participate in overseas capital markets.[64] In the past, it has placed bonds, certificates of investment, and certificates of deposit in U.S. dollars and local currencies in both American and European markets.[65] Additionally, in December 1993, securities placed by the CABEI reached $177.3 million, an increase of 76.5 percent from the beginning of the 1993 fiscal

57. Constitutive Agreement, *supra* note 41, art. 16.

58. *Id*. art. 15.

59. *Id*. art. 20.

60. *See* Alvaro de la Ossa, *El Banco Centroamericano de Integracion Economica*, 48 EN REVISTA DE LA INTEGRATION Y EL DESARROLLO DE CENTROAMERICA 121 (Jan.-June 1991).

61. CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION, FINANCIAL HIGHLIGHTS 6 (Dec. 1993) [hereinafter FINANCIAL HIGHLIGHTS DEC. 1993].

62. CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION, 1994/95 XXXIV ANNUAL REPORT 18 [hereinafter CABEI XXXIV ANNUAL REPORT].

63. Constitutive Agreement, *supra* note 41, art. 4.

64. EXIMBANK, 39 EXIM NEWS (Dec. 1, 1993).

65. CABEI XXXI ANNUAL REPORT, *supra* note 41, at 6.

year.[66] Currently, the CABEI is preparing new issues to increase its presence in the world market.[67]

On September 2, 1989, CABEI amended its Constitutive Agreement to include extraregional partners who must make contributions in U.S. dollars.[68] Central American interests in the CABEI still amount to a majority of the CABEI's shares, but 49% of the shares are allowed to be acquired by nonfounding members.[69] In the Fall of 1992, Mexico and the Republic of China were the first nonregional partners to join the CABEI.[70] Argentina joined in March 1995, contributing $57.6 million.[71] Venezuela and Colombia have reserved a shareholder's participation of $122.5 million and $70 million, respectively.[72] Documentation to obtain the participation of additional partners has been delivered to the governments of Japan, France, Italy, Sweden, Norway, Denmark, Panama, Chile, Dominican Republic and Brazil, and some interest in U.S. incorporation has been expressed.[73]

So far, Mexico and the Republic of China have invested a total of $272.5 million,[74] 25 percent of which was paid in cash and the rest of which is payable on a call basis, to help cover the CABEI's obligations. From the CABEI's total subscribed capital of $1.35 billion, $330.1 million was provided by extraregional members.[75] By mid 1995, the CABEI had a total of $805.7 million in capital and reserves, consisting of $341.3 million in capital, $92.8 million in donations, $284.1 in general reserves, and $87.5 million in retained earnings.[76]

The CABEI made strong efforts to increase its credibility in the international arena by making timely payments of its debts. As of June 1992, approximately 70 percent of the CABEI's loans were payable in

66. *See* FINANCIAL HIGHLIGHTS DEC. 1993, *supra* note 61, at 6.

67. *Id.* at 7.

68. *Id*.

69. Constitutive Agreement, *supra* note 41, arts. 3-7.

70. *See* FINANCIAL HIGHLIGHTS DEC. 1993, *supra* note 61, at 6.

71. CABEI XXXIV ANNUAL REPORT, *supra* note 62, at 17.

72. CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION, 1993/94 XXXIII ANNUAL REPORT 10 [hereinafter CABEI XXXIII ANNUAL REPORT].

73. *Id.*

74. *Id.*; Juan Ramon Duran, *Mercomun: Central American Bank to Push Trade, Investment,* INTER- PRESS SERVICE, Sept. 20, 1993, *available in* LEXIS, Nexis Library, ARCNWS File.

75. CABEI XXXIV ANNUAL REPORT, *supra* note 62, at 17-18.

76. *Id.* at 18.

1999, or later.[77] In addition, the debt balance has been decreasing moderately, but steadily, in the last few years and at the end of 1993 had decreased by 2.6 percent from the previous fiscal year.[78] The CABEI's total debt in June 1995 was $944.1 million, 27.5 percent of which was held by Eximbank of Japan.[79] Additionally, Eximbank USA considered the CABEI worthy of becoming a Credit Guarantee Facility for the Central American region.[80]

D. Operations and Funds

The CABEI operates much like a commercial bank in that it engages in lending and borrowing, issuance of securities, trustee activities, and financial advising, without reference to political influences. Article 8 of the Agreement establishes the basic criteria for determining and implementing credit policies.[81] It provides that the "bank's operations should be based exclusively on technical, financial and economic criteria; consequently, criteria of a political character relating to any member state should not influence the same."[82]

