

# Understanding Central American Development: *the Region at the 21<sup>st</sup> Century Dawn*

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## Summary

The purpose of this article is to present an analytical overview of the status of development in Central America, including Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. For that, it presents a set of basic information about the Central American countries and demonstrates that these economies, over a long term period, have experienced a stop-and-go in their main social and economic indicators. In the previous years of the 1980s, these economies showed an exceptional social and economic dynamism, especially during the 1960s with the Central American Common Market, that ironically, collapsed in the 1980s because of the internal political disequilibria and the external world recession with the second oil crises. Indeed, the factor that explain the declining of the economic growth and indicators of the region, have been blame to the political situation prevailing. Consequently, this paper intends to provide a critical evaluation of the Central American development path in the last decade, and look forward to assisting scholars interested in the topic to explore new avenues and strategies on the development process of this region, as well as shed some light on how and where the region should focuses its development strategies, and policies. Finally, it conclude that more research and scholar should be undertaken to explore, and understand the development process in Central American, and propose new models and strategies for the betterment of its inhabitants.

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## Introduction

Central America is a small region in the Middle of the American continent, separating the Caribbean from the Pacific, and serving as a natural bridge from the Northern to the Southern continental plaques. Historically, geographers consider it extended from the natural boundary in the South of Mexico, to Panama. Thus, it includes seven republics (Belize, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, and Panama). It is a mountainous region, with an imposing chain of active volcanoes (and consequently frequent earthquakes), and a variety of tropical forests. Furthermore, it contains the Nicaragua Depression, which includes the huge lakes in the capital city of Managua and the high Tajumulco volcano (4,210m), in the country side of Guatemala. Consequently, Central America's climate varies with altitude from tropical to breezy cool, where the Caribbean side receives heavy rainfall all year round. Besides having a huge quantity of rivers, there is only one navigable, and it serves as a natural frontier between Nicaragua and Costa Rica, the San Juan river<sup>2</sup>. Bananas, coffee, sugar and cacao are the chief crops, and in a lesser extent, gold and silver are mined there. The economies of the countries in the region have become increasingly diversified. Though agriculture, and manufacture are the largest employers, more technical positions are being produced as the industrial and services sectors develop.

Having said that, the purpose of this article is to present an analytical overview of the status of development in Central America, including Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua<sup>3</sup>. The period analyzed covers from 1950 onwards, but this article will be concentrated in the last decade (1990s), however, occasionally, references shall be made to earlier periods, in order to explain and understand the changes experienced in the recent years, which may condition future developments.

The structure of the article is as follows. It starts with a general overview of the region, where basic information and data are presented (size, population, main exports and products, form of government, electoral system, constitution, main political parties). Then the main political economy history and characteristics of the region are stated (including among others, date of independence, major political events, wars, revolutions or military coups, experiences with democracy, current political situation). Following, a section is devoted to explain the development processes in the region, with time-series data (post 1950) on the main development indicators, embodying Gross Domestic

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<sup>2</sup> The San Juan river is often of political and legal controversies between Costa Rica and Nicaragua, mainly about the rights to navigate over it. The most recent controversy started in 1998, when the Nicaraguan Army prohibited Costa Rican policemen to navigate with weapons. A "battle" which, among other regional conflicts, has decelerated the integration process in the region, as well as have promoted commercial sanctions to traders; which ultimately has nothing to do with the difference.

<sup>3</sup> The exclusion of the Belize and Panama is based on the argument that they do not share the same colonial history as the rest. For example, the five countries analysed in this report obtained independence from Spain in 1821, then were ruled as one country in the Central American Federation until 1838, when each declared its independence as separate republics (Bulmer-Thomas, 1987, p.338). Belize obtained its independence in 1981 from British rule and Panama in 1903 from Colombia. Furthermore, these five countries form the Central American Common Market, an initiative that promotes trade and exchange of services in the region with low tariffs and less barriers.

Product (total and per capita), income distribution, literacy rates, infant mortality, urban population, imports and exports. Furthermore, the following section analyses political indicators, covering democratic progress, elections, type of regimes and transitions are explained. For that purpose, time-series data are used (number of free and fair elections, protection of political and civil liberties, governments and their party composition, voter turnout for national elections). Last but not least, there is a final section, which contains the conclusions drawn from the data analysis, as well as a critique to some long-run failed development models.

Central America has been, sadly perhaps, best-known for its critical 1980s politico-economic situation, which Brignoli accurately described, and is worthwhile to repeat here in full:

“Crisis is the order of the day. There is no better way to characterize Central America in the first half of this decade. The word “crisis” permeates the news, turns up unavoidably in daily conversations, is shrieked out in street demonstrations. It pours fears into many and shakes people quickly out of their innocence” (1989, p. 153)

Ironically, the region produced and influenced a huge variety of literature to cover the main topics of this international crisis and its causes. But regrettably, after the crisis, when the region started a “new” democratic and development revival, scholarship and research diminished substantially. Indeed, during the 1990s, the number of studies and literature on Central American development have been minimal, as if the region all of the sudden had recovered its developmental standards and growth patterns of the past. Consequently, this paper intends to provide a critical evaluation of the Central American development path in the last decade, and look forward to assisting scholars interested in the topic to explore new avenues and strategies on the development process of this region, as well as shed some light on how and where the region should focus its development strategies, and policies.

## **Basic Information**

As described above, Central America is a small region of 423,426 Km<sup>2</sup>, ranging from the smallest El Salvador to the biggest Nicaragua (six times larger). Since it is located in the tropics, the region is enhanced with abundant natural resources, which have been over-exploited. But the reader may not over exaggerate the interpretation of the size argument; being small does not mean being condemned to poverty and in economic stagnation or even un-democratic; as demonstrated by Switzerland, Taiwan, Luxembourg and Hong Kong (just to cite a few). Consequently, some of the most intriguing questions in the development literature, whose research deserves attention, are what explains the lack of development in Central America? And why some nations develop more than others?

Regarding the population growth rates, it may be said that while at the beginning of the 1950's the region's total population was nearly 10 million inhabitants, in 1999 it has grown to more than 32 million. Meaning, that "today, the population density of the isthmus is 65 inhabitants per km<sup>2</sup>. Half of these inhabitants are women, one in five is indigenous, and almost one in three is Guatemalan" (State of the Region, 1998). While Costa Rica is the least populated (nearly 4 million inhabitants), Guatemala hosts more than 11 million people, but the density problem is more evident in El Salvador, where more than 6 million people share 20,749 km<sup>2</sup> (a density of 296.8 inhabitants per square kilometer). The ethnic composition of the population also varies, the predominant group is mestizo and whites, which are more than 90% in Costa Rica, El Salvador and Honduras. In Guatemala, Amerindians (indigenous populations) represents nearly half of the population (44%) and in Nicaragua the distinction between white and mestizo is sharper than in the others.

Today, after a long and difficult process of pacification and democratization all five countries experience some form of democratic normality and, according to Linz and Stepan (1996), democracy today is consolidated, because it is the "only game in town". The form of government is Presidential, and all its Presidents have been elected by the population in the last 10 years, in what have been considered free and fair elections. The minimum age to vote is 18 years old, except in Nicaragua (16), and it is universal and compulsory in Costa Rica and Honduras. Consequently, all constitutions are made for democratic governments, where Costa Rica has the oldest (1949) and Nicaragua the latest, 1987<sup>4</sup>.

Finally, the living conditions of the Central Americans have improved in the last years, as the life expectancy at birth, the literacy rates and the human development index reflect. Life expectancy is situated at an average of 69.2 years, from the lowest Guatemala (64) to the highest Costa Rica (76) a difference of 12 years approximately. But, in general, since the 1950's, it represents a total gain of over 20 years of age. In that sense, it may be argued that even the Central American countries seem to have achieved remarkable economic and political progress in the last decade, yet there are basic developmental gaps which must be closed, as will be explained in due course in this article.

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<sup>4</sup> The Guatemalan Constitution was suspended on May 25 1993, by President Serrano in the last *coup d'etat* (failed) in the region; but it was reinstated on June 5 1993, following ouster of the President.

