THE OPPENHEIMER REPORT

LACK OF INTEGRATION HURTS CENTRAL AMERICA

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SAN SALVADOR -- When I interviewed Salvadorean President Tony Saca last week, I couldn't resist asking him whether it isn't insane for the five countries of Central America -- whose combined economies are smaller than Connecticut's -- to have five different central banks, five different currencies and five different investment laws.

I posed the question because, in recent years, the presidents of El Salvador, Guatemala, Honduras, Nicaragua and Costa Rica have held dozens of regional summits to step up regional integration. And yet it's hard for outsiders to notice any significant progress.

Guatemala's currency is the quetzal, Honduras' currency is the lempira, Nicaragua's currency is the córdoba and Costa Rica's the colón, while El Salvador adopted the U.S. dollar in 2001. What's worse, each country's central bank has its own regulations, making foreign trade to the region -- and within the region -- a bureaucratic nightmare.

It's easier to export chicken products from Guatemala to China than from Guatemala to nearby Costa Rica, says Dionisio Gutiérrez, a part-owner of the giant Guatemala-based Grupo Multi Inversiones, whose Pollo Campero fast-food chain operates throughout Central America, the United States, Spain, Indonesia and China.

Gutiérrez told me that his group recently invited Chinese business people to the region to look into a joint project to build low-cost housing in Central America. But faced with having to set up separate legal and accounting structures in five different Central American countries, the prospective investors decided it would be too costly for the size of the market, and stayed out.

''It's a tragedy,'' Gutiérrez said. ``The region's presidents lack the political will to move forward. We have been talking about Central American integration for 15 years, but I'm very frustrated.''

The European Community, which is negotiating a free trade deal with Central America, is putting pressure on the region to standardize its economies and legal systems. Spain's secretary for European Union affairs, Alberto Navarro, told me recently that the existence of five currencies in the region is ``absurd.''

Indeed, in a world of huge regional blocs, Central American countries such as El Salvador -- with a population of seven million -- are too small to attract big investments unless they can serve as springboards to export duty free and with few bureaucratic hurdles to the rest of the region, European officials say.

Saca, whose country is growing at a healthy 4 percent and has reduced poverty from 65 percent of the population to 30 percent over the past 12 years, rejected criticism that the regional integration process is moving too slowly. It took the Europeans 50 years to get to the European Union, he argued.

Saca noted that four Central American countries -- El Salvador, Guatemala, Honduras and Nicaragua -- have recently adopted a common Central American visa, which allows the free movement of people in all Central American countries with the exception of Costa Rica. The same four countries have adopted a Central American passport, and are nearing an agreement for a customs union.

Already, 95 percent of Central American goods are moving duty free through all countries in the region except Costa Rica.

The process is advancing rapidly, but is being delayed by Costa Rica, where the government has yet to join its neighbors' visa-free transit system and to get its Congress to ratify the free trade agreement with the United States, Saca said. Costa Rica says that, because it has the most advanced economy in the region, it is already flooded with migrants from neighboring countries and can't afford an open-border policy.

Other Salvadorean officials say the culprit is Nicaragua, whose leftist President Daniel Ortega is cementing close ties with Venezuela and would oppose a supra-national central bank that could prohibit member countries from printing currency at their will.

My opinion: I don't know whose fault it is, but the fact that Central America's five small nations continue to have individual central banks, separate currencies and different investment rules is insane. It scares off investors who could turn the region into a manufacturing and service hub for both North and South America.

If Central American leaders don't move faster toward regional integration and supranational institutions, perhaps Washington should join Europeans and put much more pressure on the region's heads of state to get their act together as a condition for future economic assistance. I'm willing to bet 10 lempiras that it would help speed things up.