

The Emergence of Neoliberalism and Free Trade in the Developing World

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Senior Honors Project
April 28, 2006

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Foreword

This report has been organized into two specific chapters. The first of these chapters addresses the rise and spread of both *neoliberal reform* and *globalization* in the developing world. The second consists of an in-depth case study on the third-world country of Honduras, describing its main problems as well the political theory which must be implemented in order to achieve development.

In regards to globalization and neoliberal reform, they have become two of the most important political ideals in modern history. The spread of capitalism and polarization of what are known as “developed countries” and “less-developed countries” continues to dominate much of political thought. The attention thus garnered however is certainly not unwarranted. Many of these ideas, only around a half-century old, have both the power and potential to strongly influence political, social, and economic development in *all* countries around the world. Most troublesome however lies in the fact that globalization and neoliberal reform impact not only countries, but the *individuals* who make up those countries as well. In many instances these people are unable to control their own destinies – forced to live at the whims of countries and organizations who are thousands of miles away. The paradigms mentioned herein must be addressed in order to fully grasp the effects of these ideals on the world as a whole.

In analyzing the country of Honduras it may be seen that specific political steps are needed in order to achieve development. Honduras is a country which typifies the average less-developed nation; it has a high debt burden, lacks infrastructure, and is unable to compete in the world market. It is important to not only simply explain the problems plaguing the third-world, but to also offer concrete suggestions which may have the ability to bring about much needed change, all the way to the individual level. Chapter 2 of this report will address this need.

Chapter 1: The Emergence of Neoliberalism and Free Trade in the Developing World

In 1967, Jesus Silva Herzog, one of the founders of Mexico's first economics program published an essay entitled, *To a Young Mexican Economist*. Herzog's message was meant for the rising number of Mexican students earning graduate degrees in economics at foreign universities across the globe.¹ Herzog, a man who taught *himself* economics gave these students a fair warning:

Theories created in the great centers of capitalism should not be submissively applied to less developed countries... Each theoretical adaptation should be made after careful analysis, with our feet planted on our own soil and with a clear vision of the primary needs and the legitimate aspirations of the people.²

In the coming years of the 1980s and 90s those who Herzog wrote to in his essay had received degrees from some of the United States' most prestigious universities. They had risen to powerful levels in the Mexican government, influencing three presidential policies in a row. These policies changed the Mexican economy with a new set of ideas called "neoliberal reforms". These reforms led to the extensive privatization of government-run industries, amendments to the Mexican Constitution in order to protect foreign investors, and the removal of trade barriers in light of the North American Free Trade Agreement.³

Neoliberalism is a word that has been gaining in popularity in recent history but is still not easily defined or recognized by many people. It is a word that attempts to encompass an ideal or set of ideals and for that reason may have different meanings depending upon whom you ask. As an inclusive, basic definition of neoliberalism from The American College Dictionary, the word is stated as follows: "A political movement beginning in the 1960's that blends

¹ Babb, Sarah. *Managing Mexico*. Princeton: Princeton UP, 2001. 1.

² Babb 1

³ Babb 1

traditional liberal concerns for social justice with an emphasis on economic growth.”⁴ This definition, if taken directly, sheds good light on the political movement. As it was begun in the 1960’s and has continued onward it stands as somewhat of an ideal solution to much of the world’s mounting problems. The world which is full of social injustice and is faced with serious economic problems in Third World countries has a chance for change with the political movement of neoliberalism. Or does it? This definition is straight-forward and compact. Is it really that simple? I will attempt to examine the trend towards neoliberalism and the emergence of free trade here.

The definition of neoliberalism stated above is not the concrete, only one out there. Scholars across the globe debate this serious issue constantly, and many of them see neoliberalism in a different light. Jacquelyn Chase writes in *The Spaces of Neoliberalism: Land, Place, and Family in Latin America* that:

Neoliberalism and globalization have become the common frames for understanding and critiquing development in Latin America for the last twenty-years. The state-led, inward-oriented development programs and philosophies put in place after 1930 and extending to the early 1980s have been replaced by market-friendly approaches to development and by an explicit approximation and subservience to world markets and financial institutions.⁵

Chase’s definition of neoliberalism is in contrast to what is listed in the dictionary. One of the main differences Chase points out is that neoliberalism actually causes “subservience to world markets and financial institutions”, *not* mentioning the rise of social justice whatsoever.

David Barkin’s essay in *Transcending Neoliberalism: Community-Based Development in Latin America* offers similar connotations to Chase’s idea:

⁴ “Neoliberalism.” *The American Heritage College Dictionary*. Fourth ed. 2002.

⁵ Chase, Jacquelyn. “Introduction: The Spaces of Neoliberalism in Latin America.” *The Spaces of Neoliberalism: Land, Place and Family in Latin America*. Ed. Jacquelyn Chase. Bloomfield: Kumarian, 2002. 1.

Neoliberalism is exacerbating the polarization of society in all of its dimensions. Structural adjustments, with their program for international economic integration and public-sector austerity on the domestic front, have radically reduced the possibilities for equitable growth and the satisfaction of social needs.⁶

Barkin's idea of neoliberalism is in direct contrast to the dictionary's definition and makes the political movement out to be much more harmful than helpful.

Neoliberalism is not a movement that simply took place overnight. Instead it grew over time as a result of a changing world market. In the 1970s authoritarian regimes played key roles in the economies of their respective countries.

The economy was characterized by substantial public ownership of enterprises, close ties between state bureaucrats and private owners of capital, a significant emphasis on exports as the primary source of economic growth, state policies to protect predominately export sectors, and social and economic policies that protected consumers and workers. For a time this state-managed export-oriented approach fostered significant growth.⁷

By the early 1980s this system had almost entirely changed. The earnings from exports had been decreasing, leading to a decline in domestic investment. A credit crisis was ongoing in the world market which in turn led to a fall in foreign investment as well. These economic problems only helped to create a pattern of social conflict. In turn everyone was looking for answers to reviving the downward spiral of the economy, and it was through their search that developing countries began instituting neoliberal reforms.⁸

One of the major reforms undertaken by these developing countries included switching from a protection-based domestic form of economic planning to a more market-based form, as well as lowering or in some instances removing the domestic protections already in place.

