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Central America: Regional Integration After the Fighting

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CENTRAL AMERICA: REGIONAL INTEGRATION AFTER THE FIGHTING

The hostilities between El Salvador and Honduras derisively described as the "soccer war" produced tens of thousands of refugees and hundreds of casualties and left a legacy of bitterness between the two countries that is likely to have very serious consequences for Central America. The feeling of Central American brotherhood upon which regional integration had been based has been undermined, and a decade of effort to build viable regional institutions has been jeopardized. The Organization of Central American States (ODECA) was powerless to act, and the mediation efforts of the Nicaraguan, Guatemalan, and Costa Rican foreign ministers were unavailing. The Central American Defense Council (CONDECA) was clearly revealed as a sterile, even irrelevant organization. Most important, however, is the threat to the Central American Common Market (CACM). Past difficulties will be exaggerated, and plans to speed the pace of integration will be delayed.

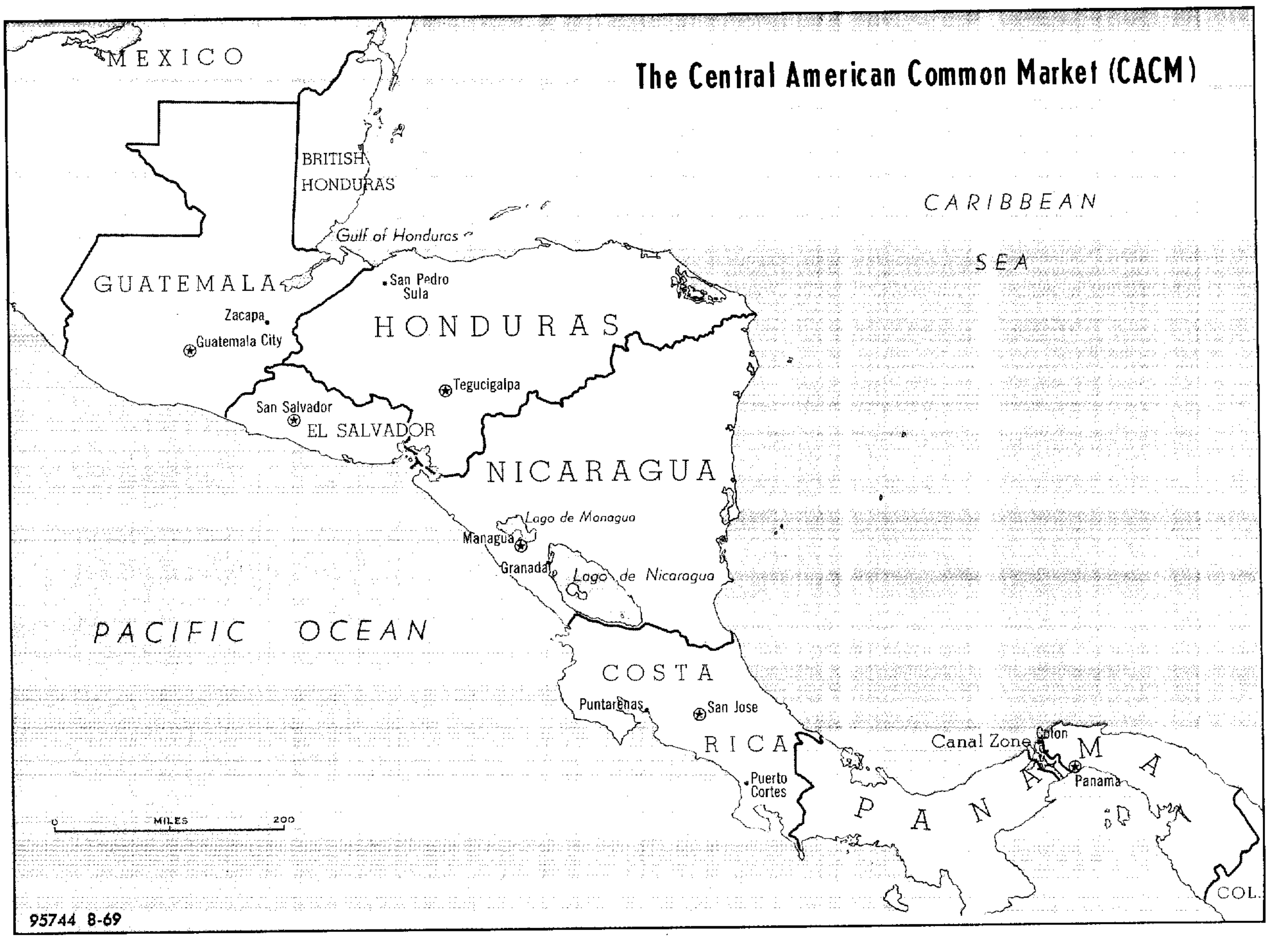
THE PSYCHOLOGICAL IMPACT OF THE CONFLICT

