Maryland Journal of International Law

Volume 4 | Issue 1 Article 9

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THE CACM NATIONS, PANAMA AND BELIZE: PROSPECTS AND BARRIERS TO TRADE WITH THE UNITED STATES AND THE CARIBBEAN BASIN

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THE CACM NATIONS AND PANAMA — BACKGROUND

The five original CACM nations[1] and Panama are a separate and identifiable part of the larger heterogenous Caribbean Basin area. This sphere of nations also has significant diversities, although it is assuredly a more homogenous area than the Caribbean Basin as a whole. Within the CACM and Panama there are political, cultural and economic variances which directly and indirectly affect both intraregional trade and trading relationships with foreign areas, including other Caribbean Basin nations.

There are diverse government structures within the CACM and in Panama. Costa Rica has established what is probably the most stable democracy of all Latin American nations.[2] The absence of the military as a dominant force in Costa Rica is the most significant distinction between Costa Rica and the four other CACM countries plus Panama.[3] In each of those nations the military not only persists as a significant absorbent of national revenues, but as the dominant political force. Each of those five nations exists under a form of military leadership. Three of them — Guatemala, El Salvador and Nicaragua — have a leader who was in some form "elected" to office. While the military leadership in these four CACM countries is extremely conservative, the government in Panama is identified more with the liberal socialism of several of the Caribbean island nations.

One might expect that among the four CACM nations with conservative military governments there would be strong regional ties.

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1. The original CACM nations were Guatemala, Costa Rica, Honduras, Nicaragua and El Salvador. In discussing the CACM as a Caribbean Basin subregion, one must include El Salvador even though, while having no Caribbean coastline, it is not a Caribbean Basin nation. It is nonetheless affected by the Caribbean position of each of its CACM partners. But, in considering the CACM as part of the Caribbean Basin, one must recognize that the direct interest of El Salvador is tempered by its location, and it is unlikely individually to be a participant in Caribbean activities such as the above discussed multinational shipping enterprise.

2. C. DENTON, PATTERNS OF COSTA RICAN POLITICS (1971); B. ENGLISH, LIBERACIÓN NACIONAL IN COSTA RICA (1971).

3. F. PARKER, THE CENTRAL AMERICAN REPUBLICS (1964). *See generally* T. KALIJARVI, CENTRAL AMERICA: LAND OF LORDS AND LIZARDS (1962).

One does see traces of such support — for example, the Honduran, Salvadoran and Nicaraguan support for Guatemala's position with respect to Belize. There has nonetheless been no recent cohesive political alliance among the CACM nations, and indeed the relations between El Salvador and Honduras have reached varying degrees of hostility during the past decade.

Although each of the CACM nations and Panama have similar cultural origins, there are significant economic distinctions. Each of the six nations is considered among the developing nations of the world. Nevertheless they cannot be discussed in the same framework as other developing nations of the Western hemisphere such as Mexico, Venezuela, Argentina or Brazil. I would refer to the CACM nations and Panama as *dependent* rather than *developing,* since they do not possess either very large populations or, much more importantly, vast quantities of known and producing natural resources.[4] They are thus dependent, not only on their traditional trading relationships with the developed nations of the world — principally the United States — but also on the comparatively new relationships with the large developing nations of the hemisphere. Furthermore, the CACM nations are indirectly affected by the relationships between the traditional developed nations and those larger developing nations. While one should consider the five CACM nations and Panama as each being a dependent nation, the developmental experiences of the six nations have greatly varied.[5]

THE IDEA OF AN INTEGRATED CARIBBEAN BASIN MARKET

Rather than approaching the Caribbean Basin as a homogeneous entity with a prospect of considering what may be utopian ideas of a Caribbean Basin integrated market, it appears more appropriate to seek to identify area commonalities, and to develop bilateral, or preferably, multilateral relationships among the countries. This may result in more rapid economic growth, thus diminishing the tendency of each country to seek nationalistic goals which can impede development. We can consequently benefit by exploring the appropriateness of new multina-

4. *See* Gordon, *Developed, Developing and Dependent Nations: Central American Development in a New Economic Realignment,* 2 J. OF INT'L L. & ECON. 1 (1976); *reprinted in* 10 REVISTA JURIDICA DE LA UNIVERSIDAD INTERAMERICANA DE PUERTO RICO 235 (1976).