Table 1. *Central America at a Glance*

	<b>COSTA RICA</b>	<b>EL SALVADOR</b>	<b>GUATEMALA</b>	<b>HONDURAS</b>	<b>NICARAGUA</b>
<b>Capital</b>	San José	San Salvador	Guatemala	Tegucigalpa	Managua
<b>President</b>	Miguel Angel Rodríguez	Francisco G. Flores Pérez	Alfonso Portillo Cabrera	Carlos Flores Facussé	Arnoldo Alemán
<b>Area</b>	51,000 Kms <sup>2</sup>	20,749.44 Kms <sup>2</sup>	108,889 Kms <sup>2</sup>	112,088 Kms <sup>2</sup>	130,700 Kms <sup>2</sup>
<b>Constitution</b>	9 November 1949	20 December 1983	31 May 1985	11 January 1982	9 January 1987
<b>Suffrage</b>	18 years of age; universal and compulsory	18 years of age; universal	18 years of age; universal	18 years of age; universal and compulsory	16 years of age; universal
<b>Independence from Spain</b>	15 September 1821	15 September 1821	15 September 1821	15 September 1821	15 September 1821
<b>Political Division</b>	7 Provinces	14 Departments	22 Departments	18 Departments	16 Departments
<b>Population 1998</b>	3,649,394	6,158,095	11,562,293	6,147,955	4,873,305
<b>Life Expectancy at Birth (1999)</b>	76.0	69.1	64.0	69.4	67.9
<b>Adult Literacy Rate</b>	95.1	77.0	64.0	70.7	63.4
<b>Human Development Index (1999)</b>	0.801	0.674	0.624	0.641	0.616
<b>Population Below Poverty Line</b>	--	48.3% (1992)	--	50% (1992)	50.3% (1993)
<b>Population Growth Rate (1998)</b>	1.89%	1.53%	2.68%	2.24%	2.84%
<b>Ethnic groups</b>					
<b>White</b>	96% (including mestizo)	1%		1%	17%
<b>Mestizo</b>		94%	56%	90%	69%
<b>Black</b>	2%			2%	9%
<b>Amerindian</b>	1%	5%	44%	7%	5%
<b>Chinese</b>	1%				
<b>GDP per capita (PPP) (1998)</b>	US\$6,700.00	US\$ 3,000.00	US\$ 3,800.00	US\$ 2,400.00	US\$ 2,500.00
<b>GDP- 1998 (constant prices, 1958) (millions)</b>	US\$ 2,502.8	US\$ 7,024.3	US\$ 4,701.5	US\$ 3,448.4	US\$ 2,234.4
<b>Annual Growth Rate –GDP 98/97-</b>	5.5%	3.5%	5.5%	3.0%	4.0%
<b>Per-capita GDP 1998</b>	US\$ 2,774.5	US\$ 1,922.5	US\$ 1,622.30	US\$ 786.6	US\$ 392.10
<b>GDP composition by sector (1997)</b>					
<b>Agriculture</b>	15%	15%	24%	20%	32%
<b>Industry</b>	24%	24%	21%	19%	24%
<b>Services</b>	61%	61%	55%	61%	44%
<b>Exports1998 (thousands)</b>	US\$ 3,875,274	US\$ 1,257,100	US\$ 2,546,437	US\$ 1,229,588	US\$ 612,306
<b>Imports1998 (thousands)</b>	US\$ 4,759,147	US\$ 3,109,700	US\$ 4,637,300	US\$ 3,055,514	US\$ 1,413,098
<b>Commercial Account 1998 (000's)</b>	US\$ -883,873	US\$ -1,852,600	US\$ -2,090,863	US\$ -1,825,926	US\$ -800,792
<b>Debt – External</b>	US\$ 3.2 billion (1996)	US\$ 2.6 billion (1997)	US\$ 3.38 billion (1996)	US\$ 4.1 billion (1995)	US& 6 billion (1996)
<b>Economic Aid – Recipient (1995)</b>	US\$ 107.1 million	US\$ 391.7 million	US\$ 211.9 million	US\$ 418.7 million	US\$ 839.9 million
<b>Inflation Rate1998</b>	12.4	4.5	7.5	14.7	17.2
<b>Exchange Rate -Dec. 1998-</b>	269.92	8.72	6.73	13.75	11.14

Sources: SIECA [[www.sieca.org.gt](http://www.sieca.org.gt)] 2000; CIA. The World Fact Book 1999. [[www.cia.gov/cia/publications/factbook/index.html](http://www.cia.gov/cia/publications/factbook/index.html)]; UNDP. Human Development Report 1999. [[www.undp.org/hdro](http://www.undp.org/hdro)]

Besides the difference in life expectancy at birth, the gap between rich and poor is also large. The average GDP per capita in 1998 was US\$3,680; but the highest (\$6,700) in Costa Rica, differs greatly from the poorest Honduras (\$2,400). Furthermore, poverty indicators are still alarming: 39% of Nicaraguans lack access to safe drinking water; 60% of Salvadorians do not have any kind of social security, or access to health services. Also, 69% of Nicaraguans do not have access to sanitation services, and 27% of Guatemalan children (below 5 year-old) are malnourished. Indeed, human development indices are substantially different; meanwhile Costa Rica in 1998 ranked second in Latin America (0.889, 45 worldwide), Nicaragua ranked 126 worldwide with a HDI of 0.547 (UNDP Human Development Report 1998). Table 1 shows a summary of the main characteristics of the region.

## Political Economy History

In the political economy history of Central America, six moments stand out for their special significance<sup>5</sup>. The first one was in 1821, when the Central American countries declared their independence from Spain, followed by a period of uncertainty about their national status; the second one was in 1870, when these small economies were ushering in the period of liberal revolutions and the dominance of coffee and bananas in the economy of the region; the third –related to the world recession– was in 1930, the beginning of the depression and the end of the liberal oligarchic state; the fourth was in 1944, when democratic reform movements shook the foundations of authoritarian *caudillismo* to its roots. The fifth was 1979, the year of the fall of Somoza in Nicaragua, the collapse of General Romero’s regime in El Salvador, and the beginning of the worst politico-economic crisis, which “marked a watershed in the region’s development” (Bulmer-Thomas, 1987, p.291). Finally, the last moment in the region was 1994, when after the fruits of the peace accords of Esquipulas II, the Central American Presidents decided to sign the Central American Alliance for Sustainable Development (ALIDES), a development strategy that aims to consolidate the democratic transition in the region, as well as to promote a more sustainable development<sup>6</sup> (see table 2).

Prior to the ‘lost decade’ for Latin America, an impressive Central American economic model was based on three pillars: (i) rapid growth of traditional exports; (ii) a strong regime of exchange rates; and (iii) the establishment and functioning of the Central American Common Market (Bulmer-Thomas, 1991). But, surprisingly for most of Central Americans, this model collapsed in the 1980s<sup>7</sup>. Consequently, besides suffering from the debt crisis and the world recession of the 1980s, Central America had to cope with the effects of war, massive displacement of refugees and several natural disasters, such as an earthquake in El Salvador (1987), drought and floods in Honduras, the hurricane Juana in Nicaragua (1988), and several tremors in Costa Rica (meaning a cumulative decline in terms of GDP per head, especially in Nicaragua).

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<sup>5</sup> Bulmer-Thomas in *The Political Economy Central America since 1920* (1987) identified four periods.

<sup>6</sup> ALIDES, as regional strategy of development, contrary to traditional rhetorical presidential declarations, is composed of three Presidential Summits: (i) Guacimo Declaration, August 29, 1994; (ii) Managua’s Summit of Sustainable Development, October 12, 1994, and (iii) International Conference of Peace and Development in Central America, Honduras October 25, 1994. Also it was signed by Belize and Panama and is founded in four pillars: (i) democracy, (ii) socio-cultural development, (iii) sustainable economic development, and (iv) environmental protection.

<sup>7</sup> Feinberg and Bagley (1986) in a review of the political economy of Central America in the 1980s, identified that the seeds of the crisis, could be explained by four interrelated causes: (i) political unrest; (ii) uneven development; (iii) structural flaws in development strategies; and (iv) the global recession.