One of the most persistent elements of Central America's political mythology has been the belief that regional federation was both natural and desirable. The five Central American states had been briefly joined together after securing their independence from Spain early in the 19th Century. Although this union foundered within 15 years, the idea of a single Central American state has remained a part of the area's political rhetoric. The Charter of San Salvador [1951] that set up ODECA, for example, spoke of the Central American republics as disjoined parts of a single nation united by indestructable ties that ought to be utilized and strengthened for the common advantage.

The ideal of union notwithstanding, Central Americans have not developed a larger nationalism that could provide the impetus for, and then sustain, a single political unit. One obstacle has been the area's uneven constitutional development. Costa Rica, for example, which has prided itself on spending more for education than defense, has looked with suspicion upon its coup-prone neighbors and has feared that its democratic traditions would be undermined by too close political association with the other republics.

If political unity has not been feasible, the functional approach stressing gradual economic integration has been, up to now, fairly successful. Tariffs between the five Common Market countries have been virtually eliminated, and agreement has been reached on uniform external tariffs for more than 90 percent of the area's imports from abroad. As a result, Common Market trade has risen dramatically. In 1960 intraregional trade was equal to only 6.5 percent of the area's total exports; by 1967 the proportion had climbed to 26 percent. In addition, the proliferation of specialized regional organizations led to increased contact between the area's businessmen, educators, government leaders, and even military officers.

As a result of a decade of increased contact and trade, the feeling of Central American brotherhood seemed to have grown. The Salvadoran invasion of Honduras on 14 July, however, cast doubt on the strength and depth of the popular commitment to regionalism. The five Central American republics have had sporadic altercations in the past. Some concerned economic issues and on occasion led to disruption of Common Market trade; others involved territorial disputes or border incidents. These, however, have been relatively minor, and settlement of the problem,


The Central American Common Market (CACM)
MEXICO
BRITISH HONDURAS
Gulf of Honduras
CARIBBEAN SEA
GUATEMALA
Zacapa
Guatemala City
San Pedro Sula
HONDURAS
Tegucigalpa
San Salvador
EL SALVADOR
NICARAGUA
Lago de Managua
Managua
Granada
Lago de Nicaragua
PACIFIC OCEAN
COSTA RICA
Puntarenas
San Jose
Puerto Cortes
Canal Zone
Colon
Panama
PANAMA
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often through ad hoc mediation efforts by the uninvolved Central American states, has tended to reinforce the view that appeals to reason and to the supposed reservoir of Central American good will could overcome any intraregional quarrel.

Central America reacted in characteristic fashion as the El Salvador-Honduras imbroglio continued into its second week. After El Salvador had broken diplomatic relations with Honduras and had charged its neighbor with gènocide before the Inter-American Human Rights Commission, the foreign ministers of Nicaragua, Costa Rica, and Guatemala attempted to mediate the dispute. Their efforts, however, extending from 28 June through the beginning of hostilities on 14 July, were unavailing.

