Central America 2019
Challenges for U.S. Interests

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CENTRAL AMERICA 2019
CHALLENGES FOR U.S. INTERESTS

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“A comprehensive effort to promote democracy and prosperity among the Central American nations must have as its cornerstone accelerated human development. Widespread hunger and malnutrition, illiteracy, poor education and training opportunities, poor health conditions, and inadequate housing are unstable foundations on which to encourage the growth of viable democratic institutions.”
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Key Findings

Long of compelling importance for American policy makers, the Central American countries1 --Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama-- will continue in the foreseeable future to pose critical security and humanitarian challenges that will require greater U.S. engagement and expenditure. Meanwhile, Russia and China are energetically challenging historic American interests in the region.

In El Salvador, Honduras, and Guatemala -- the Northern Triangle countries-- high levels of crime, gang violence, corruption, narcotics trafficking, poverty, unemployment, and other factors will continue to impel large numbers, including children, to seek illegal entry and asylum in the U.S. Compounding problems in these countries will prove largely inescapable, beyond the capabilities of current leaders and weak institutions adequately to remediate. Their large cities are among the most violent in the world.

In Nicaragua, former Sandinista guerrilla Daniel Ortega and his family control all branches and levels of government while manipulating the electoral process and the constitution. Ortega intends to remain in power indefinitely, although he was forced to deploy armed forces brutally to suppress massive protests that began in April 2018. More than 300 were killed, many more were injured or forced into hiding, as more than 20,000 have fled to Costa Rica. Economic contraction has been severe since Venezuelan aid flows ended. Under mounting U.S. pressure, Ortega is likely to seek economic assistance from Russia that already provides him with military support.

Costa Rica’s venerable democracy has weathered the crises afflicting its neighbors to the north but will likely experience unaccustomed political turbulence in the years ahead as narcotraffickers seek new safe havens and routes and the Nicaraguan diaspora grows. Although the economy has been one of the strongest in Latin America, trust in political parties and support for democracy generally have declined.

Panama enjoys one of the world’s most robust economies and the prospects looking forward continue to be favorable. However, lax banking laws and money

1. Although located in the Central American isthmus, Belize, with abiding Caribbean characteristics, is not included here.
laundering fuel rampant corruption. President Juan Carlos Varela is fighting allegations of corruption. His wealthy predecessor Ricardo Martinelli, accused of taking bribes, was extradited by the U.S. in 2018. A growing Chinese presence, including sizeable investments, is creating new corruption opportunities as well as unprecedented challenges to historic U.S. interests.

Overall, equitable governance is undermined by declining confidence in democracy, weak and inadequately funded judiciaries, elite manipulation of the rule of law, and distrust of traditional political parties and government institutions. Corruption, widespread in the leadership and bureaucratic classes drains economies, worsens socio-political antagonisms, and undermines democracy, while, except in Panama, also discouraging foreign investors. Notably, ten Central American presidents in office since 2000, have been officially charged with egregious corruption, convicted and jailed, or fled prosecution. Many other elected and ranking officials have been found to be similarly culpable. Internationally-sponsored corruption watchdog commissions have made significant inroads in Guatemala, and to a lesser extent in Honduras. However, facing allegations of corruption himself, Guatemalan President Jimmy Morales has moved to terminate the anti-corruption commission and expel its foreign staff. The outlook for independent prosecutions in Honduras is also in doubt because increasingly authoritarian President Juan Orlando Hernandez is beholden to wary conservative business and military elites. Without vigorous and sustained U.S. and other international pressure, both countries will likely revert to flagrant corruption. In turn, that would aggravate social and political divisions and spur emigration to the U.S.
Introduction

The Central American nations are entwined with the United States through free trade agreements and extensive cultural, social, and economic connections. El Salvador, Guatemala, and Honduras — the Northern Triangle countries — as well as Costa Rica and Panama are also recipients of security and other U.S. assistance. With the exception of Sandinista-governed Nicaragua, governments traditionally have been reliable diplomatic and security partners of the U.S. All six economies have grown with infusions of American investment and tourism revenue. Remittances from the multitudes of Salvadorans, Hondurans, and Guatemalans residing in the United States respectively totaled five, four and eight billion dollars in 2017, accounting for large percentages of their national incomes. The Central American countries are structured as constitutional democracies and are signatories of the Inter-American Democratic Charter, though in practice only Costa Rica fulfills the highest democratic aspirations.

Critical Background

Central America has been of compelling importance for American policy makers since the mid-twentieth century. The security and ideological threats that affected much of the region during the Cold War have more recently been succeeded by humanitarian crises, the spread of narcotics trafficking and criminal organizations, and the coalescence of organized waves of migrants to the U.S. border. In many important respects these contemporary problems are rooted in Central America’s tortured modern history.

