EXECUTIVE SUMMARY

ECONOMIC DEVELOPMENT PATTERNS IN THE SIX NATIONS OF CENTRAL AMERICA (1950-2018)

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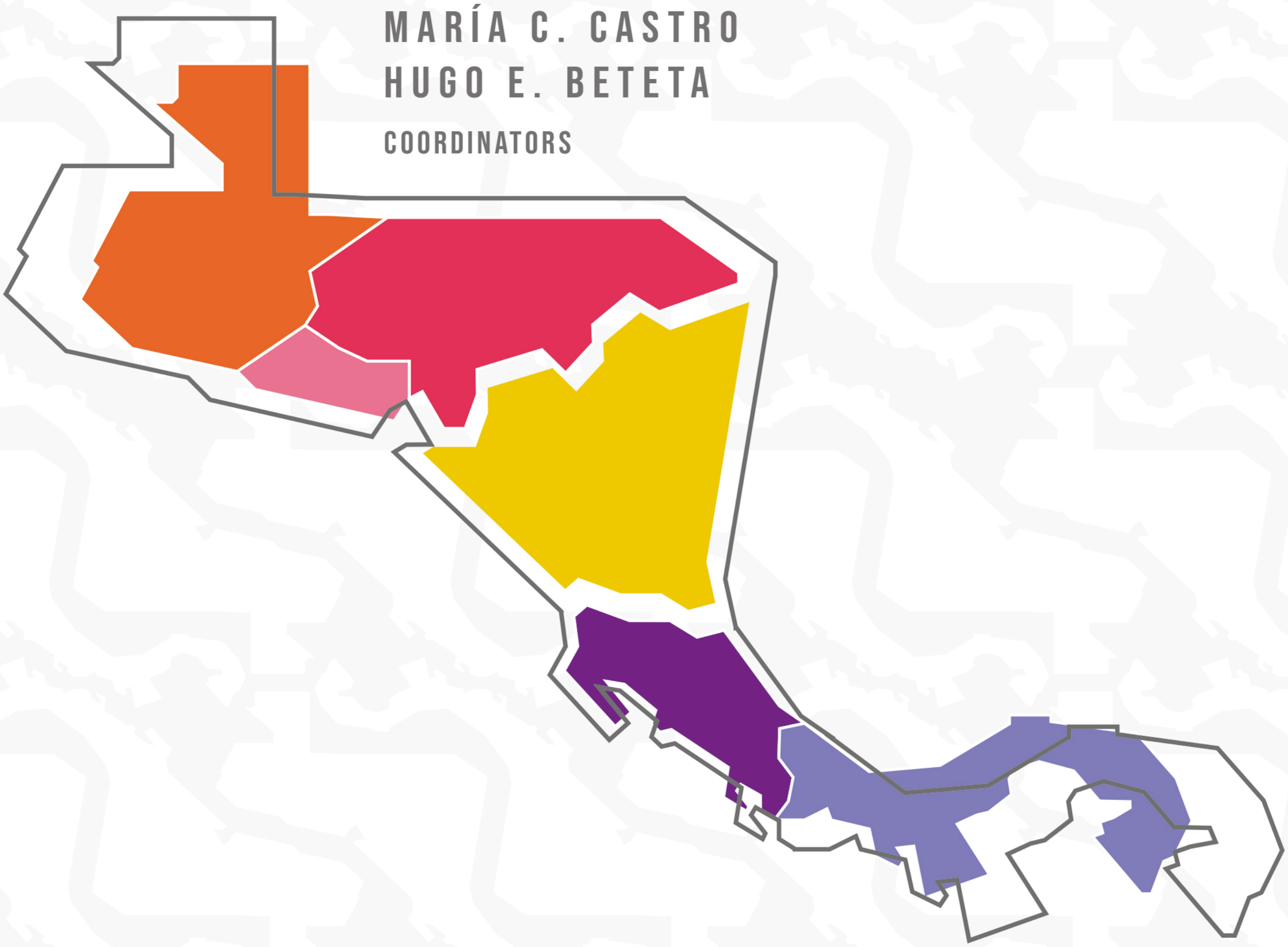

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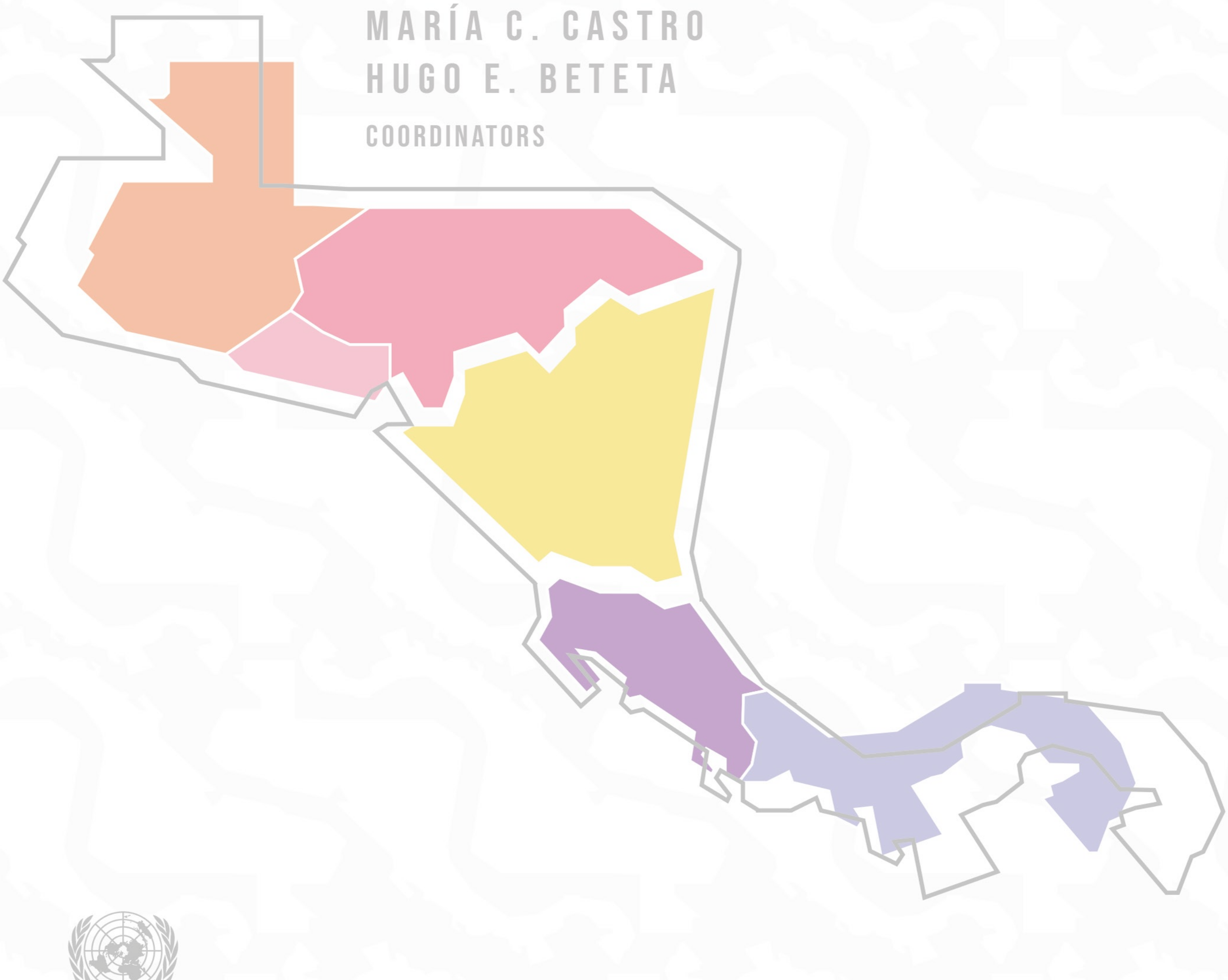

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Explanatory notes:
- A full stop (.) is used to indicate decimals.
- The word “dollars” refers to United States dollars, unless otherwise specified.

