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The Travails of Development and Democratic Governance in Central America

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TABLE OF CONTENTS

Introduction 1

First Challenge: The Weakness of Political Power. 3

Second Challenge: Globalization. 9

Third Challenge: Crime and Violence. 17

Final Thoughts and Policy Recommendations. 21

INTRODUCTION

Even by Latin American standards, the past thirty years have been momentous in Central America.¹ In the 1970s and 1980s, long-standing social inequalities and political vulnerabilities gave way to civil wars in much of the isthmus. The region became one of the frontlines of the Cold War and a major obsession in Washington's foreign policy circles. Later, external pressures and successive feats of political courage by Central American leaders brought a negotiated end to those conflicts and a transition process in which democratically elected governments replaced authoritarian regimes, some of them unspeakably brutal. The result of these achievements was both optimism in the region's development potential and a visible loss of interest on the part of external actors, particularly the United States. After being the Afghanistan of the 1980s, Central America essentially dropped off the U.S. radar screen for the past twenty years.

Lately, it has made a comeback into the headlines but for all the wrong reasons. Today, Central America seems to be reverting to its bad old ways. Three Central American countries—Honduras, Nicaragua and Guatemala—are facing serious political challenges that render the frailty of their democratic institutions all too apparent. In 2009, Honduras saw the ouster of President Manuel Zelaya, a democratically elected leader—a very erratic one too—and a near

democratic breakdown, which in some ways was a throwback to a dark age of Latin American political history. Despite the swearing in of a new democratically elected president, Porfirio Lobo, over one year ago, the structural drivers of the Honduran debacle remain untouched to this day.²

Meanwhile, Nicaragua is witnessing the demise of the democratic institutions that, with all their imperfections, were the tangible legacy of not one but two different civil wars and more than 100,000 deaths. The re-election of former Sandinista strongman Daniel Ortega in 2006 has brought an onslaught on checks and balances and basic civil liberties, most visible in the fraud perpetrated in the 2008 local elections and in the president's blatant unconstitutional efforts to remain in power beyond the end of his current term in 2012.³ Like the 2009 events in Honduras, the Nicaraguan slide into authoritarianism is also a sign of the troubling effects that President Hugo Chávez's experiment in Venezuela—to which Ortega is closely aligned—is having throughout the region. Guatemala, in turn, faces a deeper problem that goes beyond the nature of the current government to encompass the very ability of its state to exert authority over its territory. Severely challenged by organized crime, Guatemala faces an existential crucible, whose result will have regional implications.

¹ The term Central America includes Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama. Belize, very much part of the isthmus geographically is nonetheless historically, culturally and politically distinct from the rest of the region, and not considered in the following analysis.

² On the Honduran crisis see Kevin Casas-Zamora, "The Honduran crisis and the Obama Administration" in Abraham F. Lowenthal, Theodore J. Picone and Laurence Whitehead, eds., *Shifting the Balance: Obama and the Americas* (Washington DC: Brookings Institution Press, 2011).

³ See Kevin Casas-Zamora, "Don't let Nicaragua's Ortega become a Mugabe," *Christian Science Monitor*, 30/12/2008; Carlos Fernando Chamorro, "Reelección de Ortega a la brava," *Confidencial*, 5/10/2010; "La justicia nicaragüense habilita a Ortega para ser reelecto por tercera vez," *El Mundo* (Madrid), 1/10/2010.

In so far as they are related to the persistence of old and unmet development challenges, as well as to the emergence of some very complex new ones, the political travails seen today in some Central American countries are here to stay. As has happened before, Central America, too close to the United States to be ignored, may yet find a way into the crowded radar of the White House, as suggested by President Obama's visit to El Salvador in March of 2011.

These pages will examine three sets of issues that remain crucial to Central America's development and will continue to make the region prone to political crises and democratic reversals. The first issue is the weakness of the state and, more generally, of political power; the second is the region's uncertain path towards integration with the world economy; and the third, and arguably most pressing, is crime and violence. All of them need to be dealt with in a consistent manner and with the help, in some cases, of external actors.

Before addressing them, two caveats are in order. The first is that making generalizations about Central America is risky because the region is surprisingly heterogeneous (see Table 1).

TABLE 1. Human Development Index and Income Per Capita in Central America, 2008

Country	Human Development Index		GDP Per Capita (PPP US\$)
	Rank	Index	
High Human Development			
Panama	54	0.755	13,348
Costa Rica	62	0.725	10,870
Medium Human Development			
El Salvador	90	0.659	6,498
Honduras	106	0.604	3,750
Nicaragua	115	0.565	2,567
Guatemala	116	0.560	4,694

Source: United Nations Development Program, *Human Development Report 2010* (New York: UNDP, 2010).

The table shows a clear divide between a more developed south—comprised of Panama and Costa

Rica—and a far less developed center and north, i.e., Nicaragua, Honduras, Guatemala and, to a lesser extent, El Salvador. Panama's Human Development Index is at roughly the same level as Croatia's, whereas in terms of human development Guatemala is at a similar stage as Equatorial Guinea. Similarly, the region's richest country is more than five times as wealthy in per capita terms as the poorest one.

The second caveat is about optimism and pessimism. This paper will dwell on challenges and pending issues, which will give a somber flavor to these pages. Yet, when discussing Central America's challenges we must never forget where the region hails from. Little more than two decades ago civil wars were raging in three countries in the region and a narco-dictator, Manuel Antonio Noriega, was ruling another one. As will become evident below, the problems that nations in the isthmus face are huge, but they have come a long way. Despite everything, the glass in Central America is half full, not half empty.

This is particularly true if some of the region's positive structural traits are brought into the picture. The first and most obvious is its geographical location, which gives it easy access to the largest and richest economy in the world, an extraordinary biodiversity, and a huge potential for the development of alternative energy sources, such as hydropower, geothermal energy, and solar energy. Further, Central America is in the middle of a demographic transition that provides it with a significant bonus. The current generation will have the advantage of having a lower dependency burden, i.e., more people in the labor force and fewer children and elderly people, than any previous or future generation.⁴ This imposes the burden of creating jobs at an accelerated pace, but it also means that should Central America make the necessary investments to increase the current cohort's productivity, it could see a major leap in its human development level.

With those two qualifications out of the way, let us probe three crucial development challenges faced by the isthmus.

⁴ Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), p. 83.

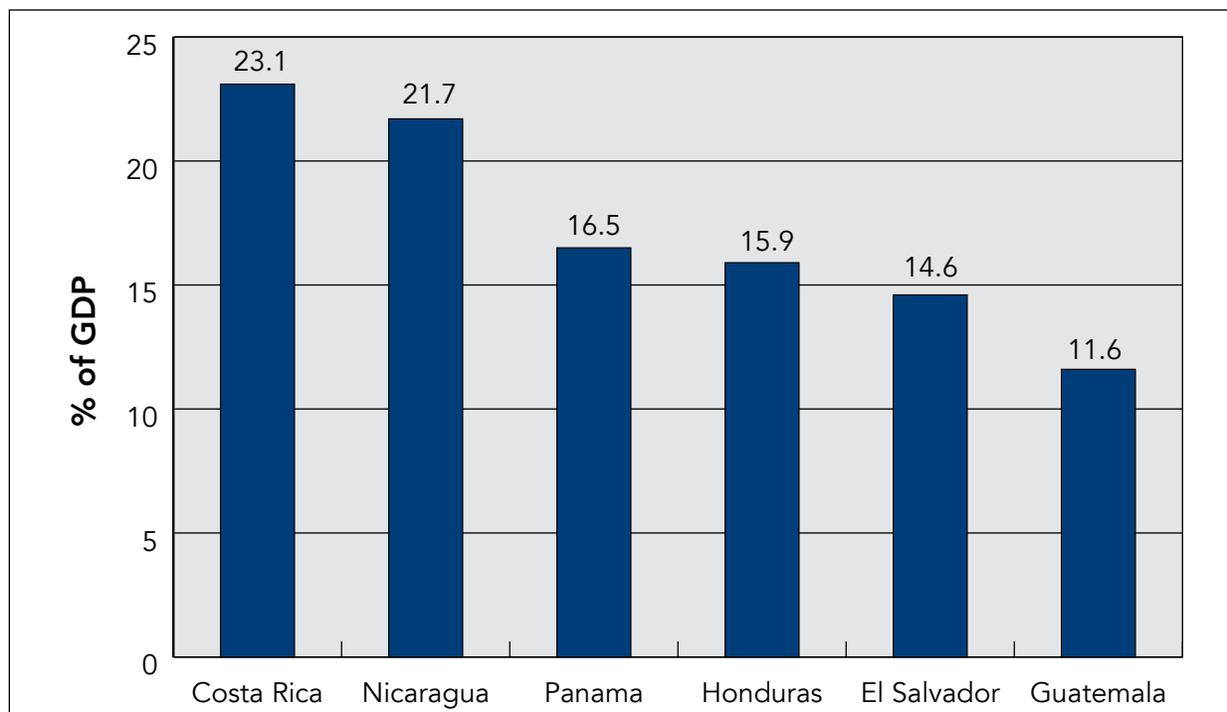
FIRST CHALLENGE: THE WEAKNESS OF POLITICAL POWER

With the possible exception of Costa Rica and Panama, throughout Central America both states and governments are very weak and increasingly incapable of providing the public goods and services essential for the pursuit of human development, social cohesion, and sustainable economic growth. The signs of this weakness are abundant, but there are three that deserve to be highlighted: the feeble tax structure; the very limited, and diminishing, bureaucratic capabilities; and the reduced legitimacy enjoyed by crucial democratic actors, notably political parties.

Concerning the tax structure, the situation in Central America, as in much of Latin America, is lamentable (see Graph 1).⁵

At 17.2% of GDP, the average tax burden in Central America is below the norm in Latin America (18.7%) and even Sub-Saharan Africa (17.3%). It stands at less than half of the average tax revenue collected by OECD countries (34.8%). Moreover, well over 70% of the taxes in Central America are indirect taxes, i.e., taxes that are not sensitive to the

GRAPH 1. Tax Burden (with social contributions) in Central America, 2008



Source: Comisión Económica para América Latina y el Caribe [CEPAL], *Time for equality: closing gaps, opening trails* (Santiago: CEPAL, 2010), p. 229.

