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GAO Review of U.S. Programs and
Activities in Central America

Statement of
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Before the Subcommittee on Western
Hemisphere Affairs, Committee on Foreign
Affairs, House of Representatives

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Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the results of our review of U.S. programs and activities implemented in the 1980s in Central America. Our objective is to assist the new Administration and the Congress with the difficult decisions they face in Central America. At the request of the Senate Foreign Relations Committee, we reviewed U.S. assistance and activities in the five Central American countries, plus Panama and Belize, to determine their impact on four major U.S. policy objectives -- regional security, promoting democracy, economic stabilization and structural adjustment, and development. My statement will cover how we performed our review, what we concluded about how well the United States accomplished its objectives, and our observations on existing situations and upcoming events in Central America that we believe will soon require decisions from the Administration and the Congress.

GAO'S REVIEW APPROACH

Over the last eight months we have extensively reviewed official records and relevant literature and conducted interviews of U.S., host country, and private sector officials in Washington D.C. and in all 7 countries. We also obtained the perspectives of Central Americans and U.S. experts on the region at three GAO-sponsored conferences in San Jose, Costa Rica and Washington, D.C. Officials of the Departments of State and Defense and the Agency for International Development, and staffmembers of the House

Foreign Affairs and Senate Foreign Relations Committees, have informally commented on a series of GAO internal discussion papers and participated in the Washington conferences. We are presently preparing a GAO report and hope to issue it in the very near future.

BACKGROUND

Key events of the late 1970s and early 1980s led to an increased focus on the Central American region. These included (1) the signing of the Panama Canal Treaty, (2) the rise of the Sandinista regime in Nicaragua, and (3) the growth of a Marxist insurgency in El Salvador,. The implications of these events for U.S. security prompted major reviews assessing what the U.S. response should be and increased U.S. military and economic assistance to the region. The 1984 report of the Presidentially-appointed National Bipartisan Commission on Central America concluded that foreign-supported elements were using the region's widespread poverty and social injustice to gain popular support against the region's governments. It recommended that the United States (1) counter the elements that were fostering regional instability and (2) promote democracy through economic stabilization, development, and democratic institutional support programs. In response, Congress approved a five-year \$6.4 billion package of economic aid and increased military aid to the region.

RESULTS IN BRIEF

Although progress was made for each U.S. objective, less was accomplished than anticipated because (1) regional conflicts were not ended and economies did not rebound as envisioned, (2) some countries have had difficulty overcoming a legacy of military dictatorships, incompetent and corrupt government institutions, extreme poverty, and political violence, and (3) there were limits to what the United States could do unilaterally to change events in the region.

U.S. programs have had positive impacts. U.S. aid prevented the collapse of the Salvadoran government to Marxist insurgents, enhanced economic stability for all intended countries, strengthened some democratic institutions, and improved living conditions in some areas. However, some programs had unintended negative consequences. Certain U.S. actions alienated some Central Americans; others increased their dependence on the United States. U.S. assistance did not solve the region's armed conflicts which slowed progress toward economic reforms and development. Economic sanctions contributed to the impoverishment of Nicaraguans and Panamanians without removing their undemocratic regimes. The Panamanian rebellion against General Noriega and failed U.S. attempts to oust him created new concerns about the future security and operation of the Canal.

U.S. policies since 1980 appear to have been driven as a counter to the threat of Soviet Bloc expansionism. However, most experts believe that the relative strength of militaries vis-a-vis weak civilian governments, government ineffectiveness in addressing social problems, drug trafficking, official corruption, pervasive poverty, social inequities and injustice, and growing numbers of refugees and displaced persons also posed substantial threats to the region. Non-government experts believe that these problems should have figured more prominently into decisions on U.S. strategies. Government experts contend that these factors were considered but that the results were uneven because of the complexity of the situation.

There is general agreement that the United States should emphasize support for Central American peace efforts, while maintaining support for democracy, human rights, and political and economic reforms, rather than supporting military solutions to the region's conflicts. The Esquipulas II regional peace plan represents a Central American consensus on the basic actions needed to achieve peace in the region and should be the starting point in developing U.S. strategies.

PRINCIPAL FINDINGS

Regional Security Not Achieved

Extensive U.S. assistance has included: (1) provision of funds for training and equipment to several Central American militaries; (2) aid to the Nicaraguan Democratic Resistance (contras) against the Sandinistas; and (3) the introduction of U.S. military presence into Honduras and continuation of such presence in Panama.

