

Spring 4-2014

# Free Trade as Neocolonialism: CAFTA, the United States, and Guatemala

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# **Free Trade as Neocolonialism: CAFTA, the United States, and Guatemala**



Honors Thesis

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## Abstract

In today's world, free trade is seen as a forgone conclusion in the march towards economic development. The origin of free trade agreements rests in the neoliberalist surge of the twentieth century based upon finding a middle ground between central planning and laissez-faire capitalism. As the twentieth century progressed, neoliberalism and the ideas associated with it fell more to the side of laissez-faire capitalism. Free trade agreements between developed and developing countries demonstrate a play of power on behalf of the developed countries that seems unfair. There are stories that are not told about free trade agreements. Economic data analysis in the years since the implementation of the Central America Free Trade Agreement (CAFTA) demonstrates the inequality that exists in the creation of free trade agreements between developed countries—in this case the United States—and developing countries like Guatemala.

## Acknowledgements

I will be eternally grateful to the people of Guatemala who welcomed me with open arms: to everyone at Trama Textiles and PLQ, thank you for allowing your history to become a part of me. In addition, I could not have completed this without the support of so many faculty and staff at the University of Dayton, especially Dr. Dasgupta. Thank you.



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## Introduction

During the summer of 2012, I traveled with the University of Dayton on a cultural immersion to spend two months in Quetzaltenango, a city in the Western Highlands of Guatemala. While it was not my first time in Xela—the traditional name for Quetzaltenango derived from its indigenous name Xelajú—I felt that many of the experiences I had and much of the knowledge I gained were different from my first experience there. As a person who was no longer a newcomer to the city, my perspective had changed. Xela was more than just a city to check off on a list of places to travel; it was a city that had welcomed me with open arms, and I felt connected to its history, people, and culture.

Through my Spanish school, Proyecto Lingüístico Quetzalteco de Español (PLQ), I had the opportunity to learn about the implementation of a free trade agreement between Guatemala and the United States. Before the presentation, free trade held a positive connotation for me. Based on what I knew, free trade meant less war and more cooperation between countries. What I learned that day not only surprised me, but also incited a thirst for knowledge that has still not been quenched. As I sat on my plastic lawn chair in a classroom whose walls were covered with different projections of the world holding a steaming cup of fair-trade Guatemalan coffee in my hands, the Guatemalan woman—an expert in economic development—began to speak. After introducing herself, she recounted the circumstances under which the Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) was passed by the Guatemalan Congress. I remember doubting my abilities to understand her Spanish in disbelief of what she said. The translator confirmed what I had understood her to say: “The Guatemalan Congress,

under threat of negative consequences from the United States government, was forced to pass CAFTA-DR in a timespan of forty-eight hours. CAFTA-DR, a document over 2,000 pages long, was written completely in English.”

I felt both confusion and concern over her statement. If free trade was indeed a mutually beneficial agreement, then there would be no need for one country to compel another country to ratify any free trade agreement. Because the United States appeared to have coerced Guatemala into ratifying CAFTA-DR, it seemed to imply that CAFTA-DR created an economic situation more advantageous for the United States than for Guatemala. After this realization, I began to interrogate this idea at a deeper level. By asking questions to different people from Guatemala, I recognized changes in Guatemala that were direct implications of CAFTA-DR. My Spanish teacher Eduardo explained that Xela had once been an area recognized for its production of wheat, but production had drastically decreased over the past several years as imports from the United States increased. Fast food restaurants based in the United States—like McDonald’s, Burger King, Domino’s, and Wendy’s— were as common of sights as locally-owned restaurants.

The ratification of CAFTA-DR is just one part of a series of interventions in Guatemala by the United States. Since 1954, the United States has taken steps to ensure that Guatemala continues along a path both politically and economically advantageous to the United States. Instead of direct intervention, the United States has indirectly intervened utilizing different aspects of the theory of neoliberalism. The relationship between the United States and Guatemala mirrors the relationship between a colonizer and its colony. Free trade agreements like CAFTA-DR, and other tools of neoliberalism, allow for a continuation of colonialism in an altered yet recognizable form.