⁶ Barkin, David. "Neoliberalism and Sustainable Popular Development." *Transcending Neoliberalism: Community-Based Development in Latin America*. Ed. Henry Veltmeyer. Bloomfield: Kumarian, 2001. 184.

⁷ Knight, Jack. "Explaining the Rise of Neoliberalism: The Mechanisms of Institutional Change." *The Rise of Neoliberalism and Institutional Analysis*. Ed. John L. Campbell. Princeton: Princeton UP, 2001. 29.

⁸ Knight 29

Additionally the countries made efforts to secure short term success by devaluing the currency, lessening price controls, subsidies, and various worker protection programs.⁹ These new policies alone had considerable effects on their respective economies. Jack Knight, Professor and Chair in the department of Political Science at Washington University in St. Louis explains some of the long-term goals of the developing countries:

First, the institutional foundation of a market economy had to be established or strengthened or both. This included the following types of changes: the dismantling of state bureaucratic procedures, the liberalization of trade and foreign investments practices, the enhancement of domestic market infrastructure, and the diminution of the power and influence of many private associations (corporate monopolies, labor unions, consumer associations, etc.) that had successfully influenced economic policy making under the state-oriented procedures.¹⁰

Additionally Knight goes on to say that property rights owned by the government should be privatized, and while making efforts to do all of these things the state must follow a strict regimen of attempting to accumulate wealth. This it was said would be achievable if the country would decrease its' expenditures on the public sector.¹¹

Decreasing earnings and lack of investment in developing countries as previously discussed was a contributing factor to the institution of neoliberal reform. However, as radical as these changes were, differing opinions have emerged as to *why* these countries did not “ride the wave out” but instead took these steps to change. Some of the more popular explanations for this occurrence are listed in Mr. Knight’s essay:

1. The economic crisis facing the Latin American countries was so severe that political leaders had no choice but to adopt neoliberal reforms.
2. Pressure from international financial organizations forced politicians to adopt stabilization policies and neoliberal reforms.
3. Governments implemented radical neoliberal programs because they sought to enhance aggregate economic growth and the “shock” strategy was more efficient than more gradual approaches.

⁹ Knight 30

¹⁰ Knight 30

¹¹ Knight 30

4. The international diffusion of neoliberal economic ideas reached Latin America at an especially important time and was embraced by government officials.
5. Neoliberal reforms were the product of the state's efforts to further the interests of the capitalist class.
6. In the face of the economic crisis, politicians enacted stabilization adjustment policies early in their terms of office as an electoral strategy to remain in office.
7. The development of neoliberal reforms were the product of a complex political competition among domestic capitalists.¹²

The reasons listed are but only educated assumptions, and the reality is that the issue of neoliberal reform is a complex issue that, like the word, is not at all easy to answer in one singular way. At present however, the establishment of neoliberalism, its' background, idea, and emergence have been defined, and now I will move on to speak about some of the effects of the movement.

Scholars throughout the world have written on the topic of the emergence of neoliberalism and free trade, and many of these are readily available in libraries or via the internet. An overwhelming majority of these scholars describe the *problems* neoliberal reform has brought to developing economies. Some problems following neoliberalism stated in these sources include the following: violence, the widening of the income gap, poor health, and degradation of the environment.

John Rapley comments in *Globalization and Inequality: Neoliberalism's Downward Spiral* that globalization as a result of neoliberal reforms are: "Driven by the fractions that benefit the most from liberalization, and managed by political elites responding to these challenges".¹³ Rapley points out that this is a directed process that has led to a significant increase in inequality across the globe. Third World countries that are required to use much of their revenue to pay back huge amounts of debt are now on the losing end of newer capitalist

¹² These were reasons either given directly to Knight, or found through his research. Knight 31-32

¹³ Rapley, John. *Globalization and Inequality: Neoliberalism's Downward Spiral*. Boulder: Lynne Rienner, 2004. 80

ideas. The income gap per capita between First and Third World countries is constantly widening, and there is seemingly no way out. Third World countries are simply in a downward spiral with no way to return.¹⁴

Rapley discusses poverty as a result of this downward spiral later in the essay:

The important thing to bear in mind at this point is not that poverty has worsened, for globally it has not. The 1990s saw a reduction in both the absolute number and the proportion of poor people on the planet. Rather, as poverty declined, the gap between the rich and poor widened. Put differently, although absolute prosperity rose, relative prosperity declined for a growing number of the world's population. As I have argued, this is the more important of the two facts. Immiseration has declined, but marginalization has increased, and it is in these circumstances that regime crisis is most likely to manifest itself.¹⁵

The relationship between equality and health is fairly obvious. Those who are poor are more likely to live in unhealthy conditions, have a greater likelihood of suffering from diseases, and also have a lower life expectancy. The conditions these people live in throughout their lifetimes are a testament to this fact. With continuing inequality throughout the world due to the spread of *globalization*, health will only continue to decrease in less developed countries. In *Sickness and Wealth: The Corporate Assault on Global Health*, Stephen Bezruchka and Mary Anne Mercer write:

At least 100 countries underwent serious economic decline during the 1970s, 1980s, and 1990s. This kind of deprivation takes a toll on the health of people living in developing countries. The immense health gap between people living in the poorest countries and those in the wealthier countries is dramatically illustrated by comparing women's risk of dying from childbearing-related causes. In the industrialized countries that risk is approximately 1 in 2800, while in sub-Saharan Africa the risk is 1 in 16. Infant mortality is as much as 15 times higher in much of Africa than in the developed world.¹⁶

¹⁴ Rapley 88

¹⁵ Rapley 88-89

¹⁶ Bezruchka, Stephen and Mary Anne Mercer. "The Lethal Divide: How Economic Inequality Affects Health." *Sickness and Wealth: The Corporate Assault on Global Health*. Ed. Meredith Fort. Cambridge, MA: South End, 2004. 12.

Some supporters of this type of globalization make claims that health has actually *improved* because of it. They argue that both infant mortality and life expectancy rates have progressively improved in the 19th and 20th centuries. Their reasoning however is based upon comparison of health statistics in the 1980s and 90s to those of the 60s and 70s. Still, “improvements in life expectancy were significantly higher for most countries in the earlier period than in the later years.”¹⁷ Additionally, infant and child mortality rates improved much faster in the 60s and 70s as compared to the 80s and 90s.

