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FROM BANANAS TO NICKEL:
FOREIGN INVESTMENT IN GUATEMALA SINCE 1954

by

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Con todo mi corazon,
Para toda mi familia y mis amigos que me han dado todo su amor y apoyo en este trabajo, y en toda mi vida.

*****

"Yo he venido a echar fuego sobre la tierra, y que he de querer, sino que se encienda."

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ABSTRACT

Guatemala has received extensive foreign investment since the early 1900's to develop export agriculture, manufacturing and mineral industries. This study focuses on the years after the 1954 revolution and especially on the results of the Central American Common Market and the Alliance for Progress programs that encouraged foreign investment in manufacturing industries for the regional market. While the results show good returns for investors there were limited gains in the economic, social and political development of Guatemala. These results led to numerous debates over whether foreign investment is therefore good or bad. These findings suggest that neither conclusion is sufficient, but rather that Guatemala and similar countries need domestic policies that encourage domestic investment and social and political development in addition to foreign investment for economic development.

You, Guatemala, are a fist and a
fistful of American dust with
seeds a small fistful of hope.
Defend it, defend us ... because
in the dark hours you were the
honor, the pride, the dignity
of the Americas.

Pablo Neruda, 1954.

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Although it is sometimes known derisively along with other Central American nations, as a banana republic, Guatemala is the largest economy in Central America, a region long considered critical to U.S business and security interests.

Since the 1870's, foreign business has enjoyed a hospitable investment climate in Guatemala. Not only does the country possess abundant natural resources but also each Guatemalan leader from the time of Rafael Carrera, eager for some semblance of economic development, has welcomed foreign investment as a means of financing these goals, and thus guaranteed it a "stable" investment climate. Indeed, it has been a long history of strong-man rule: Carrera (1840-1865), Justo Rufino Barrios (1873-1885), Manuel Estrada Cabrera (1898-1920), and

General Jorge Ubico (1931-1944).

The earliest business interests took advantage of these two situations and established strongholds in export agriculture. In the early 1900's German capital contributed much to the boom in coffee exports. But gradually an American company, engaged in the cultivation of bananas, attenuated the German influence and by the end of the first World War attained a dominant position for American capital. For the rest of the first half of the 20th century it would be hard to exaggerate the influence of the United Fruit Company on Guatemala.

Until the 1950's UFCO and two of its subsidiaries prospered until they essentially controlled the major sectors of the Guatemalan economy: agriculture, finance, transportation, communications etc... Their political clout paralleled their economic success, and the three companies would enjoy a "close" relationship with the Guatemalan government who maintained the proper political stability that also fulfilled the U.S government's security objectives during this Cold War period.

Yet in the 1950's, the reformist, nationalist government of Jacobo Arbenz challenged the U.S business and security interests as he sought to lessen Guatemala's dependence on foreign powers. His actions in office upset both the manner in which UFCO was accustomed to doing business, and frightened the U.S government who feared the spread of communism in Latin America. Almost exactly thirty years ago, after a long series of confrontations and accusations between the two countries, Arbenz's government fell in 1954, ousted by a coup alleged to have been directed by certain elements of the U.S government working closely with United Fruit.

The purpose of this study is to trace and analyze the scope, character and effects of foreign investment established after 1954 in the investment climate secured by the coup. After this incident, the U.S sought to make Guatemala a showplace for democracy, and to this end they actively encouraged private direct foreign investment.

Foreign investment over these last thirty years in Guatemala is a broad and complex topic, but in this analysis it will be limited to:

1) a discussion of the climate for private investment nurtured after 1954 as the U.S government alloted large sums of loans and grants so Guatemala could be an example to the whole world.

2) a review of the special partnership between private investors and the U.S government in the sixties and seventies. In order to secure their business and security interests, the U.S funded two programs that were founded in the name of economic development for Latin America and had the effect of creating the conditions that spurred a boom in foreign investment in all of Central America, and especially Guatemala. These programs were the Central American Common Market (a landmark attempt by developing

nations dependent on export agriculture, to establish a scheme of regional integration based on the trade of industrial goods), and the Alliance for Progress.

3) examples of the specific characteristics of foreign investment in Guatemala during this period. An intensive examination of the investments in Guatemalan infrastructure will not be attempted, rather a more general , empirical description of the role of foreign capital will follow, culminating with a detailed look at another major investment in Guatemala, that of the International Nickel Company.

In the literature it is most evident that the topic of foreign investment provokes strong responses, either enthusiastically positive, or sharply critical. A presentation of both views will be accompanied by empirical data, that while not always accurate and reliable, give one a general idea about the trends in foreign investment in Guatemala since 1954.

Chapter 1. LA UNITED FRUIT COMPANY

"Cuando sono la trompeta, estuvo
todo preparado en la tierra, y
Jehova repartio el mundo a Coca-Cola
Inc., Anaconda, Ford Motors y otras
entidades:
la Compania Frutera Inc.
se reservo lo mas jugoso,
la costa central de mi tierra,
la dulce cintura de America..."

Pablo Neruda.

Throughout Guatemala's history, foreign capital has played a significant role in the development of the country's economy. As in most of Latin America, for a period of seventy years beginning in the 1870's, foreign capital, with little restriction from the host or capital-exporting country, was the major agent of developing and financing agriculture, port works, railways, power supplies and other basic services, giving Guatemala its characteristic export orientation towards the markets of Europe and North America.[1] Historically, Great Britain, Germany and the United States have been the sources of investment in Guatemala. Guatemalans often viewed the British as harsh creditors since most of the British bonds were long standing obligations dating back to the 19th century. Indeed, the British had concentrated their investment in the financial areas through loans made directly to the government or private firms through banking facilities. Primarily Britain had sought to acquire interest in the Central American isthmus as a means of controlling future canal routes. However by the turn of the century North American dominance in this aspect was established; the amount of new British capital entering the region and specifically Guatemala became minimal.[2] Since the late 1800's, Germany's contribution was substantial and expanding by 1913 Germans dominated the coffee sectors in such districts as Alta Verapaz from where they exported directly to Hamburg.[3] Although Germany was initially the dominant foreign presence in Guatemala, North American investors and traders created a huge U.S economic leverage over the region between the 1870's and the 1920's.

Increasingly, the United States government felt that it was their duty to work with these investors to exclude Europeans and to develop stable internal regimes that were considered necessary for a good investment climate.[4] In Guatemala this "partnership" would reach its zenith with the overthrow in 1954 of the government of Jacobo Arbenz. While this paper will concentrate on foreign investment after 1954, a general understanding of this process of foreign capital expansion that began in the 1870's is necessary.

The Spanish American War seemed to interest the Germans in Latin America. German newspaper editorials indicated that they would have liked to contest the Monroe Doctrine.[5] However, from 1898 until the outbreak of World War I, conditions in the rest of the world never permitted Germany to defy the Monroe Doctrine or offend the United States.[6] So Germany limited itself to promoting and protecting their commerce, investment and emigrants in Latin America.[7] Some of these actions would include: the blockade of ports, the bombardment of coastal towns, the seizure of custom houses and the occupation of territory. Because of the possible relation of these coercive measures to the Monroe Doctrine, author J. Fred Rippy claimed that the United States was usually an interested party to them.[8]

Many German immigrants were drawn to Guatemala by the coffee boom. Germany was the major importer of Guatemalan coffee (in 1900 they imported 60 percent) and many of these immigrants maintained credit ties to banking houses in Hamburg and Bremen. These financial contacts allowed the Germans to take over many Guatemalan coffee holdings in the late 1890's and early 1900's when there was a period of depression in coffee.[9]

In Central America the successful cultivation of coffee had been started with national capital but it soon became dependent on external financing. In Guatemala a significant portion of the production and distribution of coffee became controlled by the Germans who although they were in Guatemala and often married into the local elite, maintained direct commercial and financial ties with their native country. Guatemalan efforts to maintain national control over coffee production soon collapsed. The main difficulty was raising the necessary capital. Efforts such as the establishment of a banking system under the state control failed and the bank was formed with strong participation and control of foreign capital.[10]

Guatemalan coffee producers also lagged behind the Germans in cultivating and harvesting techniques. The Germans had more capital and better connections, imported the best machinery and learned the latest methods from agronomists brought from Germany. Therefore, their lands were able to yield more and better coffee. A sizeable portion of the landholding class in Guatemala was of German descent. This along with the fact that they were primarily engaged in agriculture made the German presence and investment in Guatemala more palatable, especially to the elites. It was not easy to identify "German capital", since it entered the nation usually through domestically incorporated banks and then lent to a local entrepeneur who although of German descent, was a longtime resident married to a Guatemalan.[11] Hence by 1913 the German community owned 10 percent of the coffee plantations in Guatemala and yet they produced 40 percent of the total harvest.[12]

Since the 1870's as Guatemala grew more heavily dependent on coffee for export earnings, the political power of the coffee growers grew along with coffee's role in the financing of public works.[13]

The lack of adequate transportation in Guatemala had weakened Guatemalan attempts at developing and maintaining the system of coffee production. Producers totally depended on foreign shipping lines to get their coffee to market.[14] In 1873 the new liberal regime set out to construct badly needed roads. Much of this system was completed by 1876. In this way, the capital was linked to the cities of Quezaltenango and Huehuetenango and to the pacific ports. Other roads went to San Salvador and the Atlantic port of Santo Tomas.[15] The regime financed the construction with forced loans and taxes on rural properties and provided for its maintenance by requiring each man to work on repairs 3 days a year.[16] The first railroad was contracted in 1877 and 1880 to William Nanne and built with national capital. It linked the port of San Jose with Escuintla(1880) and with the capital(1884). The contract provided for financial help from the State for Nanne's company, land concessions and tax waivers. In 1884 the Atlantic port later known as Puerto Barrios was founded and construction was begun (again with national capital) on the Northern Railway. However in 1885 construction was halted.[17] The Northern Railway was not finished until 1908, after having been contracted in 1900 to the Central American Improvement Company Inc.[18] This would be the beginning of a greater presence of North American capital in Guatemala. The earliest ventures in foreign investment in Central America are closely identified with certain strong personalities who guided them. Perhaps one of the most famous of these "characters" was Minor C. Keith who's name is linked inextricably to the railroad and banana industries of Guatemala.

Shortly after construction of the nationally funded Northern Railway ceased, Minor C. Keith visited Guatemala. Born in Brooklyn, Minor C. Keith had always wanted to build railroads and so he went to Central America and made his fortune doing that. One of his major achievements was the first 25 miles of track between Port Limon and the Costa Rican capital of San Jose. In 1871 Keith's uncle, Henry

Meiggs already a famous railroad man in South America, had invited him to Limon. While that track was being laid 5,000 men died including Keith's three brothers. After completing the railroad Keith's next problem was finding people to ride it. Keith and the Costa Rican government had expected that passenger revenues would pay the operating costs and the immense debts they had incurred during construction. Keith's solution was to plant bananas near the tracks, in the jungles near Limon. By 1883 he owned three banana companies which shipped five million stems each year to U.S markets from four Central American countries and he married the daughter of a former Costa Rican president. His prosperity was unexpectedly interrupted six years later when a New York bank failure stuck him with a debt of 1.5 million dollars. Even though the Costa Rican government bailed him out he still had financial trouble. Hence, Keith went to Boston to speak with Andrew Preston, an owner of the Boston Fruit Company. This trip resulted in the birth of the United Fruit Company on March 30, 1899.[14] He had a plan for Guatemala that had already proven successful in his construction on the Northern Railway of Costa Rica. Basically, some new enterprise had to come to the northern coastal plains in order to make the railway profitable. Keith saw that the lowlands traversed by the railway were ideal for cultivating bananas and he was convinced that the Northern Railway could be completed and paid for with the proceeds of banana freight. He arranged for his United

Fruit Company to establish plantations along the path of the railway. Once the plantations began to bear fruit Keith signed a contract on January 12, 1904 to extend the railway. Signed by Percival Farquhar, representing Minor C. Keith and his associate William C. Van Horne, and Jose Flamenco, Minister of Development for the government of Manuel Estrada Cabrera, this "Farquhar Contract" would have a decisive impact on Guatemala's future. Not only did it bring about the completion of the Northern Railway, but perhaps more importantly it made possible the rapid growth and great success of the United Fruit Company in Guatemala. At this time the Northern Railway and the United Fruit Company (UFCO) were not associated, but as they grew complemented each other.[20] Delmer Foss' summary of the generous terms of the "Farquhar Contract" bear repeating as they allow one to see how the roots of North American economic power in Latin America began to take hold.

> The agreement conceded the contractors the right to construct, maintain and operate a railway from El Rancho to San Agustin..., the southern terminus of the Northern Railway, to Guatemala City. The contractors undertook to finish the railway within three and one half years after the Guatemalan legistlature gave its approval to the contract, which it did on April 9. In return for constructing the railway, the contractors were to receive no money. Instead they were given land and certain valuable rights and concessions. As soon as

the railroad from El Rancho to Guatemala City was completed and in operation, the government promised to transfer to the contractors, with out charge, all the existing railway from Puerto Barrios to El Rancho, including all rolling stock, buildings, telegraph lines, the wharf at Puerto Barrios, and all other real and movable property that belonged to the Northern Railway. This was an outright grant - the railway would become the private property of Keith and Van Horne, or their company. The only limitations to this grant were that the concessionaires could not sell the railway to the government of any foreign country, and, after 99 years the government had the option of buying back the line by paying the then valuated price of the railway; the government had six months in which to exercise this option, and if it did not do so the line belonged to the concessionaires in perpetuity. The contractors were given sections of shoreline measuring one mile in length and one hundred yards in width...land which the government promised never to tax or to expropriate unless necessary for national defense. They were granted thirty square blocks of land in Puerto Barrios and 1,800 caballerias, 167,000 acres, of other land. The government also guaranteed an annual income of five per cent on the estimated cost of $4.5 million (U.S) for fifteen years. No competing railroads would be allowed within twenty miles of the Puerto Barrios -

Guatemala City line, and the government promised the contractors preference in contracts for extensions or branches that might later be added to the main line. In one of the clauses of this contract, which was to become more and more important as the banana industry grew, the government promised that ships carrying fruit would be allowed to sail at any time of the day or night. This clause not only expedited the exportation of the fruit, but made possible the most efficient use of the railroad because trains could be loaded and unloaded at any hour. Another clause provided that, aside from coffee, all fruit and other agricultural products transported by the railroad would be free from export duties and local taxes for a period of 35 years beginning in 1904... Aside from minor restrictions and regulations, and the governmental laws applied to all common carriers and railroads in Guatemala, the contractors could manage their railway as they pleased. Moreover, they could purchase or lease other railways or they could combine with other railways if they so desired...[21]

Obviously the terms of the Farquhar Contract opened up Guatemala to Minor Keith's United Fruit Copmpany in a way that often seems inconceivable. Not only would it allow the company to control the communications and transportation networks of Guatemala's interior, but also through control of the ports and the railroads, any contact with the rest of Central America or the outside world. As in other countries of Latin America, this selling of the national resources seemed to the government to be the only way path to economic development - there were no other financial alternatives, not the Guatemalan treasury and no other interested foreign investors. It would be hard to overstate the influence that the United Fruit Company could now have on the Guatemalan economy.

In 1912, the directors of the Guatemala Railway Company changed their name to International Railways Central America (IRCA). Shortly thereafter, IRCA obtained the Guatemala Central Railroad and the other railroads in Guatemala and El Salvador so they soon controlled most of the railway in both countries.[22] Minor Keith had indeed guessed correctly, by 1914 the line transported over 3 million bunches of bananas and as the railroads linked the interior coffee exports grew.[23]

Potential investors usually sought some assurance of a stable investment climate in which they might obtain profits and have a secure existence. In the early 1900's, a measure of this essential soundness was a strong leader successful at controlling the various sectors of the population. In Guatemala since the rule of Rafael Carrera, political stability seemed assured. When he died in 1865, he was succeeded by Justo Rufino Barrios who established a 12 year dictatorship (1873-1885) and Manuel Estrada Cabrera followed with a 22 year regime (1898-1920) - the longest uninterrupted one-man rule in Central America. Under these conditions the power of the United States in Central America grew rapidly and the Wilson and Coolidge administrations demonstrated their willingness to work with North American investors to exclude the Europeans and insure stable investment conditions. In Guatemala between 1913 and 1929 overall exports rose 67 percent but exports to the United States exploded over 150 percent. Yet in 1929, Germany was still the leading market in Guatemala.[24] The North Americans at least doubled their import markets in each of the five nations between 1913 and 1929.[25] By 1920, the economic and political elites of these countries understood that not only were they increasingly dependent on North America, but also that the North was able and willing to reinforce economic dependence with direct political and military intervention.

The administrations of Theodore Roosevelt and William Howard Taft were thought to be the best examples of dollar diplomacy, but Woodrow Wilson would refine this practice. Dollar diplomacy does not refer to exerting diplomatic pressure by paying out bribes here and there. In reality according to Jean-Baptiste Duroselle, "dollar diplomacy is the use by American interests abroad of the political support of their government, support which they solicit and obtain by every imaginable means. Instances of this would be diplomatic efforts to obtain certain modification in customs laws, taxation, and regulation of concessions. A more extreme form would be protection of American interests by the threat or use of force."[26] Many examples of both types of efforts by the U.S government abound. The revolution of 1903 in Panama was incited by capitalist interests with almost open support of the North American government.[27] In the Dominican Republic, U.S customs receivership impounded 55 percent of the tax money for payment of foreign debts from 1907 to 1924. This country would remain a financial protectorate until 1941.[28] In Nicaragua in 1912, intervention was undertaken to protect two banks - Brown Brothers and Company, and J.W Seligman and Company[29], and the U.S Marines stayed and policed elections in that country until 1934.[30] Actually, between 1898 and 1920, the United States Marines entered the Caribbean no fewer than twenty times.[31]

Before assuming office in 1913, Woodrow Wilson had thought little about the problems of foreign policy and he had no experience in that field. But he held certain idealistic principles in which he fervently believed.[32] Wilson maintained that man was sufficiently good and that democracy was the most humane and most Christian form of government. Every people must then be capable of self-government. If they do not achieve it by persuasion, it may sometimes be necessary to impose it upon them by force.[33] For Wilson the true way was to use American power to insure "the slow and steady improvement of mankind through the spread of a reformed and socially responsible democratic capitalism."[34] These precepts would certainly affect Wilson's foreign policy towards Central America.

Upon his entry in office, Wilson sought to assuage the fears and suspicions of Latin Americans who had seen the effects of Roosevelt's and Taft's dollar diplomacy. He presented his policy in a speech in Mobile, Alabama on October 27, 1913:

> Interest sometimes separates nations, but sympathy unites them. Therefore one should not build foreign policy in terms of material interests. I want to take this occasion to say that the United States will never again seek one additional foot of territory by conquest ...We dare not turn from the principle that morality and not expediency is the thing that guides us, and that we will never condone iniquity because it is most convenient to do so.[35]

Wilson began by denouncing imperialism and the dollar diplomacy and intervention of his predecessors. But as Dr. Arthur S. Link commented:

> The years from 1913 to 1921 witnessed intervention by the State Department and U.S Navy on a scale that had never before been contemplated, even by such alleged imperialists as Theodore Roosevelt and William Howard Taft.[36]

Wilson's interventions into Central America would also contribute to the increased protection of the North American investors. His Secretary of State William Jennings

Bryan would be proud to be associated with a president who had "opened the doors of all the weaker countries to an invasion of American capital and American enterprise."[37] When Germany demonstrated its desire to extend investments in Haiti, Wilson warned the Kaiser:

> Certain sorts of concessions granted b. governments in America to European financiers and contractors...might lead to measures which would imperil the political independence, or at least the complete political autonomy of the American states involved.[38]

Thus one of the Wilson administrations contributions to the increased protection of North American investors was the extension of the Monroe Doctrine to European financial as well as political and military intervention.[39] Calvin Coolidge's remark in April 1925 to the United Press further resounded the theme for the 1920's. He said that North Americans and their property "are a part of the general domain of the nation, even when abroad...There is a distinct and binding obligation on the part of self-respecting governments to afford protection to the persons and property of their citizens, wherever they be."[40] Since the time of Theodore Roosevelt it was abundantly clear to the economic and political elites of Latin America that the U.S was quite willing to enforce the Latin American's economic dependence with direct political and military intervention. One Latin American leader who recognized this reality and accepted it was Guatemalan leader Jorge Ubico.

By the 1930's, the period of Jorge Ubico's dictatorship, the largest share of foreign investment in Guatemala came from the United States. The North American prefered direct investment as opposed to extending loans. Hence, most of the United States involvement in Guatemala was conducted through large multinational corporations or through direct ownership of domestically incorporated firms. In this manner, the North American presence was much more visible that that of German and British capital. In their preference for certain sectors of the economy, North American capital would invest in key areas where it was crucial, but it also resulted in North American domination of pivotal portions of the economy: transportation, communications and public utilities.[41]

The United Fruit Company constituted the largest foreign or domestic enterprise in Guatemala, and relations with this huge firm, called "El Pulpo" (the Octupus) were of critical importance to the economy especially during the Ubico period.[42] Previously with Guatemala solely dependent on coffee exports Ubico had ruled the country for the coffee oligarchs between 1931 and 1944.[43] For reasons mentioned earlier, Ubico and other Guatemalans looked favorably on the German influence concentrated in agriculture. Yet in this major economic sector, United States coffee purchases slowly overtook Germany's between

1934 and 1936, and by 1939 outranked Germany's share 60 percent to 15 percent.[44] And with World War II Guatemala, under American pressure, expropriated the lands of German coffee barons and the economy was dominated by United Fruit as banana prices recovered faster than coffee prices from the Great Depression as the U.S market and the UFCO became more important to the Guatemalan treasury.[45]

UFCO was the exclusive marketer and virtually the sole producer of Guatemala's banana crop which greatly expanded. Though still second to coffee, the ratio of banana to coffee income changed from 1 to 9 in 1930, to 1 to 3.5 in 1932. Guatemalans viewed this change with favor since it seemed to be an opportunity to break the nation's complete dependence on coffee exports. At least dependence on two crops was better than total dependence on one. In addition, the two crops grew in different climates and were cultivated in different parts of the republic. Bananas opened up previously unproductive jungle lands.[46] Through the Farquhar Contract that Minor Keith had obtained, UFCO controlled the wharfs in the principal ports and owned considerable railroad track on its lands as well as through IRCA now its subsidiary.[47] In the mid 1930's UFCO had gained control of IRCA. At this time they had considered building a port on the Pacific Coast of Guatemala in order to ship its west coast bananas. A new west coast port would compete with IRCA who at this time had some financial problems. UFCO decided not to build the port and aid the railroad. In return for their assistance they received 44 percent of the rairoad's stock.[48] In this manner UFCO controlled virtually all the track in the republic and the transport of bananas to market could come before any other cargo. As author Kenneth Grieb points out, while the corporation only constructed extractive railroads and port facilities where they served its own plantations and enterprises, they were the only entity willing to invest capital in railroads and ports in Central America. At least they provided some sort of rudimentary transportation.[49] Since UFCO through its "Great White Fleet" also provided the principal service to the nation's Gulf ports, they thus controlled much of Guatemala's access to other nations.