In 1954, a democratically elected, Marxist-tinged, government in Guatemala was overthrown in a covert American intervention. A pliant right-wing colonel was installed in the presidency, but the long-term consequences of the coup proved calamitous. Death squads and security services viciously suppressed the resulting Marxist insurgency that operated between 1960-1996. An estimated two hundred

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thousand civilians are believed to have perished.\(^3\) Waves of Guatemalans began to emigrate—at least ten percent of the population—to the U.S.\(^4\) As so many have departed, traditional family and community structures, particularly in areas of the impoverished highlands, have eroded.

During the 1960s and 1970s, American-supported regimes struggled to defeat Cuban- and Soviet-backed revolutionaries, especially in Nicaragua and El Salvador. The balance shifted decisively in July 1979 when Daniel Ortega and Sandinista insurgents triumphed in Nicaragua.\(^5\) The new revolutionary regime initially enjoyed broad popular support. Yet, as its commitment to Marxist-Leninist orthodoxies and Cuban tutelage intensified, an authentic peasant-based opposition movement emerged.

In 1980 neighboring El Salvador became the next Cold War battleground. Emboldened by their victory in Nicaragua, the Sandinistas, with support from Cuba, were determined to help propel the Farabundo Marti National Liberation Front (FMLN) guerrillas into power. But in January 1981 the tenacious Salvadoran armed forces defeated what the Marxist guerrillas termed their “final offensive.”

The plan, hatched in Havana, was to present the new Reagan administration with the fait accompli of another revolutionary regime in power in a Central American capital.

American support for the beleaguered Salvadoran regime accelerated as the FMLN fielded a powerful insurgency. Massive casualties were inflicted on both sides—as many as seventy-five thousand deaths—leaving wounds of war that remain unhealed today. The Salvadoran economy was crippled. A generation of young men steeled in lethal violence came of age with few constructive opportunities. Massive numbers fled the bloodshed to the United States. The savage civil war endured for about a decade and bonds between El Salvador and the United States became immutable.

Although no indigenous insurgency developed in Honduras, that fragile nation was also drawn into the conflict. Encouraged by the United States, Honduran leaders joined with the Reagan administration to challenge the Sandinistas.\(^6\)

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\(^4\) Ibid.


American personnel, working from Honduran territory along the border with Nicaragua, trained and armed the anti-communist Nicaraguan opposition --the Contras.

Congress responded by imposing restrictions on assistance to allied interests in the region and international efforts to forge a comprehensive peace gained support. Seeking to regain the initiative, Reagan created a bipartisan commission of distinguished leaders, chaired by former Secretary of State Henry Kissinger. After conducting a nearly six-month review of U.S. policy and regional dynamics, it issued a comprehensive report in January 1984. The majority of its recommendations remain hauntingly relevant. In language that resonates as vividly today as it did in 1984, the report summarized the challenge for American policymakers.

“We have concluded this exercise persuaded that Central America is both vital and vulnerable, and that whatever other crises may arise to claim the nation’s attention, the United States cannot afford to turn away from that threatened region. Central America’s crisis is our crisis.”

The Evolving Crisis

As the Cold War wound down in the late 1980s the insurgencies in El Salvador and Nicaragua unraveled. Still, hopes that the conflicted Northern Triangle nations, and Nicaragua, would glide peacefully into equitable governance under liberal democratic norms have proved illusory. Nascent drug trafficking organizations had already emerged in Honduras and Guatemala in the 1980s with the involvement of corrupt government officials and military personnel. Later, under intensifying pressure from American drug interdiction efforts, traffickers began to seek new, safer routes for transporting cocaine from South America to the U.S. Remote regions of northern Honduras and eastern Guatemala bordering the Gulf of Mexico became major new hubs of the international drug trade. In recent years, approximately 90 percent of the cocaine entering the American market flows through those two countries. And, what began as merely a transshipment phenomenon, now threatens to become a major new drug nexus.

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Guatemala is gradually becoming such a major drug center. If recent trends continue, local cartels could soon rival the more powerful Mexican ones, or be absorbed by them as subsidiaries. The Guatemalan narcotics industry has already begun to diversify. Opium poppies are grown in a remote mountain region and then processed and sold to Mexican traffickers.\(^9\) In addition, at least 50 criminal drug organizations are engaged in extortion and drug trafficking. Family-dominated cartels operate in distinct areas while competing and gaining political influence. These criminal organizations have become so entrenched that even if cocaine delivery routes are diverted away from Central America, they will seek illicit revenues through extortion and other forms of violent crime.\(^10\)

In the Northern Triangle gang (\textit{mara}) networks and other types of criminal organizations linked to Mexican and Colombian drug cartels have exacerbated levels of violence. Maras have proliferated in part because of U.S. policies implemented in the late 1990s to deport thousands of violent gang members to their home countries. In 2017 experts estimated that there were 28,000 gang members in El Salvador, 20,000 in Honduras, and 15,000 in Guatemala.\(^11\) Those numbers may be greater today. The violence, most of which goes unpunished, has inflicted a debilitating toll on national economies.\(^12\)

Local criminal groups engage in extortion rackets, kidnappings, arms trafficking, and murder-for-hire. In recent years murder rates in El Salvador and Honduras have exceeded those in nearly all other countries not racked by war. In Guatemala they are lower, but still alarmingly high. Thus far, every national and international program designed to reduce gang violence has disappointed. Moreover, problems associated with impoverished youth are destined to get worse as larger young cohorts come of age. Today 56 percent of Guatemalans, 54 percent of Hondurans, and 46 percent of Salvadorans are younger than 25.\(^13\)

Unemployment and lack of educational opportunities idle large percentages of Central American youth, so many of whom have been minimally educated. Educational attainment levels remain significantly below those of other Latin


\(^12\) Radersdorf et al., Ibid, p. 3.