Violence, unfortunately, is seen as an effect of globalization as well. Nina Glick Schiller and Georges Fouron write in their essay entitled *Killing Me Softly* that much of the violence that takes place in Haiti is a direct effect of the corporate globalization engulfing the country.

We demonstrate that the physical and structural violence currently so widespread in Haiti is linked to the neoliberal agenda imposed on Haiti by the United States, the European Union, and “the international lending community,” an agenda made palatable under the rubric of “economic reform,” “the consolidation of democracy,” and the “campaign against drug lords.”¹⁸

Schiller and Fouron say that violence and globalization have always been interconnected. Years before in the colonization movement of European powers, “conquest, slavery, rape, and pillage”¹⁹ were the methods used in attempts to expand power. In today’s world this process of globalization and its’ negative effects still occur, but under differing premises. Gone are the attempts at conquest through pillage, instead now replaced by the leaders of powerful nations (especially the United States) concentrating whole-heartedly on “free trade, global markets, and

¹⁷ Bezruchka 15

¹⁸ Schiller, Nina Glick and Georges Fouron. “Killing Me Softly: Violence, Globalization, and the Apparent State”. *Globalization, the State, and Violence*. Ed. Johnathan Friedman. Walnut Creek, CA: AltaMira, 2003. 204.

¹⁹ Schiller 206

democracy rather than worldwide domination”²⁰. These ties between violence and globalization are therefore masked, yet continue to occur daily in developing countries.

There are inherently two distinct forms of violence in the world, direct violence and structural violence. In gauging how much of both are really occurring due to globalization, many would argue that one cannot measure it precisely. This argument stems from researching only direct violence, violence which includes attacks against a person’s physical well-being. Easily identifiable, it is *not* the only form of violence. Structural violence on the other hand is prevalent throughout the Third World and it is just as detrimental as its’ direct counterpart. Structural violence includes “deprivations of food, health care, education, and other resources necessary for human life and development that leads to physical disability, the destruction of human potential, and death”²¹. Under this definition, violence is widespread throughout much of the world due to the neoliberal reforms instituted and followed by so many states.

The environment is also at risk in neoliberal, globalized economies. “Humans, plants, animals, and entire ecosystems suffer from the contamination of water, soil, and air, as well as from the overuse of natural resources.”²² Globalization and free trade thrive on production and efficiency. This means that forests are cut, dams built that displace entire habitats, and industrial waste is pitted amongst the poor, causing detrimental effects across the board.

The institution of neoliberalist ideas made impacts on *economies* almost instantaneously. Governments considered both short-term and long-term effects on their economies, and set their goals in relation to them.²³ The exacerbation of the income gap, decreasing health, environmental degradation, and an increase in violence were some of the long-term

²⁰ Schiller 206

²¹ Schiller 206

²² Bezruchka 2

²³ Knight 30

consequences of reform. In the short-term however, one of the very first effects was hyperinflation that followed the initial stabilization process. This of course was a deterrent to growth, causing losses felt mostly by the working class and poor.²⁴ This, added to the long-term effects only serves as more hindrance to both sociological and economic growth.

In researching this particular project numerous articles and books were found on the subject, however most came to similar conclusions: neoliberalism and free trade were not adequate solutions to the problems plaguing the less developed countries. One is actually hard pressed to find *any* articles promoting the ideals of neoliberalist methods of governing. Those sources who do in fact argue that growth has occurred fail to recognize the fact that the capital garnered from it is not distributed equally. Capitalists and property owners are the only true beneficiaries, not a characteristic of “social justice” the neoliberal reforms have promised.

The question I personally find myself asking is, “If there is such a difference in the number of pro-neoliberalism material out there compared to anti-neoliberal material, why is it continuing to be a predominate method of governing in much of the world?” One answer to this question that is somewhat appealing comes from Susan C. Stokes in her book *Mandates and Democracy*.²⁵ Stokes argues that in many instances political leaders will openly say that they are for domestic opportunities and the protection of internal markets, yet when they are elected tend to go back on their word. Instead of following the principles they initially set forth that helped win their election they simply submit to corporations and big-business. Stokes believes that in some of these cases the citizens are angered by the policy changes, yet in many other instances they simply accept them and move on.²⁶

²⁴ Knight 31

²⁵ Stokes, Susan C. *Mandates and Democracy*. Cambridge, UK: Cambridge UP, 2001.

²⁶ Stokes 122

Corporations dominate politics. If there is any doubt simply look at the contributions to U.S. presidential campaigns in recent years. Gone are the days when political leaders looked out for the common good of their people. These leaders now focus on the accumulation of capital, not methods of lowering the unemployment rate or lessening income inequality. The developing world is hit the hardest due to this fact. Globalization has become the catalyst for an explosion of non-governmental organizations and austerity programs which hold power in the political realm.

In the mix of all of these factors – neoliberal reform and globalization, stands the idea of free trade amongst countries. Perhaps no such aspect of neoliberalism is debated as much as this issue. Its' ideas are being promulgated by developed countries as a benefit to all states involved, as evidenced by the North American Free Trade Agreement (NAFTA), Singapore-Australia Free Trade Agreement (SAFTA), Central European Free Trade Agreement (CEFTA), among hundreds of others. The fact of the matter is that these acts are just another arm of neoliberalism that is forcing the world into more and more inequality and injustice.