The Central American mediators presented an eight-point plan to prevent hostilities and ease the way for a settlement. A key provision called for withdrawal of troops from a five-kilometer zone along each side of the border. Honduras accepted this important proposal but El Salvador refused, and the mediators were unwilling, perhaps unable, to exert pressure on Salvadoran President Sanchez to moderate his tough anti-Honduras policy. As mediators they were upset by Salvadoran intransigence, but as foreign ministers of their respective countries they were, at that point, reluctant to take any steps that might jeopardize their countries' relations with the Salvadoran Government.

During this period commercial relations between El Salvador and Honduras had been severed. Nicaraguan and Costa Rican trade with Guatemala was also interrupted after incidents of harassment and delay made truckers and businessmen afraid that their goods and vehicles might be seized by one or the other feuding state. The mediators were greatly concerned with the actual and potential disruption of Common Market trade, and appealed for restraint. Regional integration was then hardly at the top of President Sanchez's list of priorities, however, and he bitterly complained that the mediators were more interested in the Common Market than in protecting Salvadorans residing in Honduras.

In the period before the outbreak of serious hostilities, the overwhelming consensus among the area's leaders had been that the dispute was a local matter to be settled by Central Americans without outside interference. In part, this was the reason Salvador's involvement of the Inter-American Human Rights Commission had seemed inappropriate. The view was widely expressed that bloodshed between Central American states was unthinkable. This appeal to Central Americanism, however, carried little weight with the Salvadoran public and consequently had little impact on Salvadoran Government policy. The confident expectation that Central American institutions were strong enough to deal with the problem was progressively diminished. Even before the fighting began, the Central American mediators had started to look to the US and to the OAS for assistance, and shortly thereafter the facade of Central American unity had been broken.

By the time fighting had begun in earnest an important psychological change had occurred. The earlier belief that Central America could handle its own problems was gone, and the idealistic appeal to brotherhood and unity had been replaced by the pragmatism of balance of power politics. Thus, on the one hand, any active interest in dealing head-on with the issues underlying the Salvador-Honduran conflict had been supplanted by the more passive desire to see hemispheric efforts bring the crisis to an end. Central America appeared content, even relieved, at the possibility of taking a diplomatic backseat. On the other hand, neither Nicaragua nor Guatemala, the two countries bordering the belligerent states, was prepared to look with equanimity on Honduras' precarious military position. There have been persistent rumors that Nicaragua and possibly Guatemala provided military assistance to Honduras, and there were some indications that they would have intervened militarily if El Salvador had renewed its offensive instead of withdrawing its troops.

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Nicaraguan President Somoza was particularly worried by the course of events following the Salvadoran invasion. He began to feel that Honduran resistance might collapse under Salvadoran military pressure and that chaos would follow. He also believed that Honduran instability would directly and profoundly affect his country.

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Guatemala was also concerned by the situation, and—though it too remained officially neutral—it was equally sympathetic to Honduras. Like Honduras, it has an outstanding border problem with El Salvador, and the local press caused alarm with reports of a Salvadoran map allegedly showing a greater El Salvador that included part of Guatemala. Foreign Minister Fuentes Mohr pointedly noted that Guatemala has traditionally looked upon Honduras as a buffer state and could not afford to have it become a Salvadoran appendage. Emphasis was given his words when border troops were alerted and when Guatemala stopped shipments of fuel to El Salvador.

By the end of July, therefore, though the immediate crisis seemed to be over, nationalism rather than regionalism appeared to be the order of the day. The delicate fabric of Central American brotherhood had been rent as political alignments motivated by suspicion and mistrust took shape. Certainly, the depth of bitterness each of the belligerents had built up against the other left little hope for a quick or easy return to business as usual in Central America.