5. One of the critical issues to the reformation of a viable CACM is the recognition that Honduras needs special attention to its less developed stature among the CACM countries. The inability to resolve this issue during the original formation of the Market was one of the causes of the breach a decade later and its resolution is critical to a new market structure.

tional corporate developments among nations with common natural resources, such as bauxite in Jamaica, Trinidad, Guyana and possibly Costa Rica; or the benefits to a possible Western hemispheric oil consortium with Venezuela, Mexico and possibly Guatemala, if time erodes the successes of OPEC; as well as a further development of production and marketing arrangements for common agricultural products. It is undoubtedly in the last area where significant alterations could be achieved, but where there are additionally difficult internal and external obstacles. Caribbean economic relationships clearly will develop most fully where there are common political views. It is thus likely that successful economic alliances will be achieved among those nations which possess, or which do not strongly object to, identifiable and compatible political ideologies. The ability of Costa Rica to work within the framework of conservative military governments of other Central American nations is an absolute prerequisite to the full restoration of the CACM. Such Caribbean Basin nations as Jamaica, Trinidad and Tobago, Guyana and Belize have compatible ideologies and may seek economic relationships. It is important to note that with respect to the Central American isthmus, variant political ideologies exist at the most northern and southern extremities, in Belize and Panama respectively, and that the more likely political affiliation of Belize with a nation such as Jamaica constitutes one of the most acute concerns of Guatemala. The government is fearful that a socialist, sometimes perceived as communist, nation, with a common border, might soon be established in Central America, a threat to Guatemala's politically conservative government.[6] The political heterogeneity of the Caribbean Basin cannot be overlooked as having a marked effect on current and foreseeable trading relationships. Such heterogeneity is a fragmenting element which will preclude any massive and successful economic association, and which suggests a direction towards gerrymandered political affiances upon which economic alliances may be constructed.

While the prospect of some economic associations may be precluded by political heterogeneity, there are some economic associations which should be able to function to the benefit of Basin nations even within a political heterogenous framework. The Caribbean Multinational Shipping Company (NAMUCAR) is an example. Organized in May 1975, by three Central American (Costa Rica, Nicaragua and Panama), two South American (Colombia and Venezuela), two Caribbean (Cuba and Jamaica)

6. C. GARCIA BAVER, LA CONTROVERSIA SOBRE EL TERRITORIO DE BELICE (1958); N. DOBSON, A HISTORY OF BELIZE (1973).

nations, and Mexico, the initial three years of operation has resulted in substantial success, despite significant variant political ideologies.[7]

THE CACM AS A SUB-REGION OF THE CARIBBEAN BASIN AREA: THE ROLE OF PANAMA AND BELIZE

Another question is the role of Panama vis-à-vis the CACM nations. Why, for example, is Panama not a party to the CACM? Geographically isolated from South America in the sense of land transportation, Panama has a more practical identity with the Central American countries. It is a small nation which has been dependent upon a primary agricultural product — bananas — as a substantial source of its foreign exchange. Many foreign enterprises include Panama in the Central American market area, particularly those based in the adjacent nations of Central America. There are nonetheless differences between the nations. Panama is historically oriented to South American settlements and much of it was initially a part of Colombia. Its current military government is ideologically opposed to the four nations of the CACM with military governments, and there has been some hostility between the governments of Panama and Guatemala over the issue of Belize. While Panama does receive a significant source of its income from primary products, and will undoubtedly realize increased revenues from the proposed copper mining, it has quite a different business role than the CACM nations. Panama is a major banking and administrative center for corporations doing business in Latin America, a development attributable to the Panama Canal. The canal association was one of the principal reasons that Panama was not seriously considered as an initial participant in the CACM. Panama was perceived to be relatively dependent upon the United States, so that some alteration of that relationship was deemed necessary before Panama would acquire sufficient independent status to be a viable participant in the proposed market. With the Inter-American highway providing excellent land transportation to Panama from the CACM nations, and possessing both Pacific and Atlantic port facilities, Panama could become an effective member of a restructured CACM. Its dependent status strongly suggests the need for participation in an economically integrated area. Nonetheless the ideological differences mentioned above may preclude Panama's involvement in a restructured CACM even after the new canal relationship is implemented.

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7. *See* Comercio Exterior (Mexico) June 1975, at 185; July 1975, at 230; Feb. 1976, at 73; April 1976, at 158; August 1976, at 310.