From 1936 to 1937 Ubico consolidated UFCO's concessions. After expropriating Guatemala's electric enterprise from its German owners, he turned it over to UFCO. In 1906 the Company had been granted 170,000 acres of the most productive land, Ubico extended their holdings until they controlled 42 percent of Guatemala's lands. In addition, UFCO was exempt form all taxes and import duties.[50] A UFCO subsidiary Tropical Radio and Telegraph dominated the communications field. [51] Ubico attracted other North American firms to the Republic. He felt that establishing ties with the hemishperes greatest power and world financial center would benefit Guatemala as its proximity to the U.S offered trade advantages that could serve to stimulate the country's export sector.[52] Other

North American firms would control other aspects of international transportation: W.R. Grace and Company, the Panama Mail Steamship Company, and Pan American Airways. The only other communications firm providing international service was All American Cables. The First National City Bank of New York operated a branch in Guatemala City that was one of the largest banks in the nation. The largest department store in the capital, Rosenthal e Hijos and virtually all the principal firms in the field of public utilities were in North American hands. North American capital was also present in finance, retailing, and mineral extraction.[33]

Yet since UFCO was by far the largest foreign enterprise in the country and indeed in Central America and the Caribbean, their influence was most keenly felt. As their financial and technical resources vastly exceeded any of the area's governments they were virtually the only source of sizeable external investment and any threat to take its capital and resources of a country with a more pliant government, was most serious.[34] It is this arguement that Kenneth Grieb uses to explain why Ubico allowed the growing foreign control of Guatemala's economy. According to him, foreign governments, corporations and financiers were Ubico's only potential source of external capital for his development objectives - and they were essential given the inadequate internal capital and technical resources. Ubico and his advisers welcomed North American firms and "placed a higher value on securing investment with its long range impact on the domestic economy, rather than upon the technicalities of the transactions; they were determined to attract investment through liberal terms, rigid adherence to contractual stipulations, [illegible] and honest administration, and through a reputation [illegible] stable government under which companies could function effectively. Given the Depression and the paucity of firms willing to invest capital in Central America, this policy was entirely understandable." [illegible] Other Guatemalans were not quite so understanding and in 1944 Ubico was overthrown by a coalition of independent businessmen, intellectuals and military careerists.[illegible] The reality of the new government in Guatemala and the emergence of the United States from World War II as an undisputed world power would determine the political and economic climate for investment after 1954.

Chapter 2. THE AMERICAN CENTURY

America is the dynamic center of ever-widening spheres of enterprise, America as the training center of the skillful servants of mankind, America as the Good Samaritan, really believing again that it is more blessed to give than to receive, and America as the powerhouse of the ideals of Freedom and Justice - out of these elements surely can be fashioned a vision of the 20th Century to which we can and will devote ourselves in joy and gladness and vigor and enthusiasm. It is in this spirit that all of us are called, each to his own measure of capacity, and each in the widest horizon of his vision, to create the first great American Century.

Henry R. Luce. (1941)

Sing a song of quetzals, pockets
full of peace!
The junta's in the Palace, they've taken
out a lease.
The commies are in hiding, just across the
street;
To the embassy of Mexico they beat a quick
retreat.
And pistol packing Peurifoy looks mighty
optimistic
For the land of Guatemala is no longer
Communistic!

Betty Jane Peurifoy.

In the 1940's the United States emerged from World War II wrapped the glory of the "American Century" committed to exercise its new found world status. They had recovered from the depression and carefully nurtured an incredible economy in a boom of wartime production, monopolized the atomic bomb and with its clear supremacy in the air and on the seas they stood unchallenged as the most powerful nation in history.[1]

Guatemala emerged from the 1940's further locked into a two crop economy. In 1949 coffee accounted for about 72 percent of the total value of exports while bananas represented about 14 percent of all exports on the basis of customs receipts.[2] In addition, the bulk of these exports were destined for the United States. While in 1938 the value of Guatemalam exports to the U.S had amounted to 69.5 percent of the total, in 1948 this figure would reach 92 percent. A further reinforcement of these ties to the United States, was that in 1949 73 percent of Guatemalan imports came from the U.S.[3]

During the early postwar years officials in Washington preoccupied themselves with the now dependent nations in Europe and Asia and much to the dismay of the Latin Americans, Central and South America ranked far down on the list of priorities.[4] For Latin Americans, this concentration on European reconstruction signified the emergence of an East-West Cold War that they were increasingly forced to participate in a [illegible] price for any aid at all.[5] This would bring an end to the "Good Neighbor Policy" of the Roosevelt years. Later, as demonstrated in the Truman administration, interest was focused on what was seen as the growth of communism and nationalism in Latin America. By the mid 1950's, earlier orientation toward Europe had shifted and United States aid programs would concentrate on U.S security objectives and on assisting the well being of U.S private enterprise by fostering private U.S direct investment in less-developed countries.[6] From 1950 to 1960 over half of the total long term investment was in this form and the value of U.S direct investment rose by over 80 percent from U.S$4,400 million to US$8,400 million.[7] The new world economic policy that developed during this time would be challenged by Guatemala's new rulers after 1944 and the policy's ultimate success in 1954 would shape the political and economic climate for investment in that country.

THE GOOD NEIGHBOR

No nations in the world were more dependent on the United States than the five countries in Central America.[8] But it was with great optimism that the "coffee and banana republics" viewed the first few years after 1945, for they felt that this status might change.

At the start of the war in 1939, officials in Washington worked out some agreements in order to insure access to Central American foods and raw materials. Once they had opposed anything of the sort, but now they even accepted purchasing quotas on coffee (although they were suspended as soon as the war ended). Hence coffee growers and others enjoyed a semblance of assured markets and stable and low prices, and watched the dollars pour into Latin America. Although partly out of patriotism and partly out of intense U.S pressure, these producers of raw materials accepted prices below those of the market, the balance of trade turned favorable.[9] But Latin Americans accepted this relationship hoping that after the war Washington would show its appreciation with a stream of goods and investment. The Central Americans suffered especially when the Roosevelt administration crushed these ideas by moving to develop a postwar policy that was global not regional. Political stability was expected whether it was enforced by a dictator or a more "democratic" government. As available resources went to other nations considered to be most important for U.S security and trade, little or no economic aid went to Latin America after the war.[10] So by 1949 the US$3.4 billion Latin America had accumulated by selling raw materials to the United States had dwindled away. And the Latin Americans had little or no development to show for it. They had cooperated during the war in the faith that later they would receive their "fair share of capital and goods".[11]

The idea of foreign aid had come through Roosevelt's New Deal. When they realized that trade expansion was not possible unless foreign nations possessed or could acquire funds to buy American goods Congress created the Export-Import Bank to loan dollars for purchases of American goods abroad.[12] Soon the Roosevelt administration decided that perhaps a multilateral approach would be more economically efficient and neutralize anti-American sentiment. Their first efforts at this were the proposal for the Inter-American Bank and the Inter-American Development Commission (IADC) that was established with Nelson Rockefeller as chairman.[13] This approach to multilateralism meant that Latin Americans would need supervision in the disposal of U.S funds but also in the disposal of their own funds. For under U.S guidance, economic development would be channelled into areas complementary (not competitive with) with existing U.S industries. Under these terms Latin Americans would be given a share.[14] For as Roosevelt said in 1940: "Give them a share. They think they are just as good as we are, and many of them are."[15] In this spirit, development loans became part of U.S economic foreign policy.[16]

THE ESCALATING COLD WAR

From the United States' preoccupation with European reconstruction emerged an escalating East-West Cold War.[17] The feeling at the time was that the feared link up of Latin America with communism could be prevented by a more direct and cheaper program of military aid. At the end of 1948 dictatorships in Peru and Venezuela became early recipients of large-scale U.S military aid. But after 1948 the reformist-nationalist government of Juan Jose Arevalo in Guatemala received no aid at all.[18] The Truman administration continued in this vein by sponsoring the Mutual Security Act of 1951 which resulted in a buildup of military assistance to Latin America from $200,000 in fiscal 1952 to several millions in fiscal 1953. The economic dimension of this military aid was demonstrated by a provision whereby the Latins agreed to limit trade with Soviet bloc countries.[19] As far as the nature of the U.S governments aid shift towards protecting and encouraging private investment, Truman proposed his Point Four Program which projected a benevolent exportation of American technological know-how. He offered to include an investment guaranty clause in this.[20] The Eisenhower administration would take proposals such as this and buildup the American position of vanguard against communist encroachment of the free enterprise system. The event that singularly would manifest this policy was the administration's backing of the Guatemalan coup in 1954 that toppled the democratically elected government of Jacobo Arbenz. Before discussing the particular climate established in Guatemala after 1954, one must understand the events in this country that led the Eisenhower administration to take such steps.

THE "REVOLUTIONARY" GOVERNMENT OF ARBENZ

I have discussed the tendency of each administration since the beginning of the twentieth century to view

Central America as a region to be kept "safe" for American corporations. Obviously not all Central Americans shared this view. Their feelings of bitterness towards one company, the United Fruit Company (UFCO) are expressed by Alfonso Bauer Paiz, Minister of Labor and Economy under Arbenz.

> All the achievements of the Company were made at the expense of the impoverishment of the country and by acquisitive practices. To protect its authority it had to recourse to every method: political intervention, economic compulsion, contractual imposition, bribery and tenditious propaganda as suited its purposes of domination. The United Fruit Company is the principal enemy of the progress of Guatemala, of its democracy and of every effort directed at its economic liberation.[31]

The United Fruit Company had indeed prospered in Guatemala. Between 1942 and 1952 the company increased its assets by 133.8 percent and paid stockholders nearly 62 cents for every dollar invested. The company's public relations consultant, Edward Bernays recalled that it was a highly profitable venture largely because "the company was conducted like a private government".[32] Thomas McCann, who worked for United Fruit for many years and then wrote a book about it, observed: "Guatemala was chosen as the site for the Company's earliest development activities at the turn of the century because a good portion of the country contained prime banana land and also because at the time we entered Central America. Guatemala's government was the region's weakest, most corrupt and most pliable. In short, the country offered an 'ideal investment climate', and United Fruit's profits there flourished for fifty years. Then something went wrong: a man named Jacob Arbenz became president."[23]

Since the overthrow of Ubico in 1944, the tone of the Guatemalan government had changed. With the election of Arbenz UFCO foresaw that idealistic generalities could give way to action.[24] Arbenz outlined his goals in his inaugural address:

> Our government proposes to begin the march toward the economic development of Guatemala, and proposes three fundamental objectives: to convert our country from a dependent nation with a semi-colonial society to an economically independent country; to convert Guatemala from a backward country with a predominantly feudal economy into a modern capitalist state and to make this transformation in a way that will raise the standard of living of the great mass of our people to the highest level...Our economic policy must necessarily be based on strengthening private initiative and developing Guatemalan capital, in whose hands rest the fundamental economic activity of the country...Foreign capital will always be welcome as long as it adjusts to local conditions, remains always subordinate to Guatemalan laws, cooperates with the economic development of the

country, and strictly abstains from intervening in the nation's social and political life...Agarian reform is a vital part of our program so that we can rid ourselves of the latifundios...and introduce fundamental changes in our primitive work methods, that is, to cultivate uncultivated lands and those lands where feudal customs are maintained incorporating science and agricultural technology.[25]

Several of Arbenz's goals would conflict directly with the interests of UFCO. He announced a priority of building a highway to the Atlantic in order to end IRCA/UFCO's grip on the nation's foreign trade; he unveiled plans to build an electric power plant which would free Guatemala from reliance on the American-owned facility which at the time was the only major generating outlet in the country.[26] Having received many privileges form the Guatemalan government since the early 1900's, UFCO's officials were shocked in October of 1951 by Arbenz's refusal to extend UFCO's labor contract until the company pledged to respect the laws and constitution of Guatemala and accept the government as the final arbiter in any disputes between labor and management. In addition he proposed that the docks at Puerto Barrios be improved, that rail freight rates be reduced, that UFCO begin paying export duties and that the company consider paying compensation for the "exhaustion" of Guatemalan land.[27] These demands were not fomented by communist infiltrators, in fact, many of them such as - government regulation of energy companies and establishment of an autonomous National Power Authority; wages that took into account the general price 'level'; regulation of foreign businesses; industrialization to lessen reliance on foreign trade; a capital gains tax; and public spending projects in transportation, communications, warehousing, education and health care - were recommended in a report on the economic development of Guatemala by the International Bank for Reconstruction and Development (World Bank) issued in 1951.[28]

As Arbenz assumed office, the IBRD in their report made observations and conclusions in response to the way UFCO had done business in Guatemala They remarked that recently "the activities of the Government in fostering more progressive social and economic conditions have sometimes created and impression that legitimate profit-seeking enterprise is not looked upon with favor. The impression is very largely psychological.'[29] In fact, the authors of this "Mission to Guatemala" suggested a review of the status of UFCO's relationship with Guatemala, much as Arbenz had.

> It is the view of the Mission that if a few obvious adjustments can be made, both in the general attitude toward foreign investment and in some of the positive aspects governing it, the way might be paved for a successful revision of the legal status governing activities of the United Fruit Company and the International Railways of Central America in Guatemala. The

basic philosophy of the present contract with the International Railways of Central America, concluded in 1923 and running until the year 2009, does not appear fundamentally different from that of the first concession granted by the administration of General Barrios as early as 1877. The original contract with the United Fruit Company was concluded in 1901. These dates by themselves illustrate the outmoded character of these agreements.[30]

The report also observed that

...foreign companies should refrain from any direct or indirect political activity against the Government; and they should accept, perhaps less reservedly than they have thus far done, the need to adapt their legal status and their operations to changed conditions. Such a change in attitude would appear to be a prerequisite to more positive measures towards constructive cooperation."[31]

To be sure, the proposals of Arbenz and the IBRD would upset UFCO's traditional business practices. But none would be quite so threatening as the Decree 900, the agrarian reform act of June 27, 1952. According to Walter LaFeber the U.S State Department realized as early as 1950 that U.S economic power, was being challenged by Guatemalans who defined the confrontation as being over who was to determine the future use of their own property.[32]

THE DECREE 900

President of a country where some 90 percent of the workers were rural[33], Arbenz considered the passage of an agrarian reform law to be a priority. The provisions of the bill, Decree 900, enacted on June 27, 1952 empowered the government to:

> ...expropriate only uncultivated portions of large plantations. Farms smaller than 223 acres were not subject to the law under any circumstances, nor were farms of 223 to 670 acres which were at least two thirds cultivated. Farms of any size that were fully worked were likewise protected against seizure. All lands taken were to be paid for in 25 year bonds issued by the government bearing a 3% interest rate. The valuation of the land was to be determined from its declared taxable worth as of May 1952 a provision that deeply disturbed some targets of the law, especially United Fruit, which had undervalued its land for years in order to reduce its tax liability The complicated lands and the vast "national farms" already in public hands as a result of the nationali- zation of German property in the previous decade would be distributed to landless peasants in plots not to exceed 42.5 acres each. Most of those receiving the land would hold it for their lives only, and would not be given legal title to it as a way of preventing speculation and resale of the land. They would pay a rental fee

equivalent to 5 percent of the value of the food produced in the case of expropriated private land and 3 percent in the case of "national farms" taken earlier from the Germans.[34]

Over a period of 18 months that the land reform program was in operation, about 100,000 families received a total of $8,345,545 in bonds. In all, 107 "national farms" and 10 percent of the nation's fallow land were distributed and 46 farms given to peasants organized in cooperatives.[35] Thomas McCann, a former executive of UFCO commented later that in 1953 only 139,000 acres of the company's 3 million acres were actually planted in bananas. The rest was held by the company to assure in part that the competition would not be able to utilize the land.[36] The implementation of the agrarian reform law did not go smoothly in all aspects. Peasants either anxious for more land, or those waiting for farms for which they had applied, or even some of hostile toward arrogant or frightened landowners began to seize farms which they were not legally entitled. Leftists and radicals determined to increase the revolutionary pace encouraged these takeovers and Arbenz did not respond to these actions with the severity that the situation demanded.[37]

How did United Fruit Company fare under Decree 900? In March 1953 two separate decrees expropriated 209,842 acres of uncultivated land on the Tisquisate plantation in the lush Escuintla area near the Pacific.[38] The government offered $627,572 in bonds ($2.99 per acre for land that 20 years earlier had been purchased for $1.48 per acre) based on UFCO's declared tax value of the land. In October 1953 and February 1954 the government ordered 2 more expropriations of uncultivated UFCO lands on the Atlantic coast. For these new takeovers Guatemala offered to pay $500,000. On April 20, 1954, the U.S State Department, not UFCO, delivered a formal complaint demanding $15,854,849 in compensation (over $75 per acre).[39] At this time a series of crucial meetings in Washington called at the urging of UFCO and its supporters in the government considered how to end the process which had led Guatemala to take these actions.[40] Indeed, within weeks after the expropriations appeared to be inevitable, Eisenhower ordered the CIA to plan a counterrevolution.[41]

Although the reason given for the U.S supported counterrevolution that came in 1954 was Guatemala's importation of Soviet bloc weapons, this would seem to disregard the previous seven years of increasing confrontation between the Guatemalan government and the U.S government over such issues as private property. Yet another simplification would be asserting that the United States designed the military intervention to merely save the property of United Fruit. The U.S government saw the UFCO vs. Guatemala problem to be a crucial bit of evidence that proved that Arbenz was coming under communist influence. Even as late as April 1954, that evidence could not rest on Guatemala's support of international communism - there was no proof of that - rather on its treatment of private property in the country.[42]

Many studies have been made of the 1954 counterrevolution in Guatemala, and so the objective of this paper is not to attempt to shed new light on the matter. Rather the events in the late fourties and early fifties in Guatemala are of interest because they made Guatemala a "good place to do business".

The 1950's ushered in a "new world economic policy" for the Uniteo States. Prior to 1954, the dispute between Guatemala and the U.S had centered around Guatemala's inclination to establish some kind of control over private property, especially that owned by foreigners. Perhaps the events of 1954 encouraged eight Latin American nations in 1955 to sign treaties permitting the U.S government to take over private claims in the event of dispute.[43] During the Eisenhower administration popular governments were overthrown on three continents. He pursued means by which to ensure America's dominance in the race against the Soviet Union and in the race to secure access to the world's resources and markets. To Eisenhower and his associates that was a committment to a free market economy and they spoke of new worlds to liberate not of maximizing profit. Others called it empire.[44] Others such as author Blanche Wiesen Cook in her book <u>The Declassified Eisenhower</u>, were sharply critical.

A GLOBAL DEVELOPMENT PROJECT

The initial focus of Eisenhower's program was international trade for security and private profit. Joint-business-government that in the past had been just spoken of, was realized in an ambiticus series of trade missions to sell American goods and values abroad.[48] Certain comments made in addresses during his term bespeak of this focus.

On March 30, 1954 Eisenhower addressed Congress to introduce the new foreign economic program and spoke of specific measures to further the government-private enterprise partnership.

> The national interest in the field of foreign economic policy is clear. It is to obtain...the highest possible level of trade and the most efficient use of capital resources." He then detailed America's new tax supports to encourage the "flow of private investment abroad": "Taxation of business income from foreign subsidiaries at a rate of 14 percentage points lower than the regular corporate rate";"broadening the definition of foreign taxes which may be credited against the U.S income tax" ...removal of "the overall limitations on foreign tax credits..." There would, of course, be "full diplomatic support to promote the acceptance and understanding of by other nations of the prerequisites for the attraction of private foreign investment.[49]

Probably after the counterrevolution in Cuatemala in

1954, other nations could infer how crucial their treatment of private investment was to their relationship with the U.S government. Blanche Wiesen Cook in her book _The Declassified Eisenhower_ delivers scathing criticism of this new world economic policy. In her opinion, "Eisenhower helped to begin the process of undermining America's economic integrity and transforming the world economic system. To preserve free enterprise gunboat diplomacy has been globalized."[47] In reference to the coup of 1954 in Guatemala she states that counterinsurgency "was to be an interim policy that would continue to ensure and acceptable political climate for private investment expansion overseas. It was not meant to be an end in itself. The goal of the American Century was not, after all, to establish tyrannical and repressive regimes abroad while destroying the domestic economy of the United States. It was to promote the American way of life throughout the world. The American Century would end peonage and suffering. It would thereby eliminate interest in communism and insure a global marketplace for American goods and services."[48]

To be sure Washington continued to support the U.S private stakes abroad, but in the late 1950's and 1960's U.S policies sought to foster private U.S direct investment in less developed and not developed nations.[49] Emphasis on European reconstruction had shifted. In 1960 Eisenhower spoke of this new government policy:

> If private U.S firms go to the developed countries, it is because they see a profitable market there which can only be reached by going there...In the case of the lesser developed countries there is and urgent need, not to retard the input of new private capital from the U.S. but vastly to expand it. This is the best way to counter the communist economic offensive, to guard against expropriations and state ownership and to provide private jobs for the growing populations of those regions...[80]

The views of the United States International Chamber of Commerce (U.S-ICC) and businessmen such as Nelson Rockefellor also spoke of a global development through the free market economy. Free trade was the link between free enterprise and the free world. Free trade required an appropriate investment climate: stable international relations, agreeable allies, respectful clients. In this manner the government could be of service to the organized business community.[81]

According to the U.S-ICC, private capital should not be asked to risk its profits in the dangers of statism and upheaval. Inducements would include tax incentives, dramatic changes in U.S antitrust laws, "guarantees" against "the risk of loss as a result of civil strife, or confiscation." "The United States government might allow, for tax purposes, a very rapid depreciation of foreign plants owned by U.S nationals. The United States government might extend loans for private foreign investments, repayments to be dependent upon profits."[82]

Nelson Rockefeller spoke of a new partnership between business and capital. "The United States government can make international agreements, loan funds and cooperate in innumerable ways." But the government "cannot go abroad and develop the production of goods and services." It seemed to him "almost preposterous for a private group to enter this field" unprotected. His "ultimate hope" was that "our government" would "recognize the importance" of international economic development.[83] Here again Cook is sharply critical. "The creation of a system whereby the state would expend billions of dollars each year to protect, ensure, coddle and promote private interest for strictly private profit organized into vast merger monopolies and international cartels which were boldly expanded in the postwar world. Nobody named it imperialism. Nobody named it at all. For years it was shrouded in cliche, drapped modestly in the mystique of free enterprise."[84]

THE EMPIRE

The establishment of the U.S as the dominant world power after World War II and the new world economic policy would lead others to speak of an empire.