The CABEI implements its credit policies and provides loans through four main funds: the Ordinary Fund, the Central American Fund for Economic Integration, the Housing Fund, and the Social Development Fund.[83] The Ordinary Fund is used to finance projects which promote the basic industrial, agricultural, tourist, and service requirements of the region, with a special focus on the private sector's needs.[84] In addition, it finances infrastructure projects in the public sector.[85] The Economic Integration Fund promotes public and quasi-public projects involving transportation, communications, energy, technical and technological education, and natural resources.[86] This fund is used by Central American international organizations, local and municipal governments,

77. *See* CABEI XXXI ANNUAL REPORT, *supra* note 41, at 7.
78. *See* FINANCIAL HIGHLIGHTS DEC. 1993, *supra* note 61, at 6.
79. CABEI XXXIV ANNUAL REPORT, *supra* note 62, at 21.
80. *See* CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION, FINANCIAL HIGHLIGHTS 2 (June 1993) [hereinafter FINANCIAL HIGHLIGHTS JUNE 1993].
81. Constitutive Agreement, *supra* note 42, art. 8.
82. *Id.* art. 8.
83. *See* CABEI XXXI ANNUAL REPORT, *supra* note 41, at 7.
84. *Id.*
85. *Id.*
86. *Id.*

and autonomous governmental institutions.[87] The Housing Fund is designed to finance the construction of houses and apartments for lower and middle income classes in the region.[88] Recently, this Fund has experienced increased demands in order to aid the population increases in countries such as El Salvador. The Social Development Fund has been used to promote education, health, and handicraft projects in rural and marginally urban areas.[89]

More specialized funds, which operate with their own resources, were also created in order to attend to the changing needs of the region. Such funds include the Central American Fund of the Common Market, the Fund for Economic and Social Development of Central America, the Fund for Technical Cooperation, the Regional Fund for Conversion of Foreign Debt, the Microproyects Fund, and the Poverty Relief Fund.[90]

The Fund for the Common Market, created in 1981 with a starting capital of $50 million, was designed to finance the payment of debt balances from intraregional commercial transactions.[91] The Fund for Economic and Social Development, created in 1985, is a means by which extra-regional partners could begin contributing to the development of the region before their formal admittance.[92] The Technical Cooperation Fund, created in 1988, is a mechanism for integrating programming processes, obtaining and administering the CABEI's technical cooperation funds, and further integrating and balancing the development of the region.[93] The Fund for Conversion of Foreign Debt, approved in 1989, was designed to attract, administer, and use resources to support various activities such as environmental protection.[94] It obtains funds internationally by swapping foreign debt for securities in local currencies, granting Central American foreign debt instruments, and placing deposits in trusts for conversion transactions and other types of grants.[95] The Microproyects Fund, also created in 1989, helps finance production activities through "micro" enterprises in order to help create jobs, increase

87. *Id.*
88. *See* CABEI XXXI ANNUAL REPORT, *supra* note 41, at 7.
89. *Id.*
90. *Id.* app. B.
91. *Id.* at 19; *see also Central American Bank for Economic Integration,* FINANCING FOREIGN OPERATIONS, Sept. 1, 1993, at *2, *available in* WESTLAW, BUS-INTL Database.
92. CABEI XXXI ANNUAL REPORT, *supra* note 41, at 29.
93. *Id.* at 20.
94. *Id.*
95. *Id.* at 20-21.

production and raise living standards in member countries.[96] Finally, in 1993, the Poverty Relief Fund was created with $25 million worth of capital. One third of this Fund's capital is provided by the CABEI, with the remainder provided by the international community.[97]

E. The Role of the CABEI in Central America

The CABEI has consistently followed the legal framework under which it was created. Over time, it lost some of its autonomy because of its need to borrow directly from outside sources.[98] In order to borrow money, the CABEI often had to meet certain lender conditions, such as agreements to support only particular industries and to purchase capital goods and technology from particular countries. In an effort to avoid such limitations, the CABEI amended Article 6 of its Constitutive Agreement to restrain itself from obtaining credit through conditional arrangements. Article 6 now provides that the CABEI "will not accept conditions of a political character or those which infringe on the purpose of the bank from any sources of resources."[99] While this provision is commendable in theory, the instability of the region during the last decade will certainly cause foreign creditors to impose restrictions affecting political decision-making in the region.

During its relatively short history, the CABEI's Board of Governors experienced negative political influences that impeded its function. Representing their different governments, the Board members often forgot the purpose of the CABEI and instead favored their respective countries. Consequently, Article 8 was modified to establish more concrete operational criteria. The participation of extra-regional partners is expected to help mitigate political influences in the Board members' decision-making.