\(^13\) CIA World Factbook.
American countries, with average years of education ranging from 6.3 in Honduras to 9.3 in Panama.\textsuperscript{14} Educational deficiencies will continue indefinitely to constitute a formidable institutional barrier to economic growth and poverty reduction.\textsuperscript{15} In rural areas, illiteracy is still a serious problem.

Demographic realities—including youth bulges and high fertility and growth rates in Honduras and Guatemala—point to an intensification of political and social conflict. Social tensions are aggravated in little El Salvador because it is one of the most densely populated poor countries in the world. Increasing population densities in Central American cities have worsened poverty and crime, impelling large migrations of people to the U.S. Guatemala, with the largest and most rapidly growing population, will likely reach more than 21 million by 2030. It has the highest fertility and population growth rates in Latin America, and half the population is currently under the age of nineteen.\textsuperscript{16} Most of the growth occurs among the large and generally poor indigenous population.

Demographic destiny is only somewhat less daunting in Honduras and El Salvador. Population growth in Honduras has declined since the 1990s, but hovers at about two percent annually. The CIA World Factbook estimates that fifteen to 29-year-old Honduran cohorts will continue growing rapidly for the next three decades. In contrast, growth and fertility rates have stabilized in El Salvador. The CIA World Factbook indicates that El Salvador “is well into its demographic transition, experiencing slower population growth, a decline in the number of youths, and the gradual ageing of the population.” Yet, if a significant percentage of the nearly 200,000 Salvadoreans and 57,000 Hondurans in the United States under Temporary Protected Status are repatriated, unemployment will rise, remittance flows decline, gang violence intensify, and political tensions increase.

\textit{Altogether, the population of the six Central American nations is expected to grow from less than 47 million in 2017 to nearly 55 million by 2030. If, as seems likely, present conditions persist, emigration pressures will grow commensurately.}

\textsuperscript{14} UNESCO Institute for Statistics. 2018.
\textsuperscript{16} Ibid.
Problems of Governance

Popular support for democracy has been eroding in most of Central America. From 1981 through 2005, for example, Honduras was governed by a succession of civilian presidents, chosen in generally free and fair elections. There were four peaceful turnovers of power between the two leading parties as the previously dominant military was reduced in size and influence. Since 2009, in contrast, two destabilizing presidential succession crises, and a military coup, have caused a reversal of the country’s earlier democratic gains. Meanwhile, the military has regained considerable influence. President Juan Orlando Hernandez presides over an increasingly authoritarian regime amid politically-driven violence and polarization. Protests that accompanied his disputed presidential election victory in November 2017, and later during his inauguration for a second term, resulted in scores of deaths and injuries. (See Honduras Forecast)

In Guatemala, Jimmy Morales, a TV personality and comedian with no previous political experience, won the presidency in January 2016 with 67 percent of the vote. His campaign slogan “neither corrupt nor a thief” resonated with an electorate justifiably distrustful of politicians after a succession of corruption scandals. But he was soon entangled in one of his own that caused large numbers of Guatemalans to protest in the streets. Morales has remained defiant, however, and most likely will limp through the remainder of his term with diminished popularity yet with the backing of business and military leaders. (See Guatemala Forecast)

Not surprisingly, when asked by representatives of the Latin American Public Opinion Project (LAPOP), a respected university-based organization, if democracy is better than any other form of government, only slightly more than 48 percent of Guatemalans agreed. That was the lowest percentage response among the 21 Latin American and Caribbean countries surveyed. The results in Honduras and El Salvador were only marginally better. The survey also found that trust in elections is low: only a fraction above 34 percent in Guatemala and Honduras and 38 percent in El Salvador.

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19 Ibid.
20 Ibid, p. 15
The 1984 Kissinger Commission report recommended “that the United States expand economic assistance for democratic institutions and leadership training.”

**Official Corruption**

Diminishing faith in democracy has been accentuated, especially in the Northern Triangle, as official corruption and impunity have reached grotesque levels. Ten Central American presidents who served since 2000 (three each from Guatemala and El Salvador) were officially charged with corruption, forced out of office, jailed, or fled prosecution. Scores of lower level officials have also been charged and tried. Even in relatively less corrupt Costa Rica, several presidents, and numerous ranking administrators, have been accused of corruption after leaving office.  