⁵ See a good analysis placing the Central American cases in a broader perspective in Mark Gallagher, “Benchmarking tax systems” in *Public Administration and Development* 25 (2005).

wealth of taxpayers. While it is true that the average tax burden has crept up from less than 12% of GDP in 1990, it has done so through a significant hike of general consumption levies, which fall disproportionately on lower and middle classes.⁶

Such fiscal starvation and inequity impinge on the state's ability to act effectively to reduce the very high levels of poverty and inequality. Outside Costa Rica, public expenditure in social pursuits remains at dismally low levels in the region. In Nicaragua, Honduras and Guatemala it hovers around or barely above \$100 per capita per year, a far cry from the figures spent even in other Latin American countries, such as Mexico (\$782), Brazil (\$1,019) or Uruguay (\$1,542).⁷ Given such dearth of social investment, it is no small feat that poverty in the isthmus fell moderately in the previous decade. Yet, it continues to affect 47% of the Central American population, including one-fifth that lives in extreme deprivation.⁸ Moreover,

income inequality remains at some of the world's highest levels. Depending on the Central American country, the richest 10% of the population is between 3 and 6 times richer than the poorest 40%.⁹ These extreme imbalances—and the very limited ability of the state to redress them—exact a heavy price on society: high levels of violence and a certain kind of politics, where the populist temptation becomes a permanent danger. Both are bad news for democratic stability.

The Central American states' lack of bureaucratic capabilities compounds their fiscal weakness. Whether measured according to government effectiveness, regulatory quality, control of corruption or, particularly, the rule of law, the Central American states attain mediocre results. In the case of Guatemala, Honduras and Nicaragua, the situation is worse: their results are almost uniformly below the Latin American average, already a low benchmark (see Table 2).¹⁰

TABLE 2. Relative Performance in Selected Governance Indicators in Central America, 2009 ⁽¹⁾

Country	Government Effectiveness	Regulatory Quality	Control of Corruption	Rule of Law
Panama	62.4	64.8	49.5	52.4
Costa Rica	65.7	67.6	72.9	65.6
El Salvador	52.9	63.3	53.3	22.6
Guatemala	29.0	51.0	32.4	13.7
Honduras	28.1	45.7	20.5	20.8
Nicaragua	14.3	37.6	24.3	21.7
Latin America	44.4	47.6	43.5	33.8

Note: (1) Figures indicate percentile among all countries in the world, with higher numbers indicating better relative performance. Green squares are above the Latin American average while red squares are below it.

Source: Daniel Kaufmann, Aart Kray & Massimo Matruzzi, *World Governance Indicators* available at <<http://info.worldbank.org/governance/wgi/index.asp>>.

⁶ All figures in this paragraph include social contributions. Latin American figures from Comisión Económica para América Latina y el Caribe [CEPAL], *Time for equality: closing gaps, opening trails* (Santiago: CEPAL, 2010), p. 229. Figures for Sub-Saharan Africa from Oscar Cetrángolo and Juan José Gómez-Sabaini, *La tributación directa en América Latina y los desafíos de la imposición sobre la renta* (Santiago: CEPAL, 2007), p. 14. OECD figures from Organization of Economic Cooperation and Development [OECD], *OECD Tax Database* available at <www.oecd.org/document/60/0,3746,en_2649_34897_1942460_1_1_1_1,00.html#A_RevenueStatistics>. Figures of indirect and general consumption taxes in Central America from Manuel Agosin et al, *Panorama tributario de los países centroamericanos y opciones de reforma* (Washington DC: Inter American Development Bank, 2004), p. 6.

⁷ Figures from Comisión Económica para América Latina y el Caribe [CEPAL], *Panorama Social de América Latina y el Caribe* (Santiago: CEPAL, 2009), p. 98. In Sweden it is more than \$9,000 per head (Organization of Economic Cooperation and Development [OECD], *OECD StatExtracts* available at <<http://stats.oecd.org>>).

⁸ The figure is for 2006. In 2001, 51% of the Central American population was below the poverty line. Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), pp. 93-94.

⁹ Author's calculation based on Comisión Económica para América Latina y el Caribe [CEPAL], *Anuario Estadístico para América Latina y el Caribe 2010* (Santiago: CEPAL, 2010), pp. 67-68. In Norway, for instance, it is approximately 1 to 1 (Statistics Norway, *The income distribution survey* available at <<http://www.ssb.no/english/subjects/05/01/incdist/tab-1999-10-05-01.html>>). Outside El Salvador, the Gini coefficient is above 0.500 in all Central American countries. The average for OECD countries is 0.310 (Organization of Economic Cooperation and Development [OECD], *Growing Unequal? Income Distribution and Poverty in OECD Countries* (Paris: OECD, 2008)).

¹⁰ See also Koldo Echabarría and Juan Carlos Cortázar, "Public administration and public employment reform in Latin America," in Eduardo Lora, ed., *The State of State Reform in Latin America* (New York: IADB-Stanford University Press, 2007), pp. 150-151.

Moreover, with the exception of Panama and El Salvador, their governance performance has deteriorated over the past decade, notably in the case of Costa Rica, which appears to be reverting to the Central American norm (see Table 3). In a way, the problem in Central America is less the excess of bureaucracy—as commonly claimed by those of a conservative bent—than the utter *lack* of a modern, merit-based bureaucracy.¹¹

Relatively low levels of democratic legitimacy and an acute representation deficit make the feebleness of the state apparatus much worse. Outside Costa Rica and Panama, support for democracy and satisfaction with it in Central America are comparatively low, even by Latin American standards. Even more limited are the prevailing levels of trust in basic representative institutions such as the legislatures and political parties (see Table 4).

TABLE 3. Selected Governance Scores in Central America, 1998-2009 ⁽¹⁾

Country	Government Effectiveness		Regulatory Quality		Control of Corruption		Rule of Law	
	1998	2009	1998	2009	1998	2009	1998	2009
Panama	0.25	0.25	0.90	0.44	-0.34	-0.26	-0.19	-0.09
Costa Rica	0.68	0.43	0.88	0.53	1.00	0.70	0.74	0.56
El Salvador	-0.60	-0.04	0.30	0.38	-0.69	-0.17	-0.62	-0.78
Guatemala	-0.41	-0.69	0.08	-0.07	-0.70	-0.60	-1.05	-1.12
Honduras	-0.68	-0.71	-0.12	-0.24	-0.73	-0.89	-0.94	-0.87
Nicaragua	-0.42	-1.04	0.01	-0.39	-0.78	-0.76	-0.72	-0.83

Note: (1) Scale runs from -2.50 to 2.50, with higher figures indicating better performance. Green squares indicate an improvement between 1998 and 2009 while red squares indicate a worsening performance. Yellow squares indicate that no change has happened.

Source: Daniel Kaufmann, Aart Kray & Massimo Matruzzi, *World Governance Indicators* available at <<http://info.worldbank.org/governance/wgi/index.asp>>.

TABLE 4. Selected Indicators of Support for Democracy in Central America, 2010 ⁽¹⁾

Country	Support for democracy ⁽²⁾	Satisfaction with democracy	Trust in Congress	Trust in Political Parties
Panama	61	56	37	29
Costa Rica	72	61	47	23
El Salvador	59	43	25	16
Guatemala	46	28	17	14
Honduras	53	35	41	22
Nicaragua	58	36	21	17
Latin America	61	44	34	23

Notes: (1) Figures in percentages. Green squares are above the Latin American average while red squares are below it. Yellow squares are equal to the Latin American average. (2) Percentage of the population that prefers democracy to an authoritarian system in any circumstance.

Source: Latinobarómetro, *Informe 2010* (Santiago: Latinobarómetro, 2010).

¹¹ Here's a little confession from the author. Despite the recent decline in the performance of its public sector, Costa Rica continues to appear atop Central America and, indeed, very close to the top of Latin America in almost any ranking of state capacities (see, for instance, Inter American Development Bank [IADB], *The Politics of Policies – Economic and Social Progress in Latin America 2006 Report* (New York: IADB, 2005), pp. 68-70). I find this remarkable. Despite my acute awareness of the fiscal shortages that beset the Costa Rican state, when I joined the Costa Rican government, I was constantly haunted by the question whether collecting more taxes was justified, given the state's pervasive incapacity to spend the money efficiently and effectively.

Of greater concern, there is evidence to suggest that democratic attitudes in the isthmus are weaker amongst the young. A study on political attitudes amongst the Central American youth of a few years ago evinced that “abstract” support for democracy as a system of government was significantly lower amongst secondary education students than among adults, in some cases by margins of more than thirty points.¹² Moreover, the young in Central America strongly feel that they are not being represented at all by political parties. They appear to suffer from an extremely severe case of political disaffection (see Table 5).

Country	Youth	Adults
Costa Rica	10.6	26.3
Panama	8.2	10.9
El Salvador	9.3	26.0
Guatemala	5.6	19.9
Honduras	7.6	27.7
Nicaragua	6.8	27.2

Source: Florisabel Rodríguez and Johnny Madrigal, “Los hijos y las hijas de la democracia: Estudio comparativo” in Florisabel Rodríguez, Silvia Castro and Johnny Madrigal, eds., *Con la Herencia de la Paz: Cultura Política de la Juventud Centroamericana* (San José: Editorial Fundación UNA., 2003), p. 788.

In their political hostility—which does not bode well for the future of democracy—the young suffer from an especially intense bout of a societal disease. The truth is that political parties hardly represent *anyone* in Central America. The reasons for this are surely very complex. But is not far-fetched to speculate that

some of it has to do with the endemic corruption that afflicts the region¹³ and with the consistent inability of parties and political leaders to turn expectations into realities. Even in the best of cases, when mendacity and demagoguery do not get the best of Central American politicians, the power levers of feeble states are of very limited use to get anything done.

Hence, parties come and go, crushed under the weight of popular disaffection. As the figures in Tables 4 and 5 suggest, the problem is particularly acute in Guatemala, where electoral volatility and party system weakness have reached some of the worst levels in Latin America.¹⁴ In some ways, Guatemala has become a party-less democracy. In less dramatic fashion, even Costa Rica’s solid party system has experienced serious fragmentation over the past two decades.¹⁵

The erosion of parties and party systems, seen not just in Central America but throughout Latin America, has given way to a noxious political phenomenon with deep roots in the region’s political culture: the return of the *strongman*, and the reinforcement of a “delegative” model of democracy, with anemic checks and balances.¹⁶ This is an occurrence seen on the left and the right of the ideological spectrum. It is to be found in Nicaragua, as much as in Panama. Elsewhere in Latin America, it can be seen in Venezuela, Bolivia and Ecuador, and just recently was thwarted at the eleventh hour in Colombia (in a good way) and Honduras (in a bad way). In almost

¹² Florisabel Rodríguez and Johnny Madrigal, “Los hijos y las hijas de la democracia: Estudio comparativo” in Florisabel Rodríguez, Silvia Castro and Johnny Madrigal, eds., *Con la Herencia de la Paz: Cultura Política de la Juventud Centroamericana* (San José: Editorial Fundación UNA, 2003), p. 777.

¹³ The Central American scores in the Corruption Perception Index 2010 published by Transparency International are very low outside Costa Rica (5.3 out of a maximum of 10, with 10 meaning no corruption). In Latin America, only Paraguay and Venezuela score lower than Nicaragua (2.5) and Honduras (2.4). See Transparency International, *Corruption Perception Index 2010 Results* available at <http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results>.