THE CENTRAL AMERICAN COMMON MARKET

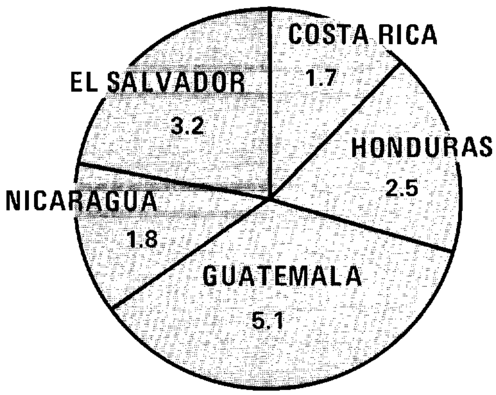
It seems certain that the future of the Central American Common Market has been dimmed by the events of the past two months. The Market, formed in 1960, requires a consensus in order to function. Perhaps even more than in most similar international bodies, negotiations tend to be long and complicated. Decisions made by the Executive Organs must generally be ratified by each member state—and this is often an even more difficult and time-consuming proposition. Finally, even after agreements have been reached and ratified, disagreements arise over interpretation, and implementation depends largely on the willingness of each government to cooperate.

Despite impressive early successes, which included progress in eliminating intraregional tariffs, in creating a uniform external tariff, and in attracting new industry to the area, the market had fallen on uncertain times even before the Salvadoran-Honduran crisis. Beginning in 1966, as the area's balance-of-payments problem grew, as export prices tended to stagnate or even decline, and as government revenues failed to rise rapidly enough to cover needed expenditures, the two related issues of balanced development and protocol ratification came to the fore.

The principle of balanced development, which had been accepted as one of the operating precepts of the market, implied a commitment to give special encouragement to investment in the countries that had made the least progress in the development of manufacuring. This principle had been recognized in the 1962 Fiscal Incentives Convention and was written into the charter of the Central American Bank. Under terms of the convention, both Honduras and Nicaragua were given the temporary right to grant additional incentives to attract industry, while the bank granted them a larger percentage of loan money than was given to the three other member states.

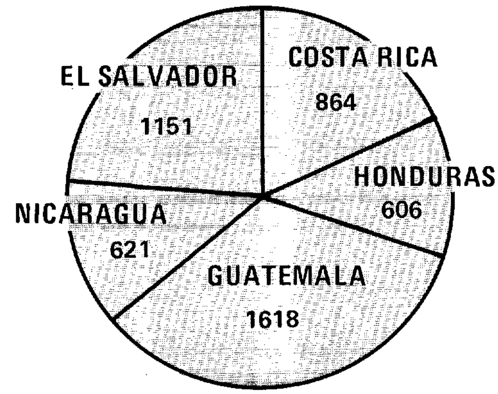
As the market developed, however, the expected differences in resources and efficiency

POPULATION
(Millions)



Total CACM Population 14.3 Million

GDP *
(Million US Dollars)



*Gross Domestic Product

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among the member states began to stand out more and more prominently. By 1966, it was clear that the area was splitting into the gainers and the losers from integration—those who had favorable balances of trade within the market, and those who purchased more than they sold. The losers were Honduras and Nicaragua, and they made it increasingly clear that they were irritated by the way the principle of balanced development was being implemented.

The problem of protocol ratification was a second stumbling block that severely retarded integration efforts. This resulted from the failure of some member states to ratify key Common Market agreements. Three of the most important were the 1962 Fiscal Incentive Agreement, the 1966 Managua Protocol, and the 1968 San Jose Protocol.

The Fiscal Incentive Agreement was stalemated for over six years because Honduras refused to ratify it. Honduras, the least developed Common Market country, asserted that since industry is naturally attracted to the developed areas where skilled labor and more adequate transportation and power facilities are available, it would be drastically handicapped by any agreement that equalized the incentives that could be offered to attract industry. The government indicated that the very limited advantages it was granted under the Fiscal Incentive Agreement were totally inadequate to bring about balanced development.

After four years of repeated complaints, further concessions were finally granted. Under the terms of the Managua Protocol, Honduras received the right to increase its fiscal incentives to industry up to 20 percent more than the level of the other four countires. The signing of the Managua Protocol, however, did not immediately resolve the issue because El Salvador refused to deposit its ratification until mid-March 1969, and Honduras in turn refused to deposit ratification of the 1962 Fiscal Incentives Convention.