Public sector malfeasance depletes national revenues, discourages foreign investors, criminally enriches a few, and undermines public trust in government. And it often especially hurts the poorest and neediest citizens. In Honduras and Guatemala slightly more than a fourth of respondents in the LAPOP poll said that they had been victims of some form of official street-level corruption. The Corruption Perceptions Index compiled by Transparency International states that, on a scale of one to 100, a score “below 50 indicates governments are failing to tackle corruption.” In 2016 Nicaragua was graded at 26; Guatemala at 28; Honduras at 30; El Salvador at 36; and Panama at 38. Only Costa Rica, with a score of 58, cleared the corruption hurdle. Yet, its ranking has been declining—from 22nd least corrupt in the world in 1997 to 41st since 2004.

Throughout the region, judiciaries are mostly weak and responsive to elites. It was true in 1984 as well, when the Kissinger Commission issued its report, stating, “the United States should encourage strong judicial systems to enhance the capacity to redress grievances concerning personal security, property rights, and free speech.” The outlook for meaningful judicial reform remains bleak, however, especially in El Salvador, Honduras, Guatemala, Nicaragua, and Panama where the highest courts are generally supportive of elites.

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22 LAPOP, p. 56
24 Kissinger Report, p. 51.
Prompt and equitable resolutions of legal disputes, prosecutions of criminals, and the functioning of appeals courts rarely benefit the poorer members of societies in nearly all the countries. Limited improvements have been made with the assistance of U.S. government programs but backtracking often occurs with changes of presidential administrations or elite pressures and because of funding constraints. The failure of ambitious judicial reform efforts in El Salvador in the 1980s “contributed significantly to democratic decay,” according to a knowledgeable scholar.\textsuperscript{25} Laws and constitutions are frequently adjusted to suit the needs of elites in Nicaragua and the Northern Triangle. Former Costa Rican president Oscar Arias has been quoted describing the Honduran constitution as “the worst in the world.”\textsuperscript{26}

Yet, some favorable developments potentially augur well for better governance over time. Hondurans and Guatemalans have become more politically engaged, on a few occasions going into the streets in sizeable numbers to protest official corruption. The spread of social media has accelerated this positive trend. Internationally-supervised anti-corruption entities have operated in both countries with success although under considerable duress imposed by elite groups. Without consistently strong American and international backing both will probably be effectively nullified by worried elites.

\textit{CICIG and MACCIH}

The United Nations supervised International Commission Against Corruption and Impunity in Guatemala (CICIG) and the Support Mission Against Corruption and Impunity in Honduras (MACCIH), sponsored by the Organization of American States (OAS), were created at the urging of the U.S. and international organizations. Pressures to create a similar watchdog in El Salvador have been growing.

Between 2009 and 2013 the CICIG, working with Guatemalan attorneys general, investigated and prosecuted at least twenty major corruption cases. Scores of officials high and low have been convicted including a former president, vice-president, ministers, supreme court justices, and members of congress. In 2013 the former Director of Police was sentenced to sixteen years in prison for stealing quantities of drugs from traffickers. Sixteen of his accomplices were also imprisoned. Other cases are pending. It is not surprising that polling shows that CICIG has been Guatemala’s most trusted institution.\textsuperscript{27} In \textit{The Corruption Cure},

\begin{flushright}
\textsuperscript{26}William Finnegan, ‘An Old Fashioned Coup’, \textit{The New Yorker}, November 30, 2009,
\textsuperscript{27}Lessons from Guatemala’s Commission Against Impunity, Council on Foreign Relations, June 2017, p. 3.
\end{flushright}
author Robert Rotberg emphasizes that, as in Guatemala: “. . . naming and shaming is a relatively recent phenomenon, as is international attention to the ills of corrupt behavior. The disease that was little talked about until the middle 1990s is now the central developmental ailment of our time.”

But CICIG has been in eclipse since mid-2017 when it began investigating alleged improprieties in President Jimmy Morales’s election campaign, and later by his brother and son. Retired military and alarmed business leaders share Morales’s concerns, fearing that they will also be targets of prosecution. In 2017 and 2018 Morales and his foreign minister lobbied in Washington, and at the UN, to limit support for CICIG and to curtail its powers. Morales went on to ban the respected Colombian CICIG prosecutor from reentering Guatemala, effectively declaring him persona-non-grata. In August 2018 Morales declared his intent to terminate CICIG, and in December eleven of its foreign investigators were also slated to be expelled.

The LAPOP poll shows a high degree of stated intolerance for corruption in Guatemala. Only 17 percent of Guatemalans thought that paying a bribe would be justified while 67 percent believed that “more than half of all politicians are corrupt.” A future Guatemalan presidential candidate might be able to win office by promising to restore CICIG and energetically to prosecute corruption, but even if successful and truly committed to such a program, he or she would face intransigent opposition from military and business elites. (See Guatemala Forecast).