Among the criticisms of free trade today are the following:

- Blind Allegiance To Ideology
- Increasing Unaccountable Concentration Of Power And Decision-Making
- Environmental Degradation
- Eroding Worker's Rights
- Protectionism For The Rich, Open Markets For The Poor
- Increasing Poverty And Inequality For The Poor
- A Level Playing Field That Gives More Advantage To The Wealthiest
- Cultural Uniformity And Effects On Other Societies²⁷

Proponents of free trade argue that it will create sustained economic growth and will be extremely efficient, with a “socially optimum allocation of resources”. It will be beneficial to

²⁷ Each of these criticisms are topics for essays found at the following source: *Criticisms of Current Forms of Free Trade*. Ed. Anup Shah. 2004. 20 Nov. 2004.
<<http://www.globalissues.org/TradeRelated/FreeTrade/Criticisms.asp>>.

everyone. Additionally, it will remove inefficiencies while allowing government to provide infrastructure and law to govern changes.²⁸

The proponents who argue that these positives will inherently occur if free trade is instituted have run out of time. Free trade has accomplished none the goals it set out to meet. The fact of the matter is that Third World countries are not seeing significant growth economically, politically, or socially. Instead, the powerful First World countries are reaping all of the benefits, and scholars do not fail to recognize it. Arthur MacEwan writes in his book *Neoliberalism or Democracy?* that the free trade theory *assumes* full employment exists in developing countries. It also assumes that when “patterns of trade and production change, labor will move from one activity to another instantaneously” so that there is no welfare loss or disruption in the economy.²⁹ MacEwan also points out that free trade is dominated by a small number of large firms that have a monopoly over the entire system. Competition exists between them, but not the type of competition that brings better prices to the consumer.³⁰ The true facts are that most developing countries have *very* high levels of unemployment. The labor markets *do not* shift instantaneously with changes. All of these ideas garner results that “do not necessarily coincide with either the price competition model of the free trade argument or the long-run development interests of a particular country”³¹. In other words, it simply does not work.

One can only hope that soon enough the failures of a neoliberal government will be realized and the developing world may finally have a chance to get back on the road to “more developed”. Will this development come soon? One can only hope.

²⁸ *Criticisms of Current Forms of Free Trade*

²⁹ MacEwan, Arthur. *Neo-liberalism or Democracy? Economic Strategy, Markets, and Alternatives for the 21st Century*. London: Zed, 1999. 48

³⁰ MacEwan 51

³¹ MacEwan 51

In the next chapter of this report, the third-world country of Honduras will be analyzed in detail, and many of the negative effects of the neoliberal reforms will be readily apparent. It is important to notice exactly how much this country, like so many others, is struggling. *Many* of their problems are due to the specific political ideals listed in this chapter, and a great deal of comparison may be drawn between the two. Following this structure, one may begin to grasp the full force of *The Emergence of Neoliberalism and Free Trade in the Developing World*.

I. Introduction

Located in Latin America, Honduras is a country of natural beauty with spectacular mountains, flourishing jungles, and some of the most pristine beaches in the entire world. Honduras has a noteworthy cultural heritage as well. The ruins left by the Mayans as well as the Spanish styled architecture found throughout the country are a testament to this fact.³² Honduras is a vibrant and lively country simply brimming with potential. The potential of Honduras has yet to be tapped however as the country endures through many problems to this very day. It is a country that must deal with wide-spread corruption, income disparity, and the aftermath of hurricane Mitch in 1998 which destroyed an estimated 90 percent of the roads and infrastructure.³³ Its economy is weak and fragile. Dealing with external shocks, attempting to save and reinvest capital, providing adequate education and keeping employment at high rates are only a few of the struggles the country must deal with every single day.

Though the problems are numerous, growth *is* possible for Honduras. The aim of this memo is to delineate the troubles that are impeding development the *most*. The developmental perspective which shows the most potential for the country will be given initially, followed by the address of four key problems, and finally concluding with what must be done in order to correct those ills. By following the policies listed herein, the goal of bringing Honduras up from "The Other World" has the opportunity to be fully realized.³⁴

³² "Honduras (country)." *World Almanac Encyclopedia. FACTS.com*. Facts On File News Services. U. of TN Library, Knoxville, TN. 01 Apr. 2006 <<http://www.2facts.com>>.

³³ "Killer Mitch." *World Almanac Encyclopedia. FACTS.com*. Facts On File News Services. U. of TN Library, Knoxville, TN. 19 Nov. 2004 <<http://www.2facts.com>>.

³⁴ Joseph Weatherby and others, *The Other World: Issues of Politics of the Developing World* (New York: Pearson, 2005).

II. Theoretical Perspective

In analyzing the values of developmental theory, the historical perspective must be explained in order to properly understand how and why the new theory has come about. In this case, two specific realms of theory were produced and popularized in the 20th century. This first of these, dubbed *modernization theory* gained heavy acceptance in the 1950s and 1960s, especially in the more developed countries.³⁵ Modernization theory held that domestic problems such as civil wars, corruption, bad government, religious instability, disease, and lack of resources and education were the real reasons why third-world countries did not develop. The modernization theorist never assumed that economic growth coincided with stability in all cases. Eventually the theory had to be adjusted, but it proved to be a powerful influence nonetheless.³⁶

The modernization approach was not without its faults. Chief among these were the facts that the theory disregarded obvious contradictions such as external shocks that were out of the developing countries' control. To go with this, as many can imagine, underdeveloped countries did not find the idea of the modernization theory appealing. These countries tended to see their status in a wholly different light.³⁷

Dependency theory was the line of reason that came about in response to the modernization theory. Popularized by less-developed countries in the 1960s and 1970s, the theory differed from the modernization idea by proposing that it was the *developed world's* fault that the countries were struggling.³⁸ Dependency theorists believed debt, colonialism, location, and unfair competition were the true impediments to growth. The idea of the core versus periphery was established here; wherein the core developed countries were constantly competing

³⁵ Howard Handelman, *The Challenge of Third World Development*, 4th ed. (Upper Saddle River: Pearson, 2005), 12.

³⁶ Ibid., 12.

³⁷ Ibid., 12.

³⁸ Ibid., 12.

with the periphery consisting of all the developing countries. Like the modernization theory, the dependency approach was eventually modified, though its traditional structure was kept intact.³⁹

Both the modernization and dependency theories had positive ideas which contained some amounts of truth, but taking either as a whole turned out to be quite problematic. Honduras is an excellent example of this, as will be explained further, but first modern economic theory should be explained to fully grasp the ideas used in this memo.