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Contents

Tables

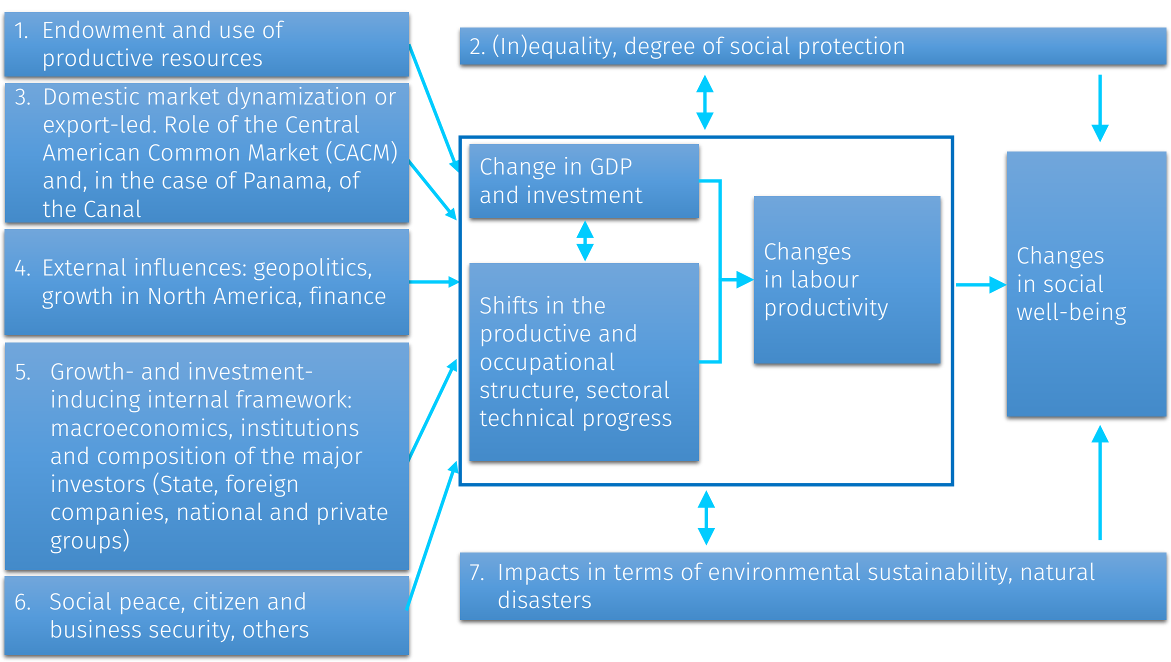
Diagram

Introduction

In 2021, five of the countries that make up the Central American subregion celebrated 200 years of independence. To honour that milestone, the publication *Economic development patterns in the six nations of Central America (1950–2018)* presents studies from a historical-structural perspective on the factors that shaped GDP growth and investment and their impact on the socioeconomic structure of Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama. This publication is an outcome of "Central America: Constructing a Vision for the 21st Century", a joint initiative between the Ministry of Foreign Affairs of Norway and the Economic Commission for Latin America and the Caribbean (ECLAC) to encourage a regionwide technical discussion on economic development strategies linked to the Sustainable Development Goals.

A reading of economic development strategies through the methodological model proposed in the book is intended to contribute to a new vision of the prevailing development styles in the subregion. The historical-structural approach used analyses movements in national productive and social structures over time, including the endowment of resources, the impact of national policies and institutional shifts and the international economic environment within which the economies operate. The use of a common model for the case studies allows a reasonable level of uniformity in exploring the factors that determined how each of the six countries performed.

Diagram 1
Determining factors of economic development patterns



Source: Prepared by the authors on the basis of R. Bielschowsky, "Methodological guide: conditioning factors of GDP, investment, and productivity growth; and their impacts on the socioeconomic structure from a historical-structural perspective", unpublished.

The methodological framework allowed the six countries' economic histories to be divided into three periods with dates that —notwithstanding some variations, mainly in the 1980s— are broadly similar. This breakdown into different periods is also similar to that observed in the history of almost all the countries of the Latin American region (Bértola and Ocampo, 2013). In general, the first period —between 1950 and the end of the 1970s— was marked by a process of productive diversification and industrialization with significant State participation, with the partial exception of Panama. This first phase was, in terms of its historical logic, analogous to what was observed in both developed and developing countries: rapid growth guaranteed by predominantly Keynesian policies, with the State playing a leading economic role.

The second period —late 1970s to early 1990s— is characterized by macroeconomic instability and recession, the result of a highly unfavourable international financial context and armed conflicts in three of the study countries. This period was shaped by the external constraints that followed the second oil shock and the abrupt and massive increase in United States interest rates, which, due to their impact on external debt, condemned Latin America to pronounced macroeconomic instability and a lengthy recession.

In the third phase, from 1990 to 2017, with the end of the armed conflicts and under the influence of the new neoliberal era that was wholeheartedly embraced by almost all the economies of Latin America, a change occurred in the logic of Central American economic processes. During this time, most Latin American countries experienced relatively modest growth as the external crisis came to an end and as they endorsed the Brady Plan and adhered to the neoliberal model of open finance and commerce, rejoined Northern American and global financial markets and placed a higher priority on fiscal balance and inflationary checks.