**Table 2. Historical summary of Central American Political Economy**

1821	Independence from Spain
1824-1838	Central American Federal Republic
1870-1	Liberal Revolutions and Dominance of Coffee in the Economy
1907-1918	Central America Court of Justice
1930-1	Demise of Liberal Oligarchic State
1951	Central American States Organization (ODECA) <i>First Constitutive Charter.</i>
1960	Central American Common Market (MCCA)
1962	Central American States Organization (ODECA) <i>Second Constitutive Charter.</i>
1979	Fall of Somoza in Nicaragua, Collapse of Gen. Romero's regime in El Salvador and beginning of worst politico-economic crisis
1987	Esquipulas II Peace Treaty Signature
1991	Tegucigalpa Protocol Signature
1993	Central American Integration System (SICA)
1994	Central American Alliance for Sustainable Development (ALIDES)

But ironically, in the two decades prior to the 1980s, the Central American *Gross Domestic Product* achieved high rates; and the Central American Common Market, started in 1960, proved to be a positive experience in order to increase not just trade in the region, but to be an important element to increase the size of the market. As such, it promoted productivity, employment, wages and education, as well as increased the size of the market, a necessary condition for any economy to grow. Table 3 draws the impressive cumulative growth of GDP from 1960 to 1975. It can be seen that the secondary sector leads this growth in all the period, and became an important source of employment and income for thousands of Central Americans. Furthermore, it displays, that besides being Central America a regional with an abundant natural resource endowment, the primary sector, conformed by agriculture and mining, tended to descend, while the tertiary sector (the services ones, and related to the tourism industry mainly), increased its rate of growth, and as such, as will be explained below, it amounted to the inequalities and economic disequilibria of the 1980s.

**Table 3. Growth of Gross Domestic Product in Central America (constant 1960 Central American peso values)\***

	<i>Cumulative % per annum</i>		
	<b>1960-1968</b>	<b>1968-1971</b>	<b>1971-1975</b>
Primary Production (agriculture, mining)	4.8	4.7	3.6
Secondary Production (manufacturing, construction, energy, transportation)	7.8	5.7	6.3
Tertiary Production (commerce, banking, real estate, services, others)	5.5	5.7	6.3
<b>Total (= GDP)</b>	<b>5.9</b>	<b>4.7</b>	<b>4.7</b>

\* The Central American peso is valued at one US dollar. Source: Reynolds, Clark (1988).

In the case of the policies and instruments implemented in the region, the characteristic was internal disequilibria, manifested in budget deficits, poor government revenues and high rates of inflation; as well of external disequilibria, concerning trade, current account deficits in the balance of payments and internal and external debt. Regarding the increase in the consumer retail prices index (inflation rates), the situation is clearly difficult. Table 4 shows the inflationary pressures Central American Government faced in this decade, which in the case of Nicaragua, received the dubious distinction of presiding over the highest rate of inflation (33,603%) in 1988, even higher than any other in Latin America, in any period of its history, including Brazil.

**Table 4. Annual Rates of Inflation.**

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1982	81.7%	13.8%	-2.0%	8.8%	22.2%
1983	10.7%	15.5%	15.4%	7.2%	35.5%
1984	17.3%	9.8%	5.2%	3.7%	47.3%
1985	11.1%	30.8%	31.5%	4.2%	334.3%
1986	15.4%	30.3%	25.7%	3.2%	747.4%
1987	16.4%	19.6%	10.1%	2.7%	1,347.4%
1988	25.3%	18.2%	11.0%	6.7%	33,602.6%
1989	10.0%	23.5%	20.2%	11.4%	1,690.0%
1990	22.4%	19.9%	50.1%	25.3%	8,500.0%

Source: Bulmer-Thomas (1991). *A Long Run Model of Development...*

Having said that, the late years of the 1970s and the 1980s were the worst of times for the Central American countries, and citizens, in political and economic terms<sup>8</sup>. Furthermore, a look at the growth rates reveals that since early the 1970s the economic performance of these countries was very unstable, starting a dangerous peak decline in 1977 which reached its lowest rate in 1982 (-6.4 GDP per capita and -3.6 GDP). As table 5 shows, the GDP per capita in the 1980s was negative, and the cumulative decline for Nicaragua was over 40%. Also, the cruel confrontations and civil wars (El Salvador, Guatemala and Nicaragua) that characterized this period of history in the region, led more than 250,000 people killed and around 3 million refugees (in El Salvador the number of killing reached 70,000, and 100,000 refugees<sup>9</sup>). Hence at this point a question arises, how is that these countries, after an apparent period of economic progress during the 1960s and early 1970's, with abundant natural resources, and an increasing intra-regional market, could decline so sharply in such a short period of time?

<sup>8</sup> "Although the 1980s was the 'lost decade' for all Latin American countries, the drop in living standards was more severe in Central America with the four northern republics all recording a fall in real GDP per head through the 1980s which was faster than the Latin American average, while Nicaragua recorded the most dramatic decline (five per cent per year from 1981 to 1989)..." Bulmer-Thomas, 1991, p.5.

<sup>9</sup> See Weaver, F.S. (1994) *Inside the Volcano: The history and political economy of Central America*.

**Table 5. Central America: Real GDP per capita (1988 US\$)**

	<b>Costa Rica</b>	<b>El Salvador</b>	<b>Guatemala</b>	<b>Honduras</b>	<b>Nicaragua</b>
1980	1759	1325	1085	1015	1097
1981	1670	1177	1062	992	1124
1982	1505	1079	996	936	1078
1983	1500	1082	944	899	1082
1984	1571	1093	922	890	1015
1985	1538	1096	891	892	935
1986	1577	1086	867	890	886
1987	1605	1092	872	907	848
1988	1614	1088	879	923	734
1989	1659	1062	887	906	689
1990	1676	1069	888	871	629
<b>1981-90</b>	<b>-4.7%</b>	<b>-19.3%</b>	<b>-18.2%</b>	<b>-14.2%</b>	<b>-42.7%</b>

*(cumulative variation)*

Source: Bulmer-Thomas (1991) A Long-Run Model...

Several interpretations have been given to this answer, varying from blaming the United States and the advanced countries for the actions or in-actions, to cultural matters belonging to the Central Americans. But, to go one step further from these traditional and unconvincing interpretations, one possible answer can be related to the un-democratic experience from 1950 to 1990, with the exception of Costa Rica. The crisis in the region first was political and as a consequence, it then became economic and social. From a total of 47 transfers of power, 30 were held in undemocratic conditions; of which fourteen *coups d'état* (one failed in 1993 in Guatemala), six fraudulent or one-candidate elections, one revolution, one counterrevolution and eight designations by Congress or National Assembly. Meaning that from every two transfers of power, 1.5 were un-democratic. And more over, 37 of these governments (almost 80%) were military or related. It may not be confused that democracy brings development automatically, but it shows that the political relations in the region were extremely fragile, contradictory and consequently impeded economic development.

Taking this into account, the reader can notice the difficulties involved in achieving democracy in the region. But also, in the traditional literature, it is argued the external influences, related to the Cold War in the late 1970s and early 1980s promoted violence and conflict in the region. For example, the USA clearly supported the anti-Sandinistas or Contra Movement in Nicaragua (probably the worst of Reagan's foreign policies), installed military bases in Honduras, and injected almost half of Salvadorian national budget with military and economic assistance. Also the Contadora Group (Mexico, Panama, Venezuela and Colombia), as natural neighbors of the region, looked for solutions to re-establish peace and start a democratization process. It was not until 1987 with Esquipulas II Peace Treaty –the Costa Rican President Oscar Arias' initiative, which allow him to won the Nobel Peace Prize that same year– when a new era began for the region. This agreement, accepted by the Central American Governments, implied, among other things, the immediate ending of civil wars, the primacy of political means

(dialogue, consensus, negotiations), the reinstating of democracy (participatory and representative), the call for free and fair elections, and the inclusion of civil society groups in the political and decision-making processes. Indeed, Esquipulas II Treaty meant the start of a new “culture of peace” in Central America (Acuña, 1999, p.144). For example, after its signature, the GDP growth indicators in the region started to normalize and even increase in “relative” positive terms (see graph in next section).