In March 1958 Adlai Stevenson extolled the virtues of the new policy at the National Conference of Organizations on International Trade Policy:

> We are the world's greatest traders...The sun never sets on the American business empire. An empire without a capital, colony, or ruler, it flourishes everywhere because it renders its customers greater satisfactions at lower cost than they can receive elsewhere...Our foreign trade looms over the world. Last year the combined value of exports, imports and overseas manufacturing reached the staggering total of $67 billion...[88]

Others like Cook would lament this "rising" of the transnational American business empire - one without a flag or loyalty. Clarence Randall, Eisenhower's special consultant on foreign economy policy presented a less dramatic assessment before the 59th Annual Congress of American Industry sponsored by the National Association of Manufacturers.

> The entire world must buy American products but the others have nothing with which to balance their trade budget. Trade must be two way...outward flow of American private investment into the underdeveloped parts of the world would result in gain under the incentive system. Private American capital must do it because we will make more money than by investment in the United States.[84]

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The problem was how to bring about an increase in world trade and offer hope of a steadily rising volume of production in the world. Randall urged his audience to support Eisenhower's program not for political reasons only, but for personal gain also.

Each of the preceding views expressed at least agreed on the point that United States business expansion would alter the nature of government and business relations. The coup of 1954 had certain ramifications for foreign investment. First it seems to have assured both private investors and Guatemalans that the U.S would support investments and investors outside of the U.S. As seen above, specific programs were undertaken to encourage further U.S business expansion and promotion of the American way. In Guatemala, these aims of the new world economic policy appeared to encourage the marked increase in foreign investment in Guatemala after 1954.

Chapter 3. IN SEARCH OF MUTUAL PROSPERITY

What we are proposing will not adversely affect the United States. It will benefit future generations, since with a developed Latin America the United States will have more commerce ... if we solve the economic problems now, we will lay the base for a humanist democracy in the future.

Fidel Castro. (1959)

The U.S-backed coup of 1954 in Guatemala abruptly changed the direction that that country had taken in 1944 when Jorge Ubico, the dictator closely identified with the three most powerful American companies, was overthrown. The new Guatemalan president, Colonel Carlos Castillo Armas would set a new course "more compatible" with the interests of the United States, that each succeeding Guatemalan government has maintained to this day. Beginning at this time in the 1950's and through the end of the 1960's, was a period of expanded North American presance - both in the public and private sector. The "changed face" of U.S foreign aid could be seen in their support of multilateral regional institutions, and in their funding of the Central American Common Market and the Alliance for Progress. These two approaches towards encouraging economic development in Central America will be discussed because the growth of foreign investment depended upon the proper conditions (i.e. infrastructure) that these two U.S government undertakings created. U.S private direct investment in Guatemala appears to have grown and prospered in this good investment climate that the CACM and the Alliance for Progress helped create.

INVESTMENT AFTER 1954

Past history has demonstrated that because of the strategic considerations Central America has always been an area of North American interest. However, the countries in this region never received a considerable amount of development assistance from the U.S government until 1954 when fears of a left wing government in Central America heightened by the Cold War led to the toppling of the Arbenz regime in Guatemala.[1] Although Arbenz advocated reforms that would be endorsed later by the Alliance for Progress, his programs received neither ideological nor economic support from the United States. Due to the pressure exerted by the United States any aid received from the rest of the world was too small to be significant. That the levels of U.S aid, and consequently foreign investment, increased after the coup in 1954 that secured a less threatening atmosphere for the U.S, is well documented by figures of the level of U.S aid and the observations of government publications immediately following the incident in 1954. However, as shown in Table 1, the international support that had been denied to Arbenz was given generously to his predecessor, Colonel Carlos Castillo Armas, as the United States Congress gave the bilateral assistance program a blank check with the mandate to make Guatemala a "showplace for democracy".[2]

The figures demonstrating the level of U.S aid to Guatemala impulsed by this Congressional mandate, lead one to understand how foreign investment prospered after 1954. Table 1 demonstrates the sharp increase in development assistance from the United States. The amount of medium and low interest loans and grants received by Guatemala between 1955 and 1958 is about 42 percent of the total received for the 15 years from 1951 to 1966, and it is almost double the amount received during the Alliance for Progress years (1963-1966).[3] During these years 57 percent of the tot l assistance was given in the form of loans. However, from 1955 to 1958, $81.8 million, or 81 percent of the total assistance, was given in grants and thus did not require Guatemala to make substantial contributions or demonstrate "self-help" (as will be discussed later, these were requirements for the Alliance for Progress programs). Despite this "support" President Castillo Armas was never securely in power, and he was assasinated in 1957. In a discussion of this bilateral assistance program to Guatemala, John McCamant, in his book, Development Assistance in Central America, makes the observation that, " Since 1955 the United States has been giving support to governments in Guatemala which had no organizational base in the population. Three groups have come and gone without developing a political power to carry out reforms."[4] Apparently, simply making these vast sums of money available to the Guatemalan governments was not sufficient for the establishment of a democracy. Yet what this increased aid signified was the support of the U.S government for the establishment of the proper foreign investment climate.

Table 3.1

Guatemala: Development Assistance Authorizations
(millions of U.S dollars)

Source of Assistance	1951-54	1955-58	1958-62	1963-66	1951-66
	U.S Fiscal Years				
Medium Interest Loans					
Ex-Im Bank	---	1.2	15.5	4.6	21.3
IBRD	---	18.2	.2	--	18.4
IDB	---	--	5.3	3.6	8.9
CABEI	--	--	--	5.8*	5.8
SUBTOTAL	0.0	19.4	21.0	14.0	54.4
Low Interest Loans					
AID	---	--	16.4	10.0	26.4
IDA	---	--	--	--	--
SPTF	--	--	3.5	10.8	14.3
SUBTOTAL	0.0	0.0	19.9	20.8	40.7
Grants					
AID	.6	54.7	23.5	9.8	88.6
U.N	.3	1.0	1.8	3.6	6.7
Other U.S	1.6	26.1	6.9	12.8	47.4
SUBTOTAL	2.5	81.8	32.2	26.2	142.7
ALL ASSISTANCE	2.5	101.2	73.1	61.0	[illegible]38.8

[illegible]

[Source: From McCamant, John F. Development Assistance in Central America. p.33]

For a description of Guatemala's investment climate in the late 1950's, one may consult a 1956 Department of Commerce publication, <u>Investment in Central America: basic information for United States businessmen</u>. These authors' view of the "climate for foreign investment in Guatemala follows:

> A considerably greater increase in United States investments is expected in the future with the development in Guatemala since mid 1954 of a more friendly attitude toward private foreign investment, and the effort that is being made with the help of the U.S government and international agencies to plan key investments in basic facilities such as highways, power, and credit for industry, and to effect improvements in public administration... New ventures with mixed United States and Guatemalan capital in such fields as ready-mix concrete and lumber mills have recently been formed. Several foreign companies have begun petroleum exploration activities in view of the development of new petroleum legislation. United States contractors are involved in public-works programs and the American Embassy in Guatemala City reports a substantial number of visits since the latter part of 1954 by interests investigating investment opportunities."

Clearly, as shown above, after 1954 there was a dramatic shift in U.S foreign aid. Previously foreign aid did not involve the outlay of public funds as in Guatemala after 1954. Usually U.S foreign policy initiatives were carried out through military intervention and the use of American personnel to administer the internal resources of the occupied nation (as has been mentioned in the case of Nicaragua, Haiti and the Dominican Republic).[6] But in Guatemala from 1955 to 1958 foreign aid meant loans and grants totalling $101.2 million in funds from the U.S government and other international agencies. This aid would help private investors establish themselves in the area and pressure would be put on Latin American governments to legislate the "proper investment climate". To illustrate this first point one can examine some of the assistance authorizations made to Guatemala. The first Export-Import Bank loan to Guatemala was announced in April 1955, and consisted of a $500,000 line of credit to a Guatemalan mining company. In August of 1955, the Ex-Im Bank authorized a credit of $675,000 to a United States exporter to finance the sale of telecommunications equipment to the government of Guatemala. The Inter-American Development Bank made its first loan to Guatemala in 1955 for $18.2 million, for highway construction and maintenance.[7] These types of infrastructure developments are important for business climate, for investors are not likely to establish their operations in a country where it is impossible to efficiently and quickly get their goods to market. This same investor's guide refers to how a new type of investment, the joint venture is being accomodated and encouraged by a "growing tendency to enact general legislation that fixes uniform conditions for all investors."[9] Therefore, in making Guatemala a "showplace for democracy", the $101.2 million in assistance from 1955 to 1958 also made it a good place to do business.

The other Central American nations would see no increase in development assistance until the end of the decade after the rude shock of the Cuban revolution and expropriations. With a new found awareness of Latin American development aspirations aid programs revived with the United States' support of the Central American Common Market (CACM) and Kennedy's Alliance for Progress.

According to many authors this surge in the late 1950's and 1960's of development aid was actually tailored to United States national requirements, for U.S policies tended to seek to foster private U.S direct investment in the third world rather than in the more industrial countries. Mira Wilkins in her book on the growth of multinational corporations, commented on this transformation.

> To be sure, in the 1920's...the U.S government might have sent Marines to protect endangered U.S properties; government loans had aided U.S business abroad before World War II; over the years the U.S government had participated in diplomatic discussions on behalf of of

U.S business and acted on claims commissions to try to recoup losses; the Department of Commerce had surveyed foreign investment opportunities. Yet the specific measures taken in the late 1950's and 1960's to promote private direct investment in less developed countries and to cope in advance with the uncertainties were unquestionably new..."

So, the character of foreign aid evolved from the days when military interventions implemented U.S policy in Central America. However, the new foreign aid dispersed public funds in countries like Guatemala, not solely so that these governments would spend them as they saw fit but also so as to "pave" the way for private foreign direct investment.

INTEGRATION EXPERIENCE

During this same period of time in the 1950's, leaders of Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica began to take steps to realize their objectives of economic integration. The outcome of these discussions would affect foreign investment. In this endeavor the leaders were aided by the United Nations Commission for Latin America (ECLA, or in spanish, CEPAL), while the United States maintained an attitude of "cold indifference" until 1958. The significance of the analysis of the Central American intergration efforts in this paper results from the fact that this integration greatly spurred foreign investment in Guatemala. Before briefly discussing the development of this integration scheme and the involvement of the United States private investment, it would be useful to understand why these Central American countries wished to form a common market, the first of its kind among third world countries.

Enrique Delgado in his article on Central American Economic Integration, discussed the economic framework of the Central American Integration Program. These underdeveloped countries were convinced that the size of their domestic markets was a significant limitation to economic growth, and they sought to establish an internal market that allowed them to 1)diversify production and reduce their extreme dependence on the exportation of a few primary commodities; 2)accelerate their rates of economic growth in order to raise living standards and curtail chronic unemployment; and 3)modify or modernize their productive sector and exploit natural resources to greater advantage.[16] In each of these countries the distortions caused by the cyclical behavior of export prices had sharply affected their production patterns and social structures. Sudden price rises for major export products like coffee, bananas and sugar were not fully taken advantage of as these price rises are unforseen and the domestic producers are slow to respond. Hence, the major part of the price increase obtained created an increase in price for factors of production like land, an increase in the income of the wealthy minority of landowners and increases in the imports of luxury items. Only a very small part of the higher price for exports is exploited through increased fiscal revenue and through spillover into other sectors of the population, and private investment is repeatedly channeled into traditional activities like export-oriented agriculture.[11] Hence, for Delgado and other early supporters of Central American integration, "if economic integration contributes to diversification of production and to making the growth of the economy less dependent on price fluctuations of a few export products, then benefits will have been achieved in terms of the fundamental objectives of the integration program."[12] In the next chapter a discussion of the record of the Central American Common Market until 1969 will examine whether it was a success according to this standard of Delgado.

Although there is a vast amount of literature on the Central American Integration Program, for the purposes of this paper we will chiefly be concerned with the degree of direct foreign investment participation in this movement.

Basically the discussions on an integration program diverged into two distinct perceptions of how to achieve regional integration. One approach was that of ECLA and the other that of proponents of free trade. The conflict that arose between these two groups would stall the Integration Program in 1959. ECLA proposed as a major goal of the program, the establishment of the Regime of Integrated Industries (RII). The RII program had three basic objectives: 1) to encourage the establishment of industries of optimal size with exclusive access to the expanded market 2) to avoid duplication of investment and 3) to make industrialization reciprocally beneficial to all participants.[13] Countries like Honduras and Nicaragua with lesser economic potential supported this form of programmed and protected industrialization. However, those countries (like Guatemala and El Salvador) with a broader industrial base preferred an unrestricted free trade zone where the allocation of industries would be conditioned by market forces.[14] No agreement could be reached on this matter of integration industries and the future of Central American integration did not seem too bright. The turning point came when the United States expressed support for a Central American Common Market in 1958.

Indeed, it has been mentioned before that 1958 is widely acknowledged as the year in which United States foreign policy towards Latin America in general was visibly transformed. At the meeting of the OAS Committee of 21 (OAS' Special Committee to Study the Formulation of New Measures for Economic Cooperation) the U.S representative declared that, "We have supported a free-trade area in Central America. We have also made it clear that we are prepared through the Export-Import Bank, to consider dollar financing required by regional industries in Latin America."[15] According to James D. Cochrane, the favorable attitude of the U.S government toward the principle of

Central American Integration was based on the belief that it would promote certain objectives of the United States such as: the improvement of social and economic conditions in the Central American nations; the unity of the Central American isthmus; and the liberalization and expansion of international trade and facilitation of the flow of international investment capital.[14] The more traditional aims of foreign aid were coupled with the desire to expand the markets for American goods and to encourage the growth of foreign investment. This reality leads one to some very important considerations. For example, the new infrastructure investments - did they improve the social and economic conditions in Central America or did they merely serve to prepare a system meeting the needs of foreign investors (energy, transportation etc.). The next year before the OAS Committee of 21, Undersecretary of State Douglas Dillon stated the following conditions under which the U.S would support regional integration in Latin America.

1) Regional market arrangements should aim at trade creation and increased productivity through broadening opportunities for competitive trade and should not simply be trade diverting. This means that arrangements should provide for trade liberalization in all commodities - not just those in which members are competitive with non members - and that duties and other restrictions applied by members of a regional

market to non members should not be higher or more restrictive after the formation of the market than before.

2) The arrangement should provide for a definitive schedule for the gradual elimination of virtually all barriers to intra-regional trade, and this process should be completed within a reasonable period of time. The United States does not favor an arrangement that provides simply for regional preferences with little more than a vague hope of eventually creating a free trade regime.

3) The arrangement should be in accordance with the principle of GATT (Article XXIV) for the creation of a free trade area or customs union and should be submitted to GATT approval...

4) Regional trade arrangements should aim at increasing the degree of competition within the area. This means not only that virtually all commodities should be freed from all restrictions on intraregional trade, but that exclusive monopolistic privileges should not be given to particular industries or that there should be control agreements preventing competition. Not only is it believed that intra- regional competition will increase productivity and invest- ment in the area, but

that these conditions will also help to induce private investment.

5) Regional arrangements should provide not only for free trade in commodities but also for free flow of labor and capital in response to economic forces...

6) Any regional arrangement should provide for the financing of trade in convertible currencies. Neither bilateral pay- ments nor a restrictive regional payments scheme which involves discrimination against non members is justified. [17] (from US Congress, Senate, <u>United States and Latin American Policies Affecting their Economic Relations.</u>)

Condition #4 expresses the US dislike for the concept of the Integrated Industries. Again Cochrane ponders the explanation for this attitude toward the RII. Possibly some opponents truly believed that such a scheme would actually retard industrial development. But for Cochrane it is more probable that the "position of the United States toward integrated industries may reflect the attitudes (or anticipated attitudes) of U.S investors."[18] Several features of the plan could be objectionable to U.S investors. Only a few industries would be granted integrated status and thus they would be extended privileges and protection not accorded to non members producing identical or similar products. Clearly in the conditions stated above the U.S is refering to exactly such a situation when it states objections to higher restrictions on non members. They were interested in having a full share of the benefits of the Common Market. Instead they advocated a complete opening up of the economies - "...virtually all commodities should be freed from restrictions on intraregional trade..." - and in such a manner they maintained that productivity and investment would follow. How then would they ensure that all investment would not concentrate in the more industrialized areas that had the adventages of experience and know-how? This regard for a balanced economic development had been a main concern of ECLA and of the integration discussions up until 1958; and as demonstrated above, U.S support would mean the restructuring of some of these earlier goals and the total abandonment of others. That the U.S government in their support of the Common Market might have been influenced by pressures of the U.S investors cannot come as a surprise in light of the previously mentioned "unique" direction that U.S foreign policy had taken in the late 1950's - that of seeking to promote and protect U.S direct foreign investment and more importantly, prepare in advance for any "uncertainties" like civil war or expropriations.

After this clarification of the U.S' position on integration, the visit of Salvadorean president Lemus to Washington in the spring of 1959 appears to have sped up the integration process, as is expressed in a communique issued on the outcome of the meeting.

> ...the establishment of an economically sound system for the economies of the Central American republics and for a common market comprising those nations would be beneficial and would receive the support of El Salvador and the United States... The subject will receive continued study by the two governments with a view to taking appropriate action to carry on those sound plans already contemplated." [19]

Issac Cohen Orantes comments that one should interpret a <u>sound</u> system to be one that fulfilled the previously mentioned requirements of the United States. The United States was in better condition than any of the Central American nations or United Nations committee to fund the Common Market and solve the deadlock with foreign aid. Observers with experience in Central American issues would argue that " a strong case can be made that U.S support was a vital condition for the important decisions that speeded up the integration program in 1960."[20]

CREATION OF THE CACM

Not much time was spent on studying the situation and toward the middle of 1959 Guatemala was included in discussions that El Salvador and Honduras had begun on matters pertaining to a revision of their old (1914) bilateral treaty on free trade. In January of 1960 the "Declaration of El Poy" emerged from the meeting of the three presidents of these countries in that border town. Neither Nicaragua nor Costa Rica were informed of the contents of these discussions nor of the motives of those involved. The integration scheme that had been discussed and planned throughout the 1950's was suddenly modified when Guatemala, El Salvador and Honduras signed a "Treaty of Economic Association" in February of 1960.[31] The signing of the treaty significantly changed the direction of the Economic Integration Program as it dashed the hopes of the proponents of the Regime of Integrated Industries by including in free trade all products from participating countries. In addition it virtually excluded Nicaragua and Costa Rica from the plan.[32] In December of 1960 the General Treaty on Economic Integration and the Constitutive Agreement on the Central American Bank for Economic Integration (CABEI) were signed. All the financial assistance for the economic integration was to be channeled through the CABEI.[33] This Central American fund for economic integration received its first contribution in the amount of $10 million from member countries and $35 million from the United States.[34] By April 1969 the Integrated Fund of the Central American bank contained resources amounting to $120 million, of which slightly more than 80 percent consisted of loans from the U.S Agency for International Development (AID) and the Inter-American Development Bank (IDB), and the rest came from the member countries.[25] The significance of this makeup of the funding was that the U.S influence could determine which integration projects would receive financial assistance. They might even have been able to favor foreign investor's projects over those of local capital.[26] Nicaragua was allowed to choose between accepting the structure approved by the three countries or remaining excluded from the Integration Program. Costa Rica had the same alternatives and it was incorporated into the program two years after the signing of the general treaty.[27] After the General Treaty for Economic Integration became effective, the CACM established free trade in the region and uniform tariff regulations for 94% of the customs categories. These measures were accompanied by a spectacular growth in interrregional trade that made many forget their objections to the modified scheme and silenced those voices of caution. The new institutional organization of the program was established - the Permanent Secretariat of the Treaty (SIECA). The attitude of the United States toward the creation of the CACM was one of enthusiastic approval and support as exemplified by the new democratic administration of John F. Kennedy who proposed the Alliance for Progress on March 13, 1961.[28]

THE ALLIANCE FOR PROGRESS YEARS

For many, the entry of John F. Kennedy's democratic administration signaled the real shift in foreign policy towards Latin America. Within sixty days after taking office, Kennedy announced the Alliance for Progress, a program that over the next ten years would pump $100 billion of U.S public and private funds into Latin American development.[29] Some have called it a "bold new departure" in foreign aid, but for others the Alliance should be viewed in terms of the Cold War objective of arresting the spread of Castroism, and in terms of the mutual prosperity theme found among the "Good Neighbor" years of the 1930's.[30] As observed in Table 2, the average annual assistance to Guatemala from 1959 to 1962 amounted to $18.4 million (the highest figure for Central America). Yet in terms of average annual assistance per capita, Guatemala ranked the lowest in the region (4.3 percent). In the later years of the Alliance (1963-1966) average annual assistance dropped to $15.2 million. This was the lowest figure for aid during this period, and again the average annual assistance per capita fell to 3.6 percent. An assessment of the Alliance for Progress period in Guatemala is especially significant for this study as Guatemala received a large share of U.S private and public dollars and experienced substantial growth in U.S private investment.

Table 3.2

Guatemala: Assistance Authorizations and the Economy

Average annual assistance (millions)	G	E.S	H	N	C.R
1959-1962	18.4	12.6	11.9	14.1	18.3
1963-1966	15.2	26.7	17.8	26.6	25.6
Per capita					
1959-1962[a]	4.90	5.06	6.10	9.55	15.20
1963-1966[b]	3.60	9.40	7.95	15.70	18.10
As % of GDP					
1959-1962[a]	1.8	2.2	3.1	4.1	4.0
1963-1966[b]	1.2	3.5	3.9	5.8	4.7
As % of gross investment					
1959-1962[a]	17.2	16.0	23.4	31.0	22.8
1963-1966[b]	8.6	23.7	26.4	33.8	28.0
As % of government tax revenue					
1959-1962[a]	18.5	19.3	32.3	33.2	26.2
1963-1966[b]	13.3	31.8	42.0	48.5	32.0
As % of import earnings					
1959-1962[a]	15.5	10.8	19.3	25.4	22.4
1963-1966[b]	9.6	15.0	18.8	21.2	22.6

[a] as % of 1960 figure
[b] as % of 1964 figure
G=Guatemala, E.S=El Salvador, H=Honduras, N=Nicaragua, C.R=Costa Rica.
[Source: From McCamant, John F. Development Assistance in Central America. p. 45]

Although Fidel Castro's victory in Cuba had dramatized the political crisis in Latin America, at this time an economic crisis of growing proportions seemed more critical.[31] The Alliance for Progress was Kennedy's solution to a problem that had already been perceived by the outgoing administration. The Latin American industrial promotion policies (import substitution industrialization) of the 1950's had a two-fold effect. First of all, it attracted large quantities of foreign capital as the book value of U.S direct private investment grew from $4.6 billion in 1950 to $8.3 billion in 1960. This figure amounted to 70 percent of the U.S direct private investment in developing areas. Although the import substitution movement in Guatemala was not as strong as in other countries, it also sought to substitute domestically produced industrial products for goods that had previously been imported. As they needed to import capital goods and raw materials for the new domestic manufacturing plants, large debts in short-term high interest loans and suppliers credits became a burden.[32] This rising debt was coupled with a severe crisis in the Latin American export sector. With the exception of petroleum, the average prices of all Latin American exports fell by 18 percent in the four years before the Alliance. In the case of Guatemala despite the fall in prices, the volume of exports greatly increased and hence growth in GDP could be attributed to this factor. In 1960 these three conditions, investment, debt and trade converged. Falling coffee prices seemed to threaten the political balance in Brazil, Colombia and Central America. Castro sympathizers began to mount guerrilla operations in depressed rural areas and so grew the fears of U.S investors who had seen the fate of their counterparts in Cuba. Recognizing the potential damage wrought on these economies who depended so on exports, Eisenhower in a departure from his adherance to the principles of free competition, signed the International Coffee Agreement to stop the sliding coffee prices.[33] When Kennedy entered office his response to this critical situation was the Alliance for Progress.