¹⁴ See electoral volatility figures until 2009 in Raúl Madrid, “Ethnic cleavages and electoral volatility in Latin America and the Caribbean” in *Comparative Politics*, Vol. 38, October 2005, p. 6. Also, Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), pp. 298-299.

¹⁵ Costa Rica’s effective number of parties—a measure of electoral fragmentation—moved from 2.56 in 1990 to 4.63 in 2006 (author’s calculation from official data of Costa Rica’s Tribunal Supremo de Elecciones (TSE), *Información Electoral - Datos de elecciones 1953-2010* available at <<http://www.tse.go.cr/elecciones.htm>>).

¹⁶ The classic statement of the concept is Guillermo O’Donnell, “Delegative Democracy” in *Journal of Democracy*, Vol. 5, No. 1, January 2004. “Delegative democracies rest on the premise that whoever wins election to the presidency is thereby entitled to govern as he or she sees fit... The president is taken to be the embodiment of the nation and the main custodian and definer of its interests... Typically, winning presidential candidates in D(elegative) D(emocracie)s present themselves as above both political parties and organized interests... (O)ther institutions—courts and legislatures, for instance—are nuisances that come attached to the domestic and international advantages of being a democratically elected president. Accountability to such institutions appears as a mere impediment to the full authority that the president has been delegated to exercise... Delegative democracy is not alien to the democratic tradition. It is more democratic, but less liberal, than representative democracy” (pp. 98-99).

all cases, this phenomenon has been aided by the tampering with presidential re-election clauses.

The result of the above-described political pathologies—fiscally starved states, ineffective public institutions, and representative actors endowed with low levels of legitimacy—is a situation in which political authorities are simply *weak*, i.e., unable to provide the public goods that are sorely needed to nurture human development. Democratically elected politicians in Central America have a very limited ability to transform their societies in a positive way (although not in a negative way) and exhibit a growing helplessness vis-à-vis other competing powers, such as business lobbies, media conglomerates and, distressingly, organized crime.

This is neither a speculation nor a strictly Central American problem. A few years ago, in the course of the research that led to the United Nations Development Program's Report on Democracy in Latin America, more than 230 Latin American political,

social and economic leaders were asked which actors in the region were the most powerful. Nearly 80% of those surveyed mentioned business conglomerates and the financial sector, while two-thirds mentioned the mass media. Conversely, the executive branch was mentioned by barely a third of the sample and the legislative branch by less than 13%. This was an astounding admission of the powerlessness of formal politics in Latin America.¹⁷

Weakness begets weakness. While it is abundantly clear that measures such as a progressive tax reform, civil service modernization and steps to buttress party systems (for example adequate public funding systems), are badly needed in Central America, it remains unclear how to build a reform coalition to make them possible. As it is, Central America's states and democratic institutions are incapable of redressing the immense social imbalances that have made Central America's journey towards modernity a treacherous and often tragic one.

¹⁷ The question was open and those interviewed could give several answers. United Nations Development Program [UNDP], *La Democracia en América Latina: Hacia una democracia de ciudadanas y ciudadanos* (New York: UNDP, 2004), p. 155.

SECOND CHALLENGE: GLOBALIZATION

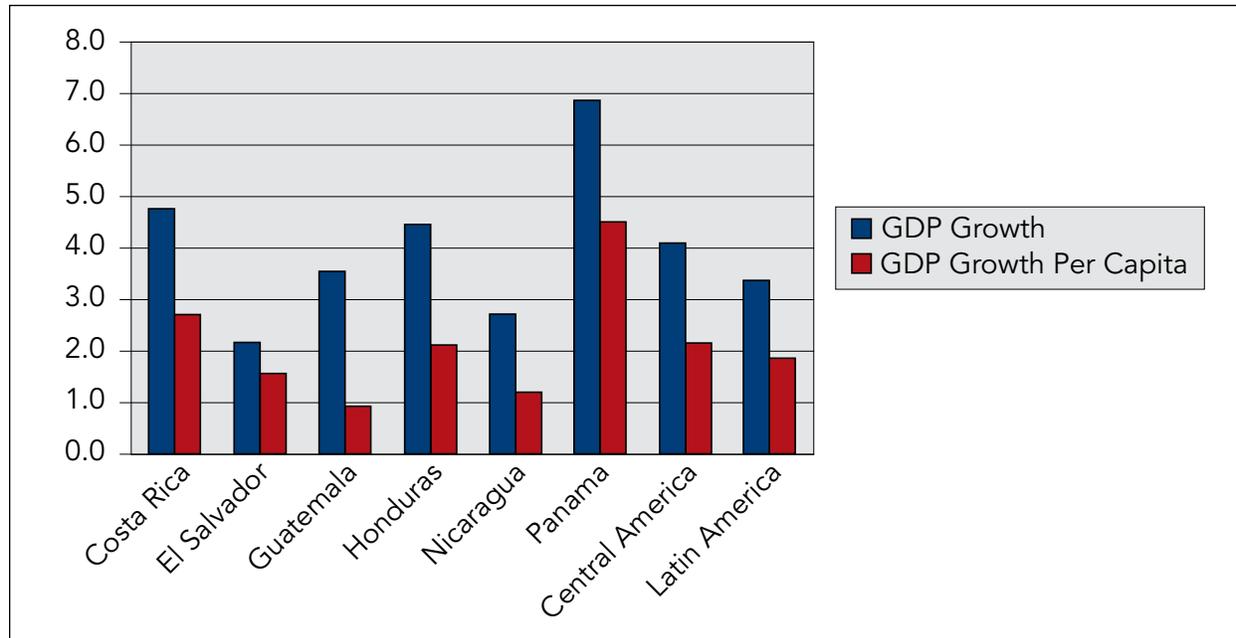
The second challenge concerns Central America's uncertain and uneven integration to the world economy.

Notwithstanding the economic contraction of 2009, Central America experienced adequate economic growth during the past decade, indeed above the Latin American average. The regional figures reflect, in part, Panama's spectacular growth rates during the 2002-2009 period (see Graph 2).

Much of this expansion is the consequence of the region's increasingly close ties to the world economy. Given the small size of the Central American countries, it is to be expected that their economies are very open. Foreign trade equals at least 50% of GDP in all countries and above 100% in Honduras, Costa Rica and Panama.¹⁸

These countries have understood that they have very few options short of wholeheartedly embracing

GRAPH 2. Average Annual Economic Growth (%) in Central America, 2002-2009



Source: Comisión Económica para América Latina y el Caribe [CEPAL], *Anuario Estadístico para América Latina y el Caribe 2010* (Santiago: CEPAL, 2010), pp. 77-78.

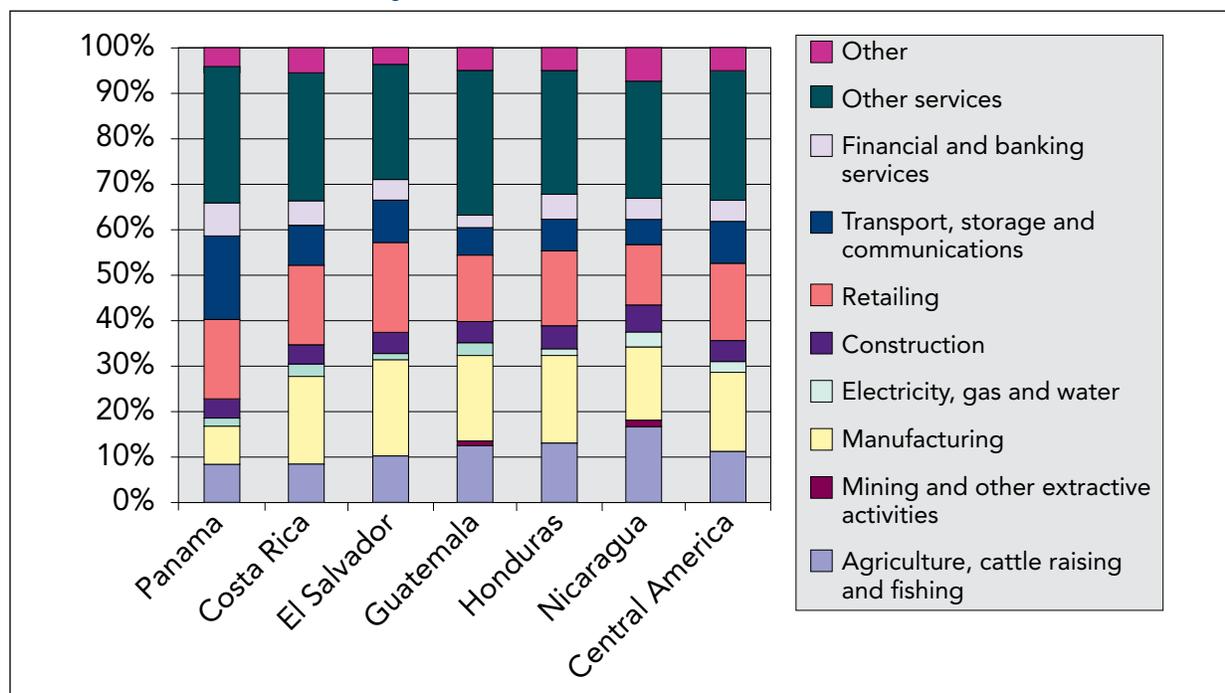
¹⁸ Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), pp. 542-550.

globalization. They were quick on their feet to sign and ratify free trade agreements with the United States, their largest trading partner by far.¹⁹ Moreover, with the exception of Panama, the other countries recently concluded a successful negotiation of a comprehensive trade and cooperation agreement with the European Union, and, in the case of Costa Rica, also with China and Singapore.

Yet, in order to reap the benefits of globalization the task that lies ahead for the region is vastly more complicated than signing free trade agreements alone. If these small economies want to be viable in the global economy, they now have to undertake the truly difficult endeavor of raising the sophistication and productivity of their economic structures and work forces. The obstacles are significant and, as usual, not evenly distributed.

While the economic structure of every country in the region has mutated rapidly in the recent past, the differences among them remain important. Agriculture, cattle-raising and fishing activities are more significant in Guatemala, Honduras and particularly Nicaragua than in Costa Rica and Panama, where their economic contribution has fallen to less than 8% of GDP. Conversely, the tertiary sector is larger in Costa Rica and Panama. In the latter, manufacturing is marginal, but transport, financial and banking services account for nearly one fourth of GDP (see Graph 3). Equally significant are the differences regarding the types of merchandise exports that each country in the isthmus sells to the world. The much more elaborate content of Costa Rica's exports sets the country apart from the rest of the region (see Graph 4).