The CABEI's size and efficiency was criticized throughout the 1980s, and at the beginning of the 1990s the CABEI's administrators began dealing with this problem.[100] In its financial report of June 1993,

96. *Id.*

97. *Centam Bank Creates $25 mln Poverty Relief Fund*, REUTERS, Dec. 7, 1993, *available in* LEXIS, Nexis Library, ARCNWS File.

98. Telephone Interview with Ing. Perez Bennett, *supra* note 44.

99. Constitutive Agreement, *supra* note 41, art. 6.

100. CABEI XXXI ANNUAL REPORT, *supra* note 41, Message from the Executive President.

the administrators determined that the "control of administrative expenses" had "improved the performance of the bank."[101]

F. *CABEI's Contributions to the Central American Common Market*

Contrary to the belief of some, the CABEI did not die with the CACM. The CABEI's effects on the integration process have been beneficial, despite its limited role. Its biggest contribution was to the region's infrastructure by financing projects that connected highways with major cities, ports, and airports. These projects helped lower tariffs, advanced development, and brought the countries into closer contact with each other. The CABEI also funded the construction of ports which enhanced the region's bargaining position vis-à-vis shipping companies that charged extra fees when they considered port conditions to be unsuitable. The benefits derived from the construction of new ports were twofold. First, they helped import the necessary goods to continue development and industrialization. Second, they helped the region export its own goods more efficiently. Still another major achievement of CABEI was the development of a telecommunications network. The network, modern by Latin American standards, helped improve the communication and information exchange in the region.

Since their inception in 1961, the CABEI's loans have focused mainly on promoting "high priority sectors of the regional economy."[102] Sectors sharing a percentage of the CABEI's loans include: physical infrastructure (33 percent); energy and water (15.4 percent);[103] transportation, commerce and storage (11.6 percent); and housing (8.4 percent).[104] Overall, loan assignments have been apportioned among the nations with Honduras receiving 27.1 percent of the loans, Costa Rica receiving 21.3 percent, Nicaragua receiving 17.5 percent, Guatemala receiving 18.5 percent, and El Salvador receiving 15.2 percent.[105]

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101. FINANCIAL HIGHLIGHTS JUNE 1993, *supra* note 80, at 2.

102. CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION, 1992/93 XXXII ANNUAL REPORT 14 [hereinafter CABEI XXXII ANNUAL REPORT].

103. CABEI financing has helped promote the development of different sources of energy, including making use of the numerous rivers in the region for hydroelectric purposes and the promotion of geothermal energy, especially in El Salvador. Transnational connections have helped the different countries export and import energy during periods of crisis or drought. *Id.* at 15.

104. CABEI XXXIII ANNUAL REPORT, *supra* note 72, at 24.

105. *Id.*

It appears that throughout the CABEI's history, some sectors have benefited more than others. In the future, the focus will likely be on improving infrastructure and promoting nontraditional sectors such as tourism and the exploitation of natural resources. Privatization of some sectors may re-orient loans towards the social needs of the region. Greater support for manufacturing and industry is also being contemplated for the near future.[106] Industry financing has already been carefully studied because of the prior experiences of El Salvador and Guatemala, who benefited significantly in the 1960s and 1970s from the support they obtained as a result of their status as the most "industrialized" nations, but which resulted in great imbalances in the region.[107] Currently, CABEI is also targeting development of the private sector through various programs such as the Agro-Industry Program, the Aquaculture Program, the Industrial Reactivation Program, the Nontraditional Export Promotion Program, the Regional Tourism Program, and the Small and Medium Industry Support Program.[108]

It is fair to say that, in a short period of time, the CABEI created a solid infrastructure for the integration and development of the region. Continued investment in infrastructure will certainly put the region within the most developed regional trading areas, in terms of commerce and transportation, in the developing world.

G. The Current Status of the CABEI

During the 1980s, Central America felt the negative effects of turbulent internal conflicts and the international economic conditions of the 1970s. The CABEI's negative performance in the 1980s was due to internal crises, late debt payments, high levels of private sector indebtedness, lack of foreign funds to capitalize the bank, lenders' conditions in the international market, and the inaccessibility of international capital markets.[109]

In the early 1990s, the CABEI decided to attack these problems by starting a new plan. It began focusing on main areas of concern such

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106. CABEI XXXII ANNUAL REPORT, *supra* note 102, at 6.

107. *Id.*

108. *Id.* To a lesser extent, CABEI has also supported other sectors of the economy, such as manufacturing (receiving 6.3 percent of CABEI's loans), tourism (4.0 percent), social services (2.8 percent), agriculture, livestock, forestry and fishing (2.9 percent each), and mining (0.3 percent). *Id.*

109. *See id.*

as the CABEI's capitalization, the creation of loan recovery programs, enhanced banking efficiency, and a reduction of operative, administrative, and financial costs. Today, CABEI continues to maintain its focus on promoting and financing each country's private sector, promoting the strength of local currencies and a more efficient exchange, and reducing and renegotiating commercial bank loans from outside sources.