Table 1

The three periods of economic history from 1950 to 2018 in the six Central American countries: average annual rates of change in GDP, investment and labour productivity

(Percentages)

			Rapid growth, through a hybrid model: industrialization based on import substitution, and diversification of export-oriented agriculture (exception: Panama, on account of its Canal activities)	Macroeconomic instability, recession or slow growth	Predominantly moderate growth, driven by exports and diversification into modern services
Guatemala	Periods	1951–2017	1951–1980	1981–1986	1987–2017
	GDP	3.9	5.1	-1.2	3.8
	Gross fixed capital formation	4.3	5.5	-10.7	2.9
	Labour productivity	1.0	2.2	-3.0	1.4 (1987–2014)

			Rapid growth, through a hybrid model: industrialization based on import substitution, and diversification of export-oriented agriculture (exception: Panama, on account of its Canal activities)	Macroeconomic instability, recession or slow growth	Predominantly moderate growth, driven by exports and diversification into modern services
Honduras	Periods	1951–2018	1951–1979	1980–1990	1991–2018
	GDP	3.8	4.5	1.9	3.8
	Gross fixed capital formation	6.2	9.1	0.8	5.4
	Labour productivity	0.5	3.0[a]	0.8	0.2
El Salvador	Periods	1952–2018	1952–1978	1979–1989	1990–2018
	GDP	3.0	5.1	-1.2	2.6
	Gross fixed capital formation	5.1	9.7	-3.8	4.4
	Labour productivity	0.6	2.0	-2.6	0.5
Nicaragua	Periods	1951–2019	1951–1977	1978–1993	1994–2019
	GDP	3.3	6.0	-2.7	4.2
	Gross fixed capital formation	9.0	11.2	3.2	6.9
	Labour productivity	0.4[b]	2.6[b]	-3.8	0.7
Costa Rica	Periods	1961–2017	1961–1979	1980–1982	1983–2017
	GDP	4.6	6.2	-2.9	4.4
	Gross fixed capital formation	8.6	9.1	-20.7	11.4
	Labour productivity	1.4	2.5	-4.9	1.5
Panamá	Periods	1951–2017	1951–1982	1983–1989	1990–2017
	GDP	5.2	5.9	-1.0	6.0
	Gross fixed capital formation	8.6[c]	6.4[d]	-14.3	15.9
	Labour productivity	1.7[c]	3.6[d]	-3.8	2.2

Source: Prepared by the authors, on the basis of information from Economic Commission for Latin America and the Caribbean (ECLAC), International Monetary Fund (IMF) and University of Groningen.
[a] The period covers 1971–1977 on account of the absence of data prior to 1970.
[b] GDP/EAP was used for the period 1950–1977.
[c] Covers the period 1971–2017.
[d] Covers the years from 1971 to 1982, because of the absence of data prior to 1970.

In addition to the six case studies by local experts and the introduction, the book contains a chapter on sixty years of history of Central American integration and its current challenges, together with a final chapter dedicated to an analysis of the similarities and differences in the six countries' economic evolution.

A. Guatemala, by Alberto José Fuentes

This chapter identifies and analyses three periods in the economic development of Guatemala. The first (1950–1979) was one of restructuring, with relatively rapid growth under a hybrid model (Bulmer-Thomas, 1987) that was based on a diversification of export-led agriculture that overcame the extreme dominance of banana and coffee production, together with import-substitution industrialization and regional integration. The second period was characterized by seven years of economic collapse (1980–1986) brought on by enormous economic problems and severe social conflict; this was a phase of transition between the previous model and the future one (a period of incipient neoliberal strategies). It was followed by a period of restructuring (1987–2019) with moderate growth rates under a tripartite hybrid model (basic and private services, moderate diversification in export agriculture and the emergence of maquiladora industries, which offset a degree of deindustrialization).

Fuentes interprets Guatemala's economic development as the outcome, over the past 70 years, of two simultaneous and complementary processes. The first was the establishment and consolidation of a form of hierarchical capitalism (Schneider, 2013), with ownership tightly concentrated in national elites, the influential presence of multinationals, a low-skilled workforce and segmented labour markets with high rates of informality and precariousness. The second involved accelerated economic diversification (with low levels of technological sophistication), which the author interprets as an effort undertaken by the Guatemalan business elites in order to reduce risks and instability. The two restructuring cycles represent two ways in which the local elites addressed intense systemic vulnerabilities, which were present at the beginning of each of the two growth cycles in both the economic sphere (especially as regards external constraints) and in the country's sociopolitical unrest.

Table 2
Guatemala: periods of economic history, 1950–2019

	First restructuring cycle 1950–1979	Transition period 1980–1986	Second restructuring cycle 1987–2019
GDP-investment	Relatively high and partially volatile rates of economic growth, gross fixed investment	Collapse of economic growth rates, gross fixed investment	Moderate and stable rates of economic growth, gross fixed investment
Production structure	Hybrid agricultural-industrial model: diversification towards agro-industrial export activities (cotton, sugar, livestock), industries to produce basic consumer items	Transition: few changes in the production structure; foundations are laid for a new restructuring cycle	Tripartite hybrid model: diversification and growth of basic and private services; moderate diversification of the primary sector (non-traditional agricultural goods, African palm) and secondary sector (maquiladoras)

	First restructuring cycle 1950–1979	Transition period 1980–1986	Second restructuring cycle 1987–2019
Productivity	Relatively high growth rates of aggregate urban (non-agricultural) and rural (agricultural) productivity	Collapse of aggregate urban (non-agricultural) and rural (agricultural) productivity	Moderate growth in aggregate productivity; urban (non-agricultural) and rural (agricultural) productivity growth rates diverge

Source: Prepared by the author, on the basis of official information.

Fuentes argues that although the business elites currently have more political and economic control than in the past, they are not immune to exogenous shocks that could erode their power base. The periods of systemic vulnerability of the 1950s and 1980s show that drastic changes in the international economic context can erode their sources of income. They also suggest that social mobilization, as well as rising levels of State autonomy, may weaken the elites' influence over public policy. When both types of pressures occur simultaneously, the openness of these business elites to alternative development proposals tends to increase.

Looking to the future, the author outlines three possible scenarios. The first is business-as-usual, with the business elites remaining opposed to further change as they benefit from a period of rapid post-pandemic economic recovery without sociopolitical threats. As a result, Guatemalan hierarchical capitalism remains intact, with a high concentration of economic and political power in the hands of the business elites, which continue to take advantage of the neoliberal strategy and the hybrid tripartite model.

The second scenario is one of co-opted reform: the business elites face a new period of systemic vulnerability as the economic pressures caused by the pandemic combine with a new wave of social activism and political mobilization. The outcome is similar to that of the two previous restructuring cycles: a new hybrid development model emerges which, through a process of additive development, protects the established economic interests, reinforces Guatemalan hierarchical capitalism and promotes greater horizontal diversification with few development possibilities for the majority.

The final scenario is more optimistic: the author describes it as one of disruption, in which the business elites face a period of systemic vulnerability that increases their tolerance to possible economic changes. As a result, civil society is strengthened and, alongside a more autonomous and better-equipped State, it weakens the foundations of Guatemalan hierarchical capitalism and builds a more inclusive development model with the potential for greater growth, investment and labour productivity.

B. Conditioning factors of GDP growth, investment and labour productivity and their impacts on the socioeconomic structure of El Salvador from a historical-structuralist perspective, by Óscar O. Cabrera

In the introduction, the author notes that in all the years covered by the study, the Salvadoran economy evolved with high levels of productive heterogeneity, underemployment and social exclusion as it followed development strategies defined by the economic and political elites with the goal of maximizing their profits and concentrating income, wealth and power.