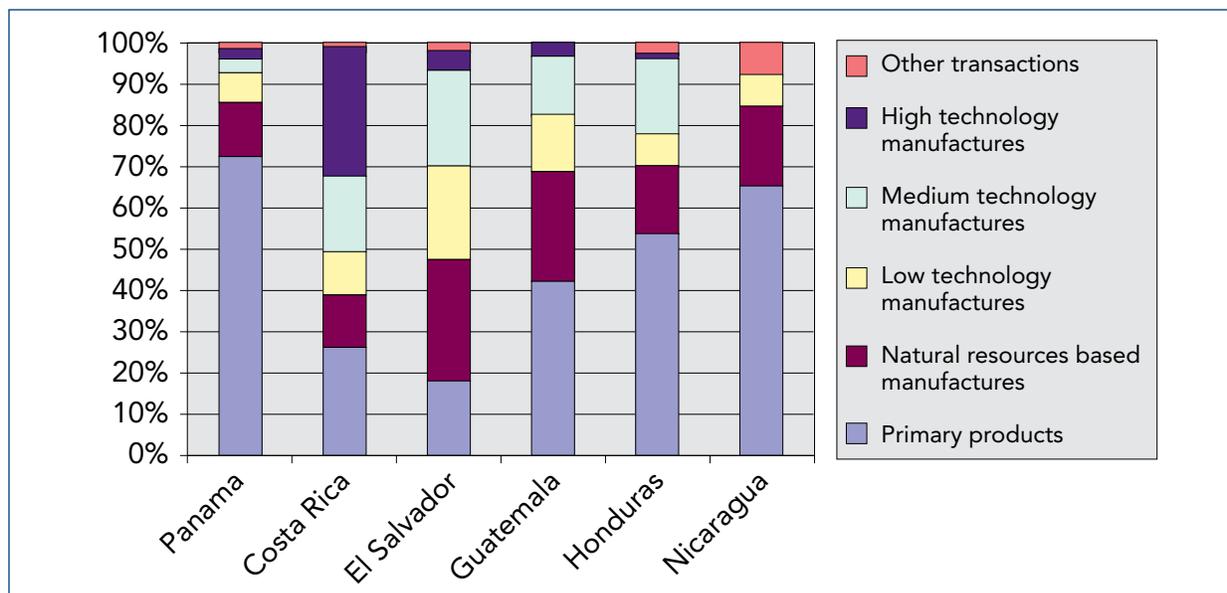
GRAPH 3. Structure of GDP by Economic Sector in Central America, 2005



Source: Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), p.160.

¹⁹ Bilateral trade in goods between the United States and Central America reached \$35 billion in 2009, about the same as between the United States and India (figures from Office of the United States Trade Representative, *Data on countries and regions* available at <<http://www.ustr.gov/countries-regions>>). More than 50% of Central America's exports go to the United States, 33% of imports come from there, as does 37% of Foreign Direct Investment (figures from Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), p. 533; Comisión Económica para América Latina y el Caribe [CEPAL], *The Direct Foreign Investment in Latin America and the Caribbean in 2009* (Santiago: CEPAL, 2010); World Trade Organization [WTO], *Statistics Database* available at <<http://stat.wto.org/Home/WSDBHome.aspx?Language=E>>). CAFTA-DR entered into effect in 2009 in Costa Rica, the last country to ratify the agreement. The United States-Panama Free Trade Agreement still awaits ratification by the U.S. Senate.

GRAPH 4. Structure of Merchandise Trade by Technology Intensiveness in Central America, 2006



Source: Author's elaboration based on country figures from Comisión Económica para América Latina y el Caribe [CEPAL], Division of International Trade and Integration.

What these data show is that the economies of Panama and Costa Rica are much more sophisticated than those of the rest of the isthmus. Their reliance on sectors such as tourism and banking, as well as some kinds of high tech manufacturing (in the case of Costa Rica), gives them reasonably good prospects for the future. The poorer countries in Central America have instead followed a model of international insertion largely reliant on inexpensive labor, an option that has translated itself into a predominant role for the export of agricultural products and very basic manufactures. For instance, textile and apparel comprise around two thirds of U.S.-bound exports for El Salvador and Honduras, and 55% for Nicaragua.²⁰

It is unclear how resilient such a model will prove in the face of the explosive economic expansion of

China and India. A recent study concluded that in Latin America the clear losers of China's integration into the world economy "will be sectors like textiles and countries specialized in exports of labor-intensive manufactures."²¹ Unlike for most commodity-producing South American nations, for much of Central America the rise of the Asian giants is more an immediate economic threat than an opportunity. Even for Costa Rica, the increasing prowess of the Chinese labor force in high tech manufacturing poses a daunting prospect in the short- to medium-term.²²

The real problem, however, is more connected to internal challenges than to external ones. Total factor productivity in Central America is very low and has grown slowly in the recent past. On average, it grew less than 0.5% per year in 1991-1999. Such se-date growth is true even of Panama and Costa Rica,

²⁰ Figures for 2009 from Office of the United States Trade Representative, *Data on countries and regions* available at <<http://www.ustr.gov/countries-regions>>.

²¹ Jorge Blázquez-Lidoy, Javier Rodríguez and Javier Santiso, "Angel or Devil? China's Trade Impact on Latin American Emerging Markets" in Javier Santiso, ed., *The Visible Hand of China in Latin America* (Paris: OECD, 2007), p. 67. See also Organization of Economic Cooperation and Development [OECD], *Perspectivas Económicas de América Latina 2008* (Paris: OECD, 2008).

²² China's high-tech exports grew 33% annually in 1995-2008. High-tech products (mostly computers, electronics and telecommunications equipment) moved from 7% of total Chinese exports in 1995 to 29% in 2008. By 2006, China had become the world's largest high-tech exporting country. See Yuqing Xing, *China's High-Tech Exports: Myth and Reality*, *East Asian Institute Background Brief No. 506* available at <<http://www.eai.nus.edu.sg/BB506.pdf>>.

much as their productivity levels dwarf those of the rest of the region.²³

How to increase productivity in Central America calls for a set of difficult undertakings, including increasing education expenditures that are dismally low in all the countries except Costa Rica.²⁴ On current trends, despite some improvements, by 2015 more than 70% of the Central American workforce will still lack a complete secondary education, including almost one third that will not have finished even a primary education.²⁵ It also requires improving road and port infrastructure that, outside Panama, is among the worst in Latin America,²⁶ and bringing research and development investments beyond the pitifully low levels that they exhibit now.

The latter is a point worth emphasizing. At 0.32% of GDP, the resources that Costa Rica invests in research and development are far and away the most abundant in Central America. Yet, that percentage stands at less than one third the figure for Brazil (Latin America's highest), and at one-fifteenth the figure for Israel (the world's highest).²⁷ The number of resident patent filings per million inhabitants in Guatemala is roughly on a par with that of Yemen or Zambia and is one seventh of India's figure.²⁸ One does not need to be a fortune teller to foresee the difficulties that Guatemala will encounter to keep pace with the 21st century.

Last but not least, countries in the region must address the factors that drive 51% of the labor force to informal jobs with very low productivity.²⁹ This is

directly connected with low education levels, cumbersome regulatory structures, and a dearth of official support for small and medium businesses. The latter comprise 97% of firms in the region, create the lion's share of jobs in it, but only exceptionally sell their products abroad.³⁰

All these challenges demand considerable public investments of different kinds and a state that works. This brings the discussion back to the question of fiscal robustness and state capabilities. The crucial point here is that unless Central American countries seriously undertake the multiple assignments required to raise productivity levels, their integration with the global economy will only entrench productive structures whose future prospects are grim. Moreover, it will consolidate the profound social and economic segmentation seen today in the isthmus, and the region's propensity to export its young people. For all the promise that economic openness holds for Central America, the truth is that, as of today, it remains no more than the project of a small, educated minority and not of Central American societies as a whole.

To all the structural flaws that hinder Central America's integration to the world economy, a final, more immediate warning must be added. It concerns the region's intense vulnerability to increases in the price of fossil fuels and food. Given global trends on both fronts, this is a challenge that Central America could find increasingly intractable in the near future. The isthmus imports practically all of its oil, which accounts for nearly one half of its total energy needs.

²³ Figures from Manuel Agosin et al., *Pequeñas Economías, Grandes Desafíos: Políticas Públicas para el Desarrollo en Centroamérica* (Washington DC: Inter American Development Bank, 2004), p.38 and Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), p. 159. Labor productivity growth in Latin America as a whole was 0.95% per year in the 1990s (Adriana Arreaza and Luis Miguel Castilla, *Productivity and Competitiveness in Latin America: Policy Options to Close the Gaps*, background paper for the Latin America Emerging Markets Forum (Montevideo: December 2007), p. 7).

²⁴ In 2006, public spending in education in Central America was, on average, 4.4% of GDP. Costa Rica was close to 8% (Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), p. 307).

²⁵ Juan Diego Trejos, *Características y evolución reciente del mercado de trabajo en América Central* (San José: Ponencia preparada para el Informe Estado de la Región en Desarrollo Humano Sostenible, 2008), p. 19.

²⁶ Only Panama scores above 3.0 in the World Bank's Logistics Performance Index (LPI), a multi-dimensional assessment of logistics performance, rated on a scale from 1 (worst) to 5 (best). If the Caribbean is excluded, only Bolivia ranks below El Salvador, Guatemala and Nicaragua in Latin America (World Bank, *Connecting to Compete 2010: Trade Logistics in the Global Economy* (Washington DC: World Bank, 2010)).

²⁷ United Nations Educational, Scientific and Cultural Organization [UNESCO], Institute for Statistics available at <<http://stats.uis.unesco.org>>.

²⁸ World Intellectual Property Organization [WIPO], *World Intellectual Property Indicators* available at <<http://www.wipo.int/ipstats/en/statistics/patents/>>.

²⁹ 1999 figure from Juan Diego Trejos and Miguel Del Cid, *Decent Work and the Informal Economy in Central America* (Geneva: ILO, 2002).

³⁰ Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), p. 537.

In fact, the region, endowed with a remarkable potential for the generation of clean energy, seems to be moving against its own nature: today 45% of electricity is generated from oil, up from 30% in 1990.³¹ The region's oil bill nearly trebled to \$7.5 billion in the course of the decade leading to 2009, even before the surge in oil prices experienced in 2010. That figure was equivalent to 14% of total exports, up from 10% in 2000.³²

At the same time, since the 1980s the region's economic model largely entailed discouraging the production of food, notably of basic grains, for the domestic market. In a recent study which ranked Latin American and Caribbean countries according to their vulnerability to food price increases placed the Central American countries in four of the top six positions.³³ In countries like Guatemala and Honduras, where poor households allocate close to 70% of their income to food items, any acceleration of food inflation can have dire consequences.³⁴ And accelerated they have. Since 2006, the retail prices of such staples as rice, red beans and maize have surged throughout the region.³⁵

These economic vulnerabilities help to understand the peculiar political alchemy that brought a

politician with oligarchic roots, such as Manuel Zelaya in Honduras, close to a populist firebrand like Venezuela's Hugo Chávez, a closeness that led to his ouster by other Honduran elites. One may object to the governing methods employed or the alliances forged by Zelaya, but in a country like Honduras the necessity of enacting basic reforms to reduce social inequities and the convenience of securing a regular supply of oil at subsidized prices are both indisputable. One may well consider Zelaya an irresponsible or unsavory character, but crazy he was not.