Last but not least, it may be stated that in trade terms, it seems that the region has advanced significantly towards a free trade area, in what has been called “*integración hacia adentro*” (inside integration). For example, since 1990 the regional trade has grown from 650 million US dollars, to 1.770 million in 1997, and only four products – coffee, sugar, alcohol and petroleum derivatives – are not into the free trade framework that operates in the Central American Common Market. Moreover, in 1997, exports grew to 8.187 million US dollars, and imports to 14.221 million (a deficit of 2,034 million dollars); since 1995 all the countries are members of the World Trade Organization (WTO), with common policies on trade, commerce and tariffs. Also, today, the region is the third most important US trade partner in the Americas; with 11.700 million dollars trade exchange in 1995 (Mexico and Brazil are US first and second trading partners). And finally, the region acts in block in the signing of free trade agreements with the European Union, Mexico, Panama, Dominican Republic, Chile, Korea, China, Canada, USA and Japan. With an active participation in the Americas Free Trade Area (ALCA) announced in the Miami 1997 Presidential Summit by Bill Clinton, leading three of the twelve working groups; markets access by El Salvador, investment by Costa Rica and intellectual property by Honduras (Leal, 1998).

## Development Indicators

Considering Todaro’s development definition as “the process of improving the quality of life of all human beings” with three basic goals: (i) raising peoples levels of living; (ii) creating conditions conducive to the growth of peoples *self-esteem*, and (iii) increasing people’s *freedom* (2000, p.739), then, definitely the region nowadays is a different one than fifty years ago, and the change has been positive. In life expectancy at birth, Central Americans live today 20 years older than in the early 1950s. As well in literacy the change is substantial, while in 1950 only 44% of Central American could read and write, in 1999, the rate has risen to 74%. Also, while in 1950, the average GDP per capita was 285.6 US dollars; at the present time it is around US\$3,500.

Regarding its population distribution, the region in the 1970s was majoritarian rural, more than 60% in all the countries, Honduras being the most rural, where 71% of the population lived in the country-side areas. Indeed, it is a logic consequence, in the sense that its main economic activity was the agricultural sector. Notwithstanding, with the advent of modernization and the decline in the agricultural sector (see table 3), the growth of the manufacture, construction and related secondary sector industry, the rural population started to migrate rapidly to the capital cities in search of jobs and better economic opportunities. Consequently, an uncontrolled migration process has led that nowadays, most of the countries experience abrupt population densities in the capital

cities, with the exception of Guatemala, where it appears that the Amerindians have had no intentions to leave their land (see table 6). Moreover, the most serious case is Honduras which in 1970 it was the less urban, nowadays it is the second urban country, where half of the population is conglomerated either in Tegucigalpa (the capital city) or San Pedro de Sula.

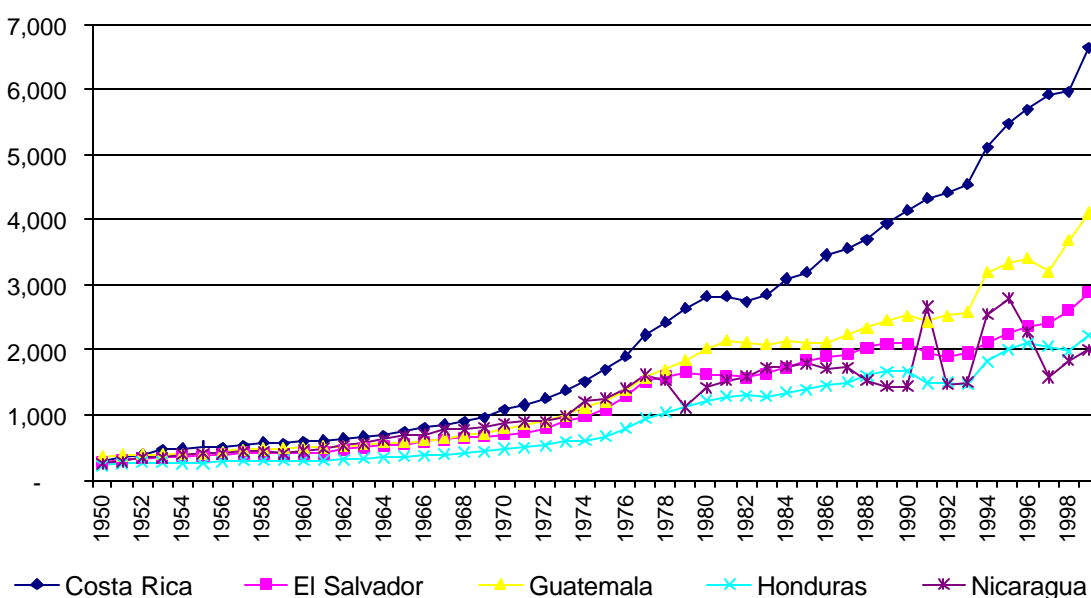
**Table 6. Central America: % Urban Population**

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
1970	40	39	36	29	47
1998	47	46	39	51	55
<b>Migration</b>	<b>7</b>	<b>7</b>	<b>3</b>	<b>22</b>	<b>8</b>

Source: World Bank (2000) World Development Indicators [[www.worldbank.org](http://www.worldbank.org)]

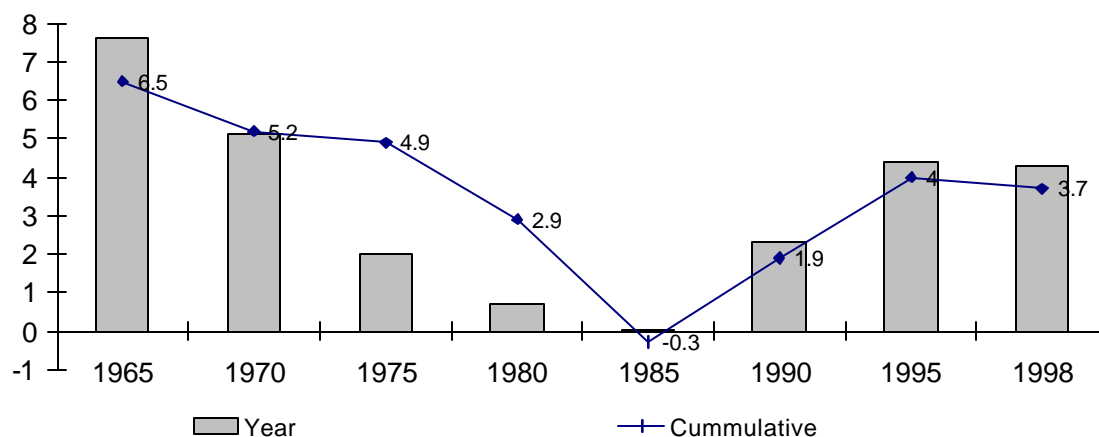
If we take the *Gross Domestic Product per capita rate* as an indicator of development, it can be noted in the following graph that the situation has improved, and that Costa Rica has gain the more in that field. Especially since late 1970s, the beginning of the worst economic crisis in the region. Indeed a closer look at this indicator shows that while in 1972, the rate of growth in Costa Rica was 5.8%, in the rest of the region it was of 1.75%, but seven years later, for the former it decreased to 1.8%, but for the latter it was negative (-6.2%), Nicaragua being the worst case with -28.5%. And for the first time in twenty years, in 1997 the five countries have had positive rates of growth, Nicaragua being the highest with 2.3% and Costa Rica the lowest with 1.1%. But the following year, 1998, Costa Rica reached the highest with 3.2% and Honduras the lowest with 0.2%.

**Graph 1: Central America: Real GDP per capita (current international prices)**



The next graph shows the pattern distribution of average GDP Annual Growth Rate in the region. It clearly reveals that in the 1960s these countries showed an impressive rate of growth of almost 8% per year, but in the 1970s the situation start to decline, worsening in the 1980s and increasing again in the 1990s, but to reach the 1960s levels a long path is still ahead.