Cabrera describes and analyses a profound structural transformation during the first period, which ran from 1951 to 1978 and enjoyed the highest growth by far during the years studied. He characterizes it, first of all, by a drop in the participation of agriculture, which occurred simultaneously with the continued expansion of agroexports and intense rural-urban migration under pressure from scarcity and concentration in the ownership of arable land. This in turn gave way to urban underemployment and migration: to Honduras first, and to the United States later. He also shows that economic development occurred in the context of high levels of import-substitution industrialization, in which the small size of the domestic market did not prevent significant productive diversification and an increase in export sophistication in a process led by the State and bolstered by the emergence and operation of the Central American Common Market.

During the 1979–1989 period, Cabrera describes an economy in crisis on account of the civil war and the enormous problems arising from the external crisis caused by shifts in international trade and the debt crisis. He also analyses the harmful effects of the prolonged economic downturn on per capita income and poverty, which prolonged the armed conflict and affected the productive structure, where the share of industry in GDP sharply declined as the services sector came to the forefront.

Table 3

El Salvador: historical periods by development strategies, changes in the regulatory framework, real growth rates of selected variables and trade balance, 1951–2019

(Percentage of GDP)

Periods	Development strategies	Changes in the regulatory framework	Real annual growth rates *(average percentages)*						Trade balance *(percentage of GDP)*
			GDP	GDP per capita	GFCF	(Y/L)	(K/Y)	(K/L)	
I. 1951–1978[a]	Import-substitution industrialization	Development of the institutional framework of the Central American Common Market and the State	5.1	2.1	9.7	2.0	-1.1	0.9	-1.2
II. 1979–1989	Economy in crisis, affected by the civil war	Nationalization of the banking and foreign trade systems, agrarian reform and price controls	-1.2	-2.7	-3.8	-2.6	2.0	-0.7	-8.3
III. 1990–2019	1990–2009 Radical neoliberalism and export diversification	Liberalization of commerce and finance, privatization of public companies, banks and the pension system	2.6	1.8	4.4	0.5	1.9	2.4	-18.7
	2010–2019 Attenuated neoliberalism and productive and social transformations	Economic and social planning	2.5	2.0	3.5	0.4	-0.5	-0.2	-21.6
Average 1951–2019			3.0	1.2	5.1	0.6	0.4	0.9	n.d.

Source: Prepared by the authors, on the basis of Central Reserve Bank of El Salvador, Statistics Data Base, 4 November 2020 [online database] https://www.bcr.gob.sv/bcrsite/?cat=1000&lang=en.

[a] The trade balance figures cover the period 1963 to 1978.

A neoliberal strategy was adopted between 1990 and 2017, years that saw a very moderate economic expansion, very slight variations in labour productivity, continuity in the major realignment of the productive and labour structure away from agriculture and towards services, export diversification (especially through the maquiladora sector) and high levels of migration to the United States. The author divides this period into two phases. The first (1990–2010) saw the "radical" adoption of neoliberalism in the early 1990s, together with the dollarization of the economy in 2001. In the second (2010–2018), an attenuated form of neoliberalism was followed. Cabrera argues that this attenuation consisted of active productive and social policies thanks to which El Salvador managed to maintain its previous rate of economic expansion and increase the technological sophistication of its exports, despite the slowdown in world trade; it also succeeded in reducing poverty levels, in contrast to the stagnation of poverty at high levels during the radical neoliberalism phase.

Among the conclusions the author draws from his review of the development models implemented in El Salvador from 1950 to 2019 are that they led to widespread multidimensional inequality, a lack of human opportunities, social exclusion and low levels of investment and labour productivity, which can be seen in low economic growth and inadequate productive transformation. If this low rate of per capita income growth continues, it will take seventy years for El Salvador to attain the average level of upper-middle income countries, and two hundred years to reach the average per capita income of high-income countries.

The author posits that achieving greater economic growth with equal opportunities requires the striking of a national agreement for full employment and inclusive growth. To that end, the different social actors in El Salvador must reach a minimum level of consensus to generate a more cooperative political environment. The chapter proposes the following steps to achieve the targets of the Sustainable Development Goals (SDGs) and an annual per capita income of more than US$ 43,000 by 2050: (i) conducting a diagnostic assessment of the current model based on the fulfilment of the SDGs by 2030 (El Salvador Vision 2050 plan) and continuing to move towards an inclusive development model, (ii) contrasting the reality of the current model with the vision set for 2030 and 2050, (iii) identifying long-term prospects in the global economy and the development experiences of countries that have been successful in achieving productive transformation and inclusive growth, and (iv) exploring cross-cutting principles to guide policy action in the face of uncertainties.

Cabrera proposes six key areas in reaching a national agreement for full employment and inclusive development: (i) development of resilient political and economic institutions to create a meritocratic public administration that supports the productive sector and workers, (ii) adoption of an inclusive taxation policy through direct taxes on inheritances, bequests and gifts, and on first-decile incomes, (iii) implementation of a green economy that recognizes that El Salvador has important, albeit vulnerable, natural assets to sustain and restore, (iv) development of a territorial, multilateral, integrationist and cooperative approach for El Salvador within the Central American subregion and with other regions of the world as a necessary step to achieve inclusive development, (v) continued implementation, monitoring and evaluation of industrial policies in pursuit of productive transformation, and (vi) implementation of effective demand policies that have a direct impact on the household consumption expenditures in the lowest income quintiles, identification of alternatives for the sustainability of public sector finances and promotion of private and public investment and higher added-value exports.

C. Growth patterns and structural transformation in the Honduran economy, 1950–2018, by Hugo Noé Pino and Wilfredo Díaz

The authors of this chapter contend that understanding the evolution of the political economy of Honduras requires the notion of a concessionary State: one with a political culture in which the elites benefit from privileged access to national resources granted by that State (Euraque, 2018). They argue that this practice, in place since the nineteenth century, was imposed as the driving force of the country's development during the entire study period, through political control by the elites (both traditional and new) and, therefore, through the economic sphere, in which the local elites have given ample berth to the interests of foreign capital.

Table 4

Honduras: growth, gross fixed investment and labour productivity under economic growth models, 1951–2018

(Percentages of average growth)

	Expansion through agricultural export diversification and import-substitution industrialization within Central American integration (ED/IS/CAI)	Crisis and weak recovery in a decade of conflict (CWR/DC)			Insertion into productive and financial globalization (IPFG), moderate growth		
	1951–1979	1980–1983	1984–1990	1991–1999	2000–2008	2009	2010–2018
Annual real GDP growth rate	4.5	0.2	3.5	3.1	5.1	-2.4	3.8
Real GFCF growth rate[a]	9.1	-7.0	5.2	9.7	6.0	-35.4	4.9
Workforce productivity (GDP/EAP)	1.9	-3.3	0.2	-0.1	2.5	-5.2	n.d.
Productivity per worker (GDP at constant in-country prices divided by employed population)	3.0[b]	1.6	0.4	-0.8	2.3	-6.6	0.5

Source: Prepared by the authors, on the basis of official information.
Note: n.d.= no data.
[a] In this work, gross fixed capital formation and investment are used interchangeably.
[b] 1971 to 1979.

