EIR Regional Study

U.S. policy and the economic time-bomb in Central America

by Gretchen Small

Two events, one after the other, have struck down any remaining facade that the Reagan administration has a strategy to stabilize Central America. The first blow came on Nov. 14, when U.S. State Department officials reported that a $300 million special economic assistance package for U.S. allies in Central America had been cut from the budget. The aid was promised last spring as proof that the United States has a broader commitment to helping Central America defend itself from Moscow's Nicaraguan client-state, than simply supplying and commanding the rag-tag, drug-tainted Contra "army."

Assured of extra economic aid, the Central American governments joined the United States in backing the "Contra" operation. The Contras got their $100 million, but U.S. allies in Central America have been sacrificed to "budget cuts."

Then, on Nov. 25, came the revelation that profits from the sale of U.S. military equipment to the Sandinistas' terrorist allies in Iran financed Contra weapons-buying, before the U.S. Congress had approved U.S. support for the Contras.

More shocking scandals lie ahead, if congressional investigators take up the unresolved *Pia Vesta* case, the Danish ship found to be carrying 200 tons of Soviet-made weapons when it was stopped in Panama in June 1986, en route to El Salvador. The Contras were the final destination of those Soviet weapons, and U.S. National Security Council staffer Lt.-Col. Oliver North's name was associated with the deal, investigations in Panama and Peru subsequently determined.

Soviet-made weapons, sold by the East German state trading company to reputed CIA-arms dealer David Duncan, to arm the Contras? In its Aug. 29 issue, *EIR* published the details of the *Pia Vesta* scandal, but the news met with silence, a story "too incredible" to touch. Now, nothing can be called "too incredible" in Washington.

The collapse of the Contra option forces the U.S. government back to the drawing board, to develop a viable strategy to stop Moscow's advance in the Western Hemisphere. The policy change is long-overdue. Supplies have been wasted on the Contras, while the armed forces of the rest of the region have not received the aid and training needed, so that, if required, they could confront the military threat of Nicaragua—well-armed indeed by Moscow. Likewise, the U.S. military has been held back from providing the equipment and logistical and intelligence support required to crush the drug-traffic which supports every terrorist insurgency in the region.

And while the military balance worsens between Nicaragua and its neighbors, so have the insurgencies inside Central America, growing in strength in proportion to the collapse of their economies. Without an economic strategy, the United States finds itself locked into Moscow's box: either directly intervene against Nicaragua, or discard Central America to the mercies of the Sandinistas. With either of those two options, it is Moscow's global strategy of driving the United States out of Europe, and into wars against the southern hemisphere, which wins.

The 100th Congress must restore the $300 million special economic assistance fund for Central America. Then, international support for economic reconstruction must begin. Here, the advocates of Hong Kong-style "free-enterprise" policies must be pushed aside, and more attention paid to proposals by U.S. military men responsible for the area, who, like Gen. John Galvin, have argued quietly for a solution to the "debt problem," and aid to the necessary "nation-building" projects around which military and civilian forces can unite.

Here we demonstrate how Central America has been drained of resources, by Western usury and malfeasance. The first step to restoring economic health must be to rechannel those resources into internal improvements of Central America's infrastructure and economies. Without freezing debt payments, and renegotiating long-term, low-interest payments, no growth or development can occur. That step alone can begin to turn the tide on the crisis, as President Alan García has demonstrated in Peru.

Debt freeze for El Salvador

The "García option" is under discussion among the governing circles in each of the four Central American countries Guatemala, El Salvador, Honduras, and Costa Rica. In mid-October, Costa Rica initiated steps toward limiting its debt payments, when Treasury Minister Fernando Naranjo informed international private banks that Costa Rica will pay no more than $5 million a month in interest on its foreign debt, while negotiations continue on rescheduling its $1.5 billion debt. Only if payment of its debt is stretched out over 25 years, with 7 years grace, can Costa Rica accelerate growth rates to levels at which social disintegration can be avoided, the treasury minister explained.

In the case of El Salvador, rapid U. S. action is urgent. Although no longer in the international news, governing institutions in that nation stand more endangered now, than in the immediate wake of the earthquake which destroyed one-third of San Salvador, the country's capital, on Oct. 10. The nation rallied behind the government right after the quake. 1,300 people died, and an estimated 30,000 were injured.