The resolution of the Belize territorial question appears possessed of the same indeterminate time delay as with the resolution of the "temporary" dissolution of the CACM.[8] The Belize issue is a divisive matter among several of the Caribbean nations, and must not be viewed as solely important to Guatemala and Belize. The desire for independence on the part of the vast majority of those persons living in what is generally accepted internationally as the boundaries of Belize finds much support among the newer independent nations of the Caribbean; Guatemala's position that Belize is a part of Guatemalan territory receives somewhat tentative support from its CACM partners (a support which grows weaker at the southern extreme of the CACM, in Costa Rica, and is a disputed point with Panama). The Belize issue may be one of the more overlooked trade-retarding matters if part of our purpose is to identify and resolve trade restraints in the Caribbean Basin.

CACM TRADE

External Trade

A large share of the exports of the CACM nations, Panama and Belize is destined for the United States. Within the CACM nations, the United States in 1975 received thirty-nine percent of Costa Rica's exports, thirty-eight percent from El Salvador, twenty-nine percent of Guatemala's, fifty-five percent of Honduras' and twenty-eight percent of Nicaragua's exports. Sixty percent of the exports of Panama and fifty-three percent of the exports of Belize were sent to the United States.[9]

In 1977, the CACM in the aggregate achieved a favorable trade balance with the United States. It is perhaps more accurate to say that the United States experienced a deficit with that area. The individual nation balances were as follows: Costa Rica — -$28 million; El Salvador — +$175 million; Guatemala — + $17 million; Honduras — +$37 million and Nicaragua — -$40 million, resulting in a net balance in favor of the CACM region of $161 million.[10] The country with the most serious trade deficit — Nicaragua — has, as one would expect, the lowest proportion of exports to the United States. Panama's balance of trade is decidedly in favor of the United States, amounting to -$199 million, and thus more

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8. *See supra* note 5.

9. Caribbean Basin Economic Survey, August-Sept. 1977, at 9, *citing* U.S. Department of Commerce statistics.

10. The references for figures can be obtained from the Department of Commerce.

than offsetting the favorable trade balance of the CACM nations if Panama were to be included in the single region. Belize additionally has an unfavorable trade balance with the United States to the extent of -$11 million.[11]

One cannot accept the above figures as suggesting a trend towards continued favorable balances for the CACM nations, or an imbalance for Panama. There has been a commodity trade improvement in Central America which has significantly assisted the Central American countries in their recovery from the higher costs of imported oil in 1973. The abovementioned 1977 trade figures were substantially affected by the impact of the then-escalating coffee prices. The effect of higher coffee prices on the CACM countries' GDP illustrates the continuing significance of coffee exports for that region.[12] The importance of coffee will be discussed further below.

There has been a considerable effort on the part of the CACM nations to diversify their export trade. Nontraditional exports have been emphasized in Costa Rica and Guatemala, and those two nations have also successfully encouraged increased tourism. Costa Rica's nontraditional exports were expected to amount to approximately seven percent of the GDP in 1977, maintaining approximately a fifteen percent increase for several years.[13] Nontraditional exports in Guatemala — primarily fruit, vegetables, fresh flowers, furniture and artisan products — account for nearly as much as tourism, each contributing approximately three percent to the GDP. Although in El Salvador the contribution to GDP by the export of nontraditional products has been low, it is expected to increase significantly in the next few years, since that country has directed its efforts to the establishment of export-oriented assembly industries.

There are significant contrasts in the trade of the various CACM countries, illustrated by the experiences of Costa Rica and Guatemala. Costa Rica has traditionally had a trade imbalance, although 1976 trade reduced to $110 million the 1975 trade deficit of $205 million.[14] The reduction was principally due to high prices for coffee, a significant volume of banana exports and an increase in the nontraditional export sector. Costa Rica's persistent imbalances have resulted in occasional

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11. *See supra* note 9.

12. For 1976, Guatemala's coffee earnings equaled approximately ten percent of the GDP; for El Salvador they were twenty-five percent; Honduras—ten percent; Costa Rica—twelve percent; and five percent in Nicaragua.

13. *See supra* note 9, at 62.

14. *Id.*

unilateral actions which have caused disturbances in the functioning of the CACM to be discussed below.