## **In medias res**

On March 10, 2005, the Guatemalan Congress ratified CAFTA-DR, with 126 votes in favor and twelve votes against. CAFTA-DR, an agreement between Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and the United States, began its formation in 2004 under the direction of US President George W. Bush. CAFTA-DR's ratification by the Guatemalan Congress appeared sudden. An emergency session requiring 105 votes in favor out of a total of 138 members was called. CAFTA-DR was passed by the Guatemalan Congress without discussion or investigation despite requests for study from many Guatemalan non-governmental organizations that were concerned about the effects of CAFTA-DR on the Guatemalan people. Just the day before CAFTA-DR was passed, a vote calling for the emergency session had failed from lack of support of the members of the Guatemalan Congress. The vote on the tenth was held amidst violent protests calling for a referendum on CAFTA-DR. The Guatemalan people desired to vote on ratification of CAFTA-DR, yet they were never given the chance. Protesters were silenced on the tenth under the threat from Guatemalan police that protest leaders would be arrested and charged with public disorder. Amidst high levels of protest, the Guatemalan Congress changed its course overnight by moving from not allowing the emergency session to ratifying the agreement by a large margin ("Es Mas").

CAFTA-DR was passed quickly in Guatemala, and it is evident that many Guatemalan citizens had hesitations about the implications of the agreement. Four days after ratification, March 14, 2005, protests continued anew. There were protests in the

majority of Guatemala's twenty-two departments. Thousands of protestors filled the streets of Guatemala City, coming from three directions to fill the historic center of the capital. In demonstration of academic discontent with the agreement, one of the three groups was led by two top officials from the Universidad San Carlos de Guatemala, the public university in Guatemala. Again, the peaceful protests were crushed by the police force in Guatemala (Yagenova 189-90). While there is currently no proof to corroborate the timeline of events revealed at PLQ, the abrupt change in the vote of the Guatemalan Congress—from not allowing an emergency session to easily ratifying the agreement in just two days—supports the claim of coercion. In May of 2006, just over a year later, the treaty went into effect for Guatemala. CAFTA-DR is neither the beginning nor the ending of United States intervention in Guatemala. In order to understand CAFTA-DR's role in the shared future of Guatemala and the United States, it is first necessary to understand how it came to be. CAFTA-DR's origins lie in the intersection of the history of Guatemala and the history of neoliberalism.

### **Guatemala: 1524-1944**

Before the arrival of the Spanish colonists, the expanse of land that is modern-day Guatemala was dominantly populated by numerous Maya groups. While the Maya are known for their construction of impressive pyramids and creation of an accurate calendar, their civilization had reached its peak in advance of the arrival of the Spanish. The Maya had no system of land ownership, instead relying on a communal system of land management. They saw no reason to make claim to a specific parcel of land. Because of this, their way of life was easily exploited by the Spanish colonists who arrived in Guatemala. The Maya were defeated by Pedro de Alvarado in 1524. Under colonial rule,



wealthy, land-owning elites controlled the territory. Guatemala was used as a source for raw materials for Spain (“History” 2).

The territory that comprises modern-day Guatemala gained its independence from Spain in 1821 as a part of the Federal Republic of Central America (initially known as the United Provinces of Central America). By 1838, the Federal Republic of Central America had dissolved into more or less present-day Central America (the exceptions include Belize and Panama). At this point in time, the Republic of Guatemala officially came into being. Guatemala’s population was estimated to be about 600,000. While Guatemala was no longer a colony of Spain, the economic and social system had not changed. Wealthy, land-owning elites maintained control (Baily 33).

In 1871, Justo Rufino Barrios became president of Guatemala after working to overthrow the conservative administration. Barrios was the first among several presidents of Guatemala who intended to work for greater equality in Guatemala. Under Barrios, Guatemala’s first constitution was ratified, the power of the Catholic Church was limited, telegraph lines and railroads were constructed, and the public school system was created. In 1873, the first telegraph line was built in Guatemala. Just nine years later, in 1882, there were over 1,200 miles of telegraph wire in the country (Rippy 597). In 1884, electric lights were installed in Guatemala for the first time. The next year, the telephone system was put into place (Rippy 598). Barrios was president of Guatemala until 1885, when he died on the battle field in attempts to reunite the countries of Central America to form one country.

After the death of Barrios, Guatemala continued under presidents seeking to increase infrastructure. Manuel Estrada Cabrera, president from 1898 until 1920,

continued infrastructure development by allowing United Fruit Company, a banana company from the United States, to construct, own, and operate railways and the main port in Guatemala. In addition, United Fruit Company was the sole carrier of mail between the United States and Guatemala (Page, and Sonnenburg 601). Guatemala's next president of note was Jorge Ubico. Ubico, an oppressive leader focused on amassing personal wealth, maintained power from 1931 until 1944. Under Ubico, United Fruit Company became the largest land-owner in Guatemala. At this point in time, United Fruit Company owned all but twenty-nine miles of railway in Guatemala. Because it controlled the only port, it was able to control both exports and imports by sea. By 1944, the people of Guatemala were frustrated. Ubico was forced from power (Immerman 38-43).