In 2016, MACCIH was created in Honduras by the OAS with a four-year mandate. Like CICIG, it is headed by a group of international experts. Funded by donations largely from the U.S. and Canada, it shares legal authority with the Honduran government. In one of its first proceedings, the director of the social security institute was investigated and convicted of massive corruption. However, MACCIH may prove as vulnerable as CICIG. Absent firm and consistent U.S. and OAS backing Hernandez will seek to minimize its investigations. The Peruvian head of MACCIH resigned in early 2018 for lack of support from Honduran and

31 LAPOP, op. cit., pp 60 and 65.
32 In February 2018 former president Alvaro Colom faced corruption charges levied by CICIG and the attorney general.
OAS leaders. MACCIH will likely limp through its final year or so and is unlikely to be renewed in any form that poses a continuing threat to corrupt officials. In late 2018 Hernandez’s brother was arrested in Miami, depicted by prosecutors as a “large-scale drug trafficker.”\textsuperscript{34} The president sought to distance himself from the scandal by announcing the arrest himself, and declaring that no one was above the law.

**The Outlook for Honest Governance**

The outlook for honest governance in the region will depend critically on sustainable reforms to improve judicial practices and institutions and equitable enforcement of the rule of law. International support will also be crucial. In addition, reliable media reporting about corruption can enhance engagement by concerned citizenries. Looking forward, social media may play the most important role in this regard since most of the traditional media throughout the region are controlled by conservative elites.

> The attorneys general of the Northern Triangle countries have collaborated with American authorities to combat violent maras. A notable success was achieved in October 2017 when 3,800 members of the two largest maras, including 70 in the United States, were apprehended.

And perhaps the most crucial variable: truly transformational leadership is missing in Central America. Without scrupulously honest and visionary presidents and senior government officials dedicated to extirpating official corruption the assorted crises of governance will persist. There have been few such leaders in modern Central America. Altogether too many from both the political left and right have been egregiously corrupt. The need for a new leadership paradigm has become alarmingly urgent. The region’s acute crisis today will only begin to be ameliorated when dedicated new classes of public and private sector leaders come to the fore and seize the challenges of corrupted governance.

\textsuperscript{34} Jeff Ernst and Elizabeth Malkin, “Honduran President’s Brother Arrested in Miami, is Charged with Drug Trafficking,” *New York Times*, November 26, 2018
Economic Outlook

Economic underdevelopment, inadequate infrastructure, lack of capital, and other structural-institutional problems have impeded the international competitiveness of these countries despite the fact that all of them are joined with the U.S. in a free trade agreement. They suffer from a paucity of natural resources, other than fertile agricultural lands, and geography in the case of Panama. Hurricanes and earthquakes like those that have ravaged large areas of the isthmus are likely to recur, often requiring American and other international assistance. In addition, climate change is believed to have worsened problems of food insecurity in parched contiguous regions of the Northern Triangle. A respected study found that “there is clearly a link between food insecurity and high rates of emigration from these three countries.” It found that the surge in unaccompanied children emigrating to the U.S. during 2015 and 2016 coincided with a period of heightened food insecurity.35

Economic growth rates have generally exceeded population rise, but the long term outlook is uncertain. In most of the countries, growth has been modest. IMF projections put Latin America and Caribbean country Real Gross Domestic Product (GDP) growth rate at between 2 and 2.8 percent annually from 2018-2023, below projected global growth.36 However, Central American countries are expected to outperform the Latin American and Caribbean region as a whole. This is particularly true of Panama, which is expected to grow at a rate of 5.5 to 5.8 percent annually.37

In 2015 remittances from Central Americans in the U.S. accounted for 18 percent of Honduras’s GDP, more than sixteen percent of El Salvador’s, and ten percent of Guatemala’s. Flows to all three have been growing. Nevertheless, as Eric Farnsworth of the Council of the Americas argues, “remittances do not generally build capacity; absent a new commitment to improving business conditions, there will be limited opportunity for investment-led, sustainable growth.”38

37 Ibid.
Country Forecasts

Nicaragua

Former Sandinista revolutionary leader Daniel Ortega was elected president in 2006 and re-elected twice, most recently with his wife, Rosario Murillo, as vice-president. They preside over an authoritarian and corrupt regime behind a facade of democracy. They control the police and military, all branches of government, and roughly 80 percent of the media. The electoral process is manipulated and the constitution ignored or revised to preserve their hegemony. Nonetheless, for several years Ortega’s popularity was buoyed by strong economic growth that averaged nearly five percent annually and funded poverty-reduction and other popular programs. Nicaragua has been largely spared the gang violence and narcotics-related criminality of the Northern Triangle countries. Pressures to emigrate to the United States have been relatively weak.

The prosperity was contingent, however, on an alliance of convenience that ex-Marxist Ortega forged with the business community. According to former Nicaraguan official Arturo Cruz, “Ortega essentially agreed not to make any major economy-related decisions without involving and negotiating with” leading business interests. Yet, more critically, the economy hummed because of infusions of Venezuelan aid that totaled about $4 billion from 2008 to 2017. A year later, however, as the Venezuelan economy was collapsing, the flow apparently ceased. Ortega was compelled to cut pensions and social spending, thereby igniting massive street protests in several cities in April 2018. He and Murillo have spurned efforts by the Catholic Church to schedule new elections and are determined to cling to power indefinitely.