Kennedy's plan in March 1961, called for channeling $100 billion over the following 10 years into Latin American development. The U.S would invest $20 billion of which $1.3 billion would consist of new private funds. The Latin Americans themselves were to collect and invest the remaining $80 billion from their resources and aid would be conditional on the enactment of taxes, land and other socioeconomic reforms. Kennedy envisioned an annual growth rate of 5.5 percent - in Guatemala after taking into account the population increase, the GDP per capita from 1959 to 1969 was 2.2%.[34] Guatemala and the rest of the Central American nations would be areas of special interest as the CACM became a favored project of the Alliance.

Table 3 summarizes the forms and distribution of aid that went to all the Latin American nations that participated in the Alliance for Progress. AID was the administering agency for economic assistqance under the Foreign Assistance Act during the last four years shown in this table (it was activated on November 4, 1961). The commitments made by AID and its predecessor agencies are shown separately for loans and grants in Table 3. The loan total encompasses development loans, Alliance for Progress loans, supporting assistance loans, and any other loans from AID or predecessor agency funds. The loans made by the Social Progress Trust Fund administered by the IDB are not shown. 10.3 percent of the total assistance during this period from 1949 to 1965, went to the Central American nations listed separately in the next tables. It is significant that substantial aid was not extended to Guatemala until 1955, remembering that the Arbenz government was overthrown in the spring of 1954. Although the bulk of the funds seem to be concentrated in the period of 1955 to 1961, in total, until 1965 in practically every category Guatemala's share of U.S aid was the largest in Central America: 36 percent of the total net obligations and loan authorizations, 52 percent of the grants and 44 percent of the total expenditures on economic assistance programs.

Table 3.3

Assistance to 19 Latin American Republics

U.S Fiscal	Year	Total	Loans	Grants	Total Expenditures
Marshall	1949	–	–	–	–
Plan	1950	–	–	–	–
Period	1951	–	–	–	–
	1952	19.4	–	19.4	10.1
	1953	20.6	–	20.6	22.5
	1954	27.5	–	27.5	16.7
Mutual	1955	44.3	–	44.3	26.3
Security	1956	71.3	–	71.3	54.1
Act	1957	78.5	12.8	65.7	64.8
Period	1958	86.9	20.8	66.1	63.3
	1959	121.4	57.3	64.1	85.5
	1960	99.8	32.1	67.3	94.3
	1961	248.1	143.9	104.2	114.0
	1962	[illegible]	358.3	114.0	281.6
AID	1963	[illegible]	388.7	145.5	[illegible]
PERIOD	1964	[illegible]	508.4	96.5	287.1
	1965	[illegible]	389.1	[illegible]	427.1
TOTAL ASSISTANCE		[illegible]	[illegible]	[illegible]	1,870.0
Principal repayments			[illegible]		
Interest collected			[illegible]		

[Source: AID, Statistics and Report Division, U.S. Economic Assistance Programs Administered by the Agency for International Development.]

Table 3.2a

GUATEMALA: Assistance from AID and predecessor agencies.
(millions of dollars)

U.S Fiscal Year		Total	Loans	Grants	Total
Marshall	1949	-	-	-	-
Plan	1950	-	-	-	-
Period	1951	-	-	-	
	1952	0.2	-	0.2	0.2
	1953	0.2	-	0.2	0.2
	1954	0.2	-	0.2	0.2
Mutual	1955	6.7	-	6.7	3.3
Security	1956	18.2	-	18.2	11.7
Act	1957	17.4	-	17.4	12.5
Period	1958	12.4	-	12.4	11.0
	1959	8.5	5.4	3.1	8.4
	1960	6.3	3.5	2.8	9.1
	1961	20.9	7.5	13.4	16.2
	1962	4.2	-	4.2	6.6
	1963	3.1	0.7	2.4	4.7
	1964	5.6	2.7	2.9	5.5
	1965	7.0	5.0	2.0	4.6
TOTAL		110.9	24.8	86.1	94.2
Principal repayment				0.8	
Interest collected				1.0	

[Source: AID, U.S Economic Assistance Programs Administered by the Agency for International Development.]

Table 3.2b

Assistance from AID and predecessor agencies (Summary).
U.S Fiscal Year Net Obligations and Loan Authorizations

EL SALVADOR	Total	Loans	Grants	Total	Expended
Total Assistance 1949-1965	48.8	28.4	20.4		23.4
Principal Repayments				0.2	
Interest Collected				0.1	
NICARAGUA					
Total Assistance 1949-1965	45.3	28.0	17.2		22.9
Principal Repayments				0.3	
Interest Collected				0.5	
HONDURAS					
Total Assistance 1949-1965	45.8	21.6	24.2		36.2
Principal Repayments				2.5	
Interest Collected				1.2	
COSTA RICA					
Total Assistance 1949-1965	53.5	35.8	17.6		30.3
Principal Repayments				0.1	
Interest Collected				0.5	

Table 3.4

Actual U.S Military Assitance to Latin America, [illegible] 1 [illegible]
(millions of US dollars)

Country	1950-69	1970	1971	1972	1973	1974	1975	1976	[illegible]	[illegible]	[illegible]	[illegible]
Argentina	86.8	2.4	17.4	15.6	12.1	[illegible]	30.1	34.4	[illegible]	[illegible]	[illegible]	#
Bolivia	20.9	1.2	1.7	2.1	3.4	6.9	6.5	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil	282.0	4.3	11.4	21.5	16.5	47.7	60.7	[illegible]	.058	[illegible]	[illegible]	[illegible]
Chile	108.4	2.0	6.0	12.5	13.6	16.2	1.1	#	#	#	#	[illegible]
Colombia	85.2	3.9	7.5	8.5	10.8	.587	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
COSTA RICA	1.9	#	#	#	#	#	#	#	[illegible]	#	#	#
Cuba	10.6	#	#	#	#	#	#	#	#	#	#	#
Dominican	20.3	2.1	2.5	1.1	1.0	1.0	1.7	[illegible]	1.7	[illegible]	[illegible]	[illegible]
R	e	p		u		b		l				
Ecuador	39.3	2.0	1.4	.028	#	.001	.381	[illegible]	15.4	[illegible]	[illegible]	[illegible]
EL SALVADOR	5.5	.246	.593	.456	.581	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GUATEMALA	14.3	2.0	5.1	.712	4.5	2.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Haiti	3.2	#	#	#	#	#	.014	.1	[illegible]	[illegible]	[illegible]	
HONDURAS	6.9	.284	.872	.721	.751	.609	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico	6.0	.148	.088	.107	.011	.031	.110	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
NICARAGUA	10.8	1.1	1.2	.581	1.1	.994	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Panama	3.0	.404	.828	.369	1.2	.454	.517	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paraguay	8.1	.786	.883	1.1	.718	.821	.825	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Peru	104.6	1.9	.777	.986	.725	15.9	[illegible]	21.1	[illegible]	[illegible]	[illegible]	[illegible]
Uruguay	38.8	1.7	[illegible]	3.3	1.0	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Venezuela	92.9	.745	8.4	8.2	8.4	8.4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

(Includes Foreign Military Sales Financing Program, Mil[illegible] Program Deliveries/Expenditures, and International Milit[illegible] Training Program Deliveries/Expenditures).
(Source: Statistical Abstract of Latin America [illegible])

LOSING ITS WAY

Although some reports on the Alliance for Progress at the time were full of hope for a new era in U.S and Latin America foreign relations, today most accounts of the Alliance view it as having been ineffective either from the standpoint of solving the previously mentioned political and economic crisis, or because it did not have the interests of Latin America at heart.

In their account of this period, The Alliance that Lost its Way, Jerome Levinson and Juan de Onis comment on the Alliance's confrontation of the critical situation in Latin America.

> Social reform, national economic planning, and long term government loans got the headlines at Punta del Este. But behind the publicity was what amounted to a financial salvage operation. In the early years of the Alliance, a significant part of the U.S foreign aid funds channeled to Latin America served mainly to refinance debt payments to bankers... This use of U.S public funds may have prevented some major Latin American countries from suspending foreign payments, but it did not add to the visible accomplishments of the Alliance.[38]

In this manner Levinson and de Onis suggest perhaps why Latin Americans saw little of the Alliance funds being translated into schools, hospitals, housing etc... Other authors have different explanations and view the Alliance as an example of the theme of mutual prosperity - "The Alliance was structured to protect existing American land holdings and to maximize U.S exports to recipient countries."[34] Illustrative of this are several sections of the Social Progress Trust Fund that administered the Alliance funds. Section 1.04a prohibited the use of American funds for the purchase of agricultural land - hence there was no promotion of land reform. Section 4.05 prohibited the use of funds for purchasing in non-member countries. Section 4.06 stipulated that purchases must be made either in the recipient country or in the United States.[37] Given the small, restricted market of Guatemala, this would ensure that most of the raw materials required for industrial production, machinery, capital goods etc. would be purchased from the U.S. The Alliance's critics maintain that from the start then, under Kennedy, the thrust of the Alliance policy was to make foreign aid a more effective vehicle for protecting U.S investments. Further restrictions on aid funds arose in 1962 when Congress passed the Hickenlooper Amendment that provided for the cessation of aid to any country which expropriated American holdings. Again, in 1963 through a provision of the Foreign Assistance Act the administration agreed to cut off aid funds after 1965 to any country that did not agree to recognize the U.S government as insurance claimant for the private U.S investors. By 1966, most governments had signed such agreements.[38] It appears then that many countries may have had to pay a price for this development aid. Kennedy's response to the radicalism in Latin America as embodied by Castro, had been the Alliance for Progress that was to bring about democratization and structural change (hence the stated conditions like enactment of tax laws and socioeconomic reforms); but U.S conventional and counterinsurgency forces were also a key part of Kennedy's response to radicalism.[39] Walter LaFeber states that from 1950 to 1963 Guatemala received $5.3 million in military assistance from the U.S. In light of this, Table 4 suggests that from 1963 to 1969 this type of aid reached $9 million, that is, it almost doubled. Again, Guatemala received the largest Central American portion of military assistance.

THE ALLIANCE AND PRIVATE INVESTMENT

One has seen how since after WWII the United States has provided the majority of foreign investment in Latin America, and how President Kennedy specifically called on the private investors to be a partner in the Alliance for Progress. In spite of Kennedy's comments, the Charter of Punta del Este's only reference to the role of foreign private investment is the expressed desire "to stimulate private enterprise in order to encourage the development of Latin American countries at a rate which will help them to provide jobs for their growing population..."[40] No particular emphasis was placed upon foreign investment during the first year of the Alliance. Latin American statements illustrated their expectation of a flow of public funds from the U.S. Meanwhile, U.S statements called for development planning, self-help measures and social reforms designed to increase local resources needed for development.[41] By 1961 U.S businessmen were undertaking few new ventures in the area. Perhaps Cuba's expropriation of nearly $1 billion in U.S holdings was still too vivid. Table 5 shows that although reinvestment of profits by subsidiaries remained fairly stable, in the early years of the Alliance direct investment from the U.S dropped sharply from $173 million in 1961 to -$32 million in 1962. This drastic decline in investment and the growing evidence of domestic capital flight caught the Alliance's attention. For if the estimates of an annual capital flight of $500 to $800 million are correct, then coupled with the adverse effects of the decline in foreign investment, they may have cancelled the beneficial effect of the Alliance's flow of U.S public funds.[42] In his first annual review of the Alliance, Secretary Dillon commented that:

> There is one area in which during the past year we have not only made no progress but where we have suffered a serious setback. Private investment, both domestic and foreign, has suffered damaging blows and lost confidence...The plain fact of the matter is that private enterprise has not always been made to feel that it is part of the Alliance.[43]

Table 3.5

Summary of U.S private investment in Latin America, 1961-1968
(millions of dollars)

	reinvested earnings	direct investment from the U.S*	income received in U.S (profits and earnings)	net inflow to U.S
1961	255	173	-730	-557
1962	268	-32	-761	-793
1963	173	69	-801	-732
1964	216	143	-895	-752
1965	306	176	-869	693
1966	302	191	-965	-774
1967	172	191	-1022	-8[illegible]1
1968"	210	481	-1087	[illegible]06
TOTAL	1,902	1,392	-7,130	5,738

* a negative number reflects a net flow to the United States.
" estimated.
†Source: U.S Department of Commerce, Survey of Current Business, in Levinson, Jerome and de Onis, Juan, The Alliance that Lost its Way, [illegible]

Adjustments were soon made and after 1964, the Cuban threat seemed remote and now the Agency for International Development specifically had the task of promoting U.S private investment. The resulting upsurge in investment can be seen in Table 5. This increase was such that by 1967, sales of U.S manufacturing subsidiaries in their Latin American markets ($6 billion) exceeded U.S export sales to Latin America ($4.1 billion).[44] But certainly to a large extent this growth was due to the impulse of the CACM. Some specific examples of how AID aided overseas investment can be found in a pamphlet that they publish for businessmen, detailing the services that AID offers.

> AID provides information on general investment opportunities contained in numerous industrial feasibility and economic studies of developing nations.
>
> AID seeks to increase investment by United States private enterprise in the economies of friendly less-developed countries by sharing with U.S owned firms the cost of conducting surveys of investment opportunities.
>
> AID seeks to increase investment by United States private enterprise in the economies of friendly less-developed countries by guaranteeing investors against certain political and business risks.

AID seeks to increase investment by private enterprise in the economies of friendly less-developed countries by helping to provide dollar financing for projects which promote economic development.

Certainly the figures which have been referred to would seem to suggest that much of the funds that flowed into Guatemala in specific would go towards improving the conditions for investment whether they were spent on infrastructure development projects or loans to industry. These last examples of how AID explicitly encouraged and protected private investment in Latin America are futher reinforcement. It is difficult to estimate the effect that such "aids" had on investment; one author states that the government has gone "about as far as it can go to promote U.S private foreign investment without outright subsidization."[48]

THE ALLIANCE AND GUATEMALA

In Guatemala, the Alliance for Progress had continued its efforts to make it the "showplace for democracy". As in the rest of Latin America, the Alliance for Progress encouraged private foreign investment in Guatemala in several ways. First much of the aid during these years concentrated on developing the infrastructure necessary for prosperous business conditions. The actions of those in the CACM that created various incentives to attract foreign investors, and those of AID the agency that adminstered the Alliance for Progress Funds, seemed to work together towards the same goal. Between 1954 and 1970, Guatemala received more U.S dollars than any other Central American nation.(See Table 2) One could surmise that the greater the extent of U.S aid, the more a country would have to answer to the concerns of the U.S - such as the protection of U.S investors. In spite of this it would appear that with respect to the other Central American nations Guatemala is relatively better off in terms of this "control" by U.S aid. Assistance is a lower percentage of GDP, of gross investment, of government tax revenue and of import earnings in Guatemala. However, per capita assistance is the lowest figure for the Central American nations. This would seem to indicate that the bulk of this aid only benefited certain sectors of the population. In the case of Guatemala then, how much did the Alliance do to achieve economic development, or did they simply, as in other countries, avert economic disaster?

THE END OF THE ALLIANCE

One should note that in the mid sixties under President Johnson and his adviser Thomas Mann, the focus of the Alliance gradually intensified the earlier focus on military assistance, the encouragement of private investment, and regional integration. Earlier aims of promoting democracy and structural change seemed increasingly subordinated during this period to military assistance due to the conerns over the rise in guerrilla activity sympathetic to Castro's actions in Cuba. The second focus on the broadening of private investment as an engine of development is expressed by Frank Bradenburg in his study: <u>The Development of Latin American Private Enterprise.</u>

> Latin America has a long history of violent, authoritarian and extremist politics. The best hope for democratization is in the growth of many diverse interest groups which are relatively independent of government. The danger of nationalizing industry is that it facilitates the nationalization of people, including ultimately the nationalization of their thoughts and beliefs. The advantage of private competitive enterprise is that it tends to encourage and sustain a free press, personal freedom, and freedom of thought and belief. It develops a strong interest in the maintenance of law and order. It offers channels for the unfolding of genuine creativeness and innovation arising from the varied background of native cultures. It is the best hope for development of political democracy, stability, and self-reliance in Latin America - that is, for achieving the basic objectives of the Alliance for Progress.[44]

Lastly, the third focus of the new administration would be on the support of regional integration. Acccording to

Walter LaFeber, as the Alliance "died" and Vietnam grew more expensive, the common markets appealed to Johnson because they were "cheap" - in addition they were new frontiers for multinational industries and banks.[47] Herein lies what Delgado terms the "Achilles heel" of economic integration - "integration provides the vehicle for multinational corporations to enter regional markets duty-free, diverting market-widening benefits from Latin American interests to United States, European and Japanese firms."[48] Hence each of these three focuses of the Alliance for Progress would undoubtedly affect foreign investment. The increased military assistance would assuage the investors fears by combating the political instability in the form of guerrilla activities. The hopes placed in the role of private investment would greatly facilitate the foreign investors activities (i.e. he was offered incentives and certain concessions). Similarly, the fact that the success of the Common Market seemed to be the last chance for the Alliance for Progress meant that private investors received encouragement and benefits from both processes.

Chapter 4. SHATTERED HOPES FOR PROGRESS

We must support all economic integration which is a genuine step toward larger markets and greater competitive opportunity. The fragmentation of Latin American economies is a serious barrier to industrial growth. Projects such as the Central American Common Market ... can help remove these obstacles.

John F. Kennedy. (1961)

GUATEMALA IN THE CENTRAL AMERICAN COMMON MARKET

An evaluation of the CACM must analyze the success of the two basic aims that had been present since the earliest discussions on regional integration. One was to stimulate industrial development in these agricultural-export dependent countries of Central America. The other was to establish a free and open market that would foster a growth in interregional trade and whose free competition would inspire industrial development. Both goals would rely on attracting domestic and foreign capital. For the purposes of this study we are interested in the role foreign investment had in the CACM. According to certain authors, the constant avoidance of sacrifice - the material and political costs that each country had to make to implement integrative measures - explains why the influence of external forces on the origins and development of Central American integration are dicussed.[1] The most obvious material cost was the funds that were needed for such a wide-reaching project. Political costs might involve opening up the political process to a greater percentage of the population and giving up some national autonomy in order to achieve true cooperation between member nations. As was mentioned earlier, ECLA's participation meant that the member nations did not worry about the costs of preliminary studies, as they were funded by the United

Nations Technical Assistance Administration.[2] Settling upon regional import substitution as a means towards industrialization assured the member governments that perhaps industrialization would be achieved without any major transformations in their societies.[3] Hence from this beginning, further sacrifices were constantly avoided. In 1960, the United States had offered to end the deadlock in the integrative process that has been described earlier, by providing funding for a common market. In return the member governments accepted the U.S government's conditions for participation.

If the achievements of this first aim are measured by figures showing an increase in interregional trade, then this integration experiment was a success. Other authors may have a different interpretation.

> But the expansion of the national markets - the main justification for economic integration among less developed countries - was not only related to the number of consumers that could be brought together but also to the more controversial question of the income level of the majority of the participant's population. The creation of a regional market of 15 million people in Central America was an illusion as long as the capacity to consume of the peasant sector was not drastically improved. To this extent any policy concerned almost exclusively with industrialization was

severely limited and risked becoming a costly exercise in exaggerated protectionism.*

By 1964 it seemed increasingly clear that the aims of industrial development through regional import substitution, and the creation of a free, open market were incompatible, and the impending crisis of the CACM culminated in the soccer war between El Salvador and Honduras in 1969. After the demise of the Alliance for Progress and the CACM did foreign investment meet a similar fate? Since the growth in foreign investment during the sixties was not a secondary effect of the CACM but rather the very impulse behind the CACM, it no longer seems likely that private direct foreign investment dwindled in 1969 with the CACM. Rather after successful beginnings amidst the favorable climate of the time, it appears that foreign investment in the form of multinational corporations continued to grow into the seventies.

The attempt to initiate industrialization through import substitution may be considered a success if one measures it in terms of the sharp growth in interregional trade. To further enhance this growth, the prices of traditional export products recovered from the lower levels of the late 1950's. Financing by the Central American Bank and other international institutions aided in the creation of necessary infrastructure for beneficial trade and economic development: highway construction, facilities for the generation and distribution of electricity and port improvements. It must be observed that such improvements in infrastructure would of course be attractive to potential investors. See Table 1 and the subsequent graph which demonstrate the boom in interregional trade. In looking at the total exports of Guatemala to the other nations in the Common Market, one can appreciate the magnitude of this boom. From 1960, its first year of existence, to 1965, export trade increased by almost 240 percent. Expansion continued from 1965 to 1970 when trade grew by 253 percent or on the average about 50 percent per year. This astounding growth slowed down after 1970 when it grew only 26 percent between 1970 and 1975. Actually this drop to an average of 5.2 percent growth per year is quite dramatic and could be due to the effects the 1969 war had on interregional trade. Nevertheless, these figures indicate that up until 1978 there continued to be growth in Guatemala's exports to the the rest of the Common Market.