### **Guatemala: 1944-Present**

In Guatemala, the decade between 1944 and 1954 is referred to as ten years of spring. As verified by the Commission for Historical Clarification established in 1994, these ten years were the only years that countered the standard colonialist policy of exclusion with inclusive, democratic social policy (CEH 18). In October of 1944, a junta removed General Federico Ponce Vaides from power, effectively ending Ubico's rule. For the first time in Guatemala's history, inclusive elections took place. Juan José Arévalo became the first truly democratically-elected president in Guatemala (Immerman 43-44). Arévalo, unlike preceding Guatemalan presidents, was not a member of the military; instead, he was an intellectual and teacher. Furthermore, he believed in including all Guatemalans—not just Guatemalans of European descent—in the political and social life in Guatemala (Immerman 46). Under Arévalo, Guatemala passed a new constitution that granted suffrage to all except illiterate women. Social reforms that

granted jobs to thousands of jobless peasants were enacted, and education became a focus of the government (Immerman 51-55). Arévalo paved the way for democratic elections in 1951.

Jacobo Árbenz followed Arévalo as the second democratically-elected president in Guatemala's history. Árbenz was elected on a platform of continued reform, particularly agrarian reform (Immerman 62), and he realized both the necessity of and challenge in enacting significant reform. In Thomas L. Percy's book, *The History of Central America*, he asserts:

Approximately 2 percent of the population controlled 72 percent of the nation's arable land. Conversely, 88 percent of the population controlled only 14 percent of the nation's farm land, leaving the vast majority of the population dependent on a small landed minority. Of all privately held lands, only 12 percent was under cultivation. The large majority of Guatemala's farmlands were owned by a small landed elite and laying fallow (111).

On June 17, 1952, the Guatemala Congress passed Decree 900, the Agrarian Reform Act. The Guatemalan government paid declared tax value in government bonds to any land owner with more than 223 acres fallow. Under Decree 900, United Fruit Company stood to lose a large amount of land. Of the 550,000 acres that United Fruit Company owned, eighty-five percent remained unused. 400,000 acres of land owned by United Fruit Company was purchased by the Guatemalan government and distributed to 50,000 landless peasants. United Fruit Company had understated the value of its land in Guatemala to pay a lower amount of taxes, and it therefore did not receive full value for the land from the Guatemalan government. In total under Decree 900, almost 1.5 million acres of land were redistributed to 100,00 Guatemalan families who were without land previously (Percy 111-2).

United Fruit Company was furious at the turn of events. Two former United Fruit Company lawyers, Allen Dulles and John Foster Dulles, held important positions within the United States government. John Foster Dulles was Secretary of State, and his brother Allen was Director of the Central Intelligence Agency. The brothers were large shareholders in United Fruit Company, and they stood to lose on their investment if the agrarian reform remained in Guatemala. Under the guidance of the Dulles brothers, the United States government instigated a coup d'état that removed Árbenz from power (OPERATION PBSUCCESS). Because of the ongoing Cold War, all the brothers had to do was suggest that Communism had infiltrated Guatemala in order to receive support for removing a democratically-elected leader from the Guatemalan presidency (Percy 111-2).

The coup d'état in 1954 was the first example of direct intervention by the United States government in Guatemala. To ensure economic stability and promotion of interests, the United States continued to intervene to provide support on behalf of the Guatemalan government. From 1960 to 1996, Guatemala endured a brutal civil war that saw guerilla groups come into conflict with the Guatemalan military. The four primary guerilla groups were the “Guerilla Army of the Poor (EGP), the Revolutionary Organization of Armed People (ORPA), the Rebel Armed Forces (FAR) and the Guatemalan Labor Party (PGT)” (“History” 3). In 1982, the guerilla groups came together to form the Guatemalan National Revolutionary Unity (URNG). The guerilla groups are often referred to as leftist rebels. In reality, the members of the guerilla groups were the same citizens who supported the democratic elections of Arévalo and Árbenz based on the reforms that the two men supported. The members of the guerilla found

themselves without a voice or vote after the coup d'état in 1954, and so they attempted to effect change in Guatemala through other channels.

