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CIA pessimistic about future of Central America economy

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A new CIA survey of economic difficulties in Central America, taken as the Reagan administration mounts a campaign to get over a billion dollars for the region, concludes that Central American economic difficulties aren't likely to ease significantly soon.

That judgment assumes U.S. assistance — virtually the region's only source of foreign financing — will continue at present rates for the foreseeable future.

Last year, the United States provided $863 million in economic assistance and $200 million in military aid for Central America. This year, the Reagan administration has asked Congress to appropriate $907 million in economic aid and $234 million in military assistance.

The United States has provided nearly $3.8 billion in total assistance to the region since 1979.

Sources who prepared the assessment told The Washington Times that, even under optimal conditions, it would take until the end of the century for the region to match pre-1980 standards of living. If this proves accurate, it would give Central America two straight decades of decline and stagnation, while prospects for continued violence are rated high.

The report says an anti-American backlash in the region is likely even if Washington were to continue preferential trade and large aid programs for the next decade.

The report focused on the economic prospects of the so-called "Central American core four" — Costa Rica, El Salvador, Guatemala and Honduras. It left out Nicaragua, which has not received U.S. assistance since 1981 and is seen by the report's authors as a prime cause of the region's instability.

The report, according to the sources, was completed last November and does not include such new factors as the rapid drop in oil prices and the recent dramatic rise in coffee prices. Reduced petroleum costs greatly favor the core four countries since fuel accounts for 20 percent of their total imports. Coffee provides one-third of the core four's export income.

Before these developments, the worst economic crisis in Central America's history had already caused a 20 percent drop in per capita income in the last five years, according to the report.

The four core nations were hit nearly simultaneously by a number of negative factors, including lower prices for its major exports, especially coffee; high-priced oil imports; and poor government economic policies that accelerated the flight of domestic capital and discouraged foreign investors and bankers who would no longer provide commercial credit.

They also were seriously affected by political instability engendered by the Nicaraguan revolution and serious insurgencies in El Salvador and Guatemala.

In sharp contrast, the 1960s and '70s were periods of rapid growth averaging 5 percent a year for the five countries, including Nicaragua under the rule of Anastasio Somoza, the report noted.

The intelligence assessment predicts a 1 percent growth in gross domestic product (GDP) for 1985 compared to 2 percent in 1984. It predicts another slight rise this year, perhaps 1.5 percent.

These modest growth rates — which the reports says are due to U.S. aid — are an improvement over the negative growth of the early 1980s. But the small increase in GDP will not stop the slide in per capita income, long regarded as the most critical social barometer by economic analysts. Of the four nations, only Costa Rica has had a rising standard of living in the last few years.

Compounding the problems of stagnation, high unemployment, and inflation is government mismanagement of the economy, particularly in El Salvador, Guatemala, and Honduras. In 1985, all three had overvalued currencies (El Salvador has only recently devalued), budget deficits, and multiple exchange rates that have discouraged the private sector, the report says.

Long-term prospects are equally cheerless, according to the report, particularly if Nicaragua remains a threat to the other four countries. The consensus within the intelligence community, these sources say, is that strong economic growth any time in the near future is "virtually nil."

Reinforcing that conclusion is the prediction that Central America will see only "marginal improvement" in security. That judgment suggests that the region's guerrilla and terrorist movements need not seize power, but only have to continue harassment to undermine its governments.

At best, the report concludes, per capita income will not equal 1979 levels until 1997. Even then, current rates of unemployment — which range up to 50 percent — will not be reduced. El Salvador, with the most optimistic scenario of 5 percent annual growth, would not match its 1979 standard of living until 2006.

The worst-case scenario envisions a continuing decline in per capita income, with 1979 levels never being equaled again. In addition, half the new entrants into the region's job market each year would find no employment, encouraging further emigration.

These two factors alone are likely to erode further confidence in the fragile democratic institutions that the Reagan administration has invested so much time and effort in fostering, the report concludes, providing further opportunities for Central America's political radicals.

U.S. aid, while it kept conditions from becoming even worse in the past, also carries some negative consequences. American dollars, the sources say, ultimately may delay governments from making the politically costly decisions that would promote financial stability and improve business confidence.