It is important to have an idea of the kinds of goods that Guatemala exported to the CACM in order to measure whether tne import substitution model of industrialization prevailed. Table 2 shows the character and value of Guatemala's exports to the CACM in 1967. As it occurred before the war in 1969 it may give one a picture of trade during the most prosperous years of the Common Market. Significantly, the value of exports composed of chemical products, manufactured articles, and machinery (what one could call "industrial products") accounted for almost 67

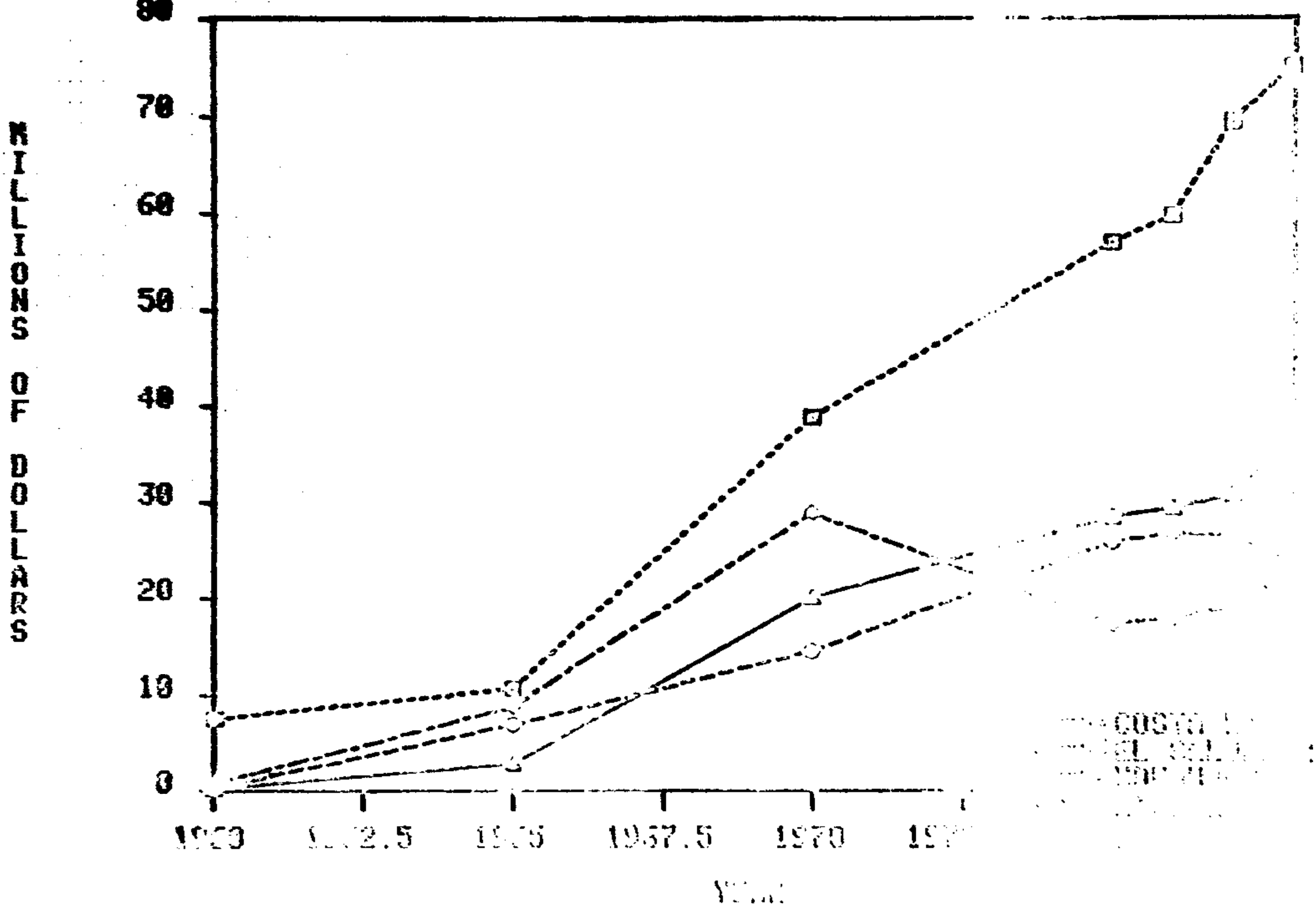
Table 4.1

Guatemala: Intraregional Trade (in M 1970 dollars)
(based on exports)

Destination	1960	196[illegible]	1970	1975	1976	1977	1978
Costa Rica	.17	2.78	20.1	28.57	29.52	30.66	37.61
El Salvador	7.51	10.58	38.8	57.07	59.88	67.69	[illegible]
Honduras	.68	8.73	28.9	17.30	17.88	19.15	22.75
Nicaragua	.17	6.88	14.5	25.83	26.89	26.[illegible]	[illegible].45

[Source: ECLA. Statistical Yearbook of Latin America. 1980 (United Nations, New York. 1981)p.]

INTRA-REGIONAL TRADE OF GUATEMALA
BASED ON EXPORTS IN MILLIONS OF DOLLARS



percent of Guatemala's total exports to the CACM. By some standards, the data in Table 2 might indicate that indeed industrialization was a resounding success. For it is likely that the exported food products were of a processed variety and even beverages and tobacco indicate that such industries had been created. Yet it should be recalled that 2/3 of the economically active population of Central America was engaged in agriculture. What was the consumption capacity of the peasants, the largest sector of the population? The entire scope of the regional market represented 15 million people growing at a rate of 3.5 percent annually with a regional average per capita income of $305 annually. But the subsistence sector of agriculture in Central America had an average regional per capita income of $70-100 annually.[8] It seems unlikely therefore, that the type of goods shown in Table 2 were accesible to the majority of Central Americans. Furthermore, while Guatemala and the other member nations made a concerted effort to create a manufacturing industry, Table 3 indicates that the composition of total exports was still dominated by the traditional products, coffee, sugar and cotton (they accounted for 56 percent of exports in 1967). Interestingly, Table 4 indicates that the composition of total imports, in large part, was devoted to new raw materials and "ingredients" required by the emphasis on industrialization. Usually the prices for Guatemalan agricultural products were much lower than what they had to

Table 4.2

CHARACTER AND VALUE OF GUATEMALA'S EXPORTS TO THE CENTRAL AMERICAN COMMON MARKET, 1967

	El Salvador	Honduras	Nicaragua	Costa Rica
Food products	7,598,182	2,826,5[illegible]	[illegible]	[illegible]
Beverages and Tobacco	762,922	623,944	184,1[illegible]	[illegible]
Non-edible raw materials	1,090,012	54,846	[illegible]	[illegible]
Combustibles and mineral lubricants	2,649	5[illegible]	1,01[illegible]	[illegible]47
Animal and vegetable oils and lards	1,289,720	[illegible]	[illegible]	[illegible]
Chemical products	[illegible],297,208	[illegible]	[illegible]	[illegible]
Manufactured products	9,802,411	2,41[illegible]	4,411,[illegible]	[illegible]
Machinery and transportation	8[illegible],215	400,[illegible]	[illegible]	[illegible]
Other manufactured articles	4,047,116	1,[illegible]	[illegible]	[illegible]
Other transactions	[illegible],165			
TOTAL	[illegible],730,506	9,4[illegible]	10,[illegible]	[illegible]

Source: Guatemala, Anuario de Comercio Exterior, 196[illegible] [illegible] expend for items such as machinery, chemical products etc... Hence this difference in the value of exports and imports created a burden on the country's balance of payments, which was positive only during the last few years of Arbenz's term. By other standards, this would hardly be called industrialization. But, in conclusion, if industrial development is measured solely in terms of growth in interregional trade, then the data considered indicates considerable achievements.

Amidst the heady growth of this period those that urged caution and attention to the requirements for a "balanced development" were paid scant attention. It appears that there were few controls established on the course of investment and economic development and when attempts were made, such as the Joint Economic Programming Mission, there were no mechanisms to follow through with the recommendations. This Mission established in 1962 was to identify economic sectors which could be objects of both regional and long-term global development. Despite much research and creation of strategies it was realized that not only was there little support from the member countries for such a scheme, but also no mechanism existed to carry it out.*In short, member countries loathed making any material or political sacrifices for the integrative process. Rather than learning to upgrade the common interest, the participants learned to put into practice those measures whose economic consequences were buffered by

Table 4.3

Guatemala: Value of the principal export products - 1967 (thousands of dollars)

Product	Value	Percentage
Coffee	69593.2	35.2
Cotton	31493.2	15.9
Sugar	9769.8	4.9
Meat	7967.1	4.0
Vegetable products	5612.8	2.8
Fresh fruit and nuts (non-oleaginous)	4924.4	2.5
Articles of clothing	4322.0	2.2
Textiles	4315.4	2.2
Cosmetic products	3594.7	1.8
Textiles(cotton)	3485.8	1.8
Materials destined for animal feed	3441.1	1.7
Manufactured items(cork)	2721.8	1.4
Fresh and dried vegetabls	2580.1	1.3
Fish and crustaceans	2171.4	1.1
Machines and electrica items	2109.1	1.1
Essential oils	2060.4	1.0
Shoes	1912.5	1.0
Pharmaceutical products and medicenes	1721.5	0.9
Canned vegetables	1592.8	0.8
Manufactured articles(metal	1515.1	0.7
Chemical products	1464.7	0.7
Assorted manufactured article	1452.6	0.7
Manufactured articles (glass	1427.8	0.7
Zinc	1359.7	0.7
Canned fruits	1297.4	0.7
Vegetable oils	1255.9	0.6
Margarine and lard	1198.9	0.6
Paper pulp and paper products	1192.7	0.6
Tobacco products	1128.9	0.6
Articles made from textiles (not clothing or shoes)	1111.3	0.6
Packaged, prepared meats	1081.6	0.5
Wood	1070.5	0.5
Seeds, nuts and almonds (oleaginous)	1017.5	0.5
Miscellaneous	14978.2	7.6
TOTAL	197939	100.0

[Source: Guatemala, Anuario de Comercio Exterior 1967-1969]

Table 4.4
Guatemala: Value of principal imports - 1967
(thousands of dollars)

Products	Value	Percentage
Machines for mining, construction and other industrial uses	19487.1	7.9
Automotive vehicles	17334.	7.0
Textile threads	13403.7	5.4
Machines and electrical items	12796.3	5.2
Chemical products	12005.1	4.9
Iron and steel	11755.7	4.8
Manufactured articles (metal)	10394.7	4.2
Pharmaceutical products and medicenes	9430.7	3.8
Organic chemical products	6651.1	2.7
Paper and cardboard	6068.5	2.5
Live animals	5967.6	2.4
Assorted manufactured articles	5847.9	2.4
Articles of clothing	5562.2	2.3
Fertilizerr	5561.3	2.2
Wheat	4786.4	1.9
Textiles (cotton)	4731.9	1.9
Crude petroleum, partially refined	4691.9	1.9
Paper pulp and cardboard products	4425.1	1.8
Petroleum derivitives	4026.5	1.6
Inorganic chemical products	3425.5	1.4
Textiles	3337.7	1.3
Tractors	2550.0	1.1
Special textiles	2504.0	1.0
Animal oil and lard	2442.5	1.0
Materials destined for animal fee	2328.2	0.9
Power generating machinery	2325.1	0.9
Glass manufacturing	2096.5	0.8
Miscellaneous	58465.9	23.7
TOTAL	247098.0	100.0

[Source: Guatemala, Anuario de Comercio Exterior, 1967-1969] foreign assistance. Avoiding the gradual transfer of expectations to a larger entity, each member pursued the satisfaction of his individual interests by such uncooperative methods as retaliatory measures against its partners or the dedicated protection of its national producers against regional competition.[7] Instead of coordinating their individual programs of industrial development, in the spirit of free competition the Central American countries strove to attract plants. Given the small size of the market- which might only be able to support a very few firms in one given industry - this could result in such dangers as a proliferation of similar projects, and an excess of installed capacity.[8] Actually, the only type of "industrial planning program" that was established was proposed in 1963 and involved a permanent system of customs incentives for the promotion of new industries. Called the "Special System for the Promotion of Industrial Activities" it greatly differed from the Regional Integrated Industry plan proposed by ECLA. It consisted of establishing protective tariffs for those articles whose production was considered to be essential to the economic development of Central America. Tariffs were set protecting such products as plate glass, glass containers, electric light bulbs, bodies and chassis for buses and trucks, and refrigeration units. The so called transformation industry had to meet the requirement of filling 50 percent of the regional demand.[9] The critical difference between this plan and that of RII was that the new system made no provision for dealing with the problem of where to equitably locate the plants (the idea of balanced development), and it did not require a minimum level of Central American ownership of capital. Hence, both domestic and foreign private investment which had feared the kind of government intervention implied in the earlier scheme of ECLA, found a broad entry in the new system. Table 5 chronicles private investment in Central America during the early years of the CACM. El Salvador, Honduras, Nicaragua and Costa Rica all show a marked rise in private investment after 1960. Guatemala, in terms of GDP, the largest economy in Central America, shows private investment fluctuating around 1.5 percent of the GDP in these years. Industries which had remained stalled in the process of negotiation were established. Many industries were established in those countries which had a larger domestic market and therefore a broader base for industrial development. Less developed countries like Honduras and Nicaragua were gradually being left behind. In summary, the free competition implicit in this free market strategy together with high tariffs of the CACM did encourage investment in industrialization. But it appears that most of the competition occurred between member countries to attract foreign companies with their capital and know-how, to their countries. In this endeavor countries like Guatemala that had a relatively broader industrial base and

Table 4.5

Private Investment in Central America 1957-1963.
(in millions of Central American pesos)

	1957	1958	1959	1960	1961	1962	1963
Guatemala	17.1	17.2	23.5	19.4	13.2	16.4	19.0
El Salvador	-1.5	5.7	-6.0	9.6	13.0	12.0	19.7
Honduras	1.5	-6.4	-4.0	-7.9	-6.4	2.9	9.7
Nicaragua	13.8	5.3	3.4	5.6	1.8	16.7	14.2
Costa Rica	3.1	-0.4	7.5	4.7	4.5	20.9	25.5

Gross Domestic Product in Central America 1957-1963.
(in millions of Central American pesos)

	1957	1958	1959	1960	1961	1962	1963
Guatemala	940	971	991	1021	1043	1092	1174
El Salvador	-	499	478	491	512	664	718
Honduras	344	362	375	378	398	426	440
Nicaragua	342	343	349	353	376	416	446
Costa Rica	354	382	395	417	429	476	503

[Source: Secretaria Permanente del Tratado General de Integracion Economica Centroamericana (SIECA), Cuarto Compendio Estadistico Centroamericano(12 de octubre, 1965),p.81] more extensive infrastructure apparently met with success. The lack of controls on both foreign and domestic industrial investment might have led to the boom in interregional trade, but it also created serious imbalances that would undermine the CACM in 1969 when such imbalances played an important role in the gestation of the war between El Salvador and Honduras.

GROWTH OF FOREIGN INVESTMENT

From the beginning of the CACM, the U.S government contributed the bulk of funding for its planning, research, and financial agencies. In 1965 and 1966 U.S funds represented 54 percent of the budget for the nine CACM agencies, 33 percent came from countries outside the region, and only 13 percent of the annual budget came from the member nations.[10] These nations agreed in turn to accept the "proper" rules of the game by refraining from interfering with free market forces or foreign investment.[11] The reduction of trade barriers, the incentives offered to investors and the lack of joint industrial policies in the CACM resulted in the unchecked growth of foreign investment. (See Table 6.) It appears that a majority of the direct foreign investment in Central America both before (1959) and during the period of the CACM (1969) was in Guatemala. This table indicates that between 1959 and 1969, direct foreign investment grew by almost 95 percent in Central America. There are different

Table 4.6

Direct Foreign Investment in Central America
(millions of dollars)

	1959 $	1959 %	1969 $	1969 %
Costa Rica	73.3	18.9	173.3	22.9
El Salvador	43.9	11.1	114.6	15.2
Guatemala	137.6	35.4	207.0	27.4
Honduras	115.5	29.3	184.1	24.4
Nicaragua	18.9	4.9	76.[illegible]	10.1
Central America	388.[illegible]	100.0	755.3	100.0

[Source: Gert Rosenthal, "Algunos aspectos sobre el grado de participacion de la inversion extranjera directa en el proceso de la integracion centroamericana", p.27.]

interpretations of this growing involvement of direct foreign investment during these years of the CACM.

In the opinion of Myra Wilkins the main reason for the growth of the U.S direct investment was the import substitution policies of the late 1950's and the early 1960's. Host government action, as in Central America, to encourage industrialization had forced U.S businesses to transform their sales, service, and assembly operations into manufacturing facilities. Because of barriers to U.S exports this was the only way American companies could maintain their markets. Hence, the geographical scope, and the degree of integration and diversification of U.S investments in manufacturing steadily grew.[12] Previously, major U.S investment interests had been in the exploration and extraction of petroleum, but by 1966 in Latin America, the majority of U.S direct investment concentrated in the manufacturing sector. Guatemala was no exception.(See Table 7) It should be noted that much of the production of these manufacturing facilities was destined for the regional market as asserted by Wilkins. By 1968, U.S manufacturing companies in Latin America sold about 89 percent of their output in the host country.[13]

However, Wilkins asserts that U.S direct investmants in manufacturing were still greater in Europe and she expresses surprise that after Latin American governments had pressured investors in such a manner there should now exist alarm over what was seen as foreign domination.[14]

Table 4.7

DIRECT FOREIGN INVESTMENT IN GUATEMALA BY SECTOR
(millions of dollars)

Sector	1963 value	1963 %	1968 value	1968 %	1970 value	1970 %
Agriculture	29.2	27.2	27.9	25.7	27.1	23.2
Mining	8.0	7.4	2.6	2.4	2.9	2.5
Manufacturing	11.2	10.4	33.9	31.3	42.6	36.3
Construction	2.6	2.4	1.8	1.7	1.8	1.5
Electricity,Gas	13.5	12.6	14.3	13.3	14.6	12.4
and Water	15.0	13.9	20.8	19.1	19.9	16.9
Commerce						
Banking	*	*	6.8	5.6	6.1	5.2
Transportation &	26.2	24.4	.3	.3	.4	.4
Communications	.3	.3	.7	.6	1.7	1.5
Other	1.5	1.4			.1	.1
TOTAL	107.3	100.0	108.4	100.0	117.1	100.0

[Source: Departamento de Cambios, Banco de Guatemala. Taken from NACLA, vol VII no.5 May/June 1973]

While in terms of absolute amounts this may be true, in relative terms the U.S presence in Latin America was of far greater importance to those countries. U.S Direct investments not only represented a larger percentage of the country's economy, but historically they were able to wield much greater economic and political leverage than in Europe. The second interpretation of the growing involvement of direct foreign investment during the years of the CACM decried what they saw as domination of national industry by the foreign economic powers.

It is often pointed out that the problem of the CACM was that each of the five countries was small and essentially a producer of the same raw materials and commodities - so what benefits could be accrued by increased interregional trade? Rather, goods like machinery, industrial items and processed foods were traded in the CACM, and these goods benefited from the reduced tariffs. Critics of the integration process maintain that United States corporations were the main producers of these items in the five Central American countries.[13] Hence in the opinion of many, U.S aid helped create and destroy the CACM. For them the increased U.S aid of the period was only a means of manipulating people and governments in Central America to suit the particular needs and whims of corporate investors and to keep the region safe for them.[14] Their presence, a result of minimal government control and tax incentives, had numerous ramifications. The tax exemptions

- allowing the highest rate of profit to be achieved by importing the bulk of material inputs -- and the repatriation of profits put pressure on the balance of payments too. Many national producers could simply not compete with the capital, know-how, and technology of the U.S companies. The resulting foreign domination of the most dynamic industrial sectors did not particularly aid national economic development. In addition, countries like Guatemala could not be consoled by the idea that such foreign investment was creating many jobs for the growing population because often the type of technology used resulted in only a slow increase in employment.[17] The next chapter will examine the character and distribution of foreign investment in Guatemala more closely, but at this point one may summarize the different interpretations of the foreign investment that the policies of the CACM encouraged. Some, like author Wilkins, might assert that the 95 percent increase in direct foreign investment in Central America between 1959 and 1969 resulted merely from investors playing by the "rules" of the Common Market. Critics of the deepening presence of direct foreign (mostly American) investment in Central America seem to suggest that it resulted from the U.S attending to its own needs for expanded markets. The Deputy Chief of the United States Embassy in Guatemala when asked if he felt that the CACM was a greater benefit to the United States than to Central American countries, answered: "The Central American Common

Market is in the selfish interest of the United States, but fortunately our selfish interests coincide with those of the Central American countries."[18] It is a simplification to assume that the CACM served the interests of Central American nations as a whole. Rather only the concerns of a small segment of the population were addressed by the CACM. The elite, with their traditional dominance in agriculture, banking and commerce, received the benefits of cooperation with the United States interests in the Central American integration process. Whatever the differences in opinion, it is agreed that the lack of controls of the free market allowed this growth in domestic and especially foreign investment. These same conditions that encouraged investment would lead to the serious imbalances that eventually debilitated the CACM in 1969.

CRISIS IN THE CACM

After the initial so called "success" of the CACM, measured by the tremendous growth in trade, the major principle of the market, that of free trade, began to result in imbalances that together would culminate in war in 1969. The war that erupted between two members of the CACM, El Salvador and Honduras, disrupted the CACM. Although technically the CACM did not terminate at this time and efforts to revitalize it still continue to this day, since this is not a study of the CACM, 1969 will be treated as the effective collapse of this development effort.

The process of industrialization in Central America evolved in the environment of an open market where protective fiscal measures produced a major flow of regional trade in manufacturing products with a high content of imported raw materials. Some secondary results of this trade were decreased fiscal receipts and higher prices for the Central American consumers. A serious crisis in government revenues arose since historically, since the 19th century, the bulk of tax income had originated from imports.[19] These effects were not distributed evenly. Free trade meant that the investment was drawn to the countries of Guatemala, Costa Rica and El Salvador which had a much broader industrial base. (See Table 6). These countries benefited from this fiscal situation as they were able to pass the cost of the imported components almost totally to the consumers in the other two importing countries. The Protocol of San Jose further added tariffs of 30 percent to raw materials imported from outside of the CACM and the consequent price rise of final manufacturing products further intensified the protests of Honduras and Nicaragua who were becoming burdened with an ever more critical balance of payments problem and the feeling that the benefits of regional integration escaped them.[20]

There seemed to be a wealth of instruments available to this integration program for formulating and implementing a strategy of balanced economic development.[21] These included: the annual meeting of Ministers of Economic Affairs; the Permanent Secretariat of the General Treaty of Central American Economic Integration (SIECA); two institutions- ICAITI, created to deal with industrial technology, and ICAP, in charge of the training of national bureaucrats; and the Central American Bank of Economic Integration (CABEI). But these agencies were unable to overcome the growing stagnation of integration. The inability of the five member nations to agree on the problems and solutions of integration did little to improve the matter. Furthermore, these regional agencies were being asked to consider problems formerly under the jurisdiction of national governments.[22] These conflicts seemed to culminate in the July 14, 1969 Soccer War between El Salvador and Honduras, a war that cannot be attributed simply to the outcome of a soccer match, but rather to the steadily worsening imbalances triggered by the integration process. Thus the overall failure of the "painless development" process set forth by the CACM may be due to what author Cohen Orantes terms, the "low" cost process adopted by the member nations. The notion of low and high cost processes refers to the efforts and the concessions, in material and political aspects, that had to be assumed in order to implement the integrative process.[23] Industrialization by means of regional import substitution ensured that industrialization would not exact a high price in terms of major transformations in Central American societies. The fact that member nations stayed within the confines set up by import substitution probably led to negative consequences for participant's economic growth to the extent that it promoted inefficient activities in terms of too many producers for the market to support, and in terms of the character of goods produced.[24] We have seen how the member nations zealously competed to attract industry and the nature of the goods traded. The small size of the Central American market could not support the ensuing proliferation of similar industries and furthermore the sort of goods they produced were not needed and could not be afforded by the vast majority of the Central American population. Again in 1960, the committment to the "low" cost route to industrialization was affirmed when the CACM countries accepted the United States conditions for financial support. As the pressure of foreign investment grew and dominated some sectors of the national economies the member nations realized the limitations that the financing of industrialization by foreign investment involved. So, the failure of the Common Market that was underscored by the 1969 Soccer War, really resulted from the repeated refusal to make the sacrifices, and pay the "high" costs for economic development. Economic development seems to have been equated solely with industrialization. True economic development would involve making radicial changes in the structure of production and in the distribution of income. In Guatemala the economy was dependent on the export of a few crops, this situation would not change in spite of the Common Market. Furthermore, in 1968 two percent of the landowners owned 72 percent of the land and 90 percent owned and operated 15 percent of the land. Farms with 1,115 acres or more of land, 0.3% of all farms, controlled more than half of all the arable land in the nation.[28] Committment to changes in these situations would exact a high price from this two percent engaged in traditional export agriculture. Indeed, economic development would be costly in social, economic and political terms. Socially, many would feel threatened by enlarging the benefits of the vast Indian, peasant population. Effecting these changes would diminish the profits that had been garnered from the export of coffee, sugar, cotton and bananas. Lastly, as in the rest of Latin America, political power was equated with the ownership of land, redistribution of land or de-emphasis on traditional export agriculture would challenge the elites dominance in this sphere. So those responsible for integration in Central America ignored the most urgent problem of those countries, where 2/3 of the economically active population was engaged in agriculture, that of agricultural improvement. The growth of the Central American economies that had been measured by the growth of interregional trade might have slowed down after 1969, but this does not seem to have been the case with the direct foreign investment distribution of income. In Guatemala the economy was dependent on the export of a few crops, this situation would not change in spite of the Common Market. Furthermore, in 1968 two percent of the landowners owned 72 percent of the land and 90 percent owned and operated 15 percent of the land. Farms with 1,115 acres or more of land, 0.3% of all farms, controlled more than half of all the arable land in the nation.[28] Committment to changes in these situations would exact a high price from this two percent engaged in traditional export agriculture. Indeed, economic development would be costly in social, economic and political terms. Socially, many would feel threatened by enlarging the benefits of the vast Indian, peasant population. Effecting these changes would diminish the profits that had been garnered from the export of coffee, sugar, cotton and bananas. Lastly, as in the rest of Latin America, political power was equated with the ownership of land, redistribution of land or de-emphasis on traditional export agriculture would challenge the elites dominance in this sphere. So those responsible for integration in Central America ignored the most urgent problem of those countries, where 2/3 of the economically active population was engaged in agriculture, that of agricultural improvement. The growth of the Central American economies that had been measured by the growth of interregional trade might have slowed down after 1969, but this does not seem to have been the case with the direct foreign investment that impulsed the CACM. After the initial surge due to the favorable climate created by the CACM, foreign investment, represented by multinational corporations continued to prosper in Central America and Guatemala into the seventies.