**Graph 2: Central America: GDP Growth Rate**



Furthermore, if we take the level of education –measured in literacy rates – as another measure of development, we can notice a positive change too. As described above, since 1950 the number of people able to read and write has increased from an average of 44.2%, at the end of the 1990s, it reached an impressive 74%, being Costa Rica the country with the highest rates ever and Guatemala with the lowest (see the following table). Nonetheless, it is important to consider that despite this increase in literacy, in 1995, the number of children that did not reach the fifth school year was alarming. In Costa Rica 11% of children quitted before it, and in El Salvador, Honduras and Nicaragua the number was above the 40%.

**Table 7. Central America: Literacy rate 1950-1999 (%)**

	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Region
1950	79.4	38.4	29.4	35.2	38.4	44.2
1960	84.4	49.0	38.0	47.0	49.6	53.6
1970	88.4	56.9	46.2	57.0	57.9	61.3
1980	92.0	63.0	49.0	62.0	61.0	65.4
1985	93.0	66.0	55.0	66.0	62.0	68.4
1990	94.0	72.0	55.0	69.0	64.0	70.8
1995	94.3	72.0	56.0	73.0	66.0	72.3
1999	95.1	77.0	64.0	70.7	66.4	74.0

Sources: UNESCO Institute of Statistics. (<http://unesco.org/uis/index.html>); UNDP. Human Development Reports 1990-1999; ECLAC. Statistical Yearbook for Latin America and the Caribbean (several years); UCLA, Latin American Center. Statistical Abstract of Latin America (several years)

Finally the other Todaro's development goal is related with the raise in the quality of life, through levels of food and medical services. Again, this is another characteristic that has varied in the region. Today, Central Americans manage to live around 20 years more than in the 1950s. Being Costa Rica the highest with a life expectancy at birth of 76 years, and Guatemala the lowest with 64 years of age.

Furthermore, the United Nations Development Programme has developed a Human Development Index which comprises three basic development indicators: (i) health, measured as life expectancy at birth; (ii) level of education, measured in adult literacy rates; (iii) and economic development, measured as the annual average of per capita income. In this index, the Central American countries rank in relatively favorable positions, compared to other underdeveloped countries, ranking among high and medium human development categories. Table 8 shows the tendency of this index for the Central American countries in the 1990s. As can be seen, Costa Rica stands above all the other countries (the only one with high human development scores), while Honduras and Nicaragua are the followers behind the rest. Finally, as the State of the Region Project (1998) remarkably, pointed out, in 1998, the Central American countries, contrastly, stood next to a European Union Member (Portugal), but also next some underdeveloped Southern Africa countries, such as Namibia and Swaziland. Finally, as a results of a change in the methodological calculation of the index, it seem that the region increased the gap between its mean and the average medium human development countries.

**Table 8. Central American Human Development Index Performance**

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999*
<b>Costa Rica</b>	0.916	0.879	0.842	0.852	0.848	0.883	0.884	0.889	0.889	0.801
<b>El Salvador</b>	0.651	0.524	0.498	0.503	0.543	0.579	0.576	0.592	0.604	0.674
<b>Guatemala</b>	0.592	0.488	0.485	0.489	0.564	0.591	0.58	0.572	0.615	0.624
<b>Honduras</b>	0.563	0.492	0.473	0.472	0.524	0.578	0.576	0.575	0.573	0.641
<b>Nicaragua</b>	0.743	0.612	0.496	0.500	0.583	0.611	0.568	0.530	0.547	0.616
<b>Regional Average</b>	<b>0.693</b>	<b>0.599</b>	<b>0.559</b>	<b>0.563</b>	<b>0.612</b>	<b>0.648</b>	<b>0.637</b>	<b>0.632</b>	<b>0.646</b>	<b>0.548</b>
<b>Medium Human Development</b>									<b>0.670</b>	<b>0.662</b>

\* In 1999 a new methodology to calculate the index was implemented. As a consequence, the results for this year can not be compared with the previous ones.

Source: UNDP. *Human Development Reports 1990-1999*.

Notwithstanding the above, a word of caution, when analyzing this data is in order. It is true that Central America has got along to improve in development indicators, but it does not mean that they are on the way to growth, development or modernization. As North pointed out "the Latin American economies ... have been in a stop-and-go growth for the last 300 years, but not steady growth" (1999, p.17), and Central America is

not an exception as I have demonstrated in the above graphs, characterized by the ups and downs of these economies.

An important indicator of the path of development countries undertake is the growth of the Gross National Product and the Population, which if the former is larger than the latter it means that the inhabitants of that country at least have the opportunity to share the benefits of the growth, but contrary, if population grows faster than GNP, then there is a disequilibria problem. The problem arises because the economy cannot produce the means to sustain the new population. In the case of Central American, from 1965 to 1998 the second scenario has taken place in El Salvador and Nicaragua. But in the case of the rate of growth of labor force, it has been larger than the per capita GNP with no exceptions.

**Table 9. Central America 1965-1998: Population and GNP Average Annual Percentage Growth**

		Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua
<b>GNP</b>	Total	4	1.5	3.4	3.8	-0.4
	Per capita	1.2	-0.4	0.7	0.6	-3.3
<b>Population</b>	Total	2.7	2.1	2.6	3.1	3
	Labour Force	3.5	2.8	2.8	3.3	3.6

Source: World Bank (2000) World Development indicators [[www.worldbank.org](http://www.worldbank.org)]

Moreover, the regional disparities among countries enlarge the gap between rich a poor. Alongside the positive advances in “human development” (table 7), these countries have been experiencing a worsening in the social problems, especially those related to inequality and social debt. The following table shows the monthly deficits that common Central Americans face. It can be noted that the lowest monthly average wage among poor families is in Guatemala (US\$85). Still alarming is the situation in Nicaragua, where the monthly average wage is lower than the minimum. Also it can be noted, that in all countries, with no exception, families face a monthly deficit, varying from 110,5 US dollars in Costa Rica to 262,7 in El Salvador.

**Table 10. Central America 1994: Wages and Family Expenditure Deficit**

	Minimum Wage	Average Wage	Low Income Family Expenditures	Monthly Deficit
<b>Costa Rica</b>	175,0	360,0	470,5	110,5
<b>El Salvador</b>	120,6	86,2	348,9	262,7
<b>Guatemala</b>	72,0	85,0	279,0	194,0
<b>Honduras</b>	51,0	90,0	273,0	184,3
<b>Nicaragua</b>	33,1	86,0	296,0	210,0

Source: Acuña-Alfaro, J. (1999). *Cultura del Desarrollo*.

Last but not least, Central American economies and development is still fragile and vulnerable, in both, internal and external factors. The pace of Hurricane Mitch on November 1998 evidenced this vulnerability, and as such it came as an opportunity to re-think about the development process in the region, as well as it became a challenge for Central Americans. The social losses of this natural disaster were calculated in over 26,000 deaths/missing people, three million of inhabitants displaced of their belongings and hundreds of families destroyed and left homeless. Furthermore, in material and economic aspects, the losses were calculated in around 6,525 million US dollars (13% of regional GDP), as well as more than 430 destroyed bridges and over 160,000 homes wiped out. As can be seen from table 11, hurricane Mitch was the worst natural disaster in the region in more than a century. Furthermore as a Inter American Development Bank report states:

“Hurricane Mitch hit Central America at a critical moment in its history, during a period of hope, but at a time of difficult transitions. Since the 1987 Peace Summits, the last decade has seen sustained efforts for peace and democracy, economic reforms and regional integration, which have been in a process of consolidation in the region. Enormous progress had been achieved, thereby creating conditions for sustained development, the strengthening of the civil society and better management of natural resources” (IADB, 1999).