The most violent years of the civil war—1982 and 1983— occurred under military dictator Efraín Ríos Montt. Ríos Montt became de facto president of Guatemala after forming a military junta that dissolved the Guatemalan constitution and Congress. In the report of the Commission for Historical Clarification (CEH), requested as a part of the Accords of Oslo of 1994, it is estimated that anywhere from 500,000 to 1.5 million people were forced to flee under threat of massacre. The majority of those who fled were ethnically Maya. Under Ríos Montt, the “scorched earth” campaign was initiated. The Guatemalan military government incorrectly associated guerilla movements with indigenous groups in Guatemala. The CEH affirms:

The Army’s perception of Mayan communities as natural allies of the guerillas contributed to increasing and aggravating the human rights violations perpetrated against them, demonstrating an aggressive racist component of extreme cruelty that led to the extermination en masse of defenseless Mayan communities purportedly linked to the guerillas—including children, women and the elderly—through methods whose cruelty has outraged the moral conscience of the civilized world (Tomuschat, Lux de Cotí, and Balsells Tojo 34).

As a result of the “scorched earth campaign,” 626 Maya communities were confirmed to have been wiped out entirely (Tomuschat, Lux de Cotí, and Balsells Tojo 34). The manner in which these communities were destroyed is despicable. Thousands of innocent people died merciless deaths. In total, there were 42,275 confirmed deaths during the Guatemalan civil war. 83% of these victims were Maya (Tomuschat, Lux de Cotí, and Balsells Tojo 17). Over 200,000 people were never accounted for. In demonstration that the Guatemalan government and military was overreacting to the situation entirely,

eighty-five percent of all human rights violations committed during the civil war were committed by the Guatemalan Army (Tomuschat, Lux de Cotí, and Balsells Tojo 34).

A further claim of CEH is that the Guatemalan government committed genocide against the Maya ethnic groups. Specifically, the Guatemalan State was found responsible for the deliberate killing of ethnic Maya on no basis but ethnicity in four separate regions of Guatemala from 1981 until 1983. The CEH, following procedure as outlined in the Convention on the Prevention and Punishment of the Crime of Genocide, stated that Guatemala was responsible for trying those to be judged for crimes of genocide. In what must be one of the greatest travesties of the twentieth century, Ríos Montt avoided being brought to trial for genocide and war crimes until 2013. The man in charge of the Guatemalan state and army during the period of genocide walked free for thirty years. In that time, he was a member of the Guatemalan Congress and prominent member of society. Finally, after failing to be reelected to the Guatemalan Congress, he was brought to trial. After five months of testimony and deliberation, he was found guilty of genocide and war crimes and sentenced to eighty years in prison. The victory was short-lived, as the verdict was thrown out just ten days later (McDonald).

The United States was also implicated in the CEH. The 1954 coup d'état spurred Guatemala down a path of militarization and civil war. In addition, CEH confirms:

the United States demonstrated that it was willing to provide support for strong military regimes in its strategic backyard. In the case of Guatemala, military assistance was directed towards reinforcing the national intelligence apparatus and for training the officer corps in counterinsurgency techniques, key factors which had significant bearing on human rights violations during the armed conflict (Tomuschat, Lux de Cotí, and Balsells Tojo 19).

During Ríos Montt's presidency, President Ronald Reagan of the United States visited the Guatemalan capital. While there, he spoke in support of Ríos Montt, saying,

“President Ríos Montt is a man of great personal integrity and commitment...I know he wants to improve the quality of life for all Guatemalans and to promote social justice” (Fox). Through his visit, statement, and financial support of Ríos Montt, President Reagan asserted that it was better for the United States to be able to control a country that killed thousands of its citizens than to be unable to control another democratic country.

On December 29, 1996, Peace Accords were signed that officially ended the Guatemalan civil war. Thirty-six years after it officially began, the conflict ended. In demonstration that Guatemala still did not have complete sovereignty, Article 7 of the Peace Accords includes language regarding economic liberalization (“Acuerdo de paz firme y duradero” 3). The United States had found yet another way to ensure that Guatemala continued down a desirable path.

The United States of America—supposed promoter of freedom and democracy around the world—overthrew a democratically elected leader, aided in replacing him with a string of military dictators, and trained the military that led to the disappearance of 200,000 Guatemalan citizens during the Guatemalan civil war. Lamentably, the people indigenous to Guatemala had not gained any status in the more than one-hundred fifty years since independence from Spain. Colonialism’s legacy still spoke loudly and clearly.