Chapter 5. A GOOD PLACE TO DO BUSINESS

"We are trying to ensure your investments and we would like all the organizations and the businessmen that are able to invest in Guatemala... We guarantee your investments. The government has said so. The president has said so. The judges have said so. Those in charge of the security of the country have said so. I want all North Americans to come and invest in Guatemala."

General Benedicto Lucas Garcia,
former army chief of staff.

MULTINATIONAL OPERATIONS IN GUATEMALA BY AMERICAN COMPANIES

The growth in U.S multinational investments in the late 1950's was a worldwide phenomenon. By 1957, 2,800 U.S businesses had stakes in some 10,000 direct investment enterprises abroad - the sales of U.S controlled business abroad were known to exceed U.S exports.[1] Generally those companies that thus expanded their market had a technological advantage, leadership in American industry and/or established overseas stakes. Primarily their sales consisted of: transportation equipment, chemicals, machinery, food products, electrical machinery, and primary and fabricated metals. It has been noted that at this time the U.S government had a policy of actively encouraging investment in the less developed countries of the world. Wilkins again contends that "...foreign conditions and the actions of foreign governments far more than the policies of the U.S government influenced the decision's of American investors abroad..."[2] Rather, American investors were disposed to concentrate in areas with a high standard of living, healthy economic growth, resources and a favorable political environment for investors. She supports this with the fact that U.S direct investment in developed nations ($53.1 billion) was almost 2.5 times as great as that in less developed countries ($21.4 billion).[3] This does not diminish the importance of the U.S investment in Latin America though, and one has seen how Guatemala with its abundant natural resources attempted to create an appropriate climate for just such investors. This topic of U.S foreign investment always incites strong feelings on the part of those who defend its advantages and those who bitterly criticize its record. We will rely again on Wilkins' defense of U.S direct foreign investment and her perception of the criticisms that have been leveled against it. Those that articulate the objections she mentions, often dedicate themselves to exposing the excess of U.S companies in the respective Latin American nations. Hence, the information obtained on the different kinds of U.S direct private investment in Guatemala often express the views of these critics. Basically then, these two conflicting opinions over the growth of American multinationals in Guatemala since 1954, will be discussed.

GUATEMALA AND FOREIGN INVESTMENT

The Guatemalan government during the CACM in the late sixties was eager to attract the many multinational corporations who were expanding their operations overseas. Their eagerness to attract and cooperate with investors is reflected in the following excerpt from part of a campaign of the National Export Promotion Centre of Guatemala.

> Just two and a half hours from New Orleans, in the heart of Central America, a new American frontier has been opened. Both aggressive multinational corporations and lone entrepeneurs have discerned the path of

> progress into the future and [illegible] to Guatemala. In the vernacular of the early frontiersman, the country is "busting wide open". There are excellent reasons why Guatemala is the most highly favored site for new investment right now - political and economic stability, resources, modern support facilities.[4]

Indeed, some have maintained that the community of U.S and Guatemalan businessmen is probably the most tightly integrated, socially, economically, and politically in all of Latin America. The multinational corporations honor the domain of local monopolies held traditionally by old Guatemalan families, and defend the Guatemalan regime in the U.S while in turn the government imposes no restrictions on the financial operations of these companies.[5] Hence there were a variety of favorable conditions and exemptions thac these companies enjoyed. There were no transfer restrictions on any kind of foreign-owned assets, dividends, and interest and there was no fixed amount of profit that had to be reinvested in industry. Furthermore, any laws giving preferential treatment to domestic capital were repealed in 1959. Foreign companies were exempt from payment of duties on imports of construction materials, factory machinery and equipment, raw materials and automotive vehicles for industrial use. They were also exempt from payment of taxes for 5 years and could obtain a 50 percent reduction on taxes for the following 5 years. With such measures, not only could foreign capital be assured that they would not have to worry about local competition, but it is difficult to imagine how they could help not controlling the market.

Still it might be difficult to comprehend that the incentives the Guatemalan and U.S government offered foreign investors were enough to induce them to establish in a less developed nation. There was always the question of economic and political stability and the rudimentary infrastructure. In light of the unrest in all of Central America during the 1970's and continuing to this day, this question is asked with more urgency. Yet in 1981 and AVX Ceramics executive in El Salvador commented:

> We cannot meet the competition of the Japanese in in Europe with supplies from the United States. The U.S cost of production is higher than the selling price in Europe. But we can compete from Central America...and our experience shows that you can operate in a disturbed climate.[6]

Maybe his experience showed him what a Department of Commerce report would conclude: that it is no small saving for a U.S company to locate in Central America. The report found that the average wage rate in U.S Central American subsidiaries of $1.08 per hour was eight times lower than the average wage rate of $8.76 per hour in the parent companies in the U.S.[7] Or possibly his experience bore out the Department of Commerce in 1979 when it reported that the rate of return on U.S direct investment in Latin America was 19.6 percent while the average international rate of return for U.S direct investment was 7.6 percent.[8] This means that a U.S company in Latin America could make 258 percent more than it could in another country. This is doubtless a powerful stimulus for foreign investment and it is little wonder that so many corporations would decide to do business in places like Guatemala.

U.S investors in Central America range from the largest transnational corporations to smaller retail operations. It is interesting to note that in a study conducted at Harvard of 187 multinational corporations, of the 120 manufacturing subsidiaries they had in Central America, 80 percent had been established after 1957.[9] With repect to Guatemala, this means that the subsidiaries took advantage of the business climate nurtured after the coup. In Guatemala U.S investments have increased through accquisitions of local firms, joint ventures with local firms or production arrangements with other firms.[10]

Because the transnationals had access to credit and higher technology and enough reserves to withstand temporary losses they could operate more efficiently and make a profit. Local capital formation declined as U.S companies acquired local companies.[11] Some of these local firms had existed as monopolies because the limited size of the market could only support one firm.[12] See Table 1 for examples of Guatemalan firms that U.S companies acquired.

Table 5.1

GUATEMALAN FIRMS ACQUIRED BY U.S MULTINATIONAL CORPORATIONS: 1960-197[illegible]

Fortune 500 Company	Guatemalan Company	Previous Owner	Year Founded	Year Acquired	Percent U.S Ownership	Paid-in Capital	Assets: Book Value	Type of Production	Comments
Beatrice Foods	1)Fabrica de Productos Alimenticios Rene S.A.	Michaan Pinto, Rene Menendez	1964			300,000		prepared cereals,snacks	
Boise Cascade	2)Industria Papelera Centroamericana S.A.	Arimany	1945	1964	88	4,250,000		bond & kraft paper	a
	3)Bolsas de Papel S.A.	Arimany	1960	1963	67	50,000	857,545	cement bags	
	4)Empresa Comercial e Industrial Hispania S.A.	Sanchez Garcia	1951	1967	87	788,000	1,300,733	printing plant	
Cargill	5)Alliansa	Zarco [illegible]	1964		92.5	800,000	2,073,118	animal feed	
Central Soya Soto	6)Alimentos Mariscal S.A.	Gutierrez, Blanco, Bosch	1963	1968	80	540,000	1,373,089	animal feed	
Cluett, Peabody	7)Arrow de Centroamerica Ltda.		1961		100	300,000		men's shirts	b
Coca-Cola	8)Industrias de Cafe S.A. (INCASA)	Rios Sanchez	1957		67	2,330,000	7,875,721	instant coffee, canned foods.	[illegible]
	9)Productos Alimenticios Sharp S.A.	Rios Sanchez		1961	67	250,000	733,061	sweets,canned foods	
Colgate-Palmolive	10)Industria Quimica S.A.	Rios Sanchez	1958	1963	88	200,000	1,569,851	toothpaste, soap and shampoo	[illegible]
ESB	11)Duralux S.A.		1961	1965	79	700,000		batteries	
Foremost-McKesson	12)Foremost Dairies de Guatemala S.A.	(see comment)	1960	1960	70	285,000	565,189	milk, ice cream	[illegible]
General Mills	13)Industria Harinera Guatemalteca S.A.	(see comment)	1958	1969	50	637,437	1,294,677	flour mill	[illegible]
Glidden	14)Galvanizadora Centroamericana S.A. (GALCASA)	Pezom Estrada	1964		61	600,000	2,634,664	galvanized sheet metal	
	15)Industria Quimica Guatemalteca de Adhesivos y Derivados (INDUQUI)	Recalde Carranza	1967			100,000		adhesives, synthetic [illegible]	
	16)Pinturas Centroamericanas (PINCASA)	[illegible]	1958		65	600,000	2,109,187	paints,varnishes	
Goodyear	17)Gran Industria de Neumaticos Centroamericanos S.A.	[illegible]	1956	1968	77	[illegible],712,070	8,924,972	tires	
Gulf	18)Petroleos Gulf de Guatemala S.A.	[illegible]		1965	100	775,000	4,111,228	gas distribution	
Phillip Morris	19)Productos Chiclets de Centroamerica S.A.	[illegible]	1962	1967	[illegible]	[illegible]	[illegible]	chewing gum, [illegible]	
	20)Tabacalera Centroamericana S.A.	[illegible]	1971	1964	41	[illegible]		cigarettes	
Pillsbury	21)Molinos Modernos [illegible]	[illegible]							
	22)Productos Alimenticios Imperial S.A.	[illegible]							

	23)Fabrica Kugart's Matheu, Garin y Cia. Ltda.	Matheu, Garin
Pittsburg Des Moines Steel	24)Transformadora de Aceros Tismot S.A. (IIFIC)	Colombian
Ralston Purina	25)Autocafe Purina Ltda.	Melgar, Frener
Riviana Foods	26)Alimenticios Ducal S.A.	Similiano Garcia
	Alimenticios Ferro S.A.	Similiano Garcia
Standard Brands	27)Dely S.A.	Gonzales, Sigui and Sobenes
Tappan	28)Industria Metalurgica Centroamerica S.A.	Shlomo Hagai
3M	29)Minas de Oriente	Roberto Sanchez
U.S Steel Acero	30)Industria de Tubos y Perfiles, S.A. (INTUPERSA)	Fundidora de Fierro y de Monterrey S.A.
Weyerhaeuser	31)Cajas y Empaques de de Guatemala S.A.	Dabdoub

[Source: Moody's Industrial 1981; Marc Herold,From Riches to Rags;NACLA, Agribusiness in the Americas.]

1963	1966	50	400,000	1,786,501	flour mill	
1941	1967	80	280,000	1,077,952	cake mixes,snacks	
1960	1969	100			prepared foods,snacks	
1960		79	425,000	2,119,995	structural & sheet steel	
	1961	61	250,000		restaurants	
1963		99	1,171,000		canned foods	h
1959	1970	78	1,678,400		canned foods	
1959	1965	87	150,000	241,255	edible oil	
1961	1966	71	150,000		stoves	
	1969	90	100,000		silver mine	
1961	1968	94	579,000	2,475,680	steel profiles and pipes	
1961	1964	50	1,500,000	3,316,110	corrugated boxes	

COMMENTS:

a. The Guatemalan company had a $1.2 million debt to a U.S bank. The bank passed the debt and control to Boise.
b. The owner had a licensing agreement with the company. When he died the local firm was sold to them.
c. 51 percent was owned by Coca-Cola and 16 percent was owned by International Mining Company.
d. The local firm was bought with $25,000 from the United States and $600,000 local loan.
e. Formed from 4 firms: Tolsa, El Administrador, Lecheros Unidos and Erhabar, it was sold by INFOF, a Guatemalan industrialization agency.
f. Formed from 3 firms. General Mills provided "know how" and [illegible] After the 10 year contract ended, it bought 1/2 of the stock.
g. At the time of the sale to Goodyear, GINSA was 67% Guatemalan and [illegible] General Tire's. New [illegible] wanted to buy all of the [illegible]
h. Ducal and Ferro were first acquired by W.R Grace which sold the companies to Riviana.

While other authors like Myra Wilkins speak of the advantages of joint ventures there are those who feel they only benefit the U.S company and the well-to-do Guatemalan who forms a partnership with it. Historically, key sectors of Guatemala's economy were dominated by families who had usually made their fortune in export agriculture. As the bulk of foreign exchange had been acquired through these sort of export activities, these families were the same local capitalists who were able to engage in joint ventures. Hence their prominent position was only reinforced. The most obvious result of joint ventures in their opinion is that local wealth is absorbed as the local economy comes under U.S corporate control. Another benefit for the investor is that the risks of nationalization are diminished. Furthermore, the interests of the Guatemalan elite are linked with those of the U.S corporation and the surplus they appropriate only further intensifies the distortions in income distributions.[13]

Production contracts with local firms allowed U.S companies to enter the Guatemalan market with initially little capital outlay or risk. Some of the surplus derived then remained with the local producer. Usually the U.S company would eventually acquire the local firm.[14] Table 2 seems to indicate that especially in the manufacturing sector, a substantial number (49 percent) of U.S firms participated in joint ventures. Many of the industries that were located in Guatemala and Central America in this

Table 5.2

U.S Firms in Joint Ventures in Guatemala:1971

Sector	Total number of U.S firms in the sector	Percent of these firms in joint ventures
Manufacturing	57	47
Services	10	40
Commerce	26	21
Construction	13	1[illegible]
Mining and Finance Agriculture	4	0
TOTAL	110	

[Source: Phil Church, Foreign Investment: The Operation of U.S Direct Investment in Guatemala," unclassified U.S AID document, [illegible] from NACLA VII no.5 May/June 1973.]

manner were only finishing operations for semi-manufactured goods. They are sometimes termed - "finishing-touch", screwdriver or wrap and pack industries. Essentially, although the product might say "Hecho en Centroamerica", the only elements genuinely Central American were those used in packaging.[15] Later in the 1970's, the electronics and textile industry would set up labor intensive assembly operations called maquiladoras. Maquiladoras would assemble basic materials produced in the U.S at a much lower labor cost and then the assembled electronics part and clothing would be shipped to the U.S for further manufacture or distribution. Such operations are criticized because due to the small magnitude of investment in plant facilities or equipment, they can move on easily to a cheaper area of the world to do business.[16]

The presence of foreign investment has certainly diversified since the days when UFCO, IRCA and Empresa Electrica dominated Guatemala. In the late 1960's IRCA and Empresa Electrica sold their holdings to the Guatemalan government.[17] UFCO also disposed of some of its holdings in the late 1950's, but still in 1958 an antitrust ruling found United Fruit guilty of monopolizing the banana trade. As the deadline for divestiture approached UFCO was purchased by United Brands in 1970. Del Monte approached United Brands with a purchase offer for the company's Guatemalan plantations. For $20.5 million in 1972, Del Monte acquired 55,000 acres of prime agricultural land, plus an agroindustrial complex stretching from plantation to port.[18]

Although the significance of these three firms and their investments in agriculture, transportation and public utilities has ended, U.S holdings have increased remarkably in manufacturing. Table 3 illustrates that while in comparison with rest of the Central American members of the CACM the manufacturing industry's share of the GDP is less in Guatemala, nevertheless this share has increased in each of the indicated years. In addition, Table 4 gives one an even better grasp of the extent of the involvement of foreign investment in the manufacturing sector. In five different areas of this sector foreign companies account for a majority of the production.

Of the 19 firms in the tobacco industry represented in Table 4, the two foreign companies, Phillip Morris and British-American Tobacco represent 99 percent of the production. Although 251 national companies represent the majority of the production in the food processing industry, the comparatively small numbers of foreign companies account for 18.6 percent (that is an average of 1.4 percent per foreign company and 0.32 percent per national company.) In Guatemala this industry offers such things as chewing gum, margarine, food snacks, instant coffee and breakfast cereal to the market.[19] In the chemical industry foreign companies yield 54.3 percent of the production. Sources in NACLA reports [20] claimed that these firms were

Table 5.3

Share of manufacturing industry in GDP (at 1970 pri[illegible])
(percentages)

	Guatemala	El Salvador	Honduras	Nicaragua	Cost[illegible]
1945	n.a	11.4	7.5	11.4	n.a
1950	11.1	12.9	9.1	10.8	11.5
1955	11.7	13.8	11.9	11.5	[illegible]
1960	11.7	13.9	11.4	[illegible]	[illegible]
1965	13.0	16.7	11.8	15.4	[illegible]
1970	14.6	17.6	14.1	[illegible]	[illegible]
1975	14.0	17.9	13.9	19.5	[illegible]
1978	15.1	18.7	15.3	[illegible]	[illegible]

[Source: ECLA, Statistical Yearbook of Latin America, 19[illegible] [illegible] Nations, New York, 1980, p.70]

Table 5.4

Guatemala: The participation of foreign capital in the gross domestic product of the manufacturing sector - 1968.

(thousands of $CA)

	national companies			foreign companies		
		production			production	
	#	$CA	%	#	$CA	%
Food products	251	101801.1	81.4	13	23212.4	18.6
Beverages	25	29133.6	92.7	2	2297.2	7.3
Tobacco	17	135.1	1.0	2	13598.6	99.0
Textiles	129	45363.9	97.4	1	1228.8	[illegible]
Clothing	48	3936.1	89.1	1	480.7	10.9
Leather	75	6533.5	100.0	–		
Wood	89	8164.9	100.0	-		
Paper and Printing	69	12281.6	74.9	3	4140.9	25.1
Chemical Industry	61	16447.5	45.7	16	[illegible]	54.[illegible]
Petroleum Industry	-	–		2	[illegible]	100.0
Rubber Industry	15	2275.0	15.7	2	[illegible]	84.[illegible]
Plastics Industry	18	3995.3	91.5	[illegible]	[illegible]	[illegible]
Glass Industry	6	428.0	9.1	1	[illegible]	[illegible]
Minerals (non-metallic)	[illegible]	9907.6	[illegible]	[illegible]	[illegible]	[illegible]
Minerals (metals)	[illegible]	18507.7	56.[illegible]	10	[illegible]	[illegible]
Other	[illegible]	[illegible]	99.4	1	[illegible]	[illegible]

[Source: Gert Rosenthal. "Algunos aspectos sobre el grado de participacion de la inversion extranjera directa en el proceso de la integracion centroamericana", p.290] good examples of "finishing touch" industry [illegible]. They located in Guatemala to serve as an 'outlet' behind the tariff wall of the CACM and hence only bottling and minor chemical additions occurred in the Guatemalan plants. Similarly, foreign companies engaged in the rubber industry controlled 84.3 percent and in the glass industry, 90.9 percent of the production. Yet perhaps the most impressive figure in this table shows that at least in 1968, foreign companies (among them Exxon, Gulf, Texaco, Royal Dutch Shell and Standard Oil of California) controlled 100 percent of the petroleum industry in Guatemala. Guatemala is believed to have plentiful oil reserves and therefore several international oil companies in the 1970's concentrated on exploration for oil. The Luxembourg-based Basic Resources International S.A has discovered oil on its 936,000 acre petroleum concession in the Peten. This company's subsidiary, Recursos del Norte Ltda, cooperated in a joint venture with Shenandoah Oil Corporation and Saga Petroleum A/S of Norway to develop that concession.[41] Due to the limited size of the Guatemalan market, the companies had difficulty expanding and it was with much anticipation that they awaited the development of industries that required the intensive use of petroleum products. One such project was the proposed investment of the Canadian International Nickel Company in the eastern part of the country. It was estimated that in a few years the investment should be $60-80 million - making it the largest single investment in Guatemala. Naturally, the petroleum industry would be essential for the mining project's development.[22]

As cited in Table 5 of the previous chapter, at least by 1968 direct foreign investment in Guatemala concentrated in the manufacturing sector. This foreign investment had been called upon to be the engine for industrialization during the CACM. In addition, one of the aims of the CACM sought to implement regional import substitution industrialization through the interregional trade of manufactured goods. Indeed, Table 5 indicates that 97.1 percent of Guatemala's exports to the CACM consisted of manufactured products. In this analysis of foreign investment we have looked to see the extent of its participation in the Guatemalan economy. Hence continuing in this vein, Table 5 exposes the percentage of Guatemalan exports to the CACM that were produced by foreign companies. In 1970 then 98.3 percent of the exports of foreign companies were manufactured products and this accounted for 44.6 percent of the total manufactured items exported to the CACM. Despite their substantial presence one cannot say that foreign companies totally dominated the interregional trade of Guatemala.