Guatemala, in contrast to Costa Rica, currently is the growth leader in the CACM. It indeed has much to be positive about, with the first delivery this year of nickel from the Exmibal project on Lake Izabal and from the production of oil. Guatemala is the only Central American nation with petroleum production, and the Exmibal project is one of only two significant mining activities in the isthmus. The other is the copper project in Panama, a government joint venture with Texasgulf not yet in the production stage.[15] In addition to its own oil production, Guatemala is vigorously pursuing the construction of hydroelectric facilities. Combined with a budgetary conscious government, Guatemala's future appears extremely sound. This nevertheless presents an interesting question as to the nature of the future relationships between Guatemala and the other Central American nations. If Guatemala achieves a significantly higher growth than its neighbors, principally due to its newly found oil and mineral wealth, to what extent will it share the fruits of its success with the Central American region? The successful operation of a regional market requires concessions by the wealthier members. Many observers have reason to doubt that Guatemala, or any of the other Central American nations, would be any more interested in wealth sharing among the region, than they have been individually in adjusting grossly inequitable national income distributions.

Intraregional trade

Intraregional CACM trade has significant imbalances, and indeed, the trade balances of the various nations have not changed significantly since 1968, although the quantity of trade in dollars has approximately doubled. For example, Costa Rica had an $11.1 million trade deficit in 1974.[16] In contrast, Guatemala's $34.4 million favorable trade balance in 1968 increased to $46.5 million in 1974. Honduras' trade deficit of $17.4 million in 1968, a significant cause of the breach of the market that year, has decreased only slightly to a $15.5 million deficit in 1974. The most significant imbalance is that of Nicaragua, increasing from a deficit of $19.3 million to $45.2 million between 1968 and 1974. Only in Honduras has the volume of trade decreased, from $31.3 million to $26.4 million. The

15. Alcoa long discussed the development of bauxite reserves in Costa Rica, but ultimately withdrew from its development contract, thus ending, at least temporarily, the prospect of what could have been significant export earnings for that nation.

16. Integración en Citras, SIECA.

increases in each of the other four countries have been significant: in Costa Rica — $31.7 to $100.4 million; El Salvador — $84.9 to $142.5 million; Guatemala — $77.5 to $170.2 million and Nicaragua — $26.9 to $85.5 million, a total CACM regional increase of $258.3 million to $525 million. A positive aspect of this trade development is that manufacturing represents an increasing share of the regional exports, accounting for fifty-three percent of total intraregional exports in contrast to forty-eight percent in 1968. This represents an increase in the dollar amount of manufactured goods of 123%. Although the statistics are impressive, they would be even more favorable were the CACM to be restored as a functioning five member market.

THE COLLAPSE AND POTENTIAL RESURRECTION OF THE CACM

Trade relationships which involve the five Central American nations, generally referred to as the CACM nations, must be considered in light of the fact that there is no common market in Central America, nor has one ever really existed. The General Treaty on Central American Economic Integration, executed in 1958 but not finally ratified by Costa Rica until 1963, brought the organization close to a customs union, but never achieved such additional integration activities as a free flow of workers or a common monetary union, both criteria of a common market.[17] Nevertheless, as a customs union, the area has achieved very positive success, stimulating much intraregional trade and achieving a favorable balance in trade creation compared with trade diversion activities. The withdrawal of Honduras in 1969 was caused by a combination of factors, including disenchantment with its nonfavored status as an economically less developed member, but more particularly with the patterns of migration of Salvadoran workers to Honduras. This resulted in the termination of the five member customs union, and a continuation of a fragmented four member customs union without the participation of Honduras. Honduras subsequently entered into separate bilateral agreements with Costa Rica, Nicaragua and Guatemala, actions which significantly reduced the urgency for the restoration of the market. In effect, the result was a termination of trading relationships between Honduras and El Salvador, but otherwise a continuation of the pursuit of intraregional trading relationships.

Since the withdrawal of Honduras, there have been numerable attempts at market restoration. These negotiations have been conducted

17. Central American Integration documents are contained in 2 INSTRUMENTS OF ECONOMIC INTEGRATION IN LATIN AMERICA AND THE CARIBBEAN 365–368 (1975).