Many of the injured are now recovered, but a quarter-million people still live in the streets, their homes destroyed. The quake and more than 1,000 aftershocks hit the poorest areas of the city the hardest, where homes were poorly constructed. Because 50 to 60% of San Salvador's schools were destroyed, schools are not scheduled to reopen until February. Forty percent of the National University of San Salvador was destroyed; the buildings housing the Faculties of Economics and Odontology collapsed entirely.

Total damage has been estimated at between $1 and $2 billion. Many streets are still impassable, wrecked by flooding when water pipes broke throughout the city. While El Salvador's two cement factories have been able to keep up with the demands of reconstruction, the country has run out of wood, which the government is now importing from Honduras, Costa Rica, and Guatemala.

After the earthquake, President José Napoleon Duarte told the press that El Salvador should ask for a postponement on its foreign debt, calling it "a magnificent opportunity to do it," because El Salvador has "always been good paying clients." The idea, however did not prosper, and El Salvador's central bank now argues that there is no need for any postponement.

Initial international help, both medical and financial, did allow El Salvador to get through the immediate crisis, and delegations of private businessmen are now seeking loans and investments in the United States, Europe, Taiwan, and Japan. But nowhere near the $1 billion needed has been made available.

El Salvador must reconstruct, under conditions of general warfare. War has steadily spread throughout the country since 1979, when Soviet-backed forces, "liberationists" run by the Society of Jesus and the CIA's American Institute for Free Labor Development (AIFLD), joined forces to trigger civil war under the protection of "population war" fanatics in the Carter administration. Now, the defense ministry absorbs 40% of the national budget. Agriculture has been destroyed by the combined effects of credit restrictions, collapse in commodity prices, and disruptions of transport, field, and labor by war. El Salvador began importing cotton this year, until recently the country's second *export* crop! Over 50% of the population is unemployed or subemployed (in such "jobs" as selling trinkets in the streets).

The morale of the population is now at a turning point. Immediately after the quake, Communications Minister Julio Rey Prendes had identified this time as the beginning of the most serious crisis. We have survived the first shock, Rey Prendes warned, "but in one, two, or three months, when things do not improve, I don't know what could happen. Things could get very ugly."

How quickly a debt moratorium is granted, and how much Western nations commit to the country's rebuilding, may determine how long the government survives. The premise of the insurgent forces is that the West will provide only token aid. A political spokesman for the Faribundo Marti Liberation Front, Guillermo Ungo, stated bluntly on Oct. 16, "The government has no possibility of overcoming the crisis." Ungo was in Bonn, West Germany at the time, attending a conference of the Socialist International. The General Command of the FMLF issued a "Message to the People," outlining their strategy for recruitment and victory. "This onslaught by nature again highlights the subhuman conditions under which millions of Salvadorans live," the message stated, promising that they will defend the interests of poor urban workers whom the government will abandon to live in the streets.

Will recent history repeat itself? An earthquake devastated Nicaragua's capital, Managua, in 1972. The city was never rebuilt, and today, it is the Sandinistas who rule over the monuments to Western economic failure.

The narcotics threat

While El Salvador's situation is desperate, a less mentioned but equal danger faces the other countries of the region: takeover of the entire regional economy by the narcotics empire. As productive economies shrivel up, drained of resources, the narcotics trade has moved in.

Private-sector leaders in El Salvador reported to *EIR* in September that large landowners have turned to marijuana production, to make a fast buck; cotton and coffee no longer are profitable. Costa Rican officials believe their nation has become the third-largest drug-money laundering center in Central and South America, according to the *Midyear Report* of the U.S. State Department's International Bureau of Narcotics.

Cocaine Czar Juan Ramon Matta Ballesteros, a partner of the Sandinistas in the cocaine trade, has relocated his headquarters to Honduras. In April 1986, Honduran Economics Minister Reginaldo Panting declared, "We welcome the dollars that Mr. Matta Ballesteros has brought to invest in Honduras. . . . If we have an investor who brings dollars, then this will help us in our balance of payments," according to *El Tiempo* of Bogota. Panting told *EIR* at the time that he was just "joking around" when he made those comments.