Import-substitution industrialization or ISI was an economic policy geared specifically towards the internal, domestic production sector. Goods which were imported began to be produced domestically, which in turn created jobs and protected the market from unfair competition. Typically initiated by third-world countries, ISI found success in many Latin America countries. Growth was occurring, but eventually the ISI program reached its threshold of production. In the end there were simply too many workers for too few jobs, and little incentive to create quality products.⁴⁰ While many less-developed countries in Asia made the move to Export-oriented industrialization⁴¹, these Latin American countries failed to make the switch, and the economies never fully bounced back.⁴²

In today's perspective, Honduras' infrastructures (both political and economic) are much too weak to embrace Export-oriented industrialization. Likewise, the idea of ISI has become too aggressive as complete (or near complete) substitution is simply an unfeasible goal. The advents of the global economy and market speed at this point have limited the possibilities of import-substitution industrialization.

³⁹ Ibid., 14.

⁴⁰ Ibid., 177.

⁴¹ Weatherby and others, *The Other World*, 129.

⁴² Ibid., 129.

Honduras *must* use a synthesis of all these ideas. Modernization, dependency, ISI, and Export-oriented industrialization all have positive variables but the current status of Honduras will never benefit from focusing on only one specific approach. Honduras' weaknesses require attention given to the internal infrastructure *first*. Once significant progress has been made, a gradual shift towards exports and heavy industry may be made. Before this can take place though, the following problems must be fully confronted.

III. Description and Analysis of Underdevelopment

As stated in the introduction, Honduras today faces a host of troubles. These problems all detract from the political, social, and economic development the country so badly needs. Four distinct problems stand out however, and it is those specific ills that will be the main focus of the remainder of the memo.

a. *Education*

Education in Honduras is severely lacking in many areas. Because the economy is heavily based on agriculture many children are unable to continue their education after the compulsory time has ended. Education however *is* both “free and compulsory” for children beginning at age 7 and continuing until they are 12.⁴³ After this age is though, it is neither compulsory nor free of charge. Along with agricultural need, poverty is prevalent which in turn means many families are unable to send their children back to school after age 12.⁴⁴ The adult literacy rate for ages 15 and above has risen to 80% over the last two decades (from 60%), in part because of governmental reforms specifically developed to fight illiteracy.⁴⁵ This is a good start but the rate is still on the low side, even when compared with other countries in Latin and South America. In comparison, Costa Rica stands at 96%, Panama at 92%, and Uruguay at 98%.

b. *Privatization and the Influence of External Actors*

In the 20th century the U.S. fruit companies “United Standard” and “Cuyamel” competed fiercely for control of banana exports in Honduras. Their competition led to a major industry in banana growing and exportation, making it the countries’ number one export. Through careful

⁴³ "Honduras (country)."

⁴⁴ "Honduras (country)."

⁴⁵ "Honduras (country)."

but deliberate planning, "United Standard" achieved numerous concessions from the liberal Honduran government and bought out Cuyamel, further monopolizing the industry. This monopolization along with political instability did nothing to aid the overall welfare of the country, and in the end only brought it down into more disparity.⁴⁶ It is patterns such as these in which the Honduran government is losing hold of its power in both the political and economic realms. Today, NGOs hold a tremendous amount of sway in the way of politics and business. The number of NGOs has literally grown from around 20 in 1970 all the way to 280 in 1996.⁴⁷ The massive increase in numbers correlates directly with the amount of bilateral aid that has floated in to the country. The problem with bilateral aid however is, of course, the reasoning behind the aid itself. Many NGOs simply look for a return on their investment which, in the long run, hinders the country more than helps.⁴⁸

Make no mistake however; the Honduran government *does* have control of some sectors of society. The government has nationalized both telecommunications and energy which require huge amounts of capital to maintain. Other sectors of the government must do without (such as education) so long as the government is in control of these foundations.⁴⁹

c. Economic Diversification

As discussed previously, Honduras is a main exporter of bananas. The economy is not solely based on this product alone however, and the government is taking steps to diversify. The countries main exports include: "coffee, frozen meat, wood and timber, shellfish, silver, lead,

⁴⁶ "Honduras (country)."

⁴⁷ Jeffrey T. Jackson, *The Globalizers: Development Workers in Action* (Baltimore: Johns Hopkins University Press, 2005), 32.

⁴⁸ *Ibid.*, 32.

⁴⁹ "Honduras," in *Europa World Yearbook 2005*, 46th ed.

and zinc”.⁵⁰ After the devastation of hurricane Mitch in 1998 many of these exports were simply ruined, bringing in even more problems for the economy as a whole. Honduras trades principally with the United States but also works with Japan, Germany, Belgium, Mexico, and other Latin American countries.⁵¹ Exports of goods and services as listed as a total percent of GDP in 2003 were 36%.⁵² As a result of Honduras’ dependence on the main exports of bananas and coffee, it is extremely susceptible to external shocks. Drops in the market value of these goods, poor harvests, and natural disasters are always concerns that could literally devastate much of the economy. Like many other developing countries in the west, Honduras’ structural diversity and development depends heavily on the United States.

Honduras imports many goods from developed countries like the U.S. In 2000 imports from the U.S. were 46% of the total sum. Additionally the country imports a number of goods from El Salvador, Guatemala, Mexico, and Japan.⁵³ Main imports include the following: “machinery and transport equipment, industrial raw materials, chemical products, fuels, and foodstuffs”.⁵⁴ Imports of goods and services constituted 54% of total GDP in 2003.⁵⁵ These imports are extremely costly, and the country would more than likely be much more successful if it would strive to substitute those products (though gradual change is of course preferable).

d. Income Disparity

In terms of income inequality, it is very severe in Honduras. In a survey taken in 1999 it was found that the poorest 10% of the population shared only 0.9% of the income or

⁵⁰ “Honduras (country).”

⁵¹ “Honduras (country).”

⁵² *Human Development Reports – Statistics*. Ed. 2005. 08 Apr. 2006.
<<http://hdr.undp.org/statistics/data/countries.cfm?c=HND>>.

⁵³ “Honduras.” *Honduras Vital Statistics, Map, and Information*. 08 Apr. 2006.
<<http://honduras.com/vital-statistics/>>.

⁵⁴ Ibid.