The CABEI has a newfound optimism that is based on several factors. First, the region has experienced the liberalization of trade, consolidation of democracies, and major changes in the political and social arenas. Second, the CABEI has punctually serviced its debt, even during its toughest times. Finally, the CABEI's administration is committed to the long-term needs of the region and the need for it to maintain an active role with respect to financing and coordination.[110]

Many of the weaknesses identified in the 1980s have been, or are in the process of being, corrected. Extra-regional agreements such as the European Community (EC) and NAFTA have provided a positive trend toward the globalization of trade and financial services. The reactivation of the CACM has also been viewed positively by developed nations, international organizations, and agencies. For example, between 1990 and 1993, the EC supplied $140 million for the reactivation of the CACM in order to aid trade exchange in the region, which had fallen dramatically from $1.1 billion in 1980 to $450 million in 1986.[111] However, with 1992 trade levels in the region remaining a full 40 percent below 1980 levels, a great deal still needs to be done.[112] Comparatively, other trading blocks in the Americas have significantly increased the amount of intrarregional trade. For example, between 1984 and 1994, the intrarregional trade percentage of the total trade of the other trading blocks was as follows: for the Andean Group, the increase went from 2.9 percent to 10 percent; for Mercosur it went from 6.3 percent to 19.1 percent; while for the CACM, the change was minimal, from 19 percent to 21.6 percent. This can be explained by the fact that the Central American region had lowered its tariffs in previous decades, so the later reduction of tariffs did not have the effect that the earlier reduction had. These economies are also diversifying their export destinations, shifting

110. *Id.*

111. Lauren Weiner, *Central American Leaders to Revive Common Market*, WASH. TIMES, June 18, 1990, at A8.

112. *Id.*; *see also* Bernal, *supra* note 40, at 683.

from intrarregional trade to trade with the United States and the European Union.

The CABEI recognized the need for foreign investment and made adjustments accordingly. In order to allow for the participation of nonregional countries, the Constitutive Agreement of 1961, Article 4, was amended to provide for the acceptance of foreign countries as actual members.[113] As a result, Mexico and the Republic of China were inducted as members, and the CABEI increased its net worth.[114] As of December 31, 1993, CABEI's net worth was $660 million, an increase of 8.2 percent in only one fiscal year.[115] The CABEI's newfound strength is also due to its increase in net income from $5 million in 1988 to $87.5 million in June 1995.[116]

The CABEI is also attempting to meet the financial needs of the private sector through several national banks.[117] Additionally, the CABEI has diversified its sources of funds, the primary ones being international banks such as Eximbank-Japan, IDB, U.S.-AID, and U.S. Banks-AID Guarantees. Other sources include the Mexican government.[118] The CABEI has also resisted relying too heavily on commercial banks. In 1991-92, commercial bank debt represented only 14 percent of the CABEI's overall foreign debt.[119]

The CABEI has also gained a stronger position in the emission of securities. It has participated in U.S. and European capital markets by issuing bonds, certificates of investment, and certificates of deposit denominated in U.S. dollars and local currencies. The CABEI continually prepares new issues to "reaffirm its presence in local and international markets."[120] As of December 1993, the cumulative value of its securities totaled $177.3 million—a 76.5 percent increase from June 1993.[121]

Aggressive loan recovery programs have also been implemented. Since fiscal year 1989-1990, the commitment to the collection of past due

113. Constitutive Agreement, *supra* note 41, art. 4.
114. FINANCIAL HIGHLIGHTS DEC. 1993, *supra* note 61, at 6.
115. *Id.* at 14.
116. CABEI XXXIV ANNUAL REPORT, *supra* note 62, at 18.
117. CABEI XXXII ANNUAL REPORT, *supra* note 102, at 6.
118. *Id.*
119. CABEI XXXI ANNUAL REPORT, *supra* note 41, at 8.
120. *Id.* at 7.
121. *Id.*

loans helped improve CABEI's operations. During the fiscal years of 1991 through 1993, the CABEI recovered a total of almost $500 million on the principal and income from interest and commissions.[122]

Finally, greater operating efficiency has been attained. Internal restructuring has taken place by dividing functions by areas of specialization and eliminating departments. New personnel management programs were implemented to enhance the selection and training of employees and to improve their benefit plans. Changes have been made to expedite the decision-making process and the execution of plans. All of these improvements have been effective, evidenced by the substantial reduction of operating costs from 1.34 percent in June 1989 to 1.02 percent in June 1992.[123]

IV. THE ROLE OF THE CABEI IN FUTURE DEVELOPMENTS OF THE REGION

A. Developments in the Capital Markets of Central America

The CABEI's recent incorporation as an active player in the international capital markets will give it, and the region, an improved image overseas. In 1991, a liberalization of Central America's financial services sector began. Restrictions on the flow of capital were eliminated, and capital markets have been embraced as a means of providing investment opportunities and providing a high degree of liquidity to transactions for local corporations.