**Table 11. Central America: Hurricane Mitch Social Impact**

	<i>Deaths</i>	<i>Missing Persons</i>	<i>Victims</i>	<i>Destroyed Bridges</i>	<i>Destroyed Homes</i>
<b>Costa Rica</b>	7	4	5,000	39	1,785
<b>El Salvador</b>	239	135	57,788	20	18,000
<b>Guatemala</b>	540	120	93,000	50	20,000
<b>Honduras</b>	6,600	8,052	2,100,000	168	82,720
<b>Nicaragua</b>	4,000	7,000	80,000	161	41,420
<b>Total</b>	11,386	15,311	2,997,999	438	163,925

Source: Acuña (1999), from CEPREDENAC, ReliefWeb (OCHA), CERCA, Nov.1998.

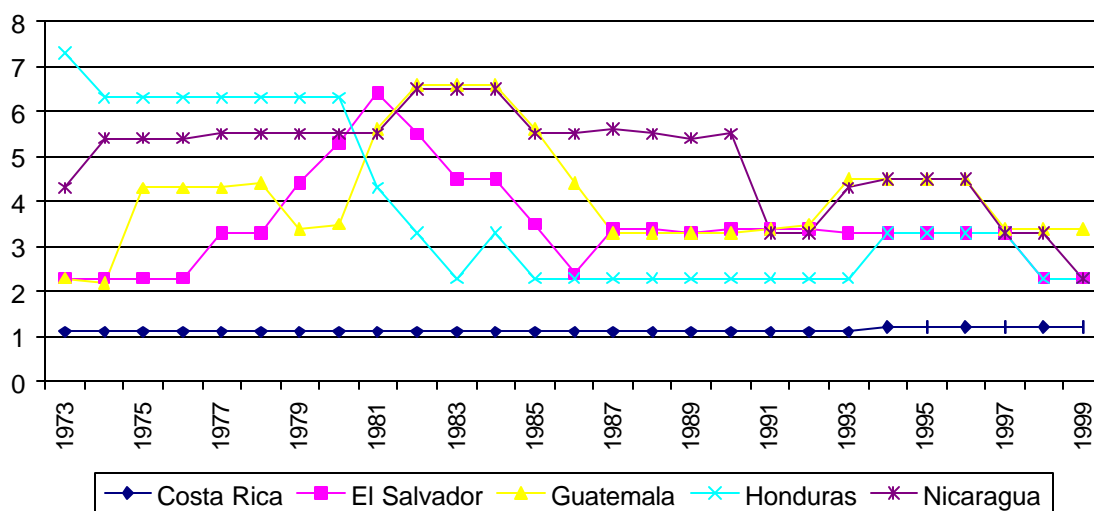
Moreover, according the UNDP<sup>10</sup>, another effects of hurricane Mitch, which are no easy to quantify are related to the broadening of poverty (especially in Honduras and Nicaragua), the weakening of democratic governance, the deceleration of production and growth, the weakening of intra-regional commerce, uncontrolled migration, environment deterioration among others. Therefore, Mitch hit over Central American societies represents the opportunity to reformulate new development strategies, incorporating the poor and those living next to rivers and homeless, it is also giving the chance to strengthen security services, education, housing and social security.

<sup>10</sup> UNDP – Project CAM.96.001 (1999).

## Political Indicators

As was indicated previously the pre 1990s period, and especially the 1980s were the most undemocratic years in the region. As can be seen from the following graph, the last 30 years have been characterized by the ups and down in the democratic ranking according to Gastil/Freedom House Index, for the protection of civil and political rights. Surprisingly, Honduras from 1974 to 1981 ranked as the less democratic, a situation that improved, for better, in the 1980s. Contrary, Nicaragua, Guatemala and El Salvador, in early 1980s ranked worst in democratic achievement. This condition changed substantially for El Salvador and Guatemala in 1987. Finally, it is not until 1999 that, for the first time, four countries ranked among the “democratic” category or threshold at less than 2.5 (Guatemala is the exception). Among all the period studied, Costa Rica is a clear outlier, ranking among the most democratic nations of the world. Hence in democratic terms, the region has made a transition from the 1980s, when “democracy has made few allies” (Seligson, 1989, p.167), to the end of the 1990, when all the countries are democratic.

**Graph 3. Central America: Democracy Scores**



Source: Freedom House Organization 2000 . [[www.freedomhouse.org/survey99](http://www.freedomhouse.org/survey99)]

Furthermore, this undemocratic rating can best explain the results in the elections. From 1945 to 1986 in the region were held 27 elections, 10 of which here in Costa Rica and El Salvador only 2. Moreover, the voter turnout has been low in El Salvador and Guatemala, roughly 50%, but high in Costa Rica and Nicaragua (77%) and Honduras with a 74% as an average from 1945 to 1999. But more impressive still is that the highest voter turnout in the region, including Costa Rica, was achieved by Nicaragua in the 1990 elections, when V. Barrios beat the Sandinistas. In that election the 86% of registered Nicaraguans went to vote, and unprecedented result in the electoral history of the region. Finally, also contrasting, is that in the new era of democratic progress in the region, the lowest participation rate ever, was achieved in the 1999 El Salvador elections, when only the 38.6% of voters assisted to the polls (see table 12).

**Table 12. Central America: Voter Turnout 1945-1999 (presidential elections)**

	<b>COSTA RICA</b>	<b>EL SALVADOR</b>	<b>GUATEMALA</b>	<b>HONDURAS</b>	<b>NICARAGUA</b>
1948*	<b>60.0%</b>	n/a	n/a	<b>86.0%</b>	n/a
1950	n/a	---	<b>71.6%</b>	n/a	---
1953	<b>67.2%</b>	n/a	n/a	n/a	n/a
1954	n/a	n/a	n/a	<b>61.4%</b>	n/a
1958	<b>64.7%</b>	n/a	<b>66.8%</b>	n/a	n/a
1962	<b>80.9%</b>	---	n/a	n/a	n/a
1963	n/a	n/a	n/a	n/a	<b>79.1%</b>
1966	<b>81.4%</b>	n/a	<b>56.3%</b>	n/a	n/a
1967*	n/a	<b>38.8%</b>	n/a	n/a	---
1970	<b>83.3%</b>	n/a	<b>53.8%</b>	n/a	n/a
1971	n/a	n/a	n/a	<b>67.5%</b>	n/a
1972	n/a	<b>72.0%</b>	n/a	n/a	n/a
1974	<b>79.9%</b>	n/a	<b>46.4%</b>	n/a	<b>69.4%</b>
1977*	n/a	---	n/a	n/a	n/a
1978	<b>81.3%</b>	n/a	<b>36.5%</b>	n/a	n/a
1981	n/a	n/a	n/a	<b>78.0%</b>	n/a
1982	<b>78.6%</b>	n/a	<b>45.8%</b>	n/a	n/a
1984	n/a	---	n/a	n/a	<b>75.4%</b>
1985*	n/a	n/a	<b>69.3% (60.2%)</b>	<b>84.0%</b>	n/a
1986	<b>84.9%</b>	n/a	n/a	n/a	n/a
1989	n/a	<b>54.7%</b>	n/a	<b>76.0%</b>	n/a
1990	<b>81.8%</b>	n/a	<b>56.4%</b>	n/a	<b>86.2%</b>
1991	n/a	n/a	<b>45.3%</b>	n/a	n/a
1993	n/a	n/a	n/a	<b>65.0%</b>	n/a
1994	<b>81.1%</b>	<b>52.3 (46.2%)</b>	n/a	n/a	n/a
1995	n/a	n/a	<b>46.8% (36.9%)</b>	n/a	n/a
1996	n/a	n/a	n/a	n/a	<b>76.4%</b>
1998	<b>70,0%</b>	n/a	n/a	n/a	n/a
1999	n/a	<b>38.6%</b>	n/a	n/a	n/a

\* Total votes include only valid votes. Numbers in parenthesis indicate second round.

*Source:* IDEA (1997) "Voter Turnout from 1945-1997: A Global Report on Political Participation". Stockholm, Sweden. [[www.int-idea.se/Voter\\_turnout/index.html](http://www.int-idea.se/Voter_turnout/index.html)]

Furthermore, the reader may be clear when interpreting table 12 that, as one scholar clearly pointed out, “in 1978, of the six Central American Republics (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama), only Costa Rica was ruled by an elected civilian regime; by 1995, all countries in the region had elected governments” (Sieder, 1996, p.1). All the above said and regarding the political situation in the region, it may be said that together with this electoral transformation, perhaps, Central America, is the only region in the world that completed a three-fold transition in less than a decade. It moved from war to peace; from peace to democracy and currently, from democracy to sustainable human development with the signature of ALIDES in 1994 (Solís, 1998). The following explains the transition.