⁵⁵ *Human Development Reports*.

consumption. The poorest 20% shared 2.7%. Amazingly, the richest 20% of the population secured 58.9% of the income or consumption, and the richest 10% controlled 42.2% of the total. In comparison of the richest 10% to the poorest 10%, there is a difference of 49.1. Norway, on the other hand which ranks number one overall in terms of the Human Development Index stands at a difference of only 6.1.⁵⁶

In this same way, the Gini coefficient is a measure of income inequality which utilizes the Lorenz curve. It measures the gap between the curve and the “absolute line of poverty” to determine the extent of income inequality in a given country. The results of this measure in turn provide a result of a number between 0 (perfect equality) and 100 (perfect inequality). In Honduras’ case the income inequality is measured by a Gini coefficient of 55.0, one of the worst in the entire world.⁵⁷ This number means that income inequality in Honduras is widespread and a very serious problem that must be addressed before the country can progress in a forward direction. Severe income inequality in a country has several downfalls. First, obviously poverty will be a major factor, leading to overpopulation, disease, lower education, and environmental problems. Secondly, political structures also tend to suffer because the elites hold too much power in their hands (much like Brazil with land reform struggles).⁵⁸ Finally, income inequality tends to polarize cultural groups and hastens the demographic transition to urban areas where poverty accelerates the aforementioned problems.

⁵⁶ Ibid.

⁵⁷ Ibid.

⁵⁸ Weatherby and others, *The Other World*, 114.

IV. Policy Recommendations

Obviously, Honduras' problems are serious issues that *must* be addressed. The following list entails the policy recommendations that follow the developmental path set forth in this memo. Addressing the most serious problems first will allow for an easier transition to take place in regards to other problems that plague the country. Only once this confrontation of issues takes place will the social, political, and economic development have a sure chance at success.

a. *Education*

Education is one of the keys to a healthy society and Honduras is really lacking. Education affects a number of factors including birth rates and infant mortality. Education also influences the status of women in developing countries.⁵⁹ Typically the more educated women there are in a certain place, the more power they will hold in all sectors. Additionally, education is one of the three main factors that are used to determine the Human Development Index. Honduras' low rank of 116 out of 177 is in part due to this fact.⁶⁰

In Honduras' particular case, an 80% adult literacy rate and 62% enrollment rate is just not good enough. Education should continue to be free but made compulsory for a longer length of time. It is currently only compulsory for ages 7 to 12, not long enough for one to become truly skilled and educated. If these ideas can create a more educated mass within the country change may begin to take place. The country may be able to shift from a primarily agricultural society to manufacturing or even high-tech industry which would in turn boost all other sectors. Lengthening the requirement of compulsory education is one improvement, but *more* schools are

⁵⁹ Weatherby and others, *The Other World*, 74.

⁶⁰ *Human Development Reports*.

needed as well. The campaigns driven by the government to boost adult literacy have been extremely successful and must continue. Since 1975 adult literacy has risen by 20% which is a very significant jump for any country in the world.⁶¹ In order to achieve all of these goals however, more government spending will have to be secured for educational purposes. However, this unfortunately may only have a chance to take place if the following problems are given serious attention.

b. Privatization and the Influence of External Actors

In order for Honduras to progress, change is needed in nearly all sectors of the government, economy, and even culture. In regards to this fact, the central government should make every effort to liberalize their energy and telecommunications holdings. The government should open up these major industries simply because they cannot afford to control them while other sectors suffer. Capital is needed in other areas like education as mentioned above. Privatizing these companies will bring in extra revenue allowing focus of capital investment in other more needy areas.

The plight of NGOs in Honduras is a very sensitive subject. On one hand, these organizations typically give huge amounts of needed aid to the country each and every year. On the other hand problems come quickly when these organizations become entrenched in not only the economy but politics as well. As evidenced by the United Standard banana deal, monopolization aids outsiders much more than the country of Honduras.⁶² Bilateral aid should in turn be either structured or limited outright. Multilateral aid should be preferred, simply due to less chances of conditionality holding the country back.

⁶¹ "Honduras (country)."

⁶² "Honduras (country)."

c. Economic Diversification

Honduras should also strive to diversify. Its' dependence on the export of bananas and coffee does not provide high yields of capital, is too risky, and is therefore much too susceptible to downfall. As hurricane Mitch showed in 1998, one significant natural disaster can completely crush an economy.⁶³ The major blocks holding the country back from initial take-off are the political and social changes needed to promote diversity. Diversification will help lower the chances of downfall while helping the society overall. Diversification will additionally lead to more domestic products sold, lessening the need for so many imports. The major theory of development as listed in this memo is the importance of the initial inward-oriented cycle. Diversification simply put, is the catalyst for achieving this goal and a prerequisite for moving on to the more export-oriented economy.

d. Income Disparity

As stated previously, income inequality in Honduras is a major problem that must be addressed. This is the toughest of all the problems to adequately address. While elites in any society are an essential element, they cannot be as overpowering as they are in a place like Honduras. There is simply too much inequality and too much poverty to achieve any sort of functional development. In this regard, the corrections of the previous three problems are paramount to lowering income disparity. Education will create a larger middle class, privatization will inevitably boost the economy, and economic diversification will create more of the better paying jobs. Serious consideration should be given to the prospect of land reform. Too much power is vested in the hands of a few, and chances are it will never change unless it is specifically addressed.

⁶³ "Killer Mitch." *World Almanac Encyclopedia*.

V. Conclusion

Only until the problems listed here are given the attention they need through a proper development strategy will Honduras ever have a chance at success. The country has been in a never ending cycle of debt and underdevelopment for over a century. The neoliberal reform programs instituted over the last half of the 20th century are not working. Modernization through the process of globalization has not brought the positive results so many thought would come. The widespread expansion of NGOs and austerity programs into both the political and social realms have become serious problems, superseding the interests of Honduras' citizens. All of these factors are catalysts for growing poverty and disparity inside the fragile country. This pulls children from school, lowering literacy rates and affecting overall health. It isolates women, pushing them into the domestic sector where their labor is not valued as much as a man's. They give unfair advantages to bigger, more powerful countries in the global market, forcing the domestic companies to be unable to compete.

The chapters given in this report offer glimpses into these types truths of neoliberalism and globalization, as well as the seriousness of its effects on developing countries. Alike the division of this report, we all must *first* learn the real story behind reform efforts, *then* move on to specific cases around the globe. Given this opportunity, Honduras *can* and *will* eventually succeed.