### **Neoliberalism: A Brief Overview**

Neoliberalism, or “new liberalism,” arose after World War II. The United States, the world’s dominant economy, sought to stabilize its global economic position through the creation of an economic philosophy that would maintain the status quo. In order to justify such a creation, the main economists behind neoliberalism suggested it as a middle ground between centrally-planned economies and laissez-faire capitalist economies.

In a further step to ensure that neoliberalism became the dominant economic philosophy, the United States led the charge in the creation of international financial institutions at the Bretton Woods Conference in 1944. The International Monetary Fund (IMF) and the World Bank were created at a meeting of 44 countries in the Bretton Woods, New Hampshire. A third institution based upon the same neoliberal ideals is the World Trade Organization (WTO). Established in 1995 by the Uruguay Round negotiations, the WTO attempts to increase the flows of trade around the world by negotiating agreements between members.

The IMF is a distinctly non-democratic institution charged with enforcing the ideals of neoliberalism worldwide. Instead of awarding each of its 188 members equal voting rights, members are awarded a quota based on the size of their economy and the proximity to which they align with certain ideals of neoliberalism. The current quota formula takes into account “GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent)” (“IMF Quotas”). Quotas allow certain countries to have disproportionate overrepresentation in comparison with other international organizations. The United States, for instance, receives 16.75% of the vote. Guatemala, contrastingly, receives only 0.11% of the vote (“IMF Quotas”). The IMF further promotes neoliberalism through imposing economic policy on members desiring financial assistance, even if the assistance comes from the World Bank.

The ideas of neoliberalism have become so ingrained into the United States’ cultural values and norms that questioning its foundation is seen as anti-patriotic. Neoliberalism is an economic philosophy that enforces the idea that individual freedom is



the ultimate goal towards which society should strive (Harvey 20). It further asserts that unregulated, financialized markets are the best solution to guaranteeing individual freedom. As such, government intervention should be kept to a minimum. In particular, “the neoliberal state should favour strong individual private property rights, the rule of law, and the institutions of freely functioning markets and free trade” (Harvey 64). Neoliberals believe that private property rights are critical to development, as private ownership avoids destruction that can occur through the tragedy of the commons. In addition, neoliberals believe that the path to development for developing countries includes free markets and free trade (Harvey 65). Neoliberals further assert that the continuous economic growth supposedly afforded by neoliberalism will in turn lead to prosperity for all, as “a rising tide lifts all boats” (Harvey 64).

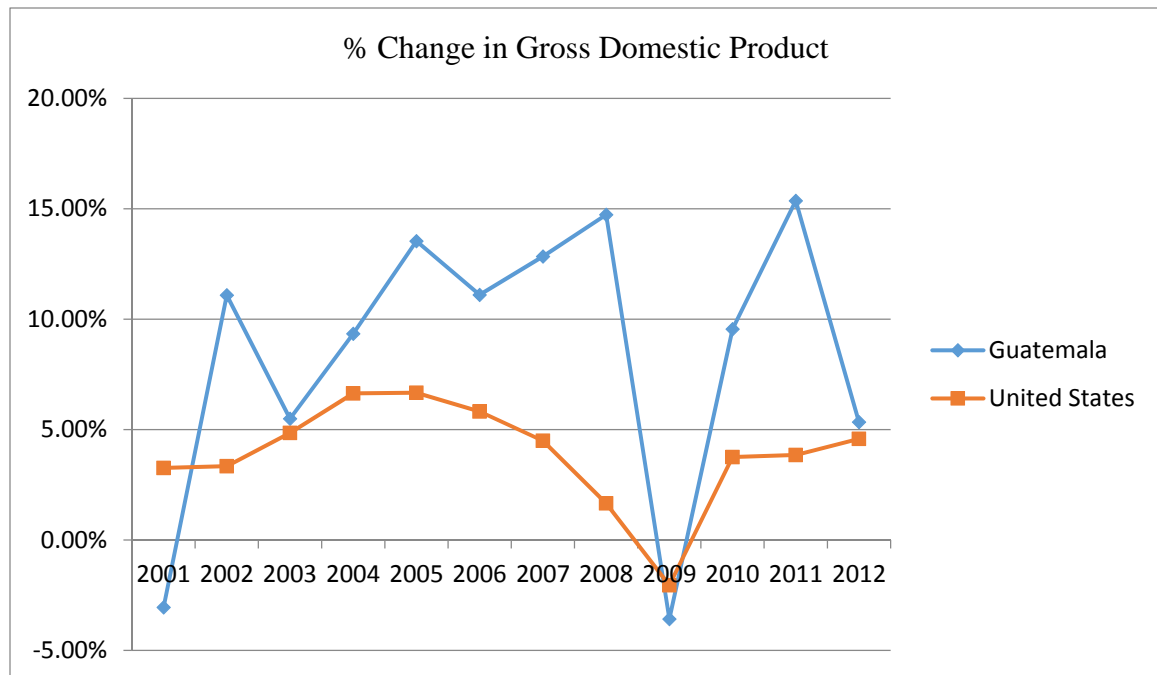
The extent to which neoliberalism lives up to its ideals is narrow.