Stock exchanges exist in all of the region's countries, the oldest ones in Guatemala and Costa Rica.[124] The financial sectors of the region have always been interested in integrating the regional stock markets. The idea of creating integrated stock exchanges is an outgrowth of the implementation of neo-liberal policies and is viewed by local governments as an efficient mechanism for the privatization of public enterprises.[125] Today, however, only El Salvador, Guatemala, Honduras, and Nicaragua allow the free flow of financial services.[126]

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122. FINANCIAL HIGHLIGHTS DEC. 1993, *supra* note 61, at 14.
123. CABEI XXXI ANNUAL REPORT, *supra* note 41, at 9.
124. *See* Joachim Bamrud, *Wall St., C.A.*, U.S./LATIN TRADE, July 1995, at 33.
125. Duran, *supra* note 74.
126. *Id.*

In September 1993, the CABEI's president announced that the CABEI will continue working toward the development of capital markets in the region through direct investments to stimulate new stock offerings.[127] He considered such investments a key factor in solving the region's debt payment crisis.[128] He further stated that the CABEI considered the possibility of issuing a "CABEI Central American Bond" in the region's markets and promoting the use of pension funds to generate investments.[129] The general strategy behind the CABEI's interest in capital markets is one concentrated on long-term investments because the investments currently made in local stock markets are predominately short term and do not contribute to solid economic growth.[130]

B. Developments in the Region's Economic Integration

The signing of the Esquipulas II Agreement[131] in Guatemala in 1987 marked a new era for Central America. Peace and the end of internal conflicts in the region seemed possible. Today, each country has endorsed neo-liberal ideals and has begun to liberalize foreign trade; reform obsolete and protectionist tax systems; free interest and exchange rates; privatize public entities; accept some fiscal austerity; and create laws that promote foreign investment. By avoiding the protectionist policies of the past, Central America appears more willing to open its markets and enter the global economy. Integration is considered by many the best method to accomplish such entry, because it would create a united front and thereby secure a better bargaining position.

One attempt at integration came on July 15, 1991, when the governments of the region decided to reestablish the CACM.[132] This agreement, which was very ambitious and has yet to be fully implemented, proposed the creation of a common external tariff (CET), a list of products that could be traded freely, the free flow of capital and

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127. *Id.*

128. *Id.*

129. *Id.*

130. Duran, *supra* note 74.

131. The Esquipulas II Agreement was the much needed accord between the Central American countries' presidents that created a Plan for Peace in the region. In this political agreement, the economic reactivation and integration of Central America were key issues.

132. Rachel Shrub, *Recent U.S. Trade and Investment Initiatives in Latin America and the Caribbean*, 789 PLI/CORP. 585 (1992), *available in* WESTLAW, PLI Database. This decision was due to the new involvement of Panama in the region's integration. *Id.*

labor, and a mechanism to solve external debt and financing problems.[133] Financing for this renewed effort was provided by the EC and the IDB which offered $3 million for the integration of the region in 1992 and $1 billion in economic assistance.[134]

Because prior regional economic agreements were never completely successful, another more recent attempt was made at integration. In October 1993, the presidents of the five Central American nations and Panama signed a "commitment" to accelerate the pace of integration.[135] The core group of Guatemala, Honduras, and El Salvador—the "Triángulo del Norte"—and Nicaragua, agreed to make a "voluntary and gradual" implementation of the accord.[136] Costa Rica, though, has been reluctant to rush into an integrated market with 30 million inhabitants.[137] Costa Rica does not want a free flow of labor because it fears that a large number of Nicaraguan immigrants will flood its borders looking for work. Nor will it agree to a customs union because it would lose 50 percent of its fiscal revenue from import duties if one was created.[138] Nevertheless, it is clear to Gert Rosenthal, the Guatemalan Secretary General of the ECLA, that "if Central America is to compete in the world economy, it must integrate its economies."[139] The core group has not let Costa Rica's negative position interfere with its plans. The participating countries have abolished passport controls for their citizens and have allowed for the free flow of financial services connecting their stock markets and allowing brokerage houses, banks, and other financial institutions to operate freely in their countries.[140]

Some of the problems that the CACM faced in the past have resurfaced and integration seems to be the only solution. However, some countries are more industrialized than others, some are densely populated, and some are still reconstructing their infrastructure. All of these factors

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133. *Id.*

134. *Id.*

135. Edward Orlebar, *Vision of Unity for Embattled Central America—A Commitment for Freer Trade and Integration Among Six Poor Republics*, FIN. TIMES, Nov. 3, 1993, *available in* LEXIS, Nexis Library, MAJPAP File.