amidst a "business-as-usual" atmosphere, *i.e.*, with nationalistic preferences. This is illustrated by actions such as Costa Rica's halt of payments for regional imports in 1972 in order to correct a serious but self-induced trade imbalance. In 1973 the Permanent Secretariat of the Central American Common Market (SIECA) completed a major study of development within the CACM and made recommendations for improvements.[18] Many of these were economically sound, including prior approval of new foreign investment, the registration of transfer of technology contracts and restrictions of local credit. The changes were so significant, nevertheless, that it was unlikely that approval of the changes and a resolution of the Honduras-El Salvador dispute could be concurrently achieved. For the past five years there have been numerous meetings by representatives of the five nations with a goal of restoring economic integration, but the successes have been notably less than even the prolonged but exotically located Law of the Sea Conference. A significant disadvantage of the delay in restructuring the market has been an increasing institutionalization of the idea of separate and nationalistic development. The discovery of oil and development of nickel mining in Guatemala, with the consequent potential for a greater degree of self-sufficiency, may have reduced the motivation for Guatemala to view the restoration of the market as an urgent matter. While these economic developments place Guatemala in a position to be able to grant concessions to Honduras, the least developed member, it also reduces the dependency of Guatemala on the regional area, increases its ability to sustain political nationalism, and thus indirectly perpetuates fruitless negotiations for market restoration.

In 1975 the five CACM nations adopted the La Flora Declaration which affirmed the need to restructure the CACM. The High Level Commission of the CACM was instructed to prepare a new treaty, giving consideration to less developed members. The draft of that treaty, the "Treaty Creating the Central American Economic and Social Community," has now been under study for approximately two years.[19] It proposes a social and economic community, an integration well beyond a customs union, eliminating all barriers to free movement of people, goods and capital, and requiring coordinated policies in such areas as agriculture, energy, finance and taxation. It is an important document, not in its prospects for adoption in the near future, but in its

18. El desarrollo integralo de Centroamerica en la presente décade; bases y propuestras para el perfeccionamiento y la restructuración del Mercado Comun Centroamericano (SIECA Feb. 1973).

19. *Proyecto de Tratado de la Comunidad Economica y Social Centroamericana* (SIECA Marzo 1976).

representation of the prevailing attitude within the CACM nations toward their relationships with foreign investors and as a good indicator of appropriate plans for development of the region over the next two decades. But there appears to be no feeling of urgency for its adoption. There is an insufficient feeling of a community of interests among the CACM nations to accept the harmonization policy called for by the draft treaty. For instance, in the light of its earlier dispute with El Salvador, Honduras will not accept the free movement of labor in any new treaty. Elections for government offices are held at different intervals in the CACM nations, creating an overall frequency of elections and consequent disinterest in discussing concessions required by the proposed treaty during an electoral campaign. Other attention-diverting issues have reduced the stimulation of market resurrection and will continue to do so until resolved. These include an emphasis on domestic self-sufficiency in agricultural production, the paradoxical world of the banana industry, the extreme fluctuation of coffee prices, the development of petroleum in Guatemala and the energy import needs of the other nations. For Panama and Belize, resolution of the canal and territorial issues, respectively, are important topics.

Although SIECA and AID have formulated a plan for cooperative agricultural development among CACM members, there is substantial evidence that these nations have increasingly stressed domestic self-sufficiency. This has resulted in a serious misallocation of economic resources.

There has been a significant alteration in the structure of the banana industry in Central America. Originally dominated (nearly exclusively) by the United Fruit (now United Brands) Company, three large, multinational corporations currently share the production and processing with numerous small independent enterprises.[20] In addition to United Brands, Del Monte and Standard Fruit (Castle and Cooke) have penetrated the market. While United Brands has reduced its dominance in the banana industry in Central America, it continues as one of the dominant enterprises and, notwithstanding its corporate name change, many of the wrongdoings, real and imagined, charged to it in the past have not been forgotten. The company is perceived by many critics as continuing to possess too extensive a role in the economies of several Central American nations. Many viewers of the banana industry in Central America believed that a more positive exercise of corporate

20. OAS, *The Banana Industry, Sectoral Study of Transnational Enterprises in Latin America* (1975). *See generally* S. MAY and G. PLAZA, THE UNITED FRUIT COMPANY IN LATIN AMERICA (1958); T. MCCANN, AN AMERICAN COMPANY (1976).

responsibility by United Brands in its operations in Central America was developing. This view was shattered, however, with the discovery of payments by United Brands to various Honduran officials in 1975, the result of which was the removal of the Honduran president from office.[21] The Union of Banana Producing Countries cannot function as a product union with the economic power of the OPEC. Without the participation of such a major producer as Ecuador, whatever modest power the organization might possess is significantly reduced. A more successful direction would appear to be the conversion of this important sector to local private ownership with the development of regionally-owned multinational marketing facilities.