Honduras' recent political troubles thus offer a cautionary tale. In societies afflicted by low productivity, high inequality and tremendous economic frailty, globalization tends to nurture the unmet expectations and social resentment that make populism an irresistible temptation. If public resources are not urgently geared towards creating more productive labor forces, more cohesive societies and more resilient economies, sustaining liberal democratic institutions will prove a tall order in much of Central America.

³¹ *Ibid.*, p. 447.

³² Comisión Económica para América Latina y el Caribe [CEPAL], *Centroamérica: Estadísticas de Hidrocarburos 2009* (México: CEPAL, 2010), p. 7.

³³ United Nations World Food Program, *Alza de precios, mercados e inseguridad alimentaria y nutricional en Centroamérica* (San Salvador: UNWFP, 2008), p. 23.

³⁴ Oxfam, *Precios de Doble Filo: La crisis de precios de los alimentos – Lecciones y 10 medidas para los países en desarrollo*, Oxfam report available at <http://www.intermonoxfam.org/UnidadesInformacion/anexos/10219/081016_Preciosdedoblefilo.pdf>, p. 8.

³⁵ Between 2006 and 2010, the average increase in constant U.S. dollars of rice, red beans, and maize prices was 61%, 98% and 32% (author's elaboration based on country figures from Food and Agriculture Organization [FAO], *Global Information and Early Warning System on Food and Agriculture, National Basic Food Prices – Data and Analysis Tool* available at <<http://www.fao.org/giews/pricetool/>>).

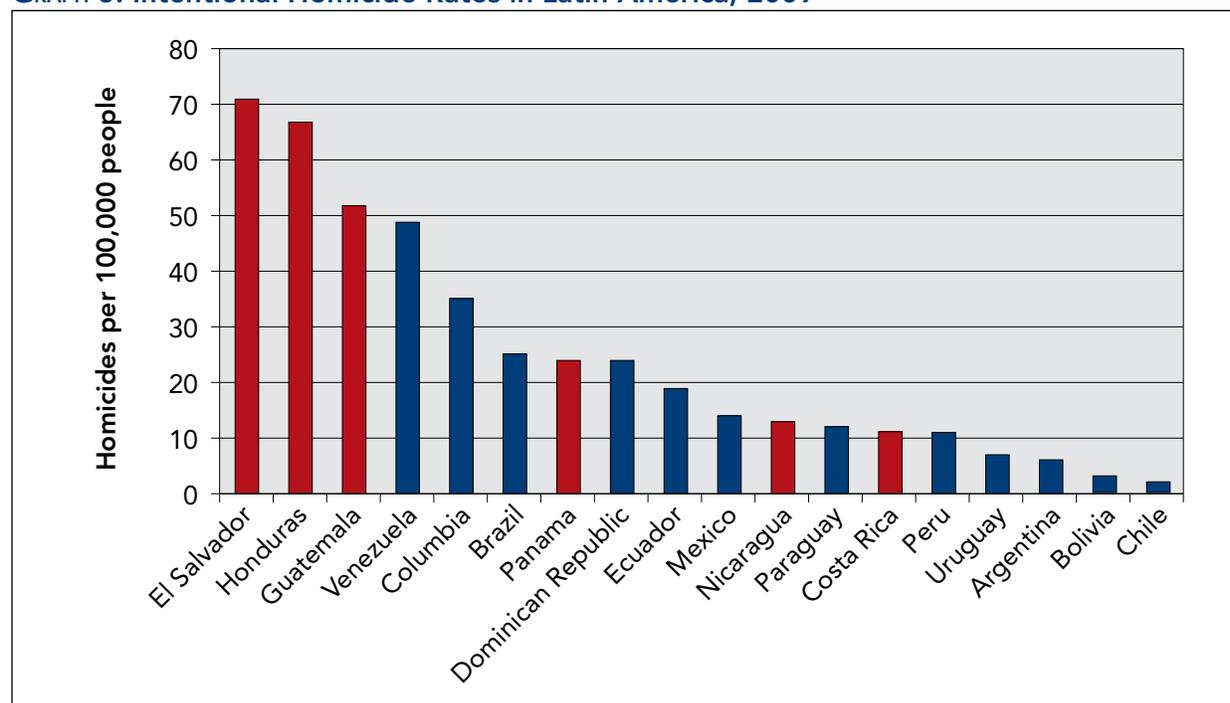
THIRD CHALLENGE: CRIME AND VIOLENCE

Even by the poor Latin American standards regarding violence, what is happening in Central America is a tragedy (see Graph 5). More than 125,000 Central Americans died in the previous decade alone as a result of crime.³⁶ Almost certainly, this number of deaths is as high as it was at the peak of the region's civil wars.

Never a sedate place, Central America has seen a serious deterioration of its crime indicators in the recent past. In the past decade, homicide rates have gone up

in every country in the region, in some cases dramatically. The northern half of the isthmus, comprising Guatemala, Honduras and El Salvador, is now the most violent region in the world outside of active war zones. In 2007, Guatemala, El Salvador and Honduras *each* had, more murders than the 27 countries of the European Union *combined*.³⁷ Even in the safer southern half of the region, crime figures have taken a turn for the worse, with homicide rates increasing sharply in Costa Rica (63%) and Panama (140%) in the past five years (see Graph 6).

GRAPH 5. Intentional Homicide Rates in Latin America, 2009

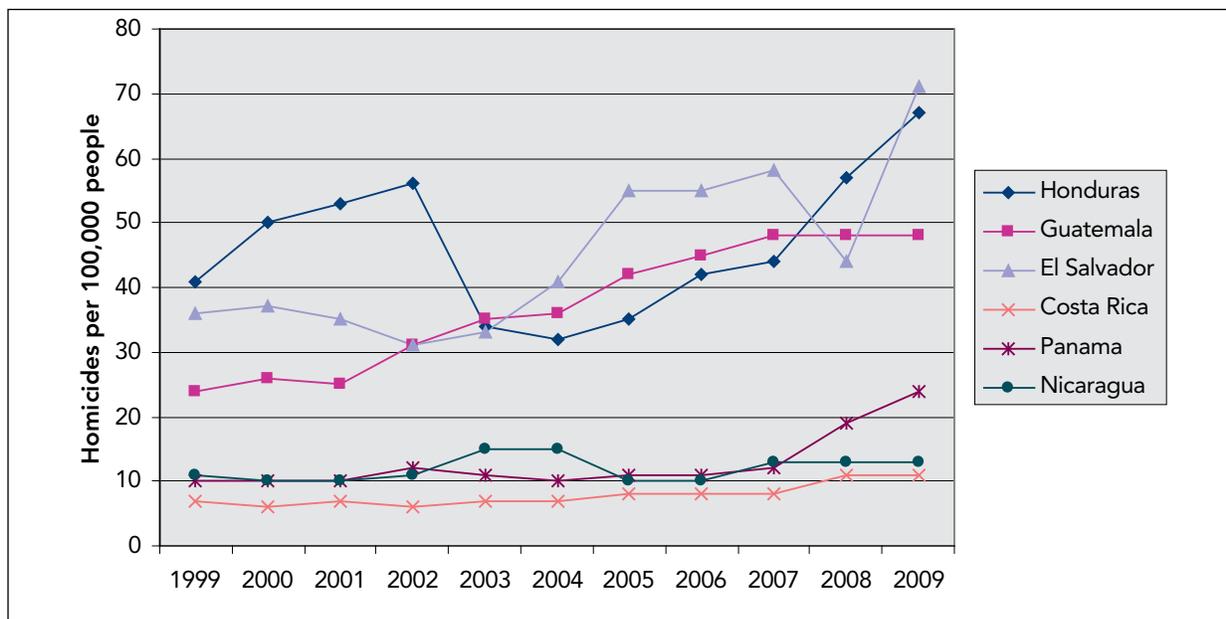


Sources: United Nations Office on Drugs and Crime [UNODC], *Homicide Statistics* available at <<http://www.unodc.org/unodc/en/data-and-analysis/homicide.html>>, and national police sources.

³⁶ Author's estimation based on figures from Observatorio Centroamericano sobre Violencia [OCAVI], *Tasas de homicidio doloso en Centroamérica y República Dominicana por 100.000 habitantes (1999-2007)* available at <www.ocavi.com>, and official police sources from each country.

³⁷ Central America figures from official police sources in each country. EU figures from Eurostat, *Crimes recorded by the police: Homicide – country* available at <<http://epp.eurostat.ec.europa.eu/portal/page/portal/crime/documents/homicide.pdf>>.

GRAPH 6. Intentional Homicide Rates in Central America 1999-2009



Sources: Author's elaboration based on figures from Observatorio Centroamericano sobre Violencia [OCAVI], *Tasas de homicidio doloso en Centroamérica y República Dominicana por 100.000 habitantes (1999-2007)* available at <www.ocavi.com>, and official police sources from each country.

Murder rates are merely the most visible human consequence of the problem. The percentage of households that have been victims of crime in the course of the past year is greater than 25% in every Central American country, except Panama.³⁸ To this we have to add several other manifestations of violence whose magnitude we can only guess. Approximately 70,000 young men belong to gangs—locally known as *maras*—in Central America.³⁹ These gangs have a significant incidence in the region's violence levels, as well as a growing participation in supporting organized crime.

The factors behind this deterioration are too complex to be dealt with here at any length.⁴⁰ Yet, some of them deserve to be mentioned. To begin with,

Central America's worsening crime rates can hardly be understood but in reference to the narcotics maelstrom engulfing the region. According to United Nations figures, cocaine seizures in Central America have grown six-fold in the past decade (see Graph 7). Remarkably, in 2007-2009, countries in the isthmus confiscated more than three times as much cocaine as was confiscated in Mexico—about 100 metric tons per year.⁴² Past U.S.-led interdiction successes in the Caribbean, as well as the significant pressures imposed on Drug Trafficking Organizations (DTOs) since 2006 by the Mexican government's aggressive counter-narcotics strategy, have moved a very large share of cocaine shipments to Central America. Whereas approximately 42% of U.S.-bound cocaine travelled through the isthmus

³⁸ Latinobarómetro, *Informe 2010* (Santiago: Latinobarómetro, 2010).