The San Jose Protocol, which provides for a 30-percent tariff surcharge on imports from outside the region and allows the levying of the consumer taxes on a number of nonessential items, was drafted in response to an obvious need. Industrialization had not only aggravated the area's balance-of-payments problems by increasing the demand for imports of capital goods and raw materials, thus causing imports to rise more rapidly than exports, but also tended to increase government revenue problems. Social and economic development programs increased government expenditures, while revenue collection, already strait-jacketed by an antiquated tax system, was kept in check because of the increasing quantity of duty-free intraregional trade and the fiscal incentives granted to industry. In spite of the need, however, internal political problems in Costa Rica and bickering between El Salvador and Honduras delayed ratification and deposit of this measure.

The problem of balanced development and the delay in protocol ratification led to a crisis in February of this year. Nicaragua, like Honduras, has tended to feel that it was not adequately benefiting from Common Market membership. Indeed, President Somoza had been prone to blame many of his country's economic problems on Common Market developments. Finding himself in serious budgetary difficulties even though he had already resorted to an unpopular austerity program, Somoza decided to raise additional revenues in such a way as to pressure his market partners to ratify, deposit, and implement the outstanding protocols. In contravention of Common Market rules, he decreed a tax on certain imports from other members.

The Nicaraguan action was the first major infraction of integration agreements, and—because it struck at the heart of the market, at the principle of free intraregional trade—it caused great consternation. Somoza's somewhat impulsive policy of bluster and threat risked destroying the market, but perhaps for that very reason it introduced a note of seriousness into the negotiations that engendered some forward motion. Both Honduras and El Salvador agreed to deposit a number of outstanding agreements including the Convention of Fiscal Incentives and the Managua and San Jose protocols. Costa Rica also pledged its fullest efforts to ratify the San Jose Protocol. By that time, however, the measure had become an internal political issue, and President Trejos had not been able to get the opposition-controlled legislature to approve the agreement.

President Somoza was not concerned merely to ensure that previous agreements were implemented. He also wished to negotiate a number of new agreements designed to deal with problems that had arisen during the organization's nine-year history. For example, he renewed his proposal for a tribunal that could settle integration disputes and interpret Common Market agreements. The settlement that ended the crisis on 21 March took note of Somoza's concern for revitalizing the market—though, of course, it was clear that careful study would have to precede any action. A preliminary plan was drawn up calling for coordination of industrial, agricultural, monetary, and infrastructure policies, as well as freer movement of labor, and regional administration of incentives to attract industry.

THE CHALLENGE OF THE SALVADOR-HONDURAS CONFLICT

If Somoza's challenge to the Common Market in February provided the right amount of pressure to engender progress, the Salvador-Honduran crisis may provide too great a challenge and lead to the disruption of the market rather than to a creative response. Certainly the current crisis only magnifies the earlier problems. Protocol ratification is not going to be easier in the future. If anything, Common Market matters will tend to become more politically controversial. In addition, El Salvador is not likely to emerge from the conflict with a renewed respect for balanced development or a very great concern for Honduran or Nicaraguan calls for preferential treatment.

In the short term, domestic political considerations rather than economic factors are more likely to determine the direction of Common Market developments. Both the Salvadoran and Honduran governments will find it necessary to devote primary attention to remaining in power, and direct concern for the success or failure of regional integration will be minimal.

Throughout the conflict, Salvadoran President Sanchez was forced by popular pressure to maintain a hard-line policy for fear of being overthrown. The success of Salvadoran arms appears to have raised his popularity somewhat, but he is basically a weak executive and a poor administrator who can be expected to find himself the prisoner of public opinion rather than its leader. The persistent anti-Honduran press and radio campaign as well as the fighting itself has aroused deep emotions that cannot be cooled quickly. It is possible that even after the crisis has abated, a boycott of Honduran goods will develop. President Sanchez cannot be expected to risk his position by opposing anti-Honduran sentiment and may, indeed, be tempted to pander to it. In this eventuality Common Market problems will deepen.