Disturbances continued for several months until they were brutally extinguished by police and armed paramilitaries. More than 300 were killed, larger numbers injured and jailed. More than 20,000 have fled, most to Costa Rica while others are in hiding. A senior U.S. official told a knowledgeable journalist and author,

40 Ibid.
that “Ortega was using death squads to silence his opposition.” The source added that “We’ve moved from a climate of fear to one of terror.”43 The journalist added that “bodies of activists started turning up, with gunshot wounds in the backs of their heads—a sign of summary executions”44 There were also reports of regime-ordered sniper attacks against protesters.

As the violence intensified, and in the absence of the Venezuelan lifeline, the economy plunged by as much as six percent in 2018 and will likely fall further in the foreseeable future. Ortega’s compact with the business community unraveled as businesses have been shuttered and unemployment rises. Capital is in flight, foreign investment and previously lucrative tourism have withered. Tough U.S. policies are beginning to adversely impact as well. In 2018 sanctions were imposed on Vice President Murillo and at least four other officials connected to human rights abuses. Then, in December 2018, President Donald Trump signed the Nicaraguan Investment Conditionality (NICA) Act into law. It requires U.S. representatives at multilateral lending institutions to veto most bank loans to Nicaragua, effectively removing the government from principal sources of international financing.

As he did during his first run in power from 1979 until 1990, Ortega is likely to seek compensating assistance from Russia. President Putin consulted with Ortega in Managua in 2014. Nicaragua’s military has received Russian tanks, helicopters, and patrol vessels and Moscow has reportedly established an intelligence-gathering complex in Managua, close to the American embassy.45 Infusions of Russian aid, even if below the levels previously provided by Venezuela, could ease Ortega’s plight and permit him, at a minimum, to serve out his current term which is officially set to end in November 2021. Ortega might also seek Chinese economic assistance by flipping from diplomatic recognition of Taiwan to that of Beijing, as El Salvador and Panama have done.

Without foreign economic support Ortega’s position will be progressively more precarious. Two powerful constituencies—the military and Sandinista Party—have reliably supported Ortega-Murillo. But their loyalty will increasingly be in doubt as the economy descends into disarray and a broad front of opposition groups—including the Catholic Church, students, business, civil society, and labor—align against the regime. Ultimate power rests with the military. With more than 9,000 in uniform, it is sufficiently strong to overwhelm the civilian police and armed paramilitaries if commanders decide to move against Ortega. There were no signs

44 Ibid.
of that during the violence of 2018, and outside of the institution little is known about how leading officers have been reacting to events.

In contrast, Sandinista party members, many of whom served under Ortega during military struggles in the 1970s and 1980s, are reportedly wavering in their support of Ortega and Murillo. Arturo Cruz argues that “the traditional wing of the party” has been reduced in influence as Murillo has gained extraordinary powers that eclipse theirs. Beginning in 2017, he wrote, “power was concentrated to an unprecedented degree” in her hands. He says that she “largely completed the effort to sweep traditional Sandinistas from their positions and replace them with younger cadre loyal to her.” According to a Western diplomat, Murillo “does all of the day-to-day running of the government. She’s a fruitcake, but a brilliant fruitcake.” She pontificates on matters weighty and mundane in daily radio broadcasts and leads attired in unusual, polychromatic costumes as if impersonating Frida Kahlo.

Her popularity has declined along with the economy and as she has repeatedly denounced the opposition as traitors. Intransigent about sharing power, she is viewed in government and the streets as the real force in the family dynasty. Her prominence could prove to be its undoing. The 73-year-old Ortega, who is rumored to suffer from a serious health malady, makes relatively few public appearances and lacks the dynamism that characterized his earlier years in power. A succession crisis would likely occur if he were to resign in favor of his wife, possibly provoking the military to intervene. Yet, given the paucity of widely respected civilian opposition leaders the collapse of the co-presidency would likely result in a period of continued instability. Many forces are now arrayed against Ortega and Murillo so that serving for long beyond their term without a foreign backer will be progressively more improbable. In addition, heightened instability is already augmenting the odds that drug traffickers will become lodged in Atlantic coastal areas of the country and introduce a new longer term element of instability.

**El Salvador**

Gang (*mara*) violence, homicides, extortion, and other crimes are likely to persist at destabilizing, though fluctuating, levels. Strong pressures to emigrate will continue because of poverty, violence, lack of opportunity, and the attraction of

46 Arturo Cruz, op. cit.

47 Ibid.

the large Salvadoran communities in the U.S. Yet, looking forward, unlike its two Northern Triangle neighbors, several positive trends seem likely to somewhat alleviate centrifugal pressures. For example, as noted, demographic realities are fundamentally benign. Unlike elsewhere in the region, political parties have been well organized and dominant, although that is changing. Two –ARENA, representing right-wing interests, and the former guerrilla FMLN— alternated in power for many years following elections widely considered to be have been free and fair. Currently, however, the two party system is challenged by former FMLN mayor Nayib Bukele, a serious third party presidential contender in the February 2019 elections.