However, regional security remains a major problem. U.S. aid prevented the likely victory by insurgents in El Salvador, however, that insurgency continues as does the one in Guatemala where the United States has provided no lethal aid. Efforts to modernize and professionalize military forces were hampered by institutional weaknesses. While the overall human rights situation in Central America has improved, consistent respect for human rights has not been achieved. U.S. military aid increased the power of the region's militaries in relation to their civilian governments, thereby increasing concerns about the stability of civilian democratic governments. Despite U.S. pressure, Nicaragua's Sandinista government and Panama's General Noriega remain in power and both countries' ties with Cuba and the Soviet Bloc have increased.

Region's Democracies Still Fragile

Multiple strategies to promote democracy achieved mixed results. The United States provided (1) specific programs to strengthen

democratic institutions, (2) balance-of-payments support to reduce the threat of economic instability to democratic governments; (3) development aid to improve the environment for democracy to grow; (4) security assistance to protect democratic governments from Nicaraguan subversion and leftist insurgencies; and (5) diplomatic and economic sanctions directed towards both Nicaragua and Panama.

Economic support and development assistance did help maintain the relative stable democracies of Costa Rica and Belize. El Salvador, Guatemala, and Honduras have made progress in their democratic transitions, but have been unable to fully overcome human rights abuses, partly because they remain susceptible to military influence. While some progress toward judicial reform was made, serious deficiencies could not be overcome in the short term. Strategies to pressure the governments of Panama and Nicaragua to become more democratic were unsuccessful.

Uneven Success in Meeting Economic Objectives

U.S. economic objectives were to (1) halt economic decline and support stabilization and adjustment efforts through balance-of-payments assistance, (2) lay the basis for self-sustaining growth through policy reforms, and (3) spread the benefits of such growth throughout the population.

Large levels of U.S. assistance helped to halt the economic decline in Belize, Costa Rica, Guatemala, El Salvador and

Honduras, but each country remains dependent on external assistance. U.S. efforts were relatively more successful in Belize, Costa Rica, and Guatemala because these countries were committed to reforms, had popular support, and competing U.S. security and political objectives did not override U.S. economic objectives. Also, U.S. programs in Belize and Costa Rica complemented those of international financial institutions. Nevertheless, Costa Rica must deal with an overwhelming debt problem, Belize has an inadequate economic base, and Guatemala has massive and far-ranging development needs.

El Salvador and Honduras also continue to need substantial economic stabilization assistance. Progress in El Salvador has been hampered by U.S. and Salvadoran unwillingness to risk political instability arising from major economic reforms. Honduras did not accept the need for major reforms, viewed U.S. aid as a substitute for reforms, and was able to do so because it supported U.S. regional security programs.

U.S. sanctions on Panama and Nicaragua contributed to already serious economic problems, but both governments have been able to circumvent some sanctions.

Broad-based Development Not Yet Attained

While U.S. aid helped to improve the living conditions of some Central Americans, broad-based development was not attained to the

extent hoped for, in part because of the continued armed conflicts. The problems of widespread poverty and economic inequities continue in some countries at levels worse than a decade ago. Except for Costa Rica, the ability of Central American governments to effectively deliver social services and to generate job opportunities for the poor remains limited.

Development progress was hindered by several factors, including armed conflicts, limited host government capabilities, trade and investment barriers, and administrative requirements of U.S. foreign aid programs. Also, the United States needed to place greater emphasis on regional security and economic stabilization goals than on development objectives.

MATTERS FOR CONSIDERATION

Central America is at a critical juncture. Recent events including improved U.S.-Soviet relations, efforts by the Central American leaders to revive the Esquipulas II regional peace plan, proposals for resettling the contras, deterioration of Nicaragua's economy, and renewed dialogue between the government and insurgents in El Salvador have given the United States and other international actors a critical opportunity to guide and support efforts to bring peace and development to the Central American region. The upcoming May 1989 elections in Panama present an additional opportunity to persuade the Noriega regime that fair elections are a necessary

first step toward resolving the current crisis. We believe the following should be considered in addressing these opportunities.

Supporting the Region's Peace Plan

Central American Presidents met in February 1989 to discuss plans for reviving the Esquipulas regional peace plan. At this meeting, the Presidents took note of Nicaragua's plans for promoting democracy and agreed to prepare a plan on how to repatriate or relocate the contras in Honduras. There were also additional proposals for monitoring regional compliance with the peace plan. The United States should support the regional peace plan by discussing with the Central American leaders what options the United States has to: (1) assist in finding a regional solution concerning the future of the contras, (2) support the proposed multilateral verification and monitoring of the peace plan, (3) support any regionally agreed upon penalties for noncompliance with the plan and/or provide incentives for compliance, and (4) align U.S. military presence in the region in relation to U.S. and regional security needs. Support of this latter point would involve consideration of a reduced U.S. role in the region which could only be seriously considered if the Cuban and Soviet Bloc presence is also reduced.