### **CAFTA-DR**

A key apparatus of neoliberalism is regional economic integration, which is often achieved through free trade agreements. The Central American Common Market was formed in 1960 in response to the increased levels of integration witnessed in other regions of the world. Members included El Salvador, Guatemala, Honduras, and Nicaragua (and then later Costa Rica). Its goal was to achieve regional economic development through the ideals put forward by advocates of neoliberalism: free trade and economic integration. The Central American Common Market served as a precursor to CAFTA by paving the way for US entry into the discussion. Discussions began in early 2004, and the United States signed CAFTA-DR on August 5, 2004. It was the first free trade agreement between the United States and a group of smaller developing countries.

Free trade agreements are not meant to be accessible. They include hundreds of pages of information that can only be deciphered by experts. CAFTA-DR is no different. What becomes evident is that free trade is not free. Instead of removing barriers, free trade agreements simply clarify which barriers exist. Because of the high levels of integration present today, it is difficult to judge the effects of a single agreement. Confounding factors abound. In order to measure if CAFTA-DR lives up to the aspirations of neoliberalism, one must examine relevant data. Data included below, unless otherwise noted, comes from the World Bank. The World Bank, as a promoter of neoliberalism, utilizes data as a gauge of success.

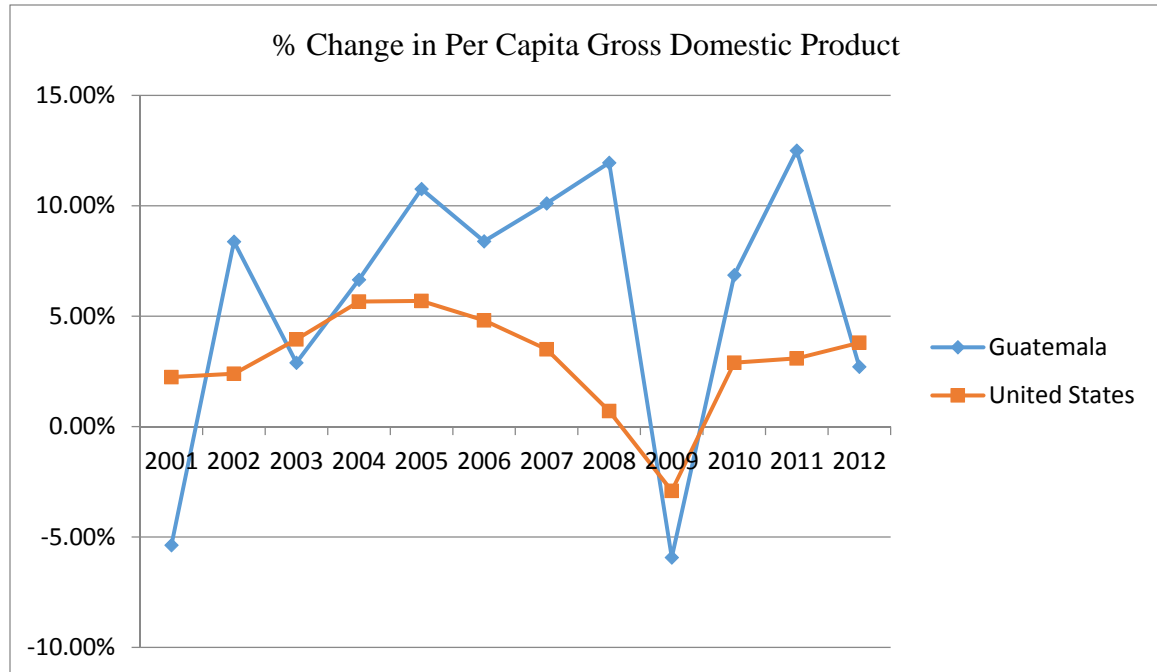
A primary aspiration of neoliberalism is economic growth. As demonstrated through the chart below, Guatemala's gross domestic product is much more volatile than



the gross domestic product of the United States. In addition, regional economic integration can lead to spillover of economic crises. As the United States experienced

economic difficulties in 2009, Guatemala's gross domestic product experienced a drastic change from growth to shrinkage.