The first group of years, identified as "expansion through diversification in traditional agro-exports and industrialization within Central American integration: 1951–1979", reported the greatest dynamism in the almost seven decades of the study period. The authors analyse the more than proportional increase in industrial GDP, driven by the State and the Central American Common Market, and argue that economic dynamics nevertheless continued to be closely associated with export-led agricultural production, with coffee and cattle playing a leading role, and with the rural population still accounting for a high share of the total EAP.

The years from 1980 to 1990 were marked by crisis and weak recovery during a decade of regional conflicts. The authors describe the macroeconomic imbalances that occurred during this decade and indicate that they were adjusted in a non-orthodox way. They also analyse the particularities of the country's economic evolution against the geopolitical backdrop of those years, during which Honduras benefited from special treatment by the United States and achieved a degree of economic recovery from 1984 onwards.

During the period of "insertion into productive and financial globalization, 1991–2018", Pino and Díaz study the change in the pattern of development towards neoliberalism that led to a period of moderate growth during which, paradoxically, the investment rate rose but productivity per worker —together with underemployment and poverty levels— remained practically stagnant. The authors also examine the country's structural reconfiguration towards a greater weight of both formal and informal services, its simultaneous deindustrialization through maquiladora-based industrialization and the continued prominence of its external sector in the dynamics of economic growth.

The authors show that the pattern of economic growth in Honduras over the last seven decades was heavily influenced by the external sector, given the small size and openness of its economy, and as shown by its productive structure. Likewise, economic activity, in addition to being subject to cyclical variations in international market demand and prices, is strongly influenced by recurrent natural phenomena, as a result of which a significant investment deficit has been maintained, especially in productive infrastructure; this, in turn, has affected factor productivity. In addition to these considerations, the dynamics of domestic, regional and international economic policy had an impact on the economic growth performance of Honduras between 1950 and 2018.

The authors highlight the importance of the agricultural sector in Honduran economic growth since the beginning of the last century. They identify two main characteristics that defined land use following the Second World War. First, its inefficient use for export agriculture, as a result of which the expansion of labour-intensive and land-intensive agricultural production for export yielded low levels of productivity, which in turn explains the persistence of unemployment, low wages and poverty in the rural sector. At the same time, the concentration of land ownership led to the slow expulsion of part of the rural population to marginal lands or to the cities. Given the absence of employment opportunities —the result of low economic dynamism— this segment of the urban population was forced to seek refuge in low-productivity occupations in the informal sector.

Another element that the authors highlight in the three periods reviewed is the participation of the State in the economy. One thing that defines the Honduran State from the dawn of independence to the present, they say, is its concessionary nature, which has prevented it from creating an economic policy in which attracting investment (and the supposed creation of jobs) does not depend on tax exemptions and other types of perks granted to domestic and foreign investors alike.

In concluding, the authors note that Honduras is currently characterized by modest economic growth, a growing divergence between its income and that of other countries in the subregion and the United States, vulnerability to external shocks, inefficient resource usage, high investment costs that negatively affect productivity growth and, more recently, violence, migration and climate change. They call for the adoption of public policies that provide macroeconomic stability, such as measures to temper the fiscal deficit, inflation and the balance of payments current account, and of policies to promote the formalization of the economy and foster productive and market diversification in order to reduce the impact of external economic cycles. This, they note, will require access to productive resources such as land, credit and technology, within the framework of industrial policies aimed at creating new knowledge-intensive and environmentally sustainable sectors.

Tax reforms are also necessary, and these should include a reduction of regressivity levels to make taxation equitable, the reduction of tax breaks and exemptions, an all-out fight against tax evasion and an improved tax administration. On the spending side, the development strategy must determine the spending priorities, but emphasis should be placed on health, education and social protection. Careful attention should also be paid to the construction of infrastructure, in order to help eliminate the bottlenecks frequently encountered by productive activities, and the importance of governance and governability for development should not be neglected.

D. Nicaragua, by Arturo Grigsby

Grigsby analyses the characteristics and factors that shaped Nicaraguan economic history between 1950 and 2018 and identifies an evolution that has yielded particularly modest results. Despite almost three decades of rapid growth between 1951 and 1977, and a reasonable recovery after 1994, a long period of armed conflict and political and social instability explain the country's weak economic performance over the period as a whole, during which high levels of underemployment and poverty remained in place.

The evolution of the economy over the first analysis period (1950–1977) was one of rapid growth supported by a strategy that the author calls a hybrid development model, with significant support from the State. Three phases can be distinguished within that evolution: in the 1950s, modernization and agroexport diversification began; in the following decade, a hybrid model was adopted with the addition of (incipient) import-substitution industrialization within the framework of the Central American Common Market (which favoured Nicaragua less than other countries); and, between 1970 and 1977, despite a heavy increase in public investment, a degree of deceleration was observed and a new pattern of macroeconomic instability emerged.

Table 5
Nicaragua: long-term economic cycles
(Growth rates)

	1951–1977	1978–1993	1994–2008	2009	2010–2017
Gross domestic product (GDP)	6.0	-2.7	4.2	-3.3	5.2
Gross fixed capital formation (GFCF)	11.2	3.2	7.1	-24.6	10.6
Productivity (GDP/EAP)	2.6	-6.3	1.0	-6.5	3.5
Aggregate labour productivity	n.d.	-3.8	0.1	-5.2	2.6

Source: Prepared by the author, on the basis of official information.

The author discusses the modernization strategy adopted by the Sandinista revolutionary government to satisfy the population's basic needs, which involved strong State participation, the regulation of the private sector and the nationalization of key economic sectors during the period from 1978 to 1993. He also examines how the strategy dealt with armed conflicts, a highly adverse international political and economic environment and difficulties and inconsistencies in productive and macroeconomic policies, which resulted in an economic collapse with a prolonged slump in levels of activity.

Grigsby also explores what he calls the long road to post-conflict economic recovery (1994–2017). He analyses such issues as the adoption of a neoliberal strategy and a particularly cautious approach to macroeconomics in regard to inflation, including a flexible exchange rate regime that, with heavy capital inflows, tended to produce Dutch disease. He contends that the new context resulted in only moderate economic expansion and poverty reduction while preserving high levels of underemployment.

The analysis reviews a number of distinctive features of Nicaraguan economy and society, such as the impact of abundant land and extensive family farming on the evolution of labour productivity, and the influence of low crime and delinquency rates on its attractiveness to foreign capital. The author also examines the historical evolution in two stages: that of the implementation of the market model, in which traditional agroexports were reactivated and maquiladoras first emerged as a novelty (1994–2008), and the later stage characterized by a boom in foreign investment, continued expansion of maquiladoras and growth in construction and services (2010–2017).

The export-led model of economic growth that Nicaragua adopted in the second half of the nineteenth century has undergone structural changes with profound economic and social implications, the author notes. Economic growth throughout the period failed to create enough jobs to take advantage of the rapid growth of the workforce or to bring about significant reductions in poverty. Nicaragua's productive structure lags far behind the rest of Central America in terms of competitiveness, and its high degree of inequality in income distribution has been an obstacle to growth.