The Honduran side of the coin is hardly more encouraging. Although President Lopez was not under the same pressure as Sanchez and, consequently, was able to maintain a reasonable and conciliatory posture before the outbreak of hostilities, the reverses suffered by the Honduran Army now make his position difficult. Honduran embarrassment and humiliation at Salvadoran hands will make cooperation on economic issues improbable. Honduras already feels that it is getting relatively little out of the market and may therefore take the shortsighted view that it has little to lose if the market collapses. 25X1

The possibility that one or the other belligerent state would decide against renewal of commercial relations would, of course, fly in the face of traditional Central American trade patterns. Each country provides a natural market for the other's products, and transportation links between the two neighboring states are good by Central American standards. Honduras provides a market for Salvadoran manufactured goods, and El Salvador consumes Honduran foodstuffs, beverages, and tobacco.

Trade with El Salvador constitutes only a relatively small percent of Honduras' total trade, but Honduras' commercial relations with El Salvador are nevertheless significant. El Salvador is Honduras' third largest market, exceeded only by the US and West Germany. Honduran exports to El Salvador alone equal those to the other three Common Market countries together. In addition, El Salvador is Honduras' second most important source of imports.

El Salvador has also valued trade with its neighbor. It is significant from a balance-of-payments point of view because the balance of trade is nearly two to one in favor of El Salvador. Moreover, Honduras is El Salvador's second largest regional market, exceeded only by Guatemala. Approximately 10 percent of its total exports and over 25 percent of its Common Market exports go to Honduras.

These and other economic considerations, however, may not now be controlling. Indeed, under certain circumstances El Salvador or Honduras might consider even more drastic measures up to and including withdrawal from the Common Market. Although the market provides Honduras with its only real chance for significant economic advancement, the fact that 14 percent of its total exports are absorbed by the area and that its balance of trade within the Market is negative could easily undermine the confidence in regional integration.

A need to distract domestic attention from the country's poor military performance or to counter reaction to an unpopular settlement could cause the Honduran Government to begin to decrease its dependence on El Salvador and perhaps on Central America as a whole. Although transportation difficulties would have to be resolved, Honduras might find it relatively easy to realign its trade away from El Salvador. The three other Common Market countries could provide needed imports and might be able to absorb additional Honduran goods. In addition, if Honduras decided to withdraw from the market, over 75 percent of its total imports and over 85 percent of its total exports would be unaffected. The US alone accounted for 48.2 percent of its total imports and 44.4 percent of its total exports in 1967.

Although the economic dislocation following Honduran withdrawal from the Common Market might be manageable because the other Central American states have been generally sympathetic, Honduras is perhaps less likely than El Salvador to leave the market. El Salvador, on the other hand, would find such a move economically more difficult but politically more appealing. Actual or implied condemnation as an aggressor by the other Common Market states or a feeling of political ostracism could bring Salvadoran public opinion to a point where the dictates of national honor would permit, even require, the rupture of Market ties—without regard for economic consequences.

Although a greater percentage of El Salvador's export trade is directed toward the Common Market (38 percent vs. 14 percent for Honduras), it too might hope to offset losses in intraregional commerce by increasing trade with its most important extraregional trading partners—the US, Western Europe, and Japan. Its chances of success, however, are slim. Most of El Salvador's exports within the area are manufactured products that it could not hope to sell overseas. In addition, El Salvador is not a food-surplus producer like Honduras and would find it more difficult to reduce imports. Indeed, even if El Salvador were interested only in realigning its trade away from Honduras, it would have difficulty. Aside from the probable political problems, El Salvador would find it hard to increase its share of the Guatemalan, Nicaraguan, or Costa Rican market because these countries are themselves producing many competing manufactured products.

PROSPECTS FOR THE COMMON MARKET

The continued existence of the Common Market is thus likely to hang in the balance during the next few months. Economic realities will contend with emotional and political factors. It is by no means certain that traditional trade patterns will reassert themselves and that economic pressures will prevail.

Even if the market is not immediately destroyed, continuation at its previous level of operation will be difficult, and gradual disintegration may occur. Diminished cooperation and increased political problems are likely to lead to renewed griping and to more crises. Without an overriding sense of mutual trust and good will, these crises will be hard to settle and integration efforts may grind to a halt.