136. *Six Nations of Central America Now Eligible for $1 Billion in Inter-American Bank Aid*, 9 BNA INT'L TRADE REP. 547, 547 (1992).

137. *Id.*

138. Orlebar, *supra* note 135.

139. *Repeating History*, L. AM. WKLY. R., May 6, 1993, at 200, *available in* LEXIS, Nexis Library, Int'l News File.

140. Orlebar, *supra* note 135.

may slow the integration process and trigger negative effects in the weaker economies.

The CABEI's role in the development of the region will be affected by the new CACM's integration processes. Existing economic differences, various degrees of industrialization, and unequal population densities, will further disrupt and polarize economic activity. Thus, the CABEI will have to answer a myriad of questions, such as whether it will be able to coordinate and implement a coherent integration plan and whether it will eventually become an ordinary financial institution. However, the CABEI's current challenge is to maintain a balanced development and growth between the countries in the region and to become an instrument of the region's economic integration.

The CABEI has consolidated its position in Central America and the international arena as a development bank. With the winds of privatization blowing strongly through the region, the question now is whether private interests in the various countries will present an obstacle to uniform and coordinated integration. The CABEI has realized, from past experience, that in order to facilitate economic transformation it must provide for social spending as well. Attention to noneconomic considerations such as housing, education, health and nutrition may help the CABEI attain its goals.

C. The Central American Common Market in the American Integration Movement

Since the end of the debate over NAFTA and the Uruguay Round of trade talks, a free trade zone from Alaska to Argentina seems more probable. Trade agreements in the Americas existed before World War II and today, the creation of trade blocs are seen by some as a step towards globalization and by others as a challenge to it. Such trade blocs include: the Andean Pact, involving Venezuela, Colombia, Ecuador, Peru, and Bolivia;[141] Mercosur, involving Argentina, Brazil, Paraguay, and Uruguay; the "Group of Three," made up of Mexico, Colombia, and Venezuela; the CACM, consisting of Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica; and CARICOM, made up of Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana,

141. *Repeating History*, *supra* note 139.

Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.[142]

The United States has created mechanisms for trade and investment initiatives in the region. For example, the Enterprise for the Americas Initiative was an idea that started during the Bush administration to encourage trade liberalization and help countries manage their debt. The United States has also signed framework trade agreements with all the countries in the region except for Haiti, Surinam, and Cuba. With respect to investment, the United States continues to seek liberalization of regulations that encourage foreign and domestic investment.

Aside from bilateral investment treaties, the United States has also entered into unilateral trade preference programs, such as the Caribbean Basin Initiative (CBI), the Andean Trade Initiative and the Andean Trade Preference Act,[143] which tend to promote political stability and economic development in the region. The five Central American nations and Panama are beneficiaries of the CBI. The CBI's main benefit is the permanent customs duty-free entry to the United States for a broad range of products. However, the CBI's drawback is that the products that are allowed do not include ones that would truly benefit the region, such as textiles, garments, and leather goods. That is why much is expected from the announcement by Mr. Warren Christopher, U.S. Secretary of State, to the Salvadoran Assembly on February 26, 1996, that the Central American and Caribbean countries in the CBI will be granted lower tariffs on certain export products.[144]

Although there is a strong push in the Americas for complete integration, it is not clear if it would result in any major benefit to the Central American region. Opening borders too quickly may dislocate comparatively weak countries on both economic and social levels. While Latin America is strongly following trade liberalization policies, some countries of the Organization for Economic Cooperation and Development (OECD)[145] continue to implement protectionist policies

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142. *Id.*

143. *Peru to Re-Enter Trade Bloc*, WALL ST. J., April 7, 1994, at A10.

144. *American News Digest*, FIN. TIMES, Feb. 27, 1996, at 7.

145. The OECD is a group of industrialized countries which provides for intergovernmental discussion among them in the fields of economic and social policy in order to further cooperation and development. It also collects and publishes data and makes short-term forecasts of its member countries. *See* IAN H. GIDDY, GLOBAL FINANCIAL MARKETS 567 (1994).

and insist on artificially maintaining the prices of many agricultural products.