Unlike the banana industry, coffee in Central America is not dominated by any large foreign interests. It is in the hands of many local private owners. Although there has been some cohesiveness among Central American coffee producers, their collective goals have both been eroded by occasional actions by individual nations and by an unrealistic conception of what their collective power can achieve. Coffee reached $3.35 per pound between July 1975 and April 1977. By October 1977, it was selling for $1.90 per pound with March 1978 futures at $1.46 per pound. In March, the price was $1.72 per pound and the Central American nations met to discuss methods to increase the price. A drought in Central America or, more importantly, vicissitudes in Brazil will undoubtedly lead to higher prices more effectively than any agreement to withhold coffee from the market, a practice without any previous success. Their actions have been directed to establishing a high price floor (but no price ceiling) rather than to effectively regulate and allocate production, or to develop viable multinational marketing organizations.[22] Bananas and coffee have been principal export products of the Central American countries for many decades. The more recent attempt to form product unions throughout the Third World, encouraged by OPEC's success, has diverted the attention, and to a degree, the interest of many nations in the restoration of geographical unions. Although multinational associations in the coffee and banana producing areas could have a positive impact, it is nevertheless unlikely that a cartel of banana or coffee producing nations could exert the leverage of OPEC.

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21. *See, e.g.,* Comercio Exterior (Mexico) June 1975, at 208; Miami Herald, April 19, 1975, at 3-B, col. 1; Wall St. J., May 19, 1975, at 5, col. 3.

22. One must consequently question whether a transfer of control of banana production in Central American countries from the foreign enterprises to local productions would be any more economically beneficial to the Central American nations, if the banana producers proved to be as unrealistic in their viewpoint as to collective power as have been the coffee producers.

With the development of petroleum deposits in Guatemala, and the lack of known petroleum resources in the other Central American nations, the future role of Guatemala vis-à-vis the other nations is uncertain. Current petroleum reserves in Guatemala suggest only a sufficient quantity to provide some relief to Guatemalan oil imports, but not to make it a Central American Kuwait. Participation in OPEC can be no more than a hoped-for fantasy, but if the combination of petroleum production and hydroelectric power permits Guatemala to achieve energy self-sufficiency, it would appear to give Guatemala either a very dominant role in a restructured CACM, or a reduced interest in any restoration of the market if it must grant concessions.

The two nations of the isthmus which do not participate in the CACM — Panama and Belize — are each engaged in an attempted resolution of critical international issues which have had a significant effect upon their abilities to fully devote their resources to economic development. Implementation of the new treaties with the United States will allow Panama to concentrate on economic resources, particularly the canal which is the most significant economic resource in the entire CACM area. Panama will be able to further develop its already important role as a banking center, and additionally consider possible participation in a regionally-integrated area.

The territorial issue of Belize appears far from resolved and indeed the continuation of the status quo may be what is most desired by Guatemala. The Belize issue has been raised in every recent election and is perceived by many observers as a way of diverting public attention from a severe misallocation of resources to the benefit of a small elite. Fearful of the establishment of a socialist government in Belize, along the lines of the comparatively nearby Manley government in Jamaica, many Guatemalan officials would prefer to keep the territorial issue in a continued state of negotiation, which will require the British to maintain security forces in Belize and undoubtedly discourage the development of a radical government which might create friction with England. There have been recent announcements of some agreement between Guatemala and England to resolve the issue, with Guatemala relinquishing its claims to Belize in exchange for part of what is currently generally accepted as the southern territory of Belize. Responses from the government in Belize, however, have illustrated adamant opposition to relinquishing any of its perceived territory, thus suggesting a continuation of negotitations for the indefinite future. Although Britian's role in Belize is limited to security and foreign policy, and the country is technically free to adopt its own economic policies, the country has an obvious attention-diverting issue which precludes it from truly focusing on economic development issues — the British presence and the threat from Guatemala.

FUTURE NATIONAL AND SUB-REGIONAL ECONOMIC PROSPECTS

The future of the nations of the Central American isthmus has both encouraging and foreboding elements. Each is a small, dependent nation affected directly by relationships with the developed nations, with the larger developing nations and, indirectly, by the relationships between the developed and developing nations. While modest measures of economic development may be achieved individually, prospects for achieving significant development lie in some group association. The association framework is already established for the original five CACM nations, a framework which would appear to be the most natural economic union for the association of Panama. It is unlikely that Belize would seek association with a Central American union, since its political and socioeconomic structures are more identifiable with other Caribbean Basin nations. I have noted above, however, that multinational association, exemplified by the attempts at the restoration of the CACM, has proven to be an exceptionally slow process subordinated to individual national development. Consequently some comments on the prospects for individual countries appears appropriate and will help to provide a basis on which to predict future regional economic associations.