Even if the market is able to continue to function, a period of stagnation will probably ensue. Certainly it is not now possible to consider the kind of innovation and experimentation proposed in March. Institutional tinkering to speed the pace of integration has been set back—perhaps for years. Hopes for closer coordination of industrial, agricultural, and monetary policies now seem misplaced. Attempts at regional administration of fiscal incentives are likely to bog down in nationalistic bickering over the relative advantage accruing to each state. Establishment of an integration tribunal or agreement on binding arbitration, seems unlikely at this time. Finally, hopes for freer movement of labor will have to await settlement of the more critical problem of Salvadoran migration to Honduras.

For a time it is going to be difficult to obtain unanimous agreement on practically any proposal. In part, much of the earlier market success can be traced to the professional camaraderie of the area's economics ministers, and the willingness of the five governments to follow the economic advice of these ministers. The distinction between economics and politics is now so blurred that even the most purely economic judgments will be subjected to very close national political scrutiny. Domestic political pressures and national jealousies now will carry significantly more weight than in the past.

Initially more important than restructuring the market, however, will be restoration of political harmony. The settlement of the problem of Salvadoran immigration to Honduras will be particularly significant. El Salvador has demanded special guarantees that Salvadorans would be well treated in Honduras. It will want to be assured that all the refugees may return, and in addition will wish to renew the now-expired 1967 migration treaty with Honduras.

Even if all the refugees want to return, however, the state of popular feeling in Honduras would make any guarantee politically difficult to grant, and harder to enforce. Certainly, Honduran resentment against Salvadorans will not diminish overnight, and any guarantee that appeared to give Salvadorans special privileges or special status would be resisted. A possible solution, therefore, might take the form of a Central American treaty allowing free migration within the Common Market. Although, for economic, demographic, and geographic reasons the majority of Salvadoran emigrants would continue to go to Honduras, this would satisfy Honduran demands for a multilateral solution to the problem of Salvadoran overpopulation. Such a step would have a salutory psychological effect and would help to restore the momentum of Central American regional integration.

OTHER PROBLEMS

The effect of the conflict extends also to other regional institutions under the Organization of Central American States (ODECA). The highest ODECA organs, the Meeting of the Chiefs of State, the Council of Foreign Ministers, and the Executive Council were further weakened by virtue of the fact that they were not even used.

The absence of recourse to these organs is particularly significant because it comes on the heels of the acrimonious meeting of foreign ministers last January. Nicaragua's insistence on immediate acceptance of an arbitration tribunal at that meeting had prevented election of a secretary-general and caused adjournment without any decisions on agenda items. Since January, the ODECA Secretariat has had to operate on an interim basis with economic, cultural, legal, and administrative responsibilities divided among the five Central American ambassadors.

The ODECA organ hardest hit, however, appears to be the Central American Defense Council (CONDECA). Based on the concept of collective security and designed to encourage collaboration among Central America's armed forces, the organization seems irrelevant in the wake of the recent conflict. Ironically, only a couple of months before the crisis began, the Panamanian observer at a special CONDECA meeting asked what the organization would do in the event of aggression by one member country toward another. All five Central American delegates had replied that aggression between member states was not conceivable and that CONDECA was designed to protect the Central American Isthmus from outside aggression. Outside aggression now seems the lesser of the two threats and a considerable period of time will have to elapse before members of the Honduran and Salvadoran military would even consider cooperating with each other.

The inability of CONDECA to foster military cooperation or to set guidelines for military expenditures, as well as the breakdown in regional unity, increases the probability that arms purchases in the area will mushroom. The argument that Central American states have no reason to fear their neighbors and that in any event collective security mechanisms would protect them from aggression has been called into question. It will thus become more difficult to convince these states that they are ill-advised to divert their slender resources—more needed for economic development—to national defense. For example, the Honduras minister of economy, who has strongly and consistenly resisted military pressures for funds for arms and equipment, stated that he would "never again" do this and that he did not see how any future minister of economy could resist similar military requests for many years to come. This line of thinking is likely to be echoed in other Central American states.

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