Table 5.5

Guatemala: Exports to the Central American Common Market, 19[illegible]

Products	exports from foreign companies $CA	%	exports from national companies $CA	%	total exports $CA	%
Agricultural products	758,031 9.3%	1.7	7,433,007 90.7%	[illegible].3	8,191,0[illegible]8 100.0%	7.9
Manufactured products	42,648,901 44.6%	98.3	53,066,789 55.4%	87.8	95,715,690 100.0%	92.1
Total	43,406,932 41.8%	100	60,449,796 58.2%	100	103,[illegible] 100.0%	100

[Source: Gert Rosenthal, "Algunos aspectos sobre el grado de participacion de la inversion extranjera directa en el proceso de la integracion centroamericana", p.286]

The substantial investment of foreign capital in the manufacturing sector was likely to shift after the demise of the CACM. This is because as mentioned earlier, the bulk of the exports of foreign companies that grew and prospered during these years, was destined for the Central American market. As interregional trade dwindled excess installed capacity in manufacturing industries swelled. This suggests that foreign investment would perhaps concentrate in a different sector. Hence it is interesting to examine in detail the investment of the International Nickel Company (INCO) in Guatemala in the late 1970's. This venture involved the exploitation of nonrenewable national resources and would be the single largest investment in Guatemala. An analysis of INCO in Guatemala gives one an idea of the future emphasis of development, of how the Guatemalan leadership is likely to handle the relationship with foreign investment, and it shows a new and more sophisticated strategy on the part of foreign companies when compared with the past record of foreign investors. (For this following section I have relied heavily on the book, The Big Nickel:INCO at Home and Abroad, by Jamie Swift and the Development Education Centre.)

INCO IN GUATEMALA

In 1956 the Hanna Mining Company of Cleveland secured a concession on the shores of Lake Izabal in Guatemala from the government of Colonel Carlos Castillo Armas. Wanting perhaps to share the risks in developing these deposits. Hanna turned over control to the International Nickel Company (INCO), Canada's largest mining company and the world's largest producer of nickel, in 1960. A new company, Exploraciones y Explotaciones Mineras (EXMIBAL), was incorporated in which Hanna retained only 20 percent of the equity in EXMIBAL, and INCO took up the remaining 80 percent.[23]

By the summer of 1962, EXMIBAL was technically ready to begin the mine development. However, its mining project was not officially dedicated until July of 1977. During these years, the parent companies undertook what they felt was the "political work" necessary before production could begin.[24]

First of all, pressure was brought upon the Ydigoras government to adopt a new mining code. But before an agreement could be reached, Ydigoras was overthrown and Colonel Enrique Peralta Azurdia seized control and suspended the constitution. EXMIBAL was interested in encouraging the establishment of comprehensive mining legislation and it hired a Peruvian engineer to draft such a code. In April 1965, the Guatemalan Congress passed this draft as Decree 342 and in four months EXMIBAL had obtained the rights to the Niquegua nickel deposits in the hills overlooking Lake Izabal.[25]

Next, EXMIBAL desired to have its strip mining operation classified as a transformation industry. It would then benefit from the tax incentives the Guatemalan government offered as part of the Common Market strategy to attract industrial investment. When EXMIBAL requested this special status in 1967, the Minister of the Economy at the time, Roberto Barillas Izaguirre rejected it citing that only non-metallic mineral operations could qualify for transformation industry status.[26] Hence the mining company commissioned the industrial research arm of the CACM, ICAITI, to do a special study. ICAITI recommended that the Guatemalan government bestow the special status upon EXMIBAL. And in May 1968, with a new Minister of the Economy, EXMIBAL was declared eligible for special tax treatment.[27]

Still INCO wished to secure the ability of EXMIBAL to repatriate profits without initially depositing export earnings in the Guatemalan Central Bank as had been the custom. EXMIBAL claimed that in order to amortize the foreign loans for investment it must be allowed to accumulate a capital fund outside of Guatemala. On March 29, 1968, the government's Resolution 5727 ruled that companies with large foreign debts could deposit their funds outside the country.[28]

After securing these concessions that seemingly would assure them of a profitable experience in Guatemala, INCO sought one more last assurance of a good investment climate in Guatemala. INCO wanted proof from the government of firm control over political opposition that might endanger investment.[29]

Throughout the mid sixties, the hills around Lake Izabal were the base for left-wing guerrillas. The Fuerzas Armadas Rebeldes (FAR) and the Movimiento Revolucionario 13 de noviembre (MR 13) had established a base of support among the peasants of the provinces of Izabal and Zacapa. According to the authors of The Big Nickel, just as the U.S had made Guatemala safe for democracy in 1954, Colonel Carlos Arana Osorio made Izabal and Zacapa safe for INCO in 1968. In 1968, Arana Osorio and his American-trained and armed soldiers launched a "pacification campaign" to destroy the guerillas - by the end of the decade and this exercise, 3000 Guatemalans had been killed, many of them peasant supporters of the opposition. On the strength of his "performance" Arana Osorio ran for the presidency and was elected in 1970. He pledged during the campaign that, "If I am elected, all Guatemala will be like Zacapa". After his victory EXMIBAL was finally ready to proceed and in February, 1971 an agreement was signed.[30] A complex capable of producing 60 million pounds of nickel per year was to be built at a cost of $250 million.

According to INCO, the agreement brought "together certain conditions contained in the laws of Guatemala and other conditions contained mutually agreed upon..."[31] The company agreed to pay half the usual 53 percent tax on mining operations for the first five years of production and 3/4 the usual rate for the following five years. In addition, probably the most touted aspect of the agreement was the provision for government participation in the mining project through an acquisition of up to 30 percent of EXMIBAL, the equity of which would accrue in lieu of taxes.[32] The authors of The Big Nickel, suggest that the state involvement in EXMIBAL may have been an effort to appease those in Guatemala who were reminded of the country's experience with UFCO and saw it as a sell-out of non-renewable national resources, or an effort attempting to secure the company against the threat of nationalization.

INCO secured financing for the project from various international agencies, and in the end roughly one quarter of the necessary capital came from government agencies in the form of export credits or from lending institutions which received most of their funding from industrial countries.[33]

In May 1969 an ad hoc group of academics, unionists, and oppostion political leaders convened a public inquiry into the agreements with EXMIBAL. They offered the following recommendations concerning the Lake Izabal project: A new mining code to replace the "INCO code" passed in 1965 should be devised. EXMIBAL should also be taxed directly so that for each ton of ore extracted the government should receive some payment. In addition other national companies should be allowed to bid on the project, or it might even be run as a state enterprise. Furthermore, he decision to allow EXMIBAL to repatriate their profits freely should be reversed as it went against current policy. Finally, EXMIBAL should be denied status as a transformation industry.[34] In response to other instances of growing discontent, Arana Osorio ordered his Minister of the Economy to review the concessions granted to INCO's subsidiary. This minister, a former employee of EXMIBAL, not suprisingly, could find no fault with the agreements.[35]

Fulfilling his campaign promise to do to Guatemala what he had done to Zacapa, Arana Osorio declared a state of siege in November 1970. The suspension of normal legal rights allowed increased offical repression and an increase in the activities of right wing death squads.[36] Some of the most vocal critics of the EXMIBAL deal were victims of the terror of these years. Alfonso Bauer Paiz, a law professor and member of the ad hoc commission was shot by assailants but survived. In that same month another member of the commission, Julio Camey Herrera was machine-gunned to death in his car. Two months later, Adolfo Mijangos, the foremost critic of the project, and one of the four opposition deputies elected that year, was murdered just before the final agreement between Guatemala and INCO was signed.

In July 1977, EXMIBAL was officially dedicated by then president General Kjell Laugerud. The Guatemalan government saw the project as a model of foreign investment for it not only opened up a new export sector, but the fact that INCO was Canadian represented a change from the usually obvious

American presence. The extractive part of the operation was strip mining. Power shovels scooped away the hills in 22 foot strips and 35 ton trucks hauled the ore to the processing plant on the shores of Lake Izabal. After the ore was reduced and melted, the nickel matte was shipped down the Lake and eventually to the Caribbean port of Santo Tomas where it was shipped to the countries that refined nickel. EXMIBAL was expected to be exporting by the end of the year and when operating at full capacity to employ 900 people. Critics of the project saw little if no benefits for the Guatemalan people. In terms of creating jobs, the anticipated staff of 900 seemed insignificant compared to the 20 percent unemployed, and the 50 percent underemployed, of the population of five million. In addition to the criticism of the company's regulation of rate of resource extraction, control of marketing and pricing, concern was expressed over the effect of strip mining on the ecology of the Lake Izabal region. It seemed that the only Guatemalans that would gain from this venture were those who allied themselves directly to the transnational. These people were often members of the most influential families in banking, agriculture and business.

Note: In January 1981, the much awaited mine shut down for a year due to low nickel prices and the high cost of oil used in the smelting process. At its peak the mine had brought in about as much foreign exchange as the entire tourist industry.[37]

It has been shown that the CACM member nations fixed upon foreign investment to spur their programs for industrialization. To this end they actively competed against each other in efforts to attract foreign capital. In most cases however, the desire for industrialization co-existed with strong nationalistic and often, anti-American sentiments. So in Central America ambivalent feelings that encouraged foreign investment to raise the national income, and feared that such investment would be costly in economic and social terms and impair independence prevailed.[38] Wilkins below, recognizes these fears that exist in all of Latin America (and are definitely representative of the Guatemalan experience), in responding to each one, she speaks for the good that multinationals could accomplish.

First, recipient nations fear the economic costs of U.S investment. By taking large earnings out of the country and in other ways hurting the nation's balance of payments, U.S investment would retard economic growth and local initiative as it sought to aid the parent company's growth at the expense of the national economy. Wilkins counters that payments abroad by U.S business contributed positively to the host nation's growth. For instance, it would provide capital, management, technology, skills and know-how, employment opportunities and taxable enterprise. In addition, basic infrastructure investments in transportation, housing, education and medical care or benefits to the host country. With respect to fluctuati in the nation's balance of payments, Wilkins states t the effects could be positive when a foreign invest production was substituted for imports and when t investors exported their output. As far as sapping lo al initiative, she maintains that by demonstrating techniqu that could be imitated, by training indigenous personnel and by creating new activities (secondary industries) linked with the investor's primary business, host nation local business could prosper. Albert O. Hirschman concedes that foreign capital is now taxed more heavily, more foreign earnings are returned to the host country, foreign firms buy more from and sell more to domestic producers, and technology is being transfered. However, the performance of foreign capital today is still overshadowed by the "conspicuous cases of unbrindled exploitation in the past. Today the U.S is still accused of economic domination, political intervention and perversion of Latin American values through their investments."[39] On the question of economic costs of foreign investment, Wilkins concludes that the record shows that it has helped the national economy:

> There need be no contradiction between aiding the parent company's and the host nation's growth; both can go hand in hand. In net, U.S business abroad usually has made an important contribution to the economic

growth of the host nation.[40]

Again Hirschman agrees that foreign investment can bring in missing factors of production (capital, management, technology, skills etc.) complementary to those available locally in the early stages of development of a poor country. However, once a country has started to generate its own entrepeneurs, and technicians, foreign investment may play a stunting role as it keeps importing so called scarce factors of production.[41] As Guatemala appears to have reached this stage of development it seems that foreign firms may compete with rather than complement domestic enterprise. When solvent local businesses are bought out it is hard to continue talking about contributions. In Wilkin's opinion, the major contribution foreign investors have made has been their role in the industrialization of Latin America. Further, the most modern parts of the industrial sector in Latin America result from U.S stakes. Certainly this is likely to be true. However, when investors own the most modern parts of the industrial sector, then often the very core of a national economy is controlled by other than national interests - a situation which seems hard to justify. These industrialists cannot usually constitute an effective interest group for modernization as foreigners tend to act with caution and restraint and not as a pressure group for the reform of domestic policies.[42] It is hard to imagine why they would want to change domestic policies that granted them various concessions. The Guatemalan experience with foreign investment supports this. UFCO, before the election of Arbenz controlled not only a vast amount of the country's most fertile land, but it also its transportation systems both inside Guatemala and outside (in terms of shipping). In addition its subsidiaries owned the country's public utilities and communications system. No one has ever asserted that UFCO ever acted to change this status quo, certainly, their success at resisting such attempts it well documented. Later INCO's nickel mining project, one of the most recent and largest foreign investments in Guatemala, only sought to expand the concessions that they received from the national government and did not proceed until they were secured. In addition, when policy makers make decisions affecting key industrial sectors, the fruits of their decisions accrue to non-nationals and hence just further strengthen their position.[43] It is therefore difficult to make national decisions that concern economic development.

Next the Latin American countries that hosted direct foreign investment feared its political costs: the creation of dependent relationships and the loss of sovereignty. In this light there were many critical questions they faced. What about the loyalties of multinational corporations. Are they responsive first to the U.S government and then to the host government, first to the parent company and then to the host nation? If the foreign investment is in an important industry or another preeminent role in the economy, will it be able to circumvent national goals? Can any nation retain its sovereignty if its major industry, its national defense, its communication, its transport, or its banking activities are in foreign hands? Can foreign investors upset a national currency?

Wilkins responds to these deep concerns by countering that nations that host direct foreign private investment can indeed maintain their sovereignty. These host nations have the power to enact laws (tax and expropriation) to control the activities of foreign investors. As far as the loyalties of foreign investment and its circumvention of national goals, Wilkins believes that compared with the alternative of foreign government capital, private foreign direct investment is free of political strings as they have economic goals behind their investment. In addition, Wilkins contends that there cannot be true national sovereignty without economic strength - and foreign investors aid in establishing this foundation. Actually the record in Guatemala shows that there have been no expropriations since 1955, and although tax laws might control the activities of foreign investors, in Guatemala this has not been their aim. Rather, tax incentives and tax breaks have been used to attract more capital to Guatemala. In addition, not only did the host nations seem unable to enact laws that controlled foreign investment, but companies like UFCO and EXMIBAL proved adept at influencing the passage of laws that favored their particular needs. Although it might be correct that in itself private investment had less political strings, we have seen how since the administration of Woodrow Wilson, government aid has increasingly been implemented to protect and provide guarantees for private investment. Much of their aid money was used to build infrastructure that would be of great assistance to these new industries. The idea that there is no linkage between private foreign direct investment and foreign capital seems questionable given these developments since the days of Wilson.

Lastly, host nations feared the social costs of direct foreign investment. They worried that the multinational firms would impose alien cultural patterns and hence destroy the nation's culture. Wilkins does not appear to challenge these concerns, rather she seems to confirm them and accept their inevitability.

> ...economic development, particularly industrialization wherever it occurs, decimates old cultural patterns. The question is, does the recipient nation want to develop; if so it must sacrifice many of the existing ways of life. There seems no choice. No nation has developed economically without some crumbling of the cake of custom.[44]

The implication of the above statement is that industrialization is a set package - containing specific policies, skills, and technology that must unflinchingly be implemented if a society decides to seek greater economic development. I cannot agree that the destruction of a culture so rich and colorful as that of Guatemala should be accepted as an inevitable consequence of modernization. Economic development must be an illusion without the foundation of an educated, healthy and proud society.

In a number of cases, Wilkin's views on the economic, political and social consequences of foreign investment in Latin America, conflict with what we know about its record in Guatemala.

According to Wilkins, U.S business abroad has made important contributions to the economic growth of the host nation. It has provided crucial factors of production like capital, management, technology, know-how, skills etc... Also it provides employment opportunities, beneficial additions to the national infrastructure and taxable enterprises. In the case of Guatemala, as many of the foreign investments were capital intensive, the IDB's Annual Report stated in 1968 that the new investments created about 1,500 new jobs a year, while the increase in the national labor force amounted to 80,000 persons a year.[48] As far as the creation of taxable enterprise is concerned, we have seen how in the case of two major foreign investments, UFCO and EXMIBAL, taxes were reduced in some cases by one half, or even eliminated all together.

On the contrary, tax revenue declined as Guatemala sought to attract foreign companies. She stated that the balance of payments effects due to foreign investment could be positive as the foreign investors production could be substituted for imports. Actually, the only time that Guatemala's balance of payments was positive was during the last few years of Arbenz's regime. Rather than weakening local capital Wilkins countered that foreign investors bolster their initiative by demonstrating new techniques that can be imitated, by training native personnel and by stimulating the creation of complementary, secondary industries that could supply the needs of the larger industry. As mentioned by Hirschman, it is questionable whether foreign firms did not just compete (with an unfair advantage) with already established local entrepeneurs. Lastly she believed that one of the major contributions of foreign investment was its creation of the most modern and industrial sectors of Latin America. In the case of Guatemala probably one of the major detriments of foreign investment was exactly this, since the days of United Fruit it controlled most of the key industrial sectors, indeed the very core of the national economy.

As far as the political consequences of foreign investment Wilkins seemed assured that local sovereignty could be maintained since host nations had the power to enact laws that would control foreign investors. Again, the Guatemalan experience shows that those laws that were enacted either, gave tax breaks and incentives to foreign companies during the period of the CACM, or as in the case of UFCO and EXMIBAL these companies were actually able to influence the passing of legislation in their favor. Wilkins did not feel that Latin American nations should worry about whether foreign companies would be more loyal to the parent company and the U.S government than to the local authorities. After all she asserted, private foreign direct investment was purely motivated by economic goals and free of political strings. The record in Guatemala indicates that this is nonsense. Of course the best example of foreign investment with political strings was UFCO, who after being threatened by expropriation and other changes in their way of doing business, was able to play a major role in the overthrow of the elected government of Arbenz in 1954. In regard to political costs, Wilkins concludes that true national sovereignty was not possible without the economic strength that foreign companies could provide. Yet how could a nation like Guatemala retain its sovereignty (if it ever had it) when its major industry, its national defense, its communications, its transport, or its banking activities are in foreign hands? Would foreign investors ever allow the nationalization of these interests when they attained this foundation of economic strength? Lastly, in terms of social consequences, Wilkins held that in order to achieve economic development some destruction of the national culture must be accepted. Certainly in Guatemala during the past twenty years "old cultural patterns" have been decimated, especially those of the large Indian population. Yet it appears that this grave loss has not been accompanied by any great measure of development as indicators of social, political and economic modernization will show.

In order to analyze some of the current social conditions in Guatemala I have gathered data in Table 6 from the Inter-American Development Bank Annual Reports of the last twenty years. While advances appear to have been made in reducing the death rate and infant mortality and increasing the life expectancy and literacy rate, other measures of social well-being such as central government expenditures on education, public health and housing have declined. These figures become more meaningful when compared with strides other Latin American nations have made in these areas.

It would seem impossible for any study of Guatemala to ignore this country's recent record of violent political unrest. I feel that Jonathan Fried's book Guatemala in Rebellion: Unfinished History includes a chronology that summarizes the political situation since 1954. (See Appendix 1). Unfortunately, entries that would indicate an opening of the political process to a larger sector of the population, fair elections, or the confidence of the Guatemalan people in their elected government, are

Table 6. Social Indicators

Social Indicators	1965	[illegible]	[illegible]	[illegible]	[illegible]
Central Government tax revenue as a % of GDP	7.3	7.7	[illegible]	[illegible]	[illegible]
% of total Central Government expenditure on:					
Education	14.7	17.7	[illegible]	[illegible]	[illegible]
Public Health	8.8	10.6	[illegible]	[illegible]	[illegible]
Housing	[illegible]	1.[illegible]	[illegible]	[illegible]	[illegible]
Death rate (per 1000 live births)	15.[illegible]	14.[illegible]	11.[illegible]	[illegible]	[illegible]
Infant mortality (per 1000 live births)	94.[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Life expectancy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Literacy (%)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[Source: based on the Annual Reports [illegible] Development Bank.]

a figures not [illegible]

b lowest life expectancy [illegible]

c for (19[illegible]

d [illegible]

e lowest [illegible]

conspicuous absent in this tragic litany of political violence and destruction of the Indian culture. Apparently, political development has not accompanied the economic growth of the past thirty years.

Indicators of economic advances in these years can be found in Tables 7, 8, and 9. The years after 1954 (dominated by the CACM period) are characterized by healthy growth rates when compared to the rest of Central America. Although the war in 1969 signaled the decline of the CACM, the resulting deceleration in the industrial sector was compensated by a rise in the world commodity prices after 1971. It is interesting to note that despite two decades of concerted efforts by such programs as the CACM and the Alliance for Progress to encourage industrialization, the export agriculture sector did not relinquish its dominance as shown in Table 8. Also in Table 9 it appears that the expansion of this sector led to increased export earnings for Guatemala that were not so much a result of increased productivity as of a greater cultivated area. Indeed, from 1950 to 1980 the area planted in cotton increased by 2307 percent as compared to a much smaller increase in yield. Since 1979 the economic crisis that had been threatening for years finally took hold.

In contemplating the deteriorated economic and financial condition of the last five years in Guatemala (Table 10), the 1984 Interamerican Development Bank Annual

Table 7. Rate of Growth of Gross Domestic Product at 1950 prices.

(Rates expressed as geometric annual averages)

Period	Costa Rica	El Salvador	Guate-mala	Honduras	Nicaragua
1920-4	3.0	4.3	5.4	0.5	1.9
1924-9	0.2	2.6	3.8	8.3	6.4
1929-34	0.0	- 0.7	-0.6	-2.4	-4.9
1934-9	8.0	3.3	12.5	0.2	2.4
1939-44	-2.7	3.5	-4.7	2.4	4.6
1944-9	10.9	6.8	6.9	5.3	6.9
1949-54	5.1	3.8	3.5	2.0	11.3
1954-9	4.1	3.2	4.9	5.1	3.1
1959-64	3.9	7.2	5.0	3.9	6.8
1964-9	7.8	4.7	5.5	4.5	5.5
1969-74	7.1	4.9	6.4	3.5	5.4
1974-9	5.4	3.5	5.3	5.2	-4.7
1979-82	-1.2	-8.1	0.8	0.5	4.9

[Source: Thomas in JLAS vol.15 part 2 November 1983]

Table 8. Export Earnings from Agriculture and Industry, 1970-1978 (millions of dollars)

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Agriculture									
Coffee	100.6	96.3	105.3	145.6	173.0	164.2	243.0	526.5	455.0
Cotton	27.2	26.0	40.9	47.9	71.0	75.9	87.8	152.1	161.6
Bananas	13.6	14.4	25.7	24.7	31.4	35.1	45.7	45.6	49.9
Sugar	9.2	9.9	16.1	21.9	49.6	115.6	106.7	81.8	28.6
Beef	12.7	17.4	18.1	25.1	21.5	17.0	14.5	27.9	27.5
Other	22.1	17.7	18.4	23.4	34.3	22.0	57.6	69.9	80.0
TOTAL	185.2	181.6	224.5	288.6	380.8	429.7	555.2	903.7	802.6
As % of all exports	62.3	63.3	66.8	65.5	65.4	67.0	70.8	76.7	69.2
Industry	1970	1971	1972	1973	1974	1975	1976	1977	1978
Manufacture	107.5	101.8	107.4	146.4	193.1	203.1	221.7	267.8	341.5
Minerals	4.5	3.4	3.9	6.6	8.4	8.2	7.5	7.3	16.3
TOTAL	112.0	105.2	111.3	153.0	201.5	211.3	229.2	275.1	357.8
As % of all exports	37.7	36.7	33.2	34.5	34.6	33.0	29.2	23.3	30.8

[Source: World Bank, 1980 from NACLA vol XVII no.1]

Table 9. Increases in Area and Yield for Export Agriculture(%)

	Period	Guatemala
Cotton		
	Area(1950-80)	2307
	Yield(1950-80)	349
Cane Sugar		
	Area(1950-80)	392
	Yield(1950-80)	83
Coffee		
	Area(1934-80)	136
	Yield(1934-80)	54

Table 10. Economic Indicators for Guatemala

Basic Information:

Area (km^2) ... 108,889

Total population 1983 (thousands of inhabitants) ... [illegible]

[Percent of urban population: 32.7; Percent of rural population: 67.3]

Average annual rate of growth of total population ... [illegible]

	1971	19[illegible]	[illegible]
REAL PRODUCTION	(growth rate [illegible])		
Total GDP (market prices)	[illegible].7	[illegible].5	[illegible]
Agricultural sector	1.2	[illegible]	[illegible]
Mining sector	[illegible]	[illegible]	[illegible]
Manufacturing sector	[illegible].1	[illegible]	[illegible]
Construction	[illegible]	[illegible]	[illegible]
BALANCE OF PAYMENTS	(millions of [illegible])		
Merchandise exports (FOB)	1,[illegible].1	[illegible]	1.[illegible]
Merchandise imports (FOB)	1,544.2	[illegible]	[illegible]
Trade balance	254.1	[illegible]	[illegible]
[illegible]	417.[illegible]	[illegible]	[illegible]
Current account balance	[illegible].7	[illegible]	
[illegible]	[illegible]	[illegible]	
[illegible]	[illegible]	[illegible]	
Change in [illegible] ([illegible] increase)	[illegible]	[illegible]	

[Source: [illegible]]

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Report, Economic and Social Progress in Latin America, speaks of the prospects for a gradual recovery in the next few years.