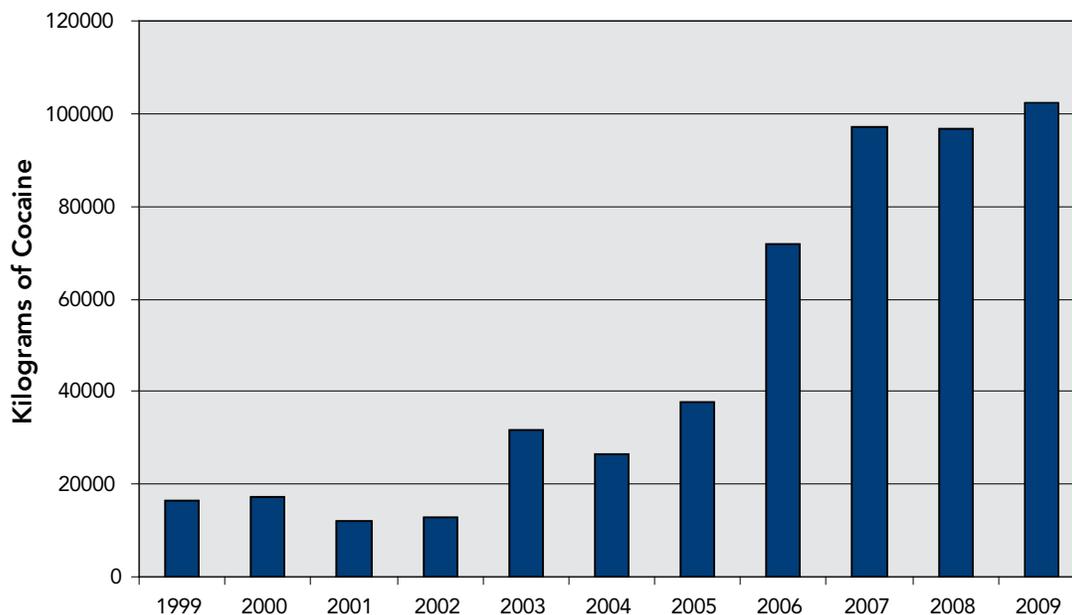
³⁹ Clare Ribando-Seelke, *Merida Initiative for Mexico and Central America: Funding and Policy Issues* (Washington DC: Report for Congress, Congressional Research Service, April 19, 2010), p. 5.

⁴⁰ For very comprehensive studies of crime and violence in Central America see United Nations Development Program [UNDP] *Abrir Espacios a la Seguridad Ciudadana y el Desarrollo Humano – Informe sobre Desarrollo Humano para América Central 2009-2010* (San José: PNUD, 2009); Programa Estado de la Nación, *Estado de la Región en Desarrollo Humano Sostenible 2008* (San José: Programa Estado de la Nación, 2008), pp. 467-523; United Nations Office on Drugs and Crime [UNODC], *Crime and Development in Central America* (Vienna: UNODC, 2007).

⁴¹ Figures from United Nations Office on Drugs and Crime [UNODC], *World Drug Report 2010* (Vienna: UNODC, 2010), and United States Department of State, *International Narcotics Control Strategy Report 2010*, Bureau of International Narcotics and Law Enforcement Affairs available at <<http://www.state.gov/p/inl/rls/nrcrpt/2010/vol1/137196.htm>>.

⁴² Figures from United Nations Office on Drugs and Crime [UNODC], *World Drug Report 2010* (Vienna: UNODC, 2010), and United States Department of State, *International Narcotics Control Strategy Report 2010*, Bureau of International Narcotics and Law Enforcement Affairs available at <<http://www.state.gov/p/inl/rls/nrcrpt/2010/vol1/137196.htm>>.

GRAPH 7. Cocaine Seizures in Central America, 1999-2009



Sources: 1999-2008: United Nations Office on Drugs and Crime [UNODC], *World Drug Report 2010* (Vienna: UNODC, 2010); 2009: United States Department of State, *International Narcotics Control Strategy Report 2010*, Bureau of International Narcotics and Law Enforcement Affairs available at <<http://www.state.gov/p/inl/rls/nrcrpt/2010/vol1/137196.htm>>.

in 2008, the figure now is above 60%.⁴³ The intensity of the narcotics trade has direct implications for violence. By some estimates, 45% of intentional homicides were directly connected to drug trafficking in Guatemala in 2008.⁴⁴

The penetration of organized crime compounds as much as reflects two other structural problems: the marginalization of much of the Central American youth and the weakness of the region's law enforcement institutions. Young people (15-24 years old) in Central America comprise 20% of the total population.⁴⁵ They are, however, 45% of the unemployed. One-fourth of the young in Central America

are neither at school nor at work, thus becoming a reserve army for criminal organizations and the region's youth gangs.⁴⁶ Law enforcement problems are, if anything, worse. The region's police and judicial institutions are underfunded, underequipped and undertrained, as much as they are prone to severe corruption. Unsurprisingly, they command little support from the population. According to regional opinion polls, only a minority of the population trusts the police or the judiciary in every Central American country.⁴⁷ Such mistrust leads to impunity. In Costa Rica, less than one-fourth of offenses are reported to the authorities, an act that is widely considered useless if not counterproductive.⁴⁸ The

⁴³ United States Department of State, *International Narcotics Control Strategy Report 2010*, Bureau of International Narcotics and Law Enforcement Affairs (2010), Vol. 1, p. 7, available at <<http://www.state.gov/p/inl/rls/nrcrpt/2010/vol1/137196.htm>>; Ibid. (2011) – Vol. 1, p.270, available at <<http://www.state.gov/documents/organization/156575.pdf>>.

⁴⁴ International Crisis Group, *Guatemala: Squeezed between crime and impunity*, Latin America Report No.33 -22/6/2010, p. 7. Also: "Narcotráfico, el nuevo enemigo de Guatemala," *BBC Mundo*, 15/12/2010.

⁴⁵ Population figures from Sistema de Integración Económica Centroamericana [SIECA], *Centroamérica – Estimaciones y proyecciones de la población total* available at <<http://www.sieca.int/site/VisorDocs.aspx?IDDOC=Cache/17990000003323/17990000003323.swf>>.

⁴⁶ Organización Internacional del Trabajo [OIT], *Juventud y trabajo decente y las vinculaciones entre trabajo infantil y empleo juvenil – Centroamérica, Panamá y República Dominicana*, ILO – OIT available at <http://www.empleo-foil.oit.or.cr/olacd/images/stories/Informe_trabajo_infantil_empleo_juvenil.pdf>, pp. 40, 75-76. Figures include the Dominican Republic.

⁴⁷ Consorcio Iberoamericano de Mercados y Asesoramiento [CIMA], *Barómetro Iberoamericano de la Gobernabilidad 2010* available at <<http://www.cimaiberoamerica.com/>>. Only in Nicaragua, a majority of the population trusts the police, albeit not the judiciary.

⁴⁸ Instituto Nacional de Estadística y Censos de Costa Rica – Programa de Naciones Unidas para el Desarrollo [INEC-PNUD], *Resultados módulo sobre victimización – Encuesta de Hogares de Propósitos Múltiples* (San José: INEC – PNUD, Costa Rica, 2008) available at <http://www.pnud.or.cr/images/stories/Mdulo_Victimizacion_PNUD_INEC.pdf>, p. 17.

crux of Central America's crime predicament is easy to identify. Its law enforcement institutions are not merely ineffective in dealing with crime; in fact, they *compound* the problem.

Regardless of the causes of this plight, its consequences are very clear and go beyond the obvious human cost. There are economic implications, which become clear when we think that more than half the murder casualties in Central America are young men between 15 and 29 years old, at the peak of their productive and reproductive lives.⁴⁹ A recent estimation of the direct and indirect cost of violence in Central America put it at nearly 8% of the region's GDP.⁵⁰

The political consequences call for special attention. The perception that state authorities are unable to protect the citizen's most fundamental rights is visibly damaging the support for democratic institutions in Central America and is turning the region into a breeding ground for authoritarian attitudes. A recent study conducted by political scientist José Miguel Cruz, drawing upon data from the Latin America Public Opinion Project at Vanderbilt University, demonstrates that civic support for democracy as a political system is gravely affected by high perceptions of insecurity and by the opinions on the government's success or failure in the fight against crime. An even more troubling finding is that Central Americans cite crime as the problem that could most easily move them to justify a military coup d'état. Fifty-three percent of the population of Guatemala, El Salvador, and Honduras would be willing to endure a democratic breakdown, if such a move solved public insecurity problems, a reaction that no other social, political or economic challenge elicits.⁵¹

The region's violence epidemic is exerting intense pressure on governments and political actors. Public

insecurity currently is perceived as the most urgent problem in every country in the isthmus except Nicaragua.⁵² It is no wonder that the regional debate on security so prominently features—notably during campaign seasons—vociferous pledges to confront insecurity with iron-fisted tactics, that is, with methods that make intensive use of state coercion, in ways characterized by a sense of impatience, if not disdain, for basic human rights. The Central American population—as frightened as it is eager for public order—is increasingly heeding as well as rewarding at the polls those loud calls.

This is unfortunate, for the record of “iron fist” solutions to crime is poor. Both Honduras and El Salvador offer a poignant reminder of this. In Honduras, the enactment since 2002 of successive legislative packages to deal with crime, with clear repressive overtones, has not made any difference at all. At 77 murders per 100,000 people, Honduras' murder rate in 2010 was far worse than eight years before and the highest in the world. The Salvadoran experience is just as bad. There, the introduction of the “Iron Fist” and “Super Iron Fist” acts in 2003 and 2004 was unable to prevent the number of murders from doubling in the seven years between 2003 and 2010.⁵³

A second crucial political consequence is the hollowing out of the state and its legal powers. In some places in Central America the firmness of the state's monopoly over legitimate coercion is open to question. In the isthmus, as well as the rest of Latin America, citizens are defecting from the public instruments to protect personal safety. This defection can take different shapes ranging from the reluctance of the population to report crime to the proliferation of scantily regulated private security firms and the acceptance of lynching as a valid method to fight crime. Even in Costa Rica, whose judicial

⁴⁹ Own estimation based on World Health Organization [WHO], *World report on violence and health* (Geneva: WHO, 2002).

⁵⁰ Carlos Acevedo, *Los costos económicos de la violencia en Centroamérica*, background paper prepared for the National Public Security Council of El Salvador available at <http://www.ocavi.com/docs_files/file_538>, p. 14. This estimation excludes Panama.

⁵¹ José Miguel Cruz, “The impact of violent crime on the political culture of Latin America: The special case of Central America” in Mitchell Seligson, ed., *Challenges to Democracy in Latin America and the Caribbean: Evidence from the Americas Barometer 2006-2007* (Nashville: Latin America Public Opinion Project (LAPOP) - Vanderbilt University, 2008), pp. 240-241.