Those least affected by the disruptions of a Free Trade Area of the Americas (FTAA) will be the most industrialized nations of Latin America, known as the "New Industrialized Countries" (NICs), such as Brazil, Argentina, Chile, Mexico, and Venezuela.[146] The future of the smaller and less industrialized countries will depend on the extent to which they remain open to the rest of the world and their capability of conforming to an integrated bloc.[147] Free trade is regarded by some as a panacea; freer trade is considered an inevitable fact, especially since international trade has been growing at a rate faster than the world's Gross Domestic Product.[148]

The extent to which freer trade and liberalization policies are going to benefit Central America is something that remains to be seen. In any event, increased social spending can help ameliorate any negative effects on the working population. If an American trade bloc is created, the United States will have to abide by the rules that it has established through the lending and restructuring policies of the World Bank, the IMF, and the IDB. Latin America, to a large degree, has opened itself unilaterally to liberalization. Most countries have joined the GATT; even Mexico, once an overly protectionist country, has signed a direct trade agreement with the United States.[149] On the other hand, there are accusations that Latin America has a lower labor cost, and less restrictive health and environmental regulations, and, consequently, American and Canadian companies are unable to compete against such unfair advantages.

V. CONCLUSION

Central America is a region that has received very little economic attention in the United States. Torn by armed conflicts and natural

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146. *See* Lorin S. Weisenfel, *Treaties of Montevideo Creating a Latin American Free-Trade Area and the Latin American Integration Association,* 2 B.D.I.E.L. 543 (1990), *available in* LEXIS, INTLAW Library, BDIEL File.

147. *Id.*

148. Frances Williams, *WTD Sees Rapid Rise in Global Growth,* FIN. TIMES, NOV. 15, 1995, at 6.

149. *Central American Common Market: Venezuela and Colombia Sign Trade Agreement with Central American Common Market*, BBC Monitoring Service, Feb. 23, 1993, *available in* WESTLAW, INT-NEWS Database.

disasters, the area is currently revitalizing its steadfast intent to become integrated. The reconstruction and modernization of infrastructure are underway, new political leaders with a positive view of the future are in office, and social unrest has significantly reduced.

Much has changed for Central America. There is widespread optimism that although the years ahead will be challenging, they will also bring new opportunities and growth. The leaders of the area want to implement new economic policies and break from the old patterns of protectionism and import substitution which previously resulted in more damage than benefits to the region.[150] Central American countries want to integrate again and create a united front.

The new CACM will have the unenviable job of creating policies that deal with such problems as the movement of capital and labor, and uniting the countries that, at the same time, will be competing for investment capital. Implementation of these policies will be difficult. A gradual opening would keep infant and key industries relatively safe and protect the consumers and workers in those areas, however, there is significant pressure from multinational corporations and international financial organizations to open as quickly, and as much, as possible. Unfortunately, the leaders of the region may have no other alternative but to bow to the international demand.

Possibly the best solution would be a gradual implementation of freer trade and the opening to foreign investment while constantly maintaining a friendly environment for investment in general. Essential to this effort is the consolidation of internal regulatory frameworks to stimulate competition and support for private enterprise, as well as investment in the people of the region to increase living standards and productivity. These efforts, combined with internal financial discipline and economic policies oriented toward export and trade, will create a strong foundation that should help withstand the shocks created by a new open market and any future global economic crises.

The CABEI's role will be crucial if it can continue to consolidate its position and operate in a manner independent from nationalistic and external influences. Its continuous analysis and supervision of the region's economies may help these nations avoid large budgetary deficits and rapid monetary expansions that generate inflation, and currency

150. Bernal, *supra* note 40, at 683.

overvaluation, which decreases their competitiveness in international markets. At a microeconomic level, the CABEI can provide financing for regional firms in order to encourage research and development, improve production, and cut costs. Through its credit policies, it can promote competition, the transfer of technology and "know how," and the efficient use of resources. The CABEI cannot impose regulations on local economies, but it can stimulate growth and development while serving as a watchdog, ever ready to warn member nations of impending trouble and prevent major economic disasters in the region.

APPENDIX

COSTA RICA

Population: 3,267,000 (1993). **Density:** 167 per sq. mi.
Ethnic groups: Spanish, with a Mestizo minority.
Area: 19,575 sq. mi., smaller than W. Virginia.
Industries: Furniture, food processing, aluminum, textiles, fertilizers, roofing, cement.
Main crops: Coffee (main export), bananas, sugar, cocoa, cotton, and hemp.
Labor force: 35% industry and commerce, 33% services, and 27% agriculture.
GNP: $7.0 bln. (1993). **per capita:** $2,160 (1993).
Imports: $2.9 bln. (1993). **Partners:** U.S. 38%, CACM 10%, Japan 10%. (1990).
Exports: $ 2.0 bln. (1993). **Partners:** U.S. 45%, CACM 18%. (1990).
Literacy: 93%.