Appendix A

In observation of the political dynamics of Honduras, it may be seen that a number of forces are at work, and no single party or group has complete control over its sovereignty. There are five major political parties: the Christian Democratic Party (PDC), the Democratic Unification Party (PUD), the Liberal Party (PLH), the National Innovation Party (PINU), and lastly the National Party of Honduras (PNH). Historically though, the PLH and PNH have had the most amount of success in elections at all levels and therefore are considered to be the most powerful of the five.⁶⁴

The PLH candidate Rafael Ponce finished second in the presidential election of 2001, receiving 44.26 percent of the total vote. The PLH was born out of the 1880s when an anti-clerical movement was taking place. The party has a mostly rural affiliation with support from peasants as well as conservative land owners. Additionally there is a developing urban movement in Tegucigalpa and San Pedro Sula, though those sects tend to be more radical than the traditional PLH supporter.⁶⁵

In the 1920s the PLH split, and the PNH was born. Most of its support comes from rural areas and especially the western and southern regions of Honduras. Traditionally the PNH is the more conservative group, and as of late they have been on the losing end of most elections. Private support for the PNH is great however, which has led to a solid financial base and organization.⁶⁶

The PDC and PINU parties are considered “left-centered”, but pose no serious competition to the PLH and PNH.⁶⁷

In addition to the political parties at work regarding the dynamics of Honduras, numerous political *groups* have been born out of years of struggle and domestic inequality. These groups cover a wide range of issues, but it is the *worker* who garners the most attention. Groups such as the Confederation of Honduran Workers (CTH), the Coordinating Committee of Popular Organizations (CCOP), the General Workers Confederation (CGT), the Honduran Council of Private Enterprise (COHEP); the National Association of Honduran Campesinos (ANACH); the National Union of Campesinos (UNC), the Popular Bloc (BP); and the United Federation of Honduran Workers (FUTH) all hold some say in the political affairs of the country.⁶⁸

Additionally, because of Honduras’ status as a developing country *many* international organizations have become important fixtures in the Honduran political arena. The World Trade Organization (WTO), International Monetary Fund (IMF), Interpol, U.N., FAO, and MIGA are all testaments to this fact. The IMF and World Bank are two organizations that may be

⁶⁴ CIA – *The World Factbook*. ed. 2005. 08 Apr. 2006.

<<http://www.cia.gov/cia/publications/factbook/geos/ho.html>>.

⁶⁵ *Honduras Facts and Figures*. 08 Apr. 2006.

<http://www.ca-bc.com/zip_internacional/about_honduras.html>.

⁶⁶ *Honduras Facts and Figures*.

⁶⁷ *Honduras Facts and Figures*.

⁶⁸ CIA – *The World Factbook*.

considered two of the more powerful forces in the Honduran political arena to date.⁶⁹ The number of NGOs in Honduras has risen dramatically since 1970. So much so in fact that in 1970 only 20 existed, whereas in 1996 an estimated 280 were in place.⁷⁰

⁶⁹ Jackson, *The Globalizers*, 33.

⁷⁰ *Ibid.*, 31.

Appendix B

The nation-state of Honduras holds the official title of the “Republic of Honduras”. The government is a democratic constitutional republic with the country divided into 18 different “departments” (much like states in the U.S.). The legal system itself holds its foundations in Roman and Spanish civil law with an increasing emphasis on English common law. The President of Honduras holds the title of Chief of State, and elections are held every four years for the office. Since 1986 when Jose Azcona del Hoyo was elected president, presidents have only been allowed to serve one four-year term. Additionally, the President appoints his own cabinet, is considered to be the head of government, and functions much like the President of the United States in regards to political authority.

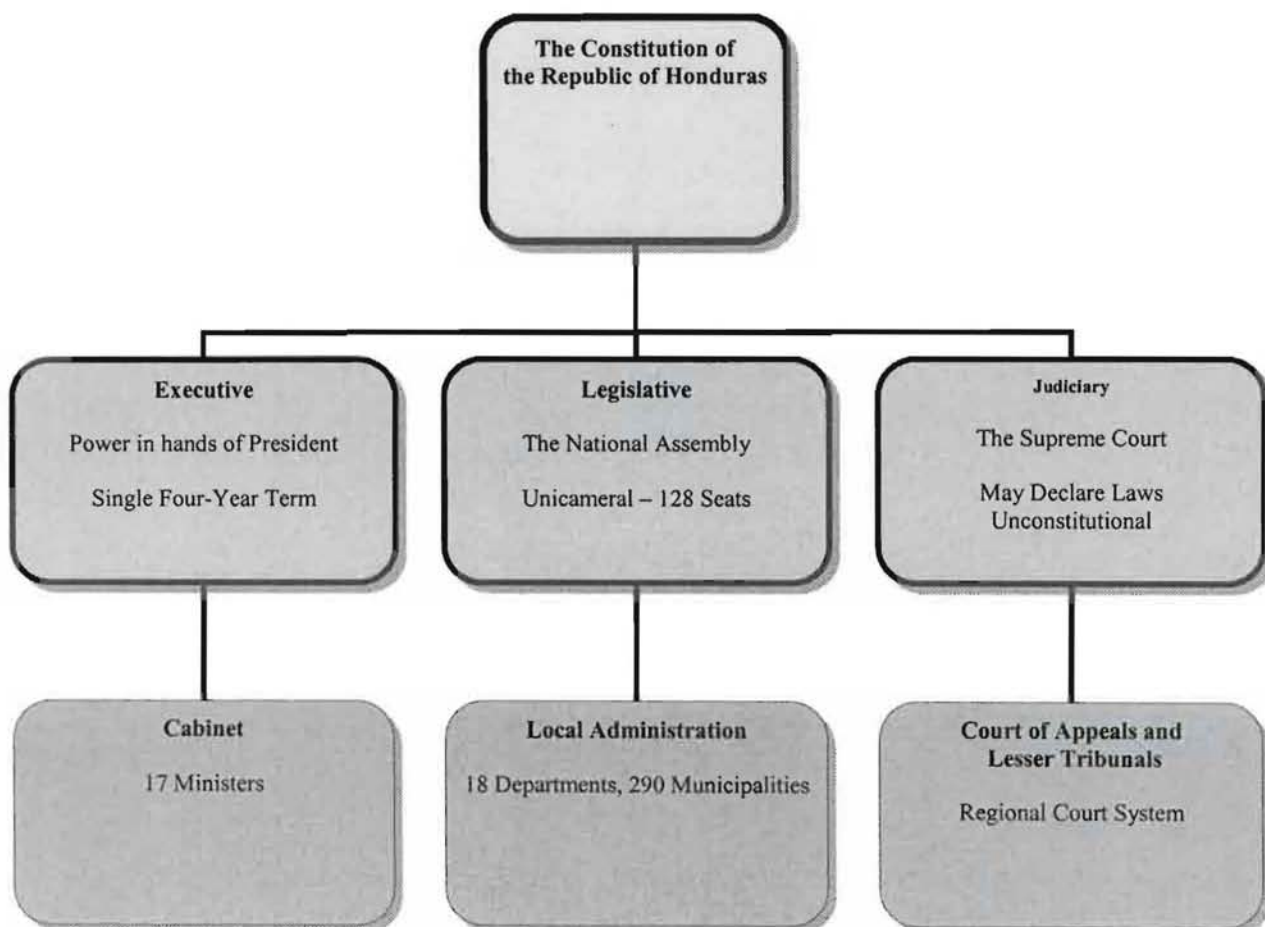
The legislative branch is unicameral and known as the National Congress. There are 128 seats in this Congress, and members are elected in proportion to the number of votes the President receives in the previous presidential election. Therefore, if, hypothetically speaking, the president received 55% of the votes in the previous election his party would also control 55% of congressional seats. The others would be divided up in this same fashion, according to the percentages each party earned. In this way all political parties tend to be represented in one way or another.