As stated previously, while previous the 1990s was clearly un-democratic, after the signing of Esquipulas II in 1987, all the civilian Presidents have reached sit through

free and fair elections. Currently, concerning the legal system of the Central American countries, all of them are based on the civil law system, and the President, usually from his/her own political party appoints the executive cabinets (ministries or state secretaries). In the case of Costa Rica, the last national election was held on February 1, 1998, when M.A. Rodríguez was elected president (46.6% of the votes), while his contender, J.M. Corrales obtained 44.6%, the closest result in the region. In El Salvador, elections were last held on March 7 1999, when F. Flores was elected President. In Honduras, last elections were held on 30 November 1997, and C.R. Flores obtained 53% of the votes, and N. Melgar 42%. On October 20, 1996 elections for president and vice president were held in Nicaragua, and A. Aleman obtained 51.03%, while the former Sandinista President D. Ortega got 37.75%. Finally, the last elections in the region were held on November 1999, when A. Portillo was elected president in Guatemala. Regarding the legislative branch, it is unicameral, whose members (mainly of the two major political parties in each country) are elected by direct popular vote to serve from three to five-year terms according to the country.

Moreover, the *civil guerilla* groups that operated through a myriad of situations in the 1980s have changed their arms and weapons for flags, pens and computers, and now they compete in a democratic framework to impose their ideas and reach presidency and parliament seats. A clear example is the *Frente Farabundo Martí de Liberación Nacional* in El Salvador, nowadays an important political party, seeking presidency through elections and democratic means, and which reached 27 seats in the National Congress. For a more comprehensive reading of this point, the reader may be interested in looking the following table, where it can be noted the myriad of political parties and pressures groups that currently participate in the national political processes of these newly democratic countries. A characteristic practically unthinkable a decade ago.

**Table 13. Central America: Political Parties and Pressure Groups**

	<i>Political parties</i>	<i>Pressure Groups</i>	<i>Parliament Composition</i>
<b>Costa Rica</b> (mainly a two-party system—PUSC and PLN; numerous small parties share less than 25% of population's support)	Social Christian Unity Party or PUSC; National Liberation Party or PLN; National Integration Party or PIN; National Independent Party or PNI; People United Party or PPU; National Christian Alliance Party or ANC; Democratic Force Party or PFD; Libertarian Movement Party or PML; Costa Rican Renovation Party or PRC; New Democratic Party or PDN; National Rescue Party or PRN; Democratic Party or PD; Independent Party or PI; Agriculture Labor Action	Costa Rican Confederation of Democratic Workers or CCTD (Liberation Party affiliate); Confederated Union of Workers or CUT (Communist Party affiliate); Authentic Confederation of Democratic Workers or CATD (Communist Party affiliate); Chamber of Coffee Growers; National Association for Economic Development or ANFE; Free Costa Rica Movement or MCRL (rightwing militants); National Association of Educators or ANDE; Federation of Public Service Workers or FTSP	PUSC 27 PLN 23 PFD 3 PIN 1 ML 1 PALA 1 PRC 1
<b>El Salvador</b> (Social Christian Union is formed by the Social Christian Renovation Party or PRSC, the Unity Movement or MU, and MSN)	National Republican Alliance or ARENA; Farabundo Martí National Liberation Front or FMLN; Christian Democratic Party or PDC; National Conciliation Party or PCN; Democratic Convergence or CD; Popular Labor Party or PPL; Liberal Democratic Party or PLD; Social Christian Union or USC; Democratic Party or PD	National Confederation of Salvadoran Workers or CNTS; National Union of Salvadoran Workers or UNTS; Federation of the Construction Industry, Similar Transport and other activities, or FESINCONTRANS; Salvadoran Workers Central or CTS; Port Industry Union of El Salvador or SIPES; Electrical Industry Union of El Salvador or SIES; Workers Union of Electrical Corporation or STCEL. Salvadoran Industrial Association or ASI; Salvadoran Assembly Industry Association or ASIC; National Association of Small Enterprise or ANEP	ARENA 28, FMLN 27, PCN 9, PDC 8, PRSC 3, CD 2, PLD 2, MU 1, PD 1, independent 3 Note: Prior the 1999 elections
<b>Guatemala</b>	National Centrist Union or UCN; Christian Democratic Party or DCG; National Advancement Party or PAN; National Liberation Movement or MLN; Social Democratic Party or PSD; Revolutionary Party or PR; Guatemalan Republican Front or FRG; Democratic Union or UD; New Guatemalan Democratic Front or FDNG; Guatemalan National Revolutionary Union or URNG	Coordinating Committee of Agricultural, Commercial, Industrial, and Financial Associations or CACIF; Mutual Support Group or GAM; Agrarian Owners Group or UNAGRO; Committee for Campesino Unity or CUC; Alliance Against Impunity or AAI	PAN 43, FRG 21, FDNG 6, DCG 4, UCN 3, UD 2, MLN 1
<b>Honduras</b>	Liberal Party or PLH; National Party of Honduras or PNH; National Innovation and Unity Party-Social Democratic Party or PINU-SD; Christian Democratic Party or PDCH	National Association of Honduran Campesinos or ANACH; Honduran Council of Private Enterprise or COHEP; Confederation of Honduran Workers or CTH; National Union of Campesinos or UNC; General Workers Confederation or CGT; United Federation	PLH 70, PNH 55, PINU-SD 3

	<i>Political parties</i>	<i>Pressure Groups</i>	<i>Parliament Composition</i>
		of Honduran Workers or FUTH; Committee for the Defense of Human Rights in Honduras or CODEH; Coordinating Committee of Popular Organizations or CCOP	Note: Prior the 1999 elections
Nicaragua	Nicaraguan Party of the Christian Road or PCCN; Liberal Constitutionalist Party or PLC; Independent Liberal Party for National Unity or PLIUN; Conservative National Party or PNC; Nationalist Liberal Party or PLN; Neoliberal Party or PALI; Nicaraguan Resistance Party or PRN; Independent Liberal Party or PLI; National Project or PRONAL; Conservative Action Movement or MAC; Sandinista Renovation Movement or MRS; Social Democratic Party or PSD; Social Christian Party or PSC; Movement for Revolutionary Unity or MUR; Central American Integrationist Party or PIAC; Unity Alliance or AU; Conservative Party of Nicaragua or PCN; National Democratic Party or PND; Central American Unionist Party or PUCA; UNO-96 Alliance; Nicaraguan Democratic Movement or MDN; Sandinista National Liberation Front or FSLN	ational Workers Front, FNT is a Sandinista umbrella group of eight labor unions: Sandinista Workers Central, CST; Farm Workers Association, ATC; Health Workers Federation, FETASAL; National Union of Employees, UNE; National Association of Educators of Nicaragua, ANDE; Union of Journalists of Nicaragua, UPN; Heroes and Martyrs Confederation of Professional Associations, CONAPRO; and the National Union of Farmers and Ranchers, UNAG; Permanent Congress of Workers, CPT is an umbrella group of non-Sandinista unions: Confederation of Labor Unification, CUS; Autonomous Nicaraguan Workers Central, CTN-A; Independent General Confederation of Labor, CGT-I; and Labor Action and Unity Central, CAUS; Nicaraguan Workers' Central, CTN; Superior Council of Private Enterprise, COSEP is a confederation of business groups	Liberal Alliance 42, FSLN 36, PCCN 4, PCN 3, PRONAL 2, MRS 1, PRN 1, PNC 1, PLI 1, AU 1, UNO-96 Alliance

Source: CIA (2000) The World Factbook 2000. [[www.cia.gov](http://www.cia.gov)]

Having said that, it is clear there are challenges that lie ahead for the politics and the democratic survival in the region. The new “democratic governance” of the region, promotes for the incorporation of civil society organized groups in the decision-making and development processes. Today, democratic governance is more than just the government’s ability to govern. It involves two simultaneous relations, on one side it is the quality of the government to attend social problems, and on the other, it is the quality of civil society to propose the attention of their needs and ends<sup>11</sup>. (Torres-Rivas, 1995). Consequently, the civil and political groups mentioned on table 13 have a serious challenge ahead, commit to the democratic rules, institutions and procedures already established in the region.