Guatemala

The discovery of oil and the initial production of nickel offers Guatemala a basis for economic growth absent in the other Central American nations. The principal question will be whether the country will effectively manage growth. The prospects seem most promising, clouded by a moderately fragile political structure which has been unable to resolve social unrest and has, in consequence, brought the country to a level of persistent violence unparalleled in other Central American nations. Guatemala has rebounded exceptionally well from the devastating earthquake of 1976. The nation has continued to concentrate on the improvement of its infrastructure and the creation of new energy sources, including hydroelectric and geothermal power. A country of exceptional physical beauty, it has capitalized on this aspect by extensive, currently overbuilt, tourist facilities. The withdrawal of the United Fruit Company, through the sale of its Guatemalan banana operations to Del Monte, has removed a source of friction for the government, although critics of large, foreign investments have focused their attention on the nickel operation, Exmibal. With that operation functioning as a joint venture in which the Guatemalan government will obtain a thirty percent interest, the argument of foreign domination has diminished. It appears quite likely that the pattern for large, extractive-oriented projects in Guatemala, as well as in other countries in Central America, will increasingly follow the pattern of larger Western hemispheric developing nations, requiring such foreign enterprises to be joint ventures with domestic national or private capital participation. While these nations neither individually nor collectively have significant leverage, or the local capital to extract the kind of domestic ownership limitations as dictated by Mexican law, very large foreign investments are unlikely to be permitted to be established and function with the freedom from local participation and control which existed in the past. The joint ventures in Guatemala — for example, the Exmibal nickel project, the pipeline to connect the oil fields with the Caribbean and the copper project in Panama — are illustrative of a continued and future format of negotiated joint ventures for foreign investments.

A concern one must have in viewing the future for Guatemala is the extent to which it will use its newly found wealth to pursue policies which it perceives are in the best interests of Guatemala but which provide no direct assistance for Central America as a region. In Guatemala, as in other Central American nations, there is clear and strong reluctance on the part of the elite to relinquish their power and material comforts. If that pattern is evident in international economic relationships, Guatemala will not suffer in its economic growth as significantly as other areas of Central America. In a restored CACM, Guatemala has the potential for an important leadership role, but there have been sufficient expressions of nationalism to suggest that it may neither wish to effectively carry out this leadership role, nor be capable of doing so if such was to be a government intention.

Honduras

The economic future of Honduras is dependent substantially on a successful restoration of the CACM and the receipt of favorable treatment for its least developed position among these nations. During the decade when the market was functioning, Honduras was generally considered by foreign investors to be one of the two least attractive locations for locating a manufacturing facility. Honduras does not have an extensive an Indian population as Guatemala, although it has encountered persistent difficulties with farmers who have been unsuccessfully seeking land reforms. Banana production has been substantially restored following the devastating hurricane Fifi in 1974, but there has yet to be a full resolution of the relationship of foreign banana companies to the Honduran economy. The payment of over $1 million by the United Brands Company to high government officials, possibly including the President, caused both a severe disruption in government functions and illustrated the continuing dominance of foreign banana interests in this economy. Ironically, the illegal payment in Honduras may well have proven to be a positive stimulant for change; the banana companies have lost ownership of their railway and dock facilities, and concession contracts which had been scarcely changed since the early 1900s have been renegotiated. Substantial properties of the Standard Fruit operations have been taken over by the government, which will rehabilitate those areas damaged by the hurricane.

Nicaragua

The prospects for economic growth in Nicaragua are significantly dependent upon the resolution of the increasingly questionable stability of the Somoza government. Considered, along with Honduras, by most foreign investors as one of the least desirable locations for a plant (partially because the capital city is at a climatically oppressive sea level), Nicaragua possesses no known natural resources and only modest prospects for attracting significant levels of tourism. Like Honduras, the future prospects of significant economic growth must lie in regional integration, and any important amounts of foreign investment will not occur until there is a more predictable political stability than that which currently exists.