The growth of the maquiladora sector has transformed the export basket and, for the first time in the country's economic history, exports of manufactured products outstrip traditional exports of primary goods; at the same time, the level of diversification in the export structure has improved compared to the post-war phase. However, the author continues, export growth and diversification have been insufficient to restore external macroeconomic solvency.

Thus, the post-conflict export model has had a limited impact on diversifying and deepening the national productive structure. The maquiladora industry and renewed gold exports do not favour the development of upstream links (infrastructure, inputs, machinery, etc.) or downstream links (as inputs for the manufacture of other products) with the local economy, says the author. Foreign ownership and control of those productive activities means that the only boost for domestic aggregate demand for consumer goods and services comes from the wages of maquiladora and mining workers. Likewise, the State cannot increase tax revenues through taxes and tariffs because of the special regime the maquiladora sector enjoys.

In contrast, Grigsby points out, traditional export activities in the primary sector have upstream and downstream links with the national economy, and if activities that process raw materials are included —such as agro-industry— the total added value rises to 27.8% of GDP. The development potential of this expanded sector is currently limited by its low productivity, however. The State could introduce institutional innovations that favour the development of associations and cooperatives to significantly improve the access of these productive social sectors to credit, technology and markets. Likewise, heavy State investment in education is required to achieve the average levels of schooling and educational quality that the country's development needs demand.

E. The pattern of structural change and development in Costa Rica from 1950to 2021 and future challenges, by José Manuel Salazar-Xirinachs

Salazar-Xirinachs presents two central arguments in his analysis of economic development in Costa Rica. First, he states that the period between 1950 and 2018 was marked by economic and social success: the result of an exemplary political, democratic and human rights system, as well as a European-style welfare state. His second contention is that the State played a major role in the productive transformation and social protection throughout the seven decades studied.

With respect to the policies and development pattern of the import substitution period, the author analyses substantial structural and institutional transformations in the 1950s, 1960s and 1970s. Thus, he describes the first decade as one of accelerated institutional change organized by the State to promote socioeconomic development; the second decade as a deepening of the model, during which industrialization gained momentum after Costa Rica joined the Central American Common Market and social progress gained new impetus through agrarian reform; and the 1970s as a time of increasing presence by an entrepreneurial State —which made up for the reduced private propensity to invest— and of an expanding social welfare state. He also examines the rates of growth in GDP, investment and labour productivity in the years 1961–1962 and 1973–1979, together with main determining factors and characteristics of the country's economic and social development.

Table 6

Costa Rica: annual growth rates of GDP, gross fixed capital formation (GFCF) and labour productivity, 1961–2017

(Percentages)

	1961–1979	1980–1982	1983–1999	2000–2008	2009	2010–2017
GDP	6.2	-2.9	4.7	4.8	-1.0	3.9
GDP per capita	3.1	-5.5	2.1	3.2	-2.3	2.8
GFCF (growth rates)	9.1	-20.7	9.7	5.6	-12.6	2.9
GFCF/GDP	20.3	22.8	19.9	20.7	21.1	19.1
Labour productivity	2.5	-4.9	0.8	1.4	0.2	3.1[a]
Development strategy	Import-substitution industrialization and construction of a welfare state	Crisis	Export promotion	Investment attraction		
Features of the structural transformation	Accelerated structural change, rapid expansion (with fluctuations)	Recession	35 years of uninterrupted expansion, with fluctuations, one year of crisis (2009) High dynamism in the free trade zone regime, lower dynamism in the general regime and in territories outside the capital region			

Source: Prepared by the author, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC).
Note: Productivity data for the period 1961–1999 were obtained from World Penn Tables and those for 1991 to 2018 are based on data from the National Institute of Statistics and Censuses (INEC) of Costa Rica.
[a] Average for the years 2010–2018.

Subsequently, Salazar-Xirinachs discusses the impact of the 1980–1982 economic crisis and the controversy over its causes, in which he identifies four elements: (i) the exhaustion of the import substitution model, (ii) the size of the State, (iii) the evolution of the international context since the 1970s, and (iv) economic policy errors in the face of external shocks. He also analyses the macroeconomic adjustment and transformations that took place after the end of the crisis, as well as the assistance for overcoming it provided by the United States for geopolitical reasons, up to the end of the 1990s. He examines the reorientation of the strategy towards exports and notes that, despite important changes in the form of State intervention, the pattern of reforms has been non-orthodox, following a Costa Rican path of socioeconomic development.

The author argues that, in strategic terms, one particularly notable element in the pattern of growth and structural transformation over the 2000–2018 period was the selective and State-driven attraction of foreign direct investment for the production and export of goods and services with a relatively high technological content —with workforce quality an issue at the forefront— and their insertion into global value chains. Starting in 2008, this led to a return of a healthy rate of increase in labour productivity (after three decades of low growth) in a context in which, despite an increase in inequality, the tradition of social protection remained strong, as did the path of environmental sustainability already chosen in previous decades.

In general, says Salazar-Xirinachs, Costa Rican history since the mid-twentieth century constitutes a narrative of successful development in terms of economic transformation, rising living standards and human development. However, he adds, the country's development pattern has also experienced a series of negative trends, flaws and weaknesses that create tensions and pose risks of fractures in the Costa Rican social compact. The author summarizes these challenges under eight broad headings: (i) overcoming the mediocre, unequal and unbalanced growth of the economy and productivity, (ii) reducing poverty, vulnerability and inequality, (iii) halting the deterioration of education quality and taking steps to improve it, (iv) reducing unemployment and informality, (v) overcoming the deterioration and backwardness of infrastructure, (vi) eliminating the fiscal fragility of the developmentalist State and the welfare system, (vii) halting the deterioration of public institutions, improving the effectiveness of the State and restoring citizen confidence, and (viii) improving governance.

These issues represent traps that threaten the social compact and peace that characterized the best years of the Costa Rican development model and, according to the author, it is urgent that the country addresses them. These exceptional circumstances, the author stresses, require urgent, rapid solutions: not only for Costa Rica to accelerate its growth rate and continue along a path of inclusive, dynamic and sustainable growth and development, but also to avoid fractures in its social compact and any further deterioration of citizen confidence in public institutions and the democratic system.

F. The three periods of the transitist model of economic development in Panama between 1950 and 2017, by Guillermo Castro and Julio Rosado

The authors frame the economic development of Panama in terms of the political economy concept of transitism: a development model that concentrates transit activity in a single route under State control and the income generated by that activity in the social sectors that control the State, and that subordinates the entire territory to that one activity. They thus describe the Panamanian model as a particular form of outward-oriented, export-led growth, by reason of its enormous dependence on the volume of international trade that passes through the Panama Canal.