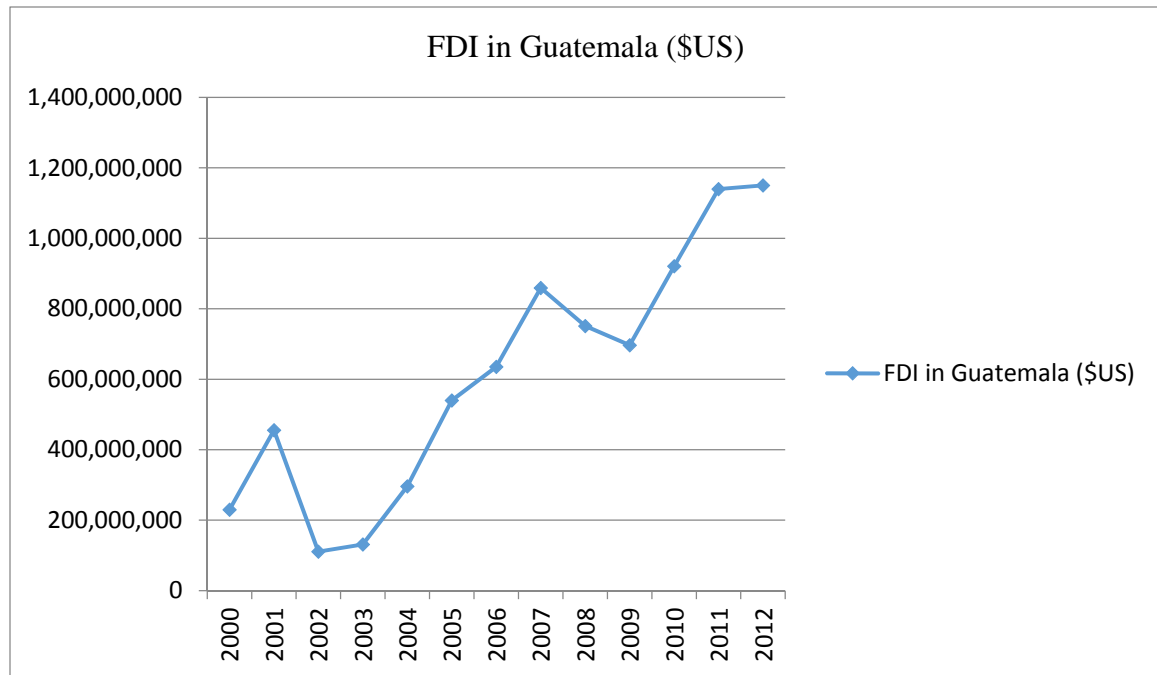
Gross domestic product is the measure of an entire economy. In order to gauge the individual increases or decreases in income, it is necessary to examine gross domestic product per capita. Similarly, Guatemalan growth appears to mirror United States growth,



yet it is much more volatile. Both curves present more drastic shifts than the gross domestic product curves. Whether or not an increase in individual income is occurring is inconclusive.