Bukele, 37 years old and media savvy, is running as the candidate of the upstart GANA alliance. He is said to have accumulated an Instagram following of nearly 350,000 and appeals to the country’s youth by using other social media. According to one description, “he conveys the image of both a serious politician and a spirited millennial.”49 Bukele favors the creation of an internationally-sponsored anti-corruption watchdog similar to the CICIG in Guatemala. He has been vague, however, about what else he would attempt to do as president and has avoided debates with his main opponents. If elected, he will have to work with the main parties to enact legislation, but has burned bridges with the FMLN. Yet, if he manages to create consensus and lead an effective anti-corruption campaign Bukele could force a break with years of political stasis.

In recent years, El Salvador was among the most violent countries in the world, but by early 2018, government efforts had reduced the homicide rate. From 2015 through 2018 homicides fell by half to about 51 per 100,000.50 Hard line (mano dura) policies are popular and intermittently effective but overall tend to be counterproductive. Maras are more developed, better structured, and criminally diversified than in the past, and thus more resistant to pacification.51 Religious conversion has been one escape route for members, but the numbers so far have not been large. Other policies to reduce violence have been more promising. For example, a security tax was levied on the rich to pay for better law enforcement. And, efforts to improve prison conditions are helping to reduce recidivism.52

“The main problem plaguing El Salvador,” according to a comprehensive report completed for USAID in July 2015, “is ineffective and unresponsive governance.”

52 The Economist, op. cit.
The report specified that “it stems from lack of financial resources, limited political will, a fragile economy, and the general incompetence of the public sector. . .”\(^5^3\)

Those and other problems that were highlighted persist today in the main. During the three-year period following the publication of that report, however, the courageous attorney general successfully pursued cases of high level corruption even in the absence of an internationally sponsored watchdog agency.

Douglas Melendez, who completed his three-year term in December 2018, jailed a former president and a former attorney general, as well as a judge and a prominent businessman, all for corruption. Melendez was denied a second term by the legislative assembly and replaced by a lawyer proposed by the right wing ARENA party.\(^5^4\) Subject to death threats, Melendez was accused by members of both parties of being too tough on their politicians. It is uncertain that his successor will continue aggressively to prosecute official corruption. Political party chieftains will pose major impediments.

U.S. policy will remain into the foreseeable future as one of the most unpredictable wild cards. As noted, if a number even approaching the approximately 200,000 Salvadorans in the U.S. under Temporary Protected Status were repatriated as the Trump administration says is planned, crime, unemployment, and higher levels of political instability would likely ensue. Any significant reductions in U.S. aid expenditures would also have highly deleterious effects.

**Guatemala**

An insidious drug trafficking culture has taken root and is likely to grow and become more impervious. An estimated 1,000 metric tons of cocaine are smuggled through Guatemala annually. Seizures in 2016 were the highest one-year amount on record, and major trafficking cartels have survived all setbacks. Criminal mafias engage in arms smuggling, extortion, human and migrant trafficking, kidnapping and money laundering.\(^5^5\) Most of the crime goes unpunished because of police and judicial corruption and incompetence. Even if U.S. pressures were strong and sustained, judicial and legal reforms will be halting. Extreme disparities of wealth, income, education, and opportunity will not be materially relieved in the

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foreseeable future. These and other pressures will continue to push large numbers of Guatemalans to try by whatever means to reach the U.S.

Notoriously corrupt governance has been the most intractable of Guatemala’s debilities. President Morales is likely to evade prosecution or disgrace despite charges of campaign finance violations but at the cost of further compromising public trust. His new attorney general, a former judge, is unlikely to be as scrupulous or effective in rooting out corruption as her predecessor. Intermittent street protests against corruption and impunity will likely recur.

Presidential elections in 2019 could result in the election of a genuinely committed anti-corruption campaigner, possibly crusading former attorney general Thelma Aldana who has been the most popular leader in the country. If she were elected and pursued an anti-corruption campaign with determination, a president Aldana would be in the cross hairs of the country’s most brutal and reactionary forces. Meanwhile, business and military elites will retain the immunities and privileges that have preserved their predominance since Spanish colonial times.

**Honduras**

Two presidential succession crises since 2009 have generated deep popular distrust, but hardline President Hernandez will likely retain sufficient popular support to govern with the critical backing of the military. His public security initiatives have been popular although credible allegations of human rights violations have persisted. Campaigning for his first term, he promised a tough fight against organized crime. Once inaugurated in January 2014 he sent the military and police on intensive patrols in neighborhoods dominated by maras. Later, he created a special commission on police reform that removed 5,000 police officers from a 14,000-person force. Hernandez created a military police unit in the defense ministry and an interagency crime task force. Economic growth between three and four percent in recent years appears to be sustainable if high levels of U.S. investment ($1.1 billion in 2016), most of it in the manufacturing sector, continues. Two-way trade amounted to $9.5 billion in 2016 under the regional free trade agreement.56

Hernandez’s hardline policies have helped to reduce violence, but sustaining the gains will be difficult. Homicide rates remain among the highest in the world, especially in the three principal cities, where mara and drug traffickers operate

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with considerable impunity. These pressures on civilians, along with extreme poverty, are principal causes of the mass migrations to the U.S. border. Even assuming continued strong U.S. support, discontinuities caused by deepening political polarization and increasing influence of drug traffickers could influence the state in unpredictable ways.