⁵² Latinobarómetro, *Informe 2010* (Santiago: Latinobarómetro, 2010).

⁵³ Figures from Observatorio Centroamericano sobre Violencia [OCAVI], *Tasas de homicidio doloso en Centroamérica y República Dominicana por 100.000 habitantes (1999-2007)* available at <www.ocavi.com>, and official police sources in both countries.

system ranks amongst the best in Latin America, almost 40% of the population looks favorably at the option of lynching offenders.⁵⁴

The situation is considerably worse, however, in places that have been overrun by organized crime, places that can often be found at the very heart of many Latin American capitals. From the *favelas* in Rio de Janeiro to narcotics-ridden areas in Mexico and Guatemala, drug trafficking organizations have become anything from providers of social welfare to adjudicators of communal disputes.⁵⁵ They *are* the law of the land and recognized as such. At this point, a reference to the situation in Guatemala—the weakest link in the Central American isthmus—becomes unavoidable.

Guatemala has long been a crucial transit point for north-bound narcotics. In this role the country has been helped by both geography and institutional make up. The thick unpopulated forests of Petén, in northern Guatemala, offer a haven to drug trafficking activities, often carried out under the complacent gaze, when not the active participation, of a military establishment with a long history of corruption and impunity. Indeed, the Guatemalan state is a feeble entity by almost any indicator, including a tax burden that counts among the world's lowest. According to recent estimates, up to 40% of Guatemalan territory is under effective control of criminal organizations.⁵⁶

It is hard to be upbeat about Guatemala's prospects. It is increasingly clear that the Mexican government's efforts against DTOs in Mexico have driven the latter

to expand their operations south of the border. The extensive presence of the Sinaloa and Zetas cartels in Guatemala as well as the vicious turf battles between them, are well documented.⁵⁷ So is the weakness of the country's law enforcement institutions. Since 2008, the country has had five Ministers of the Interior and four Chief Police Officers, including several with alleged connections to drug trafficking organizations.⁵⁸ Ominously, in June 2010, Carlos Castresana, the head of the UN-sponsored International Commission against Impunity in Guatemala (CICIG) tendered his resignation, citing the government's reluctance to clamp down on law enforcement corruption and its lack of support for the Commission's investigations on organized crime.⁵⁹ His sense of disappointment is supported by the figures. According to U.S. government estimations, approximately 250 metric tons of cocaine travel through Guatemala every year. Yet, even an improved counter-narcotics performance in 2009 yielded a mere 7.1 metric tons in cocaine confiscations, a fraction of seizures in Costa Rica, Panama or even Nicaragua.⁶⁰

Guatemala is faced with a growing lawlessness syndrome. The weakness of the state, the pervasive violence, the widespread corruption, and the country's strategic location for drug trafficking are creating a dangerous cocktail. The United States and the neighboring countries, which are certain to be affected by the anomie that seems to be engulfing Guatemala, would do well to pay attention and commit resources to help Guatemalans prevent the collapse of their own institutions.

⁵⁴ United Nations Development Program [UNDP], *Venciendo el Temor: (In)seguridad ciudadana y desarrollo humano en Costa Rica – Informe Nacional de Desarrollo Humano 2005* (San José: PNUD-Costa Rica, 2006), p. 411.

⁵⁵ See, for instance, Juan Carlos Garzón, *Mafia y Co.: La red criminal en México, Brasil y Colombia* (Bogotá: Planeta, 2008), pp. 88-93; "La Familia's reign of terror," *The New Yorker*, 31/5/2010.

⁵⁶ Hal Brands, *Crime, Violence and the Crisis in Guatemala: A Case Study in the Erosion of the State*, Strategic Studies Institute available at <<http://www.strategicstudiesinstitute.army.mil/pdffiles/PUB986.pdf>>, p. 2.

⁵⁷ International Crisis Group, *Guatemala: Squeezed between crime and impunity*, Latin America Report No.33 - 22/6/2010, pp. 14-17; Hal Brands, *Crime, Violence and the Crisis in Guatemala: A Case Study in the Erosion of the State*, Strategic Studies Institute available at <<http://www.strategicstudiesinstitute.army.mil/pdffiles/PUB986.pdf>>, pp. 14-19; Steven Dudley, "Drug Trafficking Organizations in Central America: Transportistas, Mexican Cartels and Maras" in Eric Olson, David Shirk and Andrew Selee, eds., *Shared Responsibility: U.S. – Mexico Policy Options for Confronting Organized Crime* (Washington DC: Woodrow Wilson International Center for Scholars – University of San Diego Trans-Border Institute, 2010), pp. 73-76.

⁵⁸ "Guatemala: Arrestan a Jefe Nacional de la Policia," *BBC Mundo*, 2/3/2010.

⁵⁹ "Castresana renuncia a su cargo en la Cicig," *El Periódico* (Guatemala), 7/6/2010.

⁶⁰ United States Department of State, *International Narcotics Control Strategy Report 2010*, Bureau of International Narcotics and Law Enforcement Affairs available at <<http://www.state.gov/p/inl/rls/nrcrpt/2010/vol1/137196.htm>>. In 2007, cocaine seizures in Guatemala amounted to a paltry 730 kilos. United States Department of State, *International Narcotics Control Strategy Report 2008*, Bureau of International Narcotics and Law Enforcement Affairs (2008), Vol. 1, p. 168, available at <<http://www.state.gov/documents/organization/100890.pdf>>.

For all the tough talk about “iron fisted” solutions, a sustainable reduction of crime levels in Central America requires far more than the use of coercion. It demands a comprehensive policy combination that gives priority to reforming corrupt and ineffective law enforcement institutions, introducing modern technology and information systems to sustain policy decisions, strengthening social ties and the organization of communities, and, above all, investing a lot more in education, health, housing and opportunities for the youth. Such is the road travelled by successful crime reduction experiences in Latin American cities like Bogota and Sao Paulo, which have managed to slash violence levels in little more than a decade. With 80 murders per 100,000 people, Bogota was one of the world’s most dangerous cities in 1994; in 2010, with 23, it was among the safest capitals in the Western Hemisphere.⁶¹ Balancing “zero tolerance” for crime with “zero tolerance” for social exclusion offers a way forward even in dire circumstances.

None of this will come cheaply. The public policy interventions that are needed to confront Central America’s crime plight are complex and expensive. There are many reasons why the United States could and should assist in this endeavor. Indeed, the United States is doing so through the Central American Regional Security Initiative (CARSI), a well-designed

project to help the region fight organized crime.⁶² Yet, even the best counternarcotics assistance program is no substitute for the difficult undertakings that may ultimately deliver Central America from the perils of crime. The Central Americans must accept that, just like achieving peace two decades ago, providing opportunities for young people and rebuilding their law enforcement institutions are initiatives that only they can undertake.

This, once again, brings us back to a thread that binds these pages together. In order for Central American societies to guarantee universal access to social rights and the adequate performance of their law enforcement bodies, they will have to profoundly reform their taxation systems. Taxes must be paid, lest the states’ ability to exercise effective territorial control is weakened further. No one can legitimately be surprised that the Guatemalan state has tenuous control over its territory if tax collection in that country was a paltry 10.4% of GDP in 2009.⁶³ In order to successfully battle insecurity in Central America, some of the old demons that have doomed the region to underdevelopment must be exorcised. Criminal violence is simply the place in which all the shortcomings of Central America’s development model are rendered evident. Crime is not merely a security issue. Ultimately, it is a development issue.

⁶¹ Figures from Instituto de Medicina Legal y Ciencias Forenses de Colombia; División de Referencia de Información Policial – *Estadísticas de Homicidio* available at <http://www.medicinalegal.gov.co/index.php?option=com_wrapper&view=wrapper&Itemid=60>.

⁶² See Kevin Casas-Zamora, “Paying attention to Central America’s drug trafficking crisis,” Brookings Institution.com available at <http://www.brookings.edu/opinions/2010/1027_central_america_drugs_casaszamora.aspx>; Clare Ribando-Seelke, *Merida Initiative for Mexico and Central America: Funding and Policy Issues* (Washington DC: Report for Congress, Congressional Research Service, April 19, 2010).

⁶³ Instituto Centroamericano de Estudios Fiscales [ICEFI], *Lente Fiscal Centroamericano: Análisis de Coyuntura – No. 1, Año 1* (Guatemala: ICEFI, 2010) available at <<http://www.icefi.org/categorias/publicaciones?clas=1&detail=14>>, p. 18.

FINAL THOUGHTS AND POLICY RECOMMENDATIONS

What's the moral of this tale? If one were to pick only one lesson it would have to be that democracy becomes a perilous journey in the absence of a state that works.

Central America's current political troubles suggest that democracy is doomed to live on the edge of collapse if the presumed instruments of self-government, i.e., a set of public institutions that ultimately respond to the people, are starved to death, deprived of muscle and brains, largely incapable of solving real problems for real people. Democracy lives dangerously when those institutions are chronically weak, as they are in most of Central America, in redressing social imbalances that render impossible the existence of a democratic polis; largely unable to provide the public goods upon which sustained economic growth and human development ultimately depend; increasingly incapable in protecting the basic fundamental rights—including life, physical integrity, enjoyment of private property, and freedom from fear—that keep any social contract together.

We thus go back to an old insight of the late Samuel Huntington: paying attention to the *degree* of government that some Central American countries enjoy today is at least as important as paying attention to the *form* of government that they have.⁶⁴ This does not mean that the democratic institutions that Central American countries have built are irrelevant, or that we ought to be agnostic about the methods, whether democratic or authoritarian, employed to build effective state institutions. Far from it. Democracy is

always relevant precisely because the effectiveness of the state that really matters lies in its ability to contribute to human development, a project that only has meaning with democracy at its core.⁶⁵ In the absence of a state that works, democracy is not worthless; it is simply less effective and more prone to breakdowns. If democratic institutions are to be preserved in Central America, tax reform, civil service reform, police reform, judicial reform, party reform, amongst many, must be tackled with the same zeal as the creation of credible electoral authorities or the registration of voters.

Over the past two decades, Central America has done many important things, none more so than ending the civil wars. That, however, was the easy part. Ending the wars required the will and the courage to sit down and negotiate a settlement. Building more equitable societies, solid democratic institutions, and dynamic economies requires the same attributes over a very long time span. The end of the wars and the democratic transitions in Central America threw a lifeline to the region, but today that lifeline is at risk of being submerged.

As in the rest of Latin America, carrying out the structural reforms needed in Central America, particularly tax reform, has been extraordinarily difficult. But those that truly care about human development and democracy in the region must keep trying with an increased sense of urgency. No matter how prosperous today, if the isthmus' social and political elites bury their heads in the face of the challenges identi-

⁶⁴ Samuel Huntington, *Political Order in Changing Societies* (New Haven: Yale University Press, 1968).