The Annual Report mentions the factors that they feel have accounted for the estimated 2 percent contraction of the Guatemalan economy in 1983, and sees hope for their improvement. Dependence on the world prices for their traditional export products, Guatemala has been seriously affected by their low levels of the past years. Coffee exports, which account for 30 percent of the total exports, amounted to $308 million in 1983, which meant a decline of 18 percent from 1982. Earnings from cotton fell 20 percent to $77 million in 1983 and banana exports, plagued by bad weather, decreased by 26 percent. The value of sugar sales however, almost doubled.[46] Another factor in the Guatemalan crisis is the decline in public expenditures. Public sector investment, affected by a government austerity program, fell another 15 percent after a reduction of 20 percent in 1982.[47] Lastly, private investment, due to tight credit, limited access to foreign exchange and political uncertainty, has continued its decline.[48]

It is interesting to note that in these authors' assessment of the potential recovery of these three factors and hence the Guatemalan recovery, they continue to put the emphasis on the role of export agriculture paralleled with private investment.

> Prospects of some recovery in the external demand for traditional exports may prevent a further eco- nomic decline in 1984 and contribute to a very gradual recovery in the following years. The pro- jected performance assumes restraint in public expenditures and a modest recovery of private investment in a climate of relative political stability...The policy of keeping public expenditure in check means that the prospective economic recovery depends mainly on private investment and external demand. The confidence of the private sector may be strengthened by the announcement that a National Assembly is to be elected in mid- 1984 to draft a new constitution and presidential elections are to be held in early 1985.[49]

Due to the focus of this paper on foreign investment special attention should be taken on this key role that the Annual Report hopes that the private investment sector will take in Guatemala. In the past 20 years, the growth in direct private investment concentrated in manufacturing industries. But they do not anticipate that in the future major investments will remain here because of various reasons. First of all, at present there is an excess installed capacity.[50] This could be due to the small size of the market that grew saturated by the abundancy of industrial investors who were drawn in the past years to take advantage of the special incentives that have been discussed throughout the paper. The other reason for no expected dynamic growth in investment in the manufacturing industry is the collapse of the main outlet for Guatemalan goods. It has been mentioned that the bulk of the products of Guatemalan industry were destined for the regional markets of Central America. Hence the current unsettled economic and political situation in this area has affected the future of that industry.[81]

Rather, the Annual Report sees that major private investment opportunities in 1984 lying in the energy sector, offshore assembly operations, and agro-industrial projects.[82] Guatemala is believed to have considerable untapped oil wealth. However, they are a high cost producer of oil primarily due to high exploration costs and difficult production conditions. As in the past, in order to stimulate further activity in the oil sector, the Guatemalan government has turned to foreign private investment. In September of 1983, it approved new legislation designed to make foreign investment in oil exploration and production more attractive.[83] According to the Annual Report, the agro-industrial sector seems to be in a good position for "industrial expansion and diversification of industrial exports (based chiefly on the processing of natural resources). Given labor intensive operations they may be in a position to compete in the international market. At the same time, the reactivation of the world economy and the Caribbean Basin Initiative are likely to facilitate industrial recovery in the country."[54]

"Political uncertainty" seems to be a rather mild term to describe the litany of violence given in the chronology of political modernization. If this critical situation can be remedied by national elections as the 1984 Inter-American Development Bank Annual Report suggests, then great strides would have been made in the democratic system of Guatemala. It is interesting to note the path toward economic and financial recovery is to be funded again through substantial private foreign investment. Given Guatemala's past history with the United Fruit Company it is perhaps not surprising that the Annual Report emphasizes that " industrial expansion and diversification of industrial exports (based chiefly on the processing of national resources" is the key to future prosperity in that country. Although today the strategy of foreign capital is more sophisticated (the example of EXMIBAL), and although Guatemala experienced thirty years of strenuous efforts to undergo industrialization on a regional scale and lessen its dependence on the export of basic raw materials, it appears that very little has changed in Guatemala's relationship with foreign investors, and in the composition of the country's exports.

Conclusion.

Foreign investors in Guatemala in the first half of the 20th century primarily engaged in the cultivation and exportation of coffee. Dominated by Germans and their Guatemalan descendents, this sector's exports became responsible for the bulk of the country's revenue. Gradually the United Fruit Company (UFCO), which began the cultivation of bananas, surpassed the German influence so that by the end of the first World War North American capital had assumed the dominant position. As has been demonstrated in this study, the power of the UFCO in Guatemala can scarcely be exaggerated. The UFCO along with the International Railways of Central America (IRCA) and the Empresa Electrica gained control of vast plantations and virtually the only means of modern transportation in the country and thus secured undisputed economic and political power. As the Guatemalan treasury grew totally dependent on the export of coffee and bananas (it is estimated that by the 1920's these two crops accounted for more than 90 percent of the export earnings) these two powers were impregnable. During the Ubico regime, the elite sector (agrarian oligarchy) of Guatemalan society willingly gave great advantages and independence to these three North American multinational companies who invested in expanding Guatemala's export market and infrastructure. Guatemala has never abandoned the export-led model of growth; with rare expectations this model provided the source of growth in the Guatemalan economy since the 1920's. The agrarian oligarchy benefited from the country's exports of coffee, bananas, sugar and cotton and the growing international market. In the 1950's the market fluctuations had increasingly been negative and both this elite sector of landowners and Guatemala's nationalistic leaders (who had overthrown Ubico in 1944) thought that an expanded and diversified export market could be beneficial. An industrial policy based on the distribution of benefits to all sectors of society was averted by revolution in 1954. Instead, the policy became import substitution at the regional level: the Central American Common Market (CACM).

The CACM, founded in 1960 to inspire economic development of the region through free interregional trade and economic integration, stands out as the most successful integration movement of Latin America and perhaps of any other developing countries. The financial resources required by the Common Market's industrialization scheme were provided mainly by the United States. A substantial increase in U.S foreign direct investment, now concentrated primarily in manufacturing industries, paralleled this funding. Almost immediately there were signs that the CACM was an economic success if measured in terms of growth in interregional trade, and yet a disappointment by other indicators of economic developement such as a more equitable distribution of land and income and less dependence on the world economy. With few restrictions on foreign investment and intense competition among member nations to attract this industrial capital many plants were established. Problems arose for each Central American host nation's balance of payments as the manufacturing industries paid lower taxes but required increasingly expensive imported materials and capital goods that had to be financed by the traditional export agricultural products that fetched a decreasing price in international markets. The Common Market as a whole encountered problems as manufacturing industries concentrated in the countries with a larger industrial base, creating resentment in countries like Honduras and Nicaragua that felt they were being forced to subsidize the protected industries of Guatemala, Costa Rica and El Salvador. Furthermore, the types of goods produced by these industries for this regional market of 15 million were likely to be inaccessible to much of the economically active Central American population, two thirds of which was engaged in agriculture. The CACM never attempted to address the need for land reform in these countries where export agriculture continued to dominate. In 1969 as the severity of these problems mounted, any progress the CACM had achieved was stalled by the war between El Salvador and Honduras. Critics have maintained that some of the failure of the CACM resulted from the desires of such groups as the U.S government, investors and the landed elite of Central America to achieve industrial modernity while avoiding social and political crisis as in Cuba. The Alliance for Progress, another effort of the U.S government during the 1960's to help Central America achieve ecnomic and social development while maintaining democratic government, resulted in the growth of private direct foreign investment as the CACM had and was similarly criticized.

In Guatemala, as in the rest of Central America, in the sixties and seventies, the years of the CACM and the Alliance for Progress, the gains of multinational corporations in the manufacturing and mining industries contrasted with the unfulfilled hopes for a more equitable distribution of land and income, for health and educational improvements, for less political violence and for more open, democratic governments, as well as less dependence on the world economy. As discussed in Chapter Five, this situation sparked a debate as to whether foreign investment was good or bad for these nations. The results of this study do not suggest either absolute conclusion.

Historically in Guatemala, all efforts at achieving economic development have depended heavily on foreign investment: the incorporation into the world market of export agriculture, the building of modern transportation, communication and power systems, the Central American Common Market, the Alliance for Progress and the creation of modern industries in the manufacturing, mineral and energy sectors. Statistics show that foreign investment alone has not been able to achieve proportional results in terms of economic, social, and political development. The similarities between the results of the largest foreign investment in Guatemala in the first half of the 20th century, the United Fruit Company, and the largest foreign investment in recent years, EXMIBAL, demonstrate how little has changed. The years have only resulted in the more sophisticated manner that EXMIBAL used to secure the concessions it desired from the government. Although through these years foreign investment has provided scarce factors of production such as capital, technology and know-how, this study suggests that foreign investment alone will not provide for development. Apparently for Guatemala and other similar nations, policies that encourage domestic investment and resolution of social and political crises are needed in addition to foreign investment as a source of capital.

APPENDIX 1

Political Indicators: Chronology

1954 Arbenz is overthrown and Colonel Carlos Castillo Armas is installed in a CIA-planned and -financed invasion and coup. Land reform is reversed, popular organizations crushed and thousands killed.

1957 Castillo Armas is assasinated.

1958 General Miguel Ydigoras Fuentes is elected president

1959 The Cuban Revolution: Fidel Castro takes power

1960 Ydigoras allows the United States to train Cuban exiles in Guatemala for the Bay of Pigs invasion of Cuba. The Central American Common Market is formed.

Nov.13 A major military uprising against Ydigoras, involving one-third of the army is suppressed.

Mar.-Apr. 1962 Massive demonstrations by students and workers in Guatemala City against the Ydigoras government.

Dec. 1962 The Rebel Armed Forces (FAR) guerilla organization is formed and begins antigovernment activity in the mountains of northeastern Guatemala.

Mar. 1963 Ydigoras is overthrown in a coup led by Colonel Enrique Peralta Azurdia.

1965 The chief of the U.S military mission is killed and a state of siege declared.

1966 Julio Cesar Mendez Montenegro is elected president.

1966-69 United States increases military and economic aid to Guatemala, and army counterinsurgency campaigns and repression by right-wing paramilitary squads intensify. U.S sends Green Berets, guerrillas are decimated and thousands are killed.

1970 Colonel Carlos Arana Osorio is elected president. A one year state of siege is imposed in November and a new wave of government repression begins.

1974 General Kjell Eugenio Laugerud Garcia, the official presidential candidate, is chosen over apparent election winner General Efrain Rios Montt.

1975 The Guerilla Army of the Poor (EGP) initiates guerrilla activity in the northern part of the Quiche province.

Feb.4 1976 A massive earthquake leaves over 22,000 dead, 77,000 injured and one million homeless.

Apr.1976 The National Committee of Trade Union Unity (CNUS) is formed.

Nov. 19 1977 A protest march of miners from Ixtahuacan, Huehuetenango is met by one hundred thousand supporters in Guatemala City.

Mar. 1978 A public workers' strike shortly before presidential elections forces the government to approve wage hikes. General Fernando Romeo Lucas Garcia is elected president it what was seen as an openly rigged contest.

Apr.1978 The Committee of Campesino Unity is formed.

May 29 Over one hundred Kekchi Indians are killed by 1978 government troops and armed landowners in Panzos, Alta Verapaz.

July 1978 Lucas assumes power.

Oct .1978 A general strike and large spontaneous protests in Guatemala City force the government to revoke a 100 percent city bus fare hike.

Oct.20 Oliverio Castaneda de Leon, president of the 1978 Association of University Students is gunned down.

Jan. 25 Dr. Alberto Fuentes Mohr, former government 1979 minister and leader of the Democratic Socialist Party, is assassinated in Guatemala City.

Feb.24 The Democratic Front Against Repression (FDCR) is 1979 formed.

Mar. 23 Manuel Colom Argueta, founder and leader of the 1979 social democratic United Revolutionary Front party , is killed in Guatemala City.

Sept.18 The Organization of the People in Arms (ORPA), a 1979 guerrilla organization, announces its existence.

Jan 31. Part of a group of campesinos who had come to 1980 Guatemala City from Quiche to protest armed repression in their villages occupy the Spanish embassy. Police storm and firebomb the embassy building killing thirty-nine.

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Feb.-Mar. Nearly 80,000 Indian and ladino farmworkers go
1980 out on strike, forcing the government to raise the minimum wage for farmworkers.

May 1, Forty thousand turn out for the May Day protest
1980 march in Guatemala City, the last above-ground demonstration to take place in Guatemala. Dozens of demonstrators are kidnapped in the course of the march.

June 21 Twenty-seven trade union leaders are kidnapped
1980 from the Guatemala City headquarters of the National Confederation of Labor (CNT).

July 14 Armed men indiscriminately shoot at students
1980 stepping off public buses at the University of San Carlos,killing several.

July 20 After the murder of two priests and two attempts
1980 on the life of the bishop, the Catholic Diocese of Quiche is closed.

Aug. 1980 The army gathers residents of San Juan Cotzal, Quiche and shoots sixty male villagers.

Aug.24 Seventeen trade union leaders from the CNT are
1980 kidnapped from a Catholic retreat house in Palin, Escuintla.

Aug. 28 A violent five-year long labor conflict at
1980 Guatemala's U.S-owned Coca Cola franchise is resolved after an international union-led boycott forces the parent company to intervene.

Sept. 6 The army attacks the town of Chajul, Quiche,
1980 bombing the convent, beating and interrogating

residents and killing at least thirty-six.

Oct. 1980 ORPA joins EGP, FAR and the Leadership Nucleus of the Guatemalan Workers Party (PGT) in a guerrilla alliance.

Jan. 1981 The guerilla alliance launches a coordinated campaign aimed at preventing the intervention of Guatemalan troops in El Salvador during the Salvadorean guerrillas general offensive.

The January 31st Popular Front (FP-31) announces its formation.

Feb.-Mar. 1981 An estimated fifteen hundred Indian campesinos are reported killed in army massacres in Chimaltenango.

Apr. 9 1981 Twenty-four people are massacred by machete in the village of Chuabajito in San Martin Jilotepeque, Chimaltenango.

Apr. 15 1981 Forty to one hundred campesinos are massacred in the village of Cocob in Nebaj, Quiche.

Apr. 31 1981 At least thirty-six campesinos are killed in an attack on the town of San Mateo Ixatan, Huehuetenango.

May 1981 The army bombs and lays siege to the villages of Tres Aguadas, El Caoba, El Remate, and Paxmacan in the Peten province. Five hundred seek refuge in Mexico and within days are deported back to Guatemala.

June 1981 Nineteen rural cooperatives in the Peten province are attacked by the army. At least fifty people are killed and 3,500 flee to Mexico.

June 10 The Reagan administration approves the sale of
1981 3.2 million of military jeeps and trucks to the Lucas government.

July 1981 Most of the campesinos from the Peten cooperative who had sought refuge in Mexico are deported back to Guatemala.

July 19 Two hundred soldiers attack the village of Coya,
1981 Huehuetenanago, as residents attempt to resist with machetes sticks and stones. One hundred fifty to three hundred villagers are killed.

Among a series of guerrilla actions commemorating the 1979 Nicaraguan revolution, five hundred guerrillas occupy the tourist town of Chichicastenango, Quiche.

July 28 U.S priest Stanley Rother is killed in Santiago
1981 Atitlan, Solola.

Aug.12 As many as one thousand campesinos are killed in
1981 army attacks on two villages in San Sebastian Lemoa, Quiche.

Sept.1981 The army kills about seven hundred in San Miguel Chicaj and Rabinal, Baja Verapaz.

Oct.-Dec. Soldiers burn homes, crops and kill as many as
1981 one thousand in the Chupol region of Chichicastenango, Quiche.

Oct.10, Guerrillas launch a series of bombing and 20,1981 military attacks on police, government and economic targets in Guatemala City.

Oct. 28 Guerrillas simultaneously mount attacks on two

1981 provincial capitals, Mazatenango and Solola, and briefly occupy the latter.

Nov.1981 The army carries out a major counterinsurgency offensive in the Chimaltenango province.

Nov.22 Emeterio Toj, leader of CUC and EGP member,

1981 escapes a Guatemala military base close to four months after he was kidnapped by government security forces.

Dec.2 Five hundred guerrillas attack army posts in

1981 Santa Cruz del Quiche.

Jan. 1982 A major counterinsurgency offensive is launched in the Quiche, Chimaltenango, Huehuetenango and San Marcos provinces.

Jan. 19 A large guerrilla force attacks and nearly

1982 overruns the San Juan Cotzal, Quiche military base.

Feb. 7 The EGP, FAR, ORPA and the Leadership Nucleus of

1982 the PGT announce their unification under the umbrella of the Guatemalan National Revolutionary Unity (URNG).

Exiled leaders of different organizations, sectors and ideological persuasions form the Guatemalan Committee of Patriotic Unity (CGUP) endorsing the URNG and their points for a program of government.

Mar. 7 General Angel Anibal Guevara, official

1982 presidential candidate, wins a plurality of the votes amidst charges of fraud by the three right-wing opposition candidates.

Mar. 23 A bloodless palace coup overthrows the Lucas 1982 government before power is transfered to Guevara. General Efrain Rios Montt is installed as head of a three-man junta. Five hundred people are killed by soldiers in the villages of Parraxtut, El Pajarito and Pichiquil, Quiche.

Mar.24-27, 1982 Helicopter bombing raids kill one hundred in the villages of Las Pacayas, Cisiram, El Rancho, Quixal, and Chuyuc in San Cristobal Verapaz, Alta Verapaz.

Mar.28-Apr.10, 1982 Soldiers kill two hundred and fifty and burn down the villages of Estancia de la Virgen, Chicocon, Choatalun and Chipila in San Martin Jilotepeque, Chimaltenango.

Apr.3-5, 1982 Soldiers kill most of the residents of Chel, Jua and Amachel in Chajul, Quiche. In one of the villages the women are raped, the men beheaded and the children tossed against the rocks of a river bed.

Over one hundred are killed in the village of Mangal in Chajul, Quiche.

Apr. 12 1982 The army burns down the houses, fields, and forests in San Antonio Ixchiguan, San Marcos.

Apr. 15 1982 Soldiers kill over a hundred children and seventy-three women in Rio Negro, Baja Verapaz. The bodies of the women are found hanging from the trees with the children on their backs.

Apr. 18 The villages of Agua Escondida and Xugueza II in

1982 Chichicastenango, Quiche, are abandoned after the houses and fields are set afire.

Fifty-four persons are beheaded in Macalbaj, Quiche and the entire village burned down.

Apr. 20 1982 One hundred campesinos are massacred in the village of Josefinos in La Libertad, Peten.

Apr.29 1982 Two hundred campesinos are killed in Cua .o Puerto Quiche, and houses, crops and forests burned down.

June 1982 One hundred campesinos are killed in the village of Pampach in Tactic, Alta Verapaz.

One hundred sixty of the one hundred and eighty families living in the town of Chisec, Alta Verapaz, are massacred.

June 9 1982 Rios Montt declare himself president and sole ruler of Guatemala and the other two junta members resign.

July 1 Rios Montt declares a state of siege.

Jan. 7 1983 The Reagan administration lifts the five-year old embargo on arms sales to Guatemala, approving the sale of over $6.3 million worth of helicopter spare parts and military equipment.

Jan.25-26,1983 Guatemalan soldiers and government civil patrols enter Mexico and kill four refugees at Santiago el Vertice and La Hamaca refugee camps in Chiapas.

Mar.3 Six men are shot by firing squad three days

1983 before the arrival of Pope John Paul II, and despite his pleas for clemency. This was the second mass execution of persons tried in Guatemala's secret military tribunals.

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[22] Fried, op.cit., p. 93.

[23] Jamie Swift and the Development Education Centre, The Big Nickel: INCO at home and abroad (Ontario: Between the Lines, 1977), p. 64.

[24] Ibid., p. 68.

[25] Ibid.

[26] Ibid., p. 69.

[27] Ibid., p. 61.

[28] Ibid.

[29] Ibid., p. 70.

[30] Ibid.

[31] Ibid.

[32] Ibid.

[33] Ibid., p. 73.

[34] Ibid., p. 78.

[35] Ibid.

[36] Fried, op.cit., p. 102.

[37] Wilkins, op.cit., p. 380.

[38] Joseph Grunwald, Miguel Wionczek and Martin Carnoy (eds.), Latin American Economic Integration and U.S Policy (Washington D.C.: The Brookings Institution, 1972), p. 112.

[39] Wilkins, op.cit., p. 380.

[40] Grunwald, *op.cit.*, p. 114.

[41] *Ibid*.

[42] *Ibid*.

[43] *Ibid*.

[44] Wilkins, *op.cit.*, p. 401.

[45] Inter American Development Bank, *Economic and Social Progress in Latin America: Annual Report* (Washington D.C.: Inter American Development Bank, 1968), p. 181.

[46] Inter American Development Bank, *Economic and Social Progress in Latin America: Annual Report* (Washington D.C.: Inter American Development Bank, 1984), p. 302.

[47] *Ibid*., p. 301.

[48] *Ibid*.

[49] *Ibid*., p. 308.

[50] *Ibid*.

[51] *Ibid*.

[52] *Ibid*.

[53] *Ibid*.

[54] *Ibid*.

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