Costa Rica

Costa Rica is viewed by potential foreign investors as the most desirable Central American location in terms of political stability, educational facilities and the general attractiveness of the San Jose area. Such factors as the absence of a significant Indian population and a well-established and increasingly stable middle class inject prospects for a future stability to Costa Rica which are absent in all of the other nations of the Central American isthmus. Costa Rica has had the most persistent trade imbalance, caused partially by the demands of an increasingly affluent middle class. This has led the country to a series of unilateral actions designed to stabilize trade imbalances, actions which have been in direct conflict with CACM rules and precepts. In each case, these issues have been resolved through negotiation, a fact which illustrates the potential for a peaceful resolution of intraregional disputes of an economic nature. The position of Costa Rica is unique; it is a politically stable island in a sea of political uncertainty, the only true democracy functioning in Central America, and it possesses the most homogeneous population of the area. The failure of the planned Alcoa bauxite project was obviously a discouraging occurrence. Costa Rica achieved a rapid growth as a preferred industrial location during the early years of the CACM. Restoration of the CACM is consequently important to continuing its role as one of the leaders of that market. Lacking known producing natural resources, but nevertheless aware of the existence of low grade bauxite with a potential for exploitation, Costa Rica does not currently possess the leverage of Guatemala to suggest the dominance of nationalism vis-à-vis the perceived benefits of regionalism.

PROSPECTS FOR THE CACM, PANAMA AND BELIZE

Discussed in some detail above, the CACM is not likely to achieve the status hoped for in the proposed treaty, which calls for a significant social and economic association beyond a restoration of the customs union. There appear to be no critical pressures for the restoration of the union and indeed there are a sufficient number of attention-diverting activities, in the form of natural phenomena, such as the earthquakes in Nicaragua and Guatemala and the hurricane in Honduras, the frequency of elections, the development of petroleum and nickel in Guatemala and the periodic dislocation caused by the foreign banana companies and international coffee prices. The restoration of the CACM will continue to be much discussed but have, in reality, a comparatively low priority. It should not. This area of dependent nations is in need of the increased leverage of an international trading area through the effective operation of an economic union. None of the attention-diverting factors or trade-retarding issues can be viewed as precluding the restoration of the market. There is relatively little reason to believe, however, that such a view is shared by a sufficient number of those in power throughout the market to predict an early restoration.

With the basic problems of the role of the United States and Panama nearing resolution, Panama will be able to continue more easily on its economic path. It would appear quite clearly that the nation will increase its role as an offshore banking center, attempting to focus on a service role in the Americas, in contrast to a sole reliance upon competing with other Latin American nations as the situs of productive foreign investment. This should not suggest that Panama will not so compete, since its central location in the hemisphere and transportation facilities suggest a quite suitable location for such activities as assembly industries. Tourism is and will continue to be an important contributor to GDP, as will the important new Texasgulf copper project. Possessing the most socialist-oriented government of the Central American nations (not including Belize), one may also predict a greater likelihood of increasing state control and participation in banana production, and less of an ability of foreign investors to penetrate the government structures in ways illustrated by the recent history in Honduras. Whether Panama will seek an association in a restored CACM remains uncertain. It is at a geographical disadvantage in terms of land transportation due to the distance to major markets in El Salvador and Guatemala, but it could significantly benefit from an association with Costa Rica. It is somewhat doubtful, nevertheless, that any early association will be forthcoming. There will be a time delay while Panama considers its economic future after the canal issue is resolved. There is likely to be a significant concentration on the utilization of the canal and on the canal zone for economic development in Panama in the near future. This is likely to include the establishment of ship repair facilities and other ocean transportation service-oriented projects. The potential for growth in this area, plus the development of the copper resources, would appear to lessen the need of Panama to commence any discussions for participation in agreements other than bilateral arrangements with individual Central American nations.

The future for Belize depends upon resolution of the territorial issue. It appears quite clear that the population of Belize is determined to achieve full independence. The critical issue is whether Guatemala will be willing to recognize Belize to the extent perceived by the British who would withdraw from providing foreign policy and security assistance. If, or perhaps when, independence is achieved, it is doubtful that significant trading relationships will be established with Guatemala. Belize is additionally distant from the major markets of its other border neighbor, Mexico. Add to this the cultural and political orientation to several of the Caribbean nations and one must predict that Belize will seek its future economic associations with Caribbean nations rather than with those of the Central American isthmus.