Therefore, in one section of the chapter they analyse Panamanian transitism and argue that since its inception, interoceanic transit was embraced as a basic element in the Panamanian socioeconomic structure. In particular, the authors analyse the effects of the Canal after 1950, Canal-based activities, the dispute over revenues, the traffic that uses the Canal and its contributions and impacts on the economy. By way of synthesis, they also present an interpretation of the evolution of the correlations between the rates of change in world trade, in Canal transit and investment activities and in Panamanian GDP over the three periods into which they divide the country's economic history, beginning in the 1950s.

The first period involves the dynamic and differentiated evolution of the economy between 1950 and 1982. Castro and Rosado argue that the Panamanian transitist model has meant that, given the central role of Canal activities, the accelerated expansion in GDP, investment and labour productivity was supported by the service sector, and that agriculture and processing industries accounted for by far the lowest GDP share in all of Central America. Table 7 shows a less assertive developmentalism than in the other countries, more focused on State investments in infrastructure and only to a much lesser extent on agriculture and industrialization.

Table 7

Panama: phases of development based on variations in GDP, investment and labour productivity

(Percentages)

Period	Annual real GDP growth rate[a]	Annual real growth rate of gross fixed investment (GFI)	Labour productivity (GDP at constant prices divided by employed population)	GFI/GDP at constant prices
I. 1950–1982 Fluctuating growth and social inequality when the Canal was controlled by the United States	5.9[b]	6.4[b]	3.6[b]	25.4[b]
II. 1983–1989 Recession and crisis during the first phase of the Panamanian State's assumption of control over the Canal	-1.0	-14.3	-3.8	15.3
III. 1990–2017 Non-inclusive growth in the second phase of the Canal transfer process (1990–1999) and during total control of the Canal by the Panamanian State in later years (2000–2017)	6.0	15.9	2.22	26.80

Source: Prepared by the authors, on the basis of Economic Commission for Latin America and the Caribbean (ECLAC), International Monetary Fund (IMF), University of Groningen, World Bank, International Labour Organization (ILO) and Central American Monetary Council (CAMC).

[a] Market prices (millions of balboas, at constant 1960, 1970, 1982, 1996 and 2007 prices).

[b] Covers 1971 to 1982.

In the section "Recession and crisis during the first phase of the Panamanian State's assumption of control over the Canal", the authors investigate the period of low or negative growth that occurred between 1983 and 1989, the onset of which is attributed to the opening of a new pipeline to transport oil from Alaska to the Atlantic. The authors state that the seven-year crisis was due to both economic factors —including the Canal's loss of competitiveness caused by the rising average size of interoceanic ships, which demanded significant investments in modernization— and political circumstances crisis, which culminated in crisis with the invasion of Panama by the United States.

The authors note that during the third period, despite fluctuations, rapid growth resumed in 1990. They describe this period as one of intense investment in modernizing the Canal and in economic infrastructure, and of major transformations in the productive and export structure: an abrupt decrease in agricultural and manufacturing output, accelerated expansion of construction activities and the emergence of a certain degree of geographical deconcentration of economic activity.

The basic features and conditions of transitism in Panama, which operated throughout the period covered by the chapter, have undergone transformations that, according to the authors, make it possible to question the viability of how this development model functions and the factors that created it and on which it is based. Based on this premise and by way of conclusion, the authors present three scenarios:

(i) that resistance to change among the dominant groups in the transitist organization of the economy will end up triggering a general crisis in that development model;

(ii) that the massive investments in modernizing the Canal made in recent decades will generate a period of general inertial growth, with specific, gradual and dispersed adjustments in the country's economic, social and political structures, against a backdrop of sustained environmental degradation; and

(iii) that Panamanian society itself will create the conditions that will allow it to advance towards organizing the provision of services for goods to flow in the world economy in way that takes advantage of all the benefits Panama offers for interoceanic and inter-American traffic, improves the Canal's insertion in the country's domestic market and facilitates the insertion of Panama's economy into the globalization process in the most productive and equitable way possible.

This, according to the authors, has a direct impact on the transition process that Panama is undergoing, in that the worsening of the unresolved contradictions of the old transitist development model is affected by contradictions of a new type in the nation's development. For this reason, what is needed is a comprehensive approach to the options for resolving a deteriorating situation that is already calling into question the very model of development from which it arose, which also implies reviewing the challenges of development from a political economy perspective and taking account of the importance of the stakeholders, their interests and their power to influence public policies.

The authors note that this raises two closely related problems. First, devising a territorial organization of the State that allows the country's regions to take control of their situations and pursue much closer integration among themselves by diversifying their productive activity in light of their own needs and capabilities. And second, creating a new correlative relationship between the natural organization of the territory and the territorial organization of the economy, including an expansion of the country's capacity to contribute to the circulation of capital between the economies of the two oceans and those of North and South America.

In that context, social development and the transformation of the State are essential to address the problem of the economy's territorial reorganization, in order to increase the competitiveness of the comparative advantages offered by the natural organization of the territory. In practice, the authors explain, a spontaneous and dispersed process of territorial reorganization is underway in Panama. If this process is assumed by the State and society with an awareness of sustainability, it can contribute to an increase in the country's competitiveness in the global market.

G. Central American integration: notes on history and current challenges, by Héctor Dada Hirezi

The initial section provides a historical and conceptual narrative of some of the main episodes that led to the creation of the Central American Common Market, followed by a historical and conceptual account of the transition from bilateral treaties to the signing of the multilateral treaty (during the 1950s) and the General Treaty on Central American Economic Integration (1960). In addition to analysing the treaty's objectives and scope, the author discusses the participation of ECLAC in these initiatives.

He then discusses the early years of the treaty, along with the initial rapid expansion of intraregional trade and its relationship with the industrialization process. He argues that the treaty was an important part of the developmentalist institutional framework that was being formed in support of that process and the pursuit of industrialization. He also deals with the problem of asymmetries between countries in terms of the benefits of regional commercial integration, and he studies the impact on intraregional trade of the brief war between El Salvador and Honduras at the end of the 1960s as part of his analysis of the causes of the slowdown, during the 1970s, in the rapid expansion of intraregional trade that took place during the treaty's inaugural decade. He attributes this slowdown to weaknesses in the countries' productive structure (scant internal linkages), to macroeconomic problems in the treaty's member countries and to an institutional framework in want of improvements.

Turning to the 1980s, Dada Hirezi examines the breakdown of subregional integration owing to the emergence of armed conflicts and the unfavourable economic climate that prevailed for most of that period, known as the lost decade; he then contends that the reassertion of regional integration, starting in 1990, did not bring a major boost to economic growth in the subregion. He notes that the question of integration was involved in the peace negotiations of the early 1990s, as part of a reformulation of the institutional framework to strengthen political and economic relations among the countries of Central America in pursuit of the subregion's collective self-determination —returning to the concept of open regionalism proposed by ECLAC— which was a way of reconciling adherence to open multilateral trade with the world and the strengthening of intraregional trade links.

Along the same lines, the author explores the difficulties of translating trade among the subregion's countries into a driver of economic growth, highlighting trade's secondary role compared to generalized commercial openness, as well as the various bilateral treaties signed between the Central American nations, the United States and Europe, which have been marked by a lack of negotiating unity among the subregion's countries, and he offers a series of thoughts on the prospects and difficulties for a new period of strengthened Central American intraregional trade.