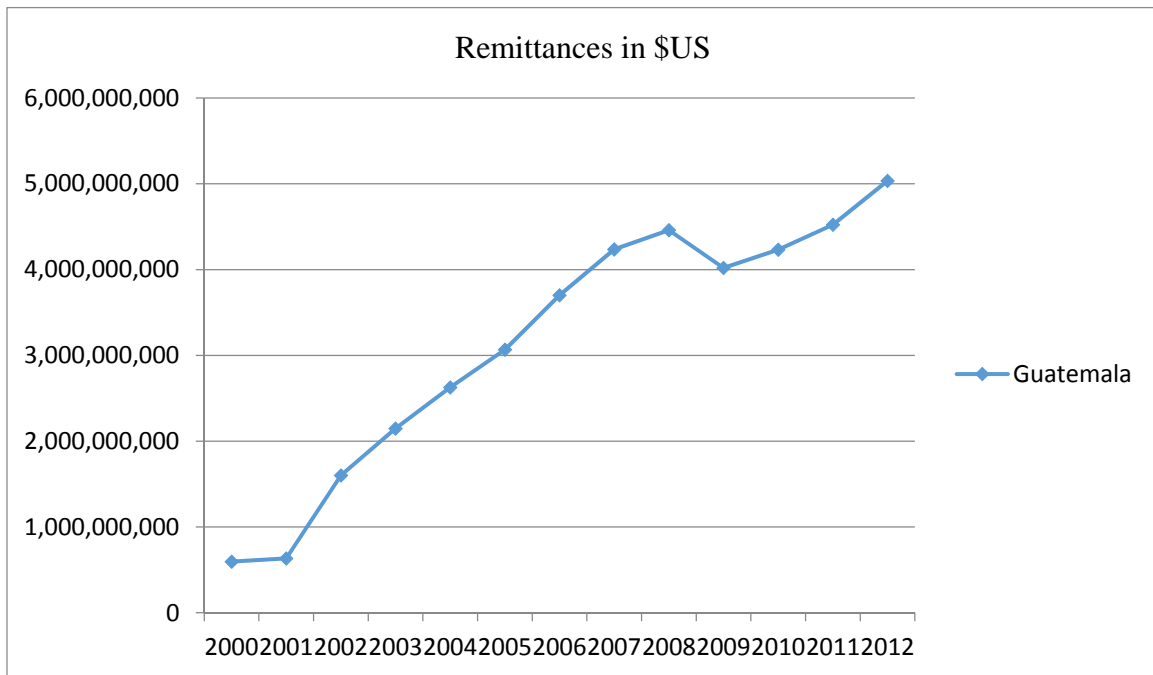
Measures of economic growth are inconclusive for both pre- and post-CAFTA-DR implementation. The only conclusion that can be drawn is that Guatemalan economic growth is dependent on United States economic growth. If the United States economy grows, it appears as though Guatemala will mirror the growth. If the United States economy shrinks, the Guatemalan economy will likely do the same.

In addition to economic growth, neoliberalism promotes increased investment through the removal of barriers. Since the implementation of CAFTA-DR, Guatemala has seen a marked increase in the amount of Foreign Direct Investment. In 2005 after



CAFTA-DR was ratified by Guatemala, foreign direct investment increased by over 45%. Again, investment seems to be vulnerable to the global economy. While there was a global recession, levels of foreign direct investment decreased. Foreign direct investment largely depends on perceived security in a country, and entry into a free trade agreement typically signifies increased security of investment.

An integral part of Guatemala's economy is remittance money. Remittances are the funds sent to a country from abroad by citizens of that country. Remittances have been increasing in Guatemala. In 2012, remittances were almost ten percent of Guatemala's gross domestic product. Many families in Guatemala depend on the money sent to them from family members working and living abroad.



Suspiciously missing from the data available is data regarding economic equality in Guatemalan society. It is impossible to assess how economic growth is truly occurring in Guatemala without this data. A common measure of equality (and inequality) in a society is the GINI coefficient. Both the United States and Guatemala fail to report this information. It is understandable that there are gaps in Guatemala's data; generation of data is expensive, and Guatemala is already a country with limited resources. Why the United States fails to report the same information is a mystery.

### **Conclusion**

While economic data is an important meter in development (especially for neoliberal institutions), it cannot and will not ever tell the full story. It doesn't tell the story of a mother deciding whether or not her daughter should wear her traditional dress or Western attire. It doesn't show the frustrations of a father who can no longer provide

for his children one he loses his job to a corporate take-over. It can't show increases in diabetes, tooth decay, and related illnesses from shifts towards a more processed diet. It will never capture the emotions of a young woman deciding to risk her life by leaving her home for another country. The stories of these people mean so much more than a number ever could, but neoliberalism has shifted the world's focus away from people and towards profits.

Through different apparatuses of neoliberalism, the wealthiest of both United States and Guatemalan society are able to externalize the costs of development onto the backs of those who remain without a voice. The United States began its intervention in Guatemala in 1954, and it hasn't stopped. Because the United States is still able to infringe on Guatemala's sovereignty—both economic and political—colonialism has ended in name only.

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[ar/libros/osal/osal16/CRN16Yagenova.pdf](http://biblioteca.clacso.edu.ar/ar/libros/osal/osal16/CRN16Yagenova.pdf)>.