The judicial branch consists of a Supreme Court of Justice and the judges are elected to serve seven-year terms by the National Congress. To be eligible to serve as a Supreme Court justice one must be at least 35 years of age, an attorney, have at least 5 years experience as a judge, and also be Honduran by birth. The courts’ most important duty is that of determining the constitutionality of laws within the territory.⁷¹

The Honduran government is structured consistently in the following manner, as seen in Figure 1.1 on the following page.

⁷¹ CIA – *The World Factbook*.

Figure 1.1⁷²



⁷² *Europa World Yearbook 2005.*

Appendix C

- 1821** – Honduras gains independence from Spain, but is controlled by Mexico
- 1840** – Honduras becomes completely independent
- 1980** – General Paz signs peace treaty with El Salvador, ending years of conflict
- 1981** – Roberto Suazo Cordova of the Liberal Party of Honduras (PLH) is elected president, leading to the first civilian government in over 100 years.
- 1982-83** – General Alvarez orders detention of left-wing sympathizers in response to increase of political disorder. “Death squads” are purportedly used to eliminate any rebellious groups.
- 1984** – General Alvarez is removed from power after anti-American demonstrations in Tegucigalpa.
- 1987** – Left-wing guerillas and military granted amnesty for the alleged human rights abuses in early 1980s
- 1989 January** – General Alvarez is assassinated in Tegucigalpa by left-wing guerillas
- 1990 January** – Rafael Callejas elected as president and begins introducing neo-liberal economic reforms and austerity programs
- 1992** – International Court of Justice hands down their ruling which establishes the new boundaries between Honduras and El Salvador
- 1993 November** – Carlos Reina of the Liberal Party is elected president. Reina seeks to reform judicial system and limit influence of the military
- 1998 May** – Command of the police is finally given to civilians, away from military control, though abuses allegedly continue
- 1998 October** – Hurricane Mitch ravages Honduras, destroying nearly 75% of the infrastructure and taking nearly 9,000 lives
- 1999** – Military officially placed under civilian control
- 2001 January** – Declaration made by the Honduran Committee for the Defense of Human Rights that over 1,000 children were killed in 2000 by death squads, aided by the police
- 2001 August** – U.N. calls on the Honduran government to stop all extrajudicial killings taking place
- 2003 December** – Honduras agrees to a free trade agreement with the U.S.
- 2005 March** – Ratification of a Central American free trade deal with U.S. successful
- 2005 December** – Liberal Party's Manuel Zelaya wins presidential election over ruling party⁷³

⁷³ *BBC News – Country Profiles: Honduras*. Ed. 2005. 08 Apr. 2006.
<http://news.bbc.co.uk/2/hi/americas/country_profiles/1225471.stm>.

Appendix D⁷⁴

Demographic Data:

Population (total in millions):	6,975,204
Population Growth:	2.16%
Birth Rate:	30.38 births / 1,000 population
Median Age:	19.15 years
Infant Mortality:	29.32 deaths / 1,000 live births
Death Rate:	6.87 deaths / 1,000 population
Longevity (years):	69.3
Human Development Index (HDI), 2003:	0.667
HDI Rank (2003, out of 177 countries):	116

Economic Data:

Total GDP (PPP):	\$20.56 billion
Per Capita Income (PPP):	\$2,900
GDP Real Growth Rates:	4%
Inflation (consumer rate):	9.2%
Public Debt (% of GDP):	70.5%
Debt (external):	\$4.675 billion
Investment (gross fixed):	27% of GDP
Economic Aid (1999 est.)	\$557.8 million
Exports:	\$1.726 billion f.o.b.
Major Exports:	Bananas, Coffee, Citrus, Beef, Shrimp, Timber
Imports:	\$4.161 billion f.o.b.
Percentage of Workers in Agriculture:	34%
Percentage of Workers in Industry and Service:	66%
Unemployment Rate:	28%

Social Data:

Religion:	Roman Catholic 97%, Protestant 3%
Urban/Rural Distribution:	-
Adult Literacy rate (ages 15 and above), 2003:	80%
Languages:	Spanish, Amerindian dialects
Ethnic Composition:	mestizo (mixed Amerindian and European) 90%, Amerindian 7%, black 2%, white 1%
Population below \$1 U.S. a day (1990-2003):	20.7% (1990-2003)
Population below \$2 U.S. a day (1990-2003):	44% (1990-2003)

⁷⁴ *Human Development Reports.*

Appendix E



Appendix F

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