H. Preliminary overview of similarities and differences in the economic evolution of the six nations of Central America, by Alberto José Fuentes, Hugo E. Beteta, Ricardo Bielschowsky, María C. Castro and Pablo E. Yanes

Bringing the publication to a close, this chapter reviews the past political and economic experiences of the six profiled countries. The authors opt for an intermediate path between the comparative tradition of Central American political economy studies that places a strong emphasis on similarities between the subregion's countries and the case studies of this book, which focus on each country's particularities; thus, they examine the economic evolution of the six countries in question in light of their similarities and differences. For that purpose, they use the following parameters: (i) growth rates, (ii) phases of growth between 1950 and 2017 and the duration of the crisis of the 1980s, (iii) progress made in diversifying the productive structure, and (iv) performance in terms of per capita income, poverty levels, public social spending and income distribution.

Using GDP growth to determine the first of these parameters, the authors identify two dynamic countries (Panama and Costa Rica), two with limited levels of expansion (Guatemala and Honduras) and two with modest growth rates (Nicaragua and El Salvador); in terms of labour productivity growth rates, the countries fall into similar groups. However, the dynamics of investment do not produce an ordering similar to the these two previous ones; this, the authors explain, means that the capital formation effort per unit of additional output differs between the countries.

For the second parameter, the authors identify significant similarities among the six countries. During the periods under study, the countries faced external conditions that, in general, imposed similar economic models. Between the 1950s and 1970s, developmentalism was the dominant trend in the subregion. The 1980s were marked by economic contractions that, while they lasted for different lengths of time, arose simultaneously in the subregion's countries. During the third period (1990–2017), their governments adopted different variants of the neoliberal economic model in an expansive international scenario that lasted until the onset of the Great Recession and the end of the 2000s. The countries' international insertion was subordinated to financial globalization and the regionalization of trade, characterized by strong ties with the United States, with the partial exception of Costa Rica.

In the authors' opinion, the periods identified in this chapter help explain the differences among the six countries' cumulative growth rates from 1950 to 2017. A simple observation of the duration and severity of the recessionary cycle of the 1980s in each country indicates three groups of countries: (i) those less affected by the crisis (Costa Rica and Honduras), (ii) countries with the worst performance in the period in question (Nicaragua and El Salvador), and (iii) countries where the crisis did not last long enough to modify their patterns of dynamism (Panama and Guatemala).

Regarding the third parameter (progress with diversifying the production structure), the authors identify dynamic economies (Costa Rica and Panama) and economies with moderate or low levels of dynamism (El Salvador, Guatemala, Honduras and Nicaragua). Analysing the fourth parameter, the authors note that only Panama and Costa Rica approach the per capita income of the United States, and that Honduras, El Salvador and, particularly, Nicaragua report the severest lags in this regard. They also identify marked differences in the social consequences of the countries' economic evolution. The higher levels of per capita income in

Panama and Costa Rica and the greater social protection in the latter differentiate them notably, in terms of poverty levels, from the other four cases presented in this book.

In general, taking account of all four of these parameters, the authors define two sets of countries: Panama and Costa Rica (unique experiences that differ from the others) and Guatemala, Honduras, El Salvador and Nicaragua (similar experiences). The first group contains the economies that have been the most dynamic and have achieved the subregion's highest levels of socioeconomic development. The bases for that dynamism are different, however: Costa Rica diversified and increased the sophistication of its economy, whereas Panama specialized in the provision of Canal-related services but did not diversify its economy towards the production of more complex goods. Another non-negligible factor that the authors identify is that compared to the other four countries, Costa Rica and Panama were less affected by the subregion's armed conflicts.

In contrast, the authors point out that Guatemala, Honduras and El Salvador had parallel economic performances during the study period (1950–2017) based on similar patterns of structural transformation that favoured horizontal diversification towards new economic areas that, while they encouraged the progression of economic stability, also limited the scaling-up and development of more sophisticated productive activities. In Nicaragua, due to the prolonged crisis and stagnation, a different diversification process took place.

As a reflection on the factors that explain the subregion's different patterns of development, the authors propose that in the case of Guatemala, Honduras and El Salvador, the high concentration of political power and national business ownership during the first historical period (1950–1980) may have contributed to their lower economic dynamism compared to Costa Rica. The case of Nicaragua is somewhat different in that its power structure was dominated by the concentration of power in the Somoza family, followed by a period (late 1970s and 1980s) when the Sandinista revolution attempted to alter the economic order, only to return, in later years, to a concentration of power in line with the new neoliberal order. Another difference that the authors identify between Nicaragua and the other three countries lies in the political choices adopted to respond to the sociopolitical and economic tensions caused by the exogenous shocks of the 1970s and 1980s.

To explain the setbacks that the Central American subregion has, in general, experienced in its economic and social development, the authors invoke the persistent dominance of economic elites and the weakness of public institutions. They argue that the ability of governments to exercise authority over social and economic sectors and to guarantee the rights and well-being of all their citizens has traditionally been low in Central America. Accordingly, the authors state that Central America is at a crossroads, where the development model that will prevail in each country and in the subregion is in dispute, and where one of the least favourable scenarios would be to maintain a logic of inertia and maintain the current development models intact or with only minor adaptations. In this context, they say, Central America needs to define its development priorities and construct social and political compacts to make them viable.

The elements that could define a new style of development, according to the authors, are based on strengthening integration and acting at the global level as a coherent subregion; prioritizing, across the economic structure, progressive structural change, increased productivity and added value, and higher technological content; laying the foundations for social States governed by the rule of law that guarantee the well-being of the entire population and eradicate poverty everywhere and in all its forms; ensuring that all productive improvement processes translate into distributive improvements by closing the gap between the remuneration of labour and that of capital; strengthening public finances to fulfil the State's social responsibilities, guarantee access to social rights, build care-based societies and achieve the highest possible level of well-being for the entire population; promoting public investment; pursuing science, knowledge and innovation; strengthening democracy; diversifying international economic relations; pursuing commercial and productive integration with nearby countries in Latin America; adopting a regional policy for mitigating and adapting to climate change; and implementing mechanisms for regional solidarity in the event of disasters.

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This publication presents an overview of the history of growth and structural transformations in the six Central American countries between the mid-20th century and the end of the 2010s. The authors identify lights and shadows in the historical experience of countries to illuminate reflection on future development strategies and policies.

The analysis is based in the historical-structural approach of Economic Commission for Latin America and the Caribbean (ECLAC), whose purpose is to examine the movement in the national productive and social structures over time, considering the endowment of resources, the effects of national policies and institutional changes, as well as the international economic environment in which economies are inserted.

The authors review the history of Central American integration as well, and it is reinforced the importance of carrying out comparative studies, establishing the similarities and differences in the socioeconomic evolution of the six countries. To conclude, a vision of the future that implies a change in the development models of each country and the region is proposed.

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