⁶⁵ See a powerful formulation of this idea in Amartya Sen, *Development as Freedom* (Oxford: Oxford University Press, 1999).

fied above—the weakness of the state, the collapse of political representation, the stagnation of productivity, and the deterioration of public security—they will make inevitable Central America’s return to an age of political unrest in which everyone—rich and poor alike—will certainly lose. Everyone, that is, with the possible exception of organized crime syndicates, equipped to thrive in turmoil. Given what Central America has gone through in the past and the real strides it has made in the past two decades, this would be a very sad turn of events.

Dire though it is, the collapse of public security offers a faint possibility that the region’s elites will come to realize that bringing about more inclusive societies and more effective public institutions is not simply in their own interest but indeed essential to their survival. Here the example of Colombia comes to mind. Faced with the abyss of a failing state a decade ago, Colombian well-to-do sectors swallowed the bitter pill of a significant tax hike to fund President Alvaro Uribe’s democratic security policy. Today, the benefits of that decision are all too apparent to be missed. Yet, the limits of the analogy are also plain. It is Central America’s misfortune that the countries that face the most serious threats from organized crime—Guatemala and Honduras—are those where economic elites are more reluctant to changing their ways. Such resistance has roots in their perceived success in vanquishing past political challenges, as much as in the increasing intertwining of their business activities with those of organized crime. In the rest of the isthmus the political obstacles that beset major social and state reforms are less formidable, but the sense of threat that may spur action is less evident too.

The latter is particularly true in the cases of Panama and Costa Rica, which face better odds than the rest of the region. Indeed, if political, economic and social actors in these two countries shy away from the difficult but relatively limited reforms that are needed to raise the economic productivity and bring violence under control, they would squander a real chance to thrive in the future. Conversely, for the rest of the

region, the notion of thriving remains in the outer bounds of optimism. For Nicaragua, El Salvador, Honduras and, notably, Guatemala, avoiding a democratic breakdown and checking the growth of violence levels until the proportion of young men in the population starts to go down significantly, would count as significant achievements. The most likely scenario in Central America thus points towards the deepening of the already large development gap between Panama and Costa Rica, on the one hand, and the rest of the isthmus, on the other. The “secession” of Panama, in particular, seems not merely possible, but probable.

Now a final reflection about the United States. Over the past 150 years the United States has done many things to hinder human development and democracy in Central America. The list of unfortunate interventions by Washington is long—probably longer than anywhere else in the world—and is pointless to repeat it here. Set against such a background the neglect of the past twenty years is welcome news, up to a point. Because the truth is that some of the problems described here go beyond what Central America alone can solve.

As elsewhere, the United States has a limited capacity to dictate what the future will bring for Central America. But it could help the region in meaningful ways. Seven of them come to mind:

1. *Do no harm to democracy.* It would be a great progress if the United States abstained permanently from abetting the authoritarian tendencies that still lurk not far from the surface in most of Central America, as the recent experiences of Honduras and Nicaragua suggest. In this sense, its handling of the recent Honduran crisis was partly satisfactory at best. While it ought to be recognized that U.S. diplomats tried to prevent the ousting of President Zelaya, later decisions made by Washington were instrumental in allowing the consolidation of the coup and its effects.⁶⁶ This is not the

⁶⁶ See Kevin Casas-Zamora, “The Honduran crisis and the Obama Administration” in Abraham F. Lowenthal, Theodore J. Piccone and Laurence Whitehead, eds., *Shifting the Balance: Obama and the Americas* (Washington DC: Brookings Institution Press, 2011).

last time that U.S. commitment to democratic values will be put to test in the region. Washington ought to make clear to the region that playing fast and loose with democratic institutions will carry significant costs for the offending government, both on the diplomatic and the economic front.

2. *Do no harm to immigrants.* The millions of Central American immigrants currently living in the United States are essential to keep the region afloat. For instance, the approximately 1.5 million Salvadorans living in the United States send back nearly \$4 billion in remittances annually, around 17% of El Salvador's GDP.⁶⁷ Nearly 220,000 Salvadorans that have been living in the United States since 2001 under temporary protected status (TPS), a transitory regime that is due to expire in 2012.⁶⁸ Allowing the TPS to expire could have dire consequences for El Salvador and, to a lesser extent, Honduras.
3. *Incentivize research and technology transfer in renewable energies.* The development of renewable energies offers the promise of fruitful collaboration between the United States and Central America. At the very least, as advocated by the Brookings Institution-convened Partnership for the Americas Commission, the U.S. government—perhaps in partnership with other governments in the hemisphere—should establish a Renewable Energy Laboratory of the Americas in the isthmus, with the objective of promoting hemispheric cooperation on developing and transferring solar, wind, geothermal and cellulosic-biomass technologies.⁶⁹ That would be an important step to help Central America develop one of the few sectors in which

it has real long-term economic potential. There is a historical precedent that supports this idea. In 1940, then U.S. Secretary of Agriculture Henry A. Wallace proposed the creation of an inter-American institution to support the countries of the Hemisphere in carrying out agricultural research and training national personnel for this purpose. The Inter-American Institute for Cooperation on Agriculture (IICA), located in Costa Rica, was thus born. Its long-term impact in crafting rural development strategies, easing the adoption of new agricultural technologies, and supporting agricultural extension services in Latin America, among many other things, has been considerable.⁷⁰

4. *Help small and medium enterprises (SMEs) take advantage of CAFTA-DR.* SMEs are the great engines for the creation of employment in Central America. Yet, they seldom have access to international markets. Helping them make the most of the opportunities opened by free trade with the United States would be a major transformation on many levels. The funds to support such a program could be disbursed over several years and made conditional on Central American governments raising a matching sum from domestic sources. This exercise in co-responsibility should indeed become a general principle informing U.S.-Central America relations.
5. *Help rebuild Central America's law enforcement institutions.* There is a clear need to scale up the resources allocated to CARS. Since the start of the Merida Initiative in 2008, the funds allotted to the seven members of CARS (the six Central American

⁶⁷ Population figures from Pew Hispanic Center, *Country of Origin Profiles* available at <<http://pewhispanic.org/data/origins>>. Data on remittances from the Central Bank of El Salvador.

⁶⁸ Ruth Ellen Wasem and Ester Karma, *Temporary Protected Status: Current Immigration Policy and Issues* (Washington DC: Report for Congress, Congressional Research Service, September 9, 2010), p.4.

⁶⁹ Partnership for the Americas Commission, *Rethinking U.S. Latin American Relations: A Hemispheric Partnership for a Turbulent World* (Washington DC: Brookings Institution, 2008), p. 15.

⁷⁰ See, for instance, Instituto Interamericano de Cooperación para la Agricultura (1992); *El IICA y su Historia: 50 Años de Cooperación Interamericana*; San José, IICA.

countries plus Belize) amount to approximately \$250 million—less than one fifth of Mexico’s share of U.S. counternarcotics assistance.⁷¹ This is an indefensible disproportion. It is also a lost opportunity, for CARSI reflects the right priorities in Central America. More than two-thirds of the appropriated funds for the plan in 2010 went to community-based violence prevention programs and to improving the capacities of police and judicial institutions. The latter includes the funding of basic tools such as a region-wide fingerprinting system, the creation of vetted units to handle complex multi-national investigations, or the improvement of prosecutorial capacities with regards to complex financial crimes. Less than 10% of CARSI may be regarded as military assistance. This is the right approach in Central America. It is to be hoped that, in the future, even more of CARSI’s funding will go to urgent institutional tasks, such as the improvement of internal control and anti-corruption units within law enforcement bodies, and the widespread adoption of modern information technologies as part of the policy making process in the security realm. Any decision to scale up law enforcement cooperation with Central America ought to be made conditional on the region’s governments committing more of their own resources to the task.

6. *Partner with Mexico and Colombia.* The riddle of organized crime in Central America can hardly be solved without the active participation of the two major countries that bookend the isthmus and that, in different ways, contribute decisively to the re-

gion’s current plight. As U.S. diplomats have acknowledged in the recent past, a strategy that integrates U.S. efforts against organized crime in Mexico, Colombia and Central America in a common framework is necessary at this point.⁷² U.S. assistance is but one component of this endeavor. The fact is that both Mexico and Colombia have developed significant capacities in this struggle that could help their far weaker Central American neighbors. So far, the Mexican authorities have not been particularly forthcoming in assisting their peers in the isthmus, with the possible exception of those in Guatemala. This stands in marked contrast with the Colombian government, whose involvement in the region—in ways ranging from sharing crucial intelligence to training prosecutors and vetted investigation units—is acknowledged throughout Central America. Any U.S. strategy against organized crime in Central America should stimulate cooperation efforts from these two crucial actors in ways that are complementary to the United States’ own programs. As the isthmus’s tragic experience in the 1970s and 1980s shows very well, it is in no-one’s interest to let Central America fall into a vortex of violence.

7. *Rethink counternarcotics policies.* Central America’s organized crime challenge demands from the United States more than economic assistance, however. If Washington doesn’t want lawlessness to become the fate of its southern neighbors it is essential to rethink the failed status quo of the so-called “War on Drugs” and have a rational discussion about alternative approaches, including the legalization of some drugs.⁷³

⁷¹ Clare Ribando-Seelke, *Merida Initiative for Mexico and Central America: Funding and Policy Issues* (Washington DC: Report for Congress, Congressional Research Service, April 19, 2010).

⁷² William R. Brownfield, *Testimony of Ambassador William R. Brownfield, U.S. Assistant Secretary of State Bureau of International Narcotics and Law Enforcement Affairs before the U.S. Senate Committee on Foreign Relations, Subcommittee on the Western Hemisphere, Peace Corps, and Global Narcotics Affairs*; March 31, 2011 available at <<http://foreign.senate.gov/imo/media/doc/Brownfield%20Testimony.pdf>>.

⁷³ See Partnership for the Americas Commission, *Rethinking U.S. Latin American Relations: A Hemispheric Partnership for a Turbulent World* (Washington DC: Brookings Institution, 2008); Comisión Latinoamericana sobre Drogas y Democracia, *Drogas y Democracia: Hacia un Cambio de Paradigma – Declaración de la Comisión Latinoamericana sobre Drogas y Democracia* available at <http://www.plataformademocratica.org/Publicacoes/declaracao_espanhol_site.pdf>.

The terrifying cost that Central America is bearing in terms of drug-related violence, drug-related corruption, and the permanent damage inflicted on the work ethics of an entire generation, can and should be mitigated by decisions made in Washington.

For Washington paying more attention to Central America—if not intense attention, at least steady attention—would not be a favor or an act of charity. In the case of a region that is showing disturbing signs of political instability, that is a stone's throw away from the United States and that has already sent three million of its people to the shores of this country it could only be considered enlightened self-interest.

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