Comments: Costa Rica is the most stable country in the region. It has very low unemployment but high inflation and a large foreign debt. While Latin America grew 3.2% during 1993, Costa Rica had a growth of around 6%.

EL SALVADOR

Population: 5,479,000 (1993). **Density:** 674 per sq. mi.
Ethnic groups: Mestizo 89%, Indian 10%.
Area: 8,124 sq. mi., the size of Massachusetts.
Industries: Food and beverages, textiles, petroleum products.
Main crops: Coffee (21% of GNP), cotton, corn, sugar.
Labor force: 40% agricultural, 27% services, 16% industry.
GNP: $7.2 bln. (1993). **Per capita:** $1,320 (1993).
Imports: $1.9 bln. (1993). **Partners:** U.S. 39%, CACM 22% (1990).
Exports: $732 mln. (1993). **Partners:** U.S. 49%, CACM 23% (1990).
Literacy: 75%.

Comments: El Salvador is the smallest country in the region. In a study of the efficiency of electricity utilities done by the IMF based on the ratio of customers per staff employed, El Salvador ranked third among the developing countries with 175 (The United States had 240 and the United Kingdom, 153). Salvadoran stockholders own one of the best performing air transportation carriers, TACA, which also owns a considerable share of the region's other airlines.

GUATEMALA

Population: 10,021,000 (1993). **Density:** 238 per sq. mi.
Ethnic groups: Maya 55%, Mestizo 44%.
Area: 42,042 sq. mi., the size of Tennessee.
Industries: Prepared foods, tires, textiles.
Main crops: Coffee (one third of exports), sugar, bananas, cotton, corn.
Labor force: 60% agriculture, 21% industry and commerce, 12% services.
GNP: $11.1 bln. (1993). **Per capita:** $1,110 (1993).
Imports: $2.5 bln. (1993). **Partners:** U.S. 37%, CACM 8% (1990).
Exports: $1.3 bln. (1993). **Partners:** U.S. 28%, CACM 20% (1990).
Literacy: 55%.

Comments: Guatemala has the largest economy in Central America. Its nontraditional agricultural exports have been growing since 1986. In 1992, 43% of its exports went to the United States.

HONDURAS

Population: 5,581,000. **Density:** 129 per sq. mi.
Ethnic groups: Mestizo 90%, Indian 7%.
Area: 43,277 sq. mi., slightly larger than Tennessee.
Industries: Textiles, wood products.
Main crops: Bananas (main export), coffee, corn, beans.
Labor force: 62% agriculture, 20% services, 9% manufacturing.
GNP: $3.2 bln. (1993). **Per capita:** $580 (1993).
Imports: $1.1 bln. (1993). **Partners:** U.S. 39%, Japan 8%. (1989).
Exports: $814 mln. (1993). **Partners:** U.S. 54%, Europe 34%. (1989).
Literacy: 73%.

Comments: Honduras has a small growth rate. It made announcements to privatize its telecommunications industry and to possibly continue with its electricity and transportation sectors. U.S. military bases and troops are frequently stationed there, and, resultingly, the country is sometimes nicknamed *USS Honduras*.

NICARAGUA

Population: 3,982,000 (1993). **Density:** 79 per sq. mi.
Ethnic groups: Mestizo 69%, Caucasian 17%, Black 9%, Indian 5%.
Area: 50,193 sq. mi., about the size of Iowa.
Industries: Oil refining, food processing, chemicals, textiles.
Main crops: Bananas, cotton, fruit, yucca, coffee, sugar, corn, beans, cocoa, rice, sesame, tobacco, wheat.
Labor force: 44% agriculture, 43% services, 13% industry.
GNP: $1.4 bln. (1993). **Per capita:** $360 (1993).
Imports: $728 mln. **Partners:** U.S. 25%, Latin America: 30%, EC 20% (1990).
Exports: $267 mln. **Partners:** OECD 75% (1990).
Literacy: 57%.

Comments: Nicaragua has a very bad growth rate and high debt levels. It possessed U.S. military bases between the years of 1912-1925 and 1927-1933.

Sources: *New World of Nations, Today's Almanac*, U.S. NEWS & WORLD REPORT; *Country Marketing Plans, Nat'l Trade Data Bank Market Report*, (Sept. 15, 1993), *available in* LEXIS, Nexis (citing Economic Commission for Latin America), THE WORLD BANK ATLAS 1995; and U.S./Latin Trade information.