Relations with Nicaragua

Because Nicaragua is pivotal to any regional solution for peace and stability, overall U.S. objectives toward Nicaragua must be

approached in a comprehensive manner, not on a piecemeal basis. At issue is whether the United States should normalize relations with the Sandinista regime, continue economic and political pressure, or offer economic incentives to encourage the promotion of democracy. To reduce the possible threat of the Sandinista military to the rest of the region and to support the regional peace plan, the United States should discuss with the Soviet Union the need for reducing its military aid to the Nicaraguan government.

Relations with Honduras

U.S. strategies supporting regional initiatives concerning the contras and U.S. strategies for Nicaragua must be coordinated with those involving Honduras. If solutions to the contra situation and the Nicaragua problem are found, the United States should strictly condition future assistance to Honduras on taking effective steps toward economic reforms. If these reforms needed for economic growth and development are delayed or avoided, prolonged balance-of-payments support and continued Honduran dependency on the United States will result.

Costa Rica, Belize, and Guatemala

To effectively promote democracy and further U.S. economic goals, the United States should (1) take actions to deal with Costa Rica's serious commercial debt problem, (2) continue existing levels of assistance to Belize, and (3) direct U.S. economic assistance to Guatemala toward eradicating poverty in rural areas,

increasing agricultural production, and divesting inefficient government-owned enterprises.

The situation in El Salvador

Recent events preceding the upcoming March 1989 national election have made those elections a critical point in El Salvador's history. Since our visit to El Salvador in October 1988, there have been reports of increased violence to civilians by both insurgents and government forces, claims that a victory by the major conservative party could result in increased warfare and human rights violations, insurgent proposals to reopen government-insurgent discussions toward peace and insurgent participation in the electoral process, and the government's announcement of a unilateral ceasefire. Hope and prospects for a negotiated settlement to the country's long civil war rise and fall on a daily basis, but the extent of the influence of the United States to resolve this situation is presently unclear.

We believe, regardless of which party wins the election, the United States should continue to support a negotiated settlement and condition U.S. assistance on government actions to deal with human rights abuses, enforce stricter financial controls over direct U.S. assistance, and implement democratic reforms. Even if the insurgency continues, the United States must prioritize its objectives in El Salvador. If containing the insurgency takes precedence, economic reform and development will likely be delayed

and prolonged balance-of-payments support will be required. If economic reforms take precedence, the United States will have to risk the political implications of conditioning aid on such reforms.

The Crisis in Panama

The Noriega regime's grip on power has not been broken, and the political crisis has caused distress for the Panamanian people and private sector, severely reduced governmental and diplomatic relations with the United States, and created openings for increased Soviet Bloc influence. This situation has increased concerns about the effectiveness of the future operation of the Panama Canal. Experts believe that, as a first step toward resolving the current crisis, the United States should consider asking Latin American and other interested nations to persuade the Noriega regime to accept international monitoring of Panama's May 1989 election. Following the election, the United States will have to decide whether or not to recognize the elected government, to continue economic sanctions, and/or to provide economic aid. If aid is resumed, a strong effort must be made to strengthen civilian institutions, promote respect for basic human rights, and engender international support for Panama's economic recovery.

CONCLUSION

In developing long-term U.S. strategies for promoting regional security, democracy, economic growth, and development, U.S.

policymakers should ensure that (1) all factors affecting the region's security and development are taken into account, (2) U.S. objectives are clearly defined and prioritized, (3) criteria for measuring progress toward stated goals is developed, and (4) regional and multilateral approaches to the region's problems are fully considered.

Our review of about a decade of U.S. activity in the region underscores two realities -- that attaining the four goals is a long-term process and that there are limits to what the United States can do to assist that process. There have been many U.S. agencies and dedicated personnel providing much of what is good for the people of the region; but given limited resources, the United States cannot unilaterally remove the obstacles to peace, economic stability, improved standards of living, and democracy. The commitment to achieving these goals must also come from the Central Americans themselves.

Mr. Chairman, this concludes my prepared statement. I would welcome any questions you and other members of the Subcommittee may have.