## Conclusions

This article began with a set of basic information about the Central American countries and has demonstrated that these economies, over a long term period, have experienced a stop-and-go in their main social and economic indicators. In the previous years of the 1980s, these economies showed an exceptional social and economic dynamism, especially during the 1960s with the Central American Common Market, that ironically, collapsed in the 1980s because of the internal political disequilibria and the external world recession with the second oil crises. Indeed, the factor that explain the declining of the economic growth and indicators of the region, have been blame to the political situation prevailing.

The economist Bulmer-Thomas (1991), has proposed a new long run model of development in the region, based on four dimensions: (i) the promotion of non-traditional exports to the rest of the world; (ii) the recovery and strengthening of the Central American Common Market; (iii) the exploitation of new opportunities for traditional exports arising from the formation on market economies in Eastern Europe and the move

<sup>11</sup> Torres-Rivas phrase was: “la gobernabilidad democrática es algo más que la habilidad del gobierno para gobernar. Es, por un lado, la calidad de un gobierno para procesar adecuadamente los problemas de la sociedad civil, que le da respaldo y fundamento. Es, por otro lado, la calidad de la sociedad civil para proponer, también adecuadamente, la atención de sus intereses y propósitos” (1995, p. 76)

to a Single Domestic Market in the European Community; and (iv) the broadening of the internal (national) market through a reduction in poverty and an improvement in income distribution.

On the whole, this is a good model which to some extent has been applied in Central America (mainly points [i] and [iii]), as was explained in the political economy history, and briefed by the former Secretary General of the Central American Integration System, Ernesto Leal (see page 9). But there is a clear limitation in the applicability of this model, which related to the internal market, the limited intra-regional exchange (trade) of goods and services and the prevailing situation of income inequality, where the gap between rich and poor seems to enlarge (see table 14), and income concentration in the hand of the rich, impedes economic growth. Hence, these two aspects explain why, despite the 'positive' evolution of social development indicators, points (ii) and (iv) of Bulmer-Thomas' model have not been applied in the region, and as a consequence the challenge for the future, lies in the solution of these factors.

**Table 14. Central America: Income distribution**

	Year	GINI Index	Lowest 10%	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%	Highest 10%
<b>Costa Rica</b>	1996	47.0	1.3	4.0	8.8	13.7	21.7	51.8	34.7
<b>El Salvador</b>	1996	52.3	1.2	3.4	7.5	12.5	20.2	56.5	40.5
<b>Guatemala</b>	1989	59.6	0.6	2.1	5.8	10.5	18.6	63.0	46.6
<b>Honduras</b>	1996	53.7	1.2	3.4	7.1	11.7	19.7	58.0	42.1
<b>Nicaragua</b>	1993	50.3	1.6	4.2	8	12.6	20	55.2	39.8
<b>Mean</b>		42.8	1.2					56.9	40.7

Source: World Bank. World Development Indicators 2000. [[www.worldbank.org](http://www.worldbank.org)]

Table 14 shows that among the Central American societies, the highest (or richest) 30% of the population accumulate more than 80% of the income, while the lowest (or poorest) 30%, accumulated barely the 5%, even worse in Guatemala, where the poorest 10% (indigenous) receive meagerly 0.6% of the national income. As can be noted, the situation is particularly critical en Guatemala, with a Gini Index<sup>12</sup> close to sixty, and Honduras, El Salvador, and Nicaragua with an index above 50.

A basic lesson for economics students, is that one of the most important conditions for development is the size of the market (domestic), and that its enlargement provides an opportunity for industrialization and growth. The Central American market, we can said is composed of approximately 30 million inhabitants, still a small one, but it is larger in size than the local markets of each country. By itself the Central American economies have no viability, and hence a regional strategy of development should be implemented. The argument that I am trying to make here, and which derives from the reading of this up-dated analysis of the Central American economies, is that efforts to

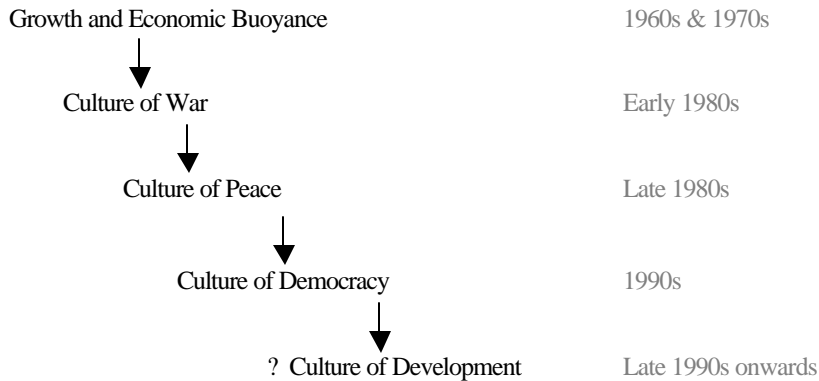
<sup>12</sup> The Gini coefficient or index is an economic measure that explains the distribution of income in a given society. In general terms, is the coefficient is zero, there is perfect equality and if it is 100, there is perfect inequality.

improve the levels of development should be made to increase the domestic market in the region, mainly in terms of demand and capital accumulation.

With the actual distribution of income, as shown in table 14, it is practically impossible to put in practice Bulmer-Thomas fourth point, and less the second one. Indeed, what is needed, is a political economy designed to provide the less advantaged classes with the tools and conditions to improve their living and economic conditions. Again, as Bulmer-Thomas clearly singled out: “No Central American country can afford to repeat the fall in living standards experienced in the 1980s, so that growth of real income per head in the 1990s is the highest priority” (1991, p. 5). Thus, the first condition for a new model of development in the region should call for the inclusion of the poor and voiceless, providing them with education, grants, loans, health services and entrepreneurial training in order to assure, or at least start to recover from the dramatic decline of the 1980s. Still, 15 years or so, after the signing of Esquipulas II and the start of the pacification process, there is a long way ahead to walk, and the pace so far seem to be very slow. Central America needs to increase in the short run its growth rates, stabilize its economies, incorporate real exchange rates, enforce tight fiscal policies and the enlarge the internal market, via the empowerment of the impoverished. When thinking about Central America, close attention should be paid to the ability of people there to innovate, adding value to the resources they possess. The region is rich in natural resources, and what is needed is an indigenous ability to innovate, because there is no secret that tacit knowledge is critical and a lack of education is still a serious dilemma, and in such cases it is not possible, neither to copy or invent advantageously technology or modes of production. But moreover, at the end of the day, Central America future has to be design and determined by and for Central Americans.

On the whole, and to sum up, the Central American countries have made a transition in the last thirty years, from a very dynamic period of growth and economic buoyancy, to a period of contradictions and internal fights for power in most of this economies. Moreover, with the ending of the 1980s confrontations, a new culture of peace started. In front of the great challenges of the globalization processes, Central Americans need to consolidate its democracies in order to obtain a more sustainable human development (see figure 1). For that, it is imperative also, to understand the relevance of a new culture of development and the strengthening of values, attitudes and beliefs, regarding work, progress and family, towards development, as well as an understanding of the several needs the different groups face up in their daily lives.

**Figure 1. Central American Transformation**



Finally, more research and scholar should be undertaken to explore, and understand the development process in Central American, and propose new models and strategies for the betterment of its inhabitants, because, after all:

“The days go by. The rains return in May each year. Peasants once again plant corn and in their way push life into the hearth of the earth. The future may be inscrutable; the sentence of the past is still with us. But we can no longer believe they deserve yet another stillborn Spring” (Brignoli, 1989, p.191).

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