Hernandez has sought to strengthen his hold on power, including by creating the conditions that allowed for his disputed reelection in 2017. He is likely to seek, and win, a third term in 2021 but that will stoke hardened opposition and possibly more violence. Divisions and unrest sowed by the contested 2017 election will not be easily assuaged and former leftist president Manuel “Mel” Zelaya retains a large dissatisfied following that when mobilized can generate violent unrest.

Costa Rica

Costa Rica’s venerable democracy has weathered all the crises of the Central American isthmus since the late 1940s but will confront unaccustomed political turbulence in the years ahead. The economy grew by a little over four percent in 2017, the fourth strongest in Latin America and forecasts for the next several years are for continued low to moderate expansion.

Virtually none of the mara, indigenous drug cartels, and acute social problems afflicting the Northern Triangle are present. Homicides did increase by ten percent in 2015, but were still far below rates in the Northern Triangle. Costa Ricans responding to the LAPOP survey have expressed high levels of confidence in their political system. Asked if democracy is the best form of government, 71.5 percent agreed. Trust in elections is also high: 56.5 percent, higher than all Latin American countries except Uruguay. However, political infighting during the presidency of Luis Guillermo Solis caused his popularity to decline. Some of his senior government officials were implicated in a scandal in 2014. The subsequent Alvarado administration faces a confrontational legislature and growing public dissatisfaction with the political class. The traditional two-party system has withered under the weight of corruption scandals with more than a half dozen parties represented in the congress.

Despite frequent legislative gridlock, there is consensus among the principal parties on security and socio-economic issues. Relations with Nicaragua will

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57 Some gang presence has been reported but it is not clear that they pose a threat. See: Clare Ribando Seelke, *op. cit.*, p. 4.
continue to be strained by a recurrent border dispute and by the arrival of more than 20,000 Nicaraguans fleeing oppression. In addition, over the next dozen years the drug trafficking scourge affecting its neighbors will spill into Costa Rica as cocaine traffickers expand routes and safe havens. In early 2018, the U.S. Coast Guard donated two refurbished cutters to Costa Rica’s coast guard in support of counternarcotic operations. The expanded capability will enable Costa Rica to better patrol the extent of its Pacific waters.\textsuperscript{59}

\textbf{Panama}

Panama has managed one of the strongest economies in the world, and the prospects looking forward continue to be for robust growth. Between 2001 and 2013, growth averaged a little over seven percent. For the next three years, it declined to an average of five percent, but in 2017 rose to 5.5 percent, the highest in Latin America. Growth is fueled by one of the world’s most dynamic banking and financial services sectors facilitated by the country’s use of the dollar which also tends to assure low inflation. The expanded Panama Canal, with new locks capable of handling neopanamax ships that can carry two-and-a-half times the capacity of ships transiting the original locks, is a reliable source of revenue. Infrastructure investments have been sizeable, including the beginning of work on a second subway line in Panama City and new highways. However, Panama could experience deeper political divisions between opposition and government parties, creating space for an independent outsider presidential candidate. Debt-servicing challenges, corruption investigations, and increasing competition from multimodal transportation in Panama’s most important economic sector could affect the economic outlook.

Corruption is endemic in political and business circles. Former president Ricardo Martinelli, a supermarket magnate, is disputing charges that he accepted $59 million in bribes but was extradited by the U.S. in June 2018. Two of his sons were later arrested in Miami on similar charges. Current president Juan Carlos Varela is also fighting corruption allegations. He was investigated in 2017 on charges of accepting bribes from Brazilian construction giant Odebrecht. Safeguards against corruption are weak and generally ineffective. The judiciary is plagued by corruption and abuses.\textsuperscript{60} The outlook is for a continuation of most of these trends.

In addition, the rapid growth of Chinese investment and the establishment of an embassy, have contributed to concerns about a bountiful new source of corruption

\textsuperscript{59} State Department Press Briefing, February 13, 2018.
\textsuperscript{60} Freedom in the World 2017, Panama Profile, Freedom House.
opportunity and robust challenges to U.S. interests. “Chinese companies have flooded Panama in recent years, scooping up public contracts for a host of large infrastructure projects—from ports to telecommunications and power plants—sometimes in what experts consider dubious bidding processes,” according to journalist David Adams.61 Concerns about the Chinese presence were highlighted after Varela established diplomatic relations with Beijing and feted China’s president in December 2018. China produced a slick video declaring a deep admiration for Panama, its canal and culture, according to Adams. The video was accompanied by a song declaring that "the canal is the new silk road." Former U.S. ambassador to Panama, John Feeley, has expressed concerns about China’s expanding footprint. He said, "(T)he Chinese see in Panama what we saw in Panama throughout the 20th century; a maritime and aviation logistics hub."