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Among the topics to be included in the series, the following are suggested:

- The collapse of the Constitution and its rescue
- Turkey: prospects of membership
- Immigration crisis and cultural challenges
- Security threats and responses
- The EU and Latin America
- The EU as a model and reference in the world
- The Common Agricultural Policy and other public subsidies
- The euro and the dollar
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These topics form part of the pressing agenda of the EU and represent the multifaceted and complex nature of the European integration process. These short papers also seek to highlight the internal and external dynamics which influence the workings of the EU and its relationship with the rest the world.

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The EU Model: Can Integration Remedy Central American Underdevelopment?

Leandro R. Solórzano ♦

Introduction

On April 17th, 2007 the European Union announced it would be giving Central America an aid package totaling 840 million Euros. Commissioner for EU External Relations Benita Ferrero-Waldner said the aid package included an increment of 25% intended to help the Central American region in their integration efforts. Commissioner Ferrero-Waldner reiterated the EU's continued commitment to help the Central American countries achieve political and social stability through democracy, justice, security, while fighting poverty and protecting the environment.¹

The EU's aid package presented to Central America is just another in a long series of development aid that the EU has given to the region. Historically the EU has been the largest aid donor in the region and has been the main proponent of Central American integration. Central America attempted integration back in 1824, shortly after the nations achieved independence, but it was short lived and was dissolved in 1848. A second attempt at integration was sought in the 1960s in what would have been the first Latin American customs union.² This ambitious goal was backed by the then six members of the European Economic Community (EEC) and was named the Central American Common Market (CACM). The CACM was envisioned as the ideal tool for the integration of the five Central American countries which were expected to rapidly industrialize and develop.

The CACM as an Instrument for Integration

The CACM was formed to meet the objective of rapid industrialization by the sharing of net benefits by all members. Industrialization was thought would reduce the dependence of the countries from the rest of the world and increase wages. However it was easier said than done. The Central American economies were not close to being called industrialized and in order for the wonders of industrialization to take place, policy instruments needed to be set in place and there needed to be a reallocation of resources.

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¹ Prensa Libre, *UE donara 840 millones de Euros a Centro América*. April 18th, 2007. Guatemala.

<http://www.prensalibre.com/pl/2007/abril/18/168558.html>

² Bulmer-Thomas, V. *The Central American Common Market: From Closed to Open Regionalism*. World Development, Vol. 26, No. 2 pp 313-322 1998

The first decade of the CACM was considered a great success both inside and outside of the region. Intraregional exports reached almost \$300 million in 1970.³ Trade was mostly concentrated in manufactured goods, and for the first time the Central American countries seemed to be modernizing with several multinational corporations setting up shop in the region. Several institutions were created to oversee the progress and aid those countries that were weaker like Honduras and Nicaragua. Yet as successful as the first decade seemed to be several problems were brewing and would soon surface.

The second and third decades of the CACM (1970-1980) brought with them a string of problems relating to trade inefficiencies, the international economy, and conflict within the region. The end of the 60s left the countries dealing with trade and fiscal issues that affected competitiveness within the region. To worsen matters a territorial dispute began between Honduras and El Salvador in July, 1969. The so called “soccer war” did not last long but had lasting effects on the economic dynamics of the region. Honduras refused to trade with El Salvador hurting attempts for further integration. Towards the end of the 1970s the Somoza government began to crumble in Nicaragua, and a leftist movement gained popularity in El Salvador. In 1981 Honduras and El Salvador finally reached an agreement over their dispute and commercial relations slowly began to normalize.⁴ Just as prospects for integration began to seem hopeful and the CACM seemed to once again gain momentum the countries were halted in a decade that would prove to be their worst yet.

The 1980s brought with them a period of conflict and economic instability that was devastating for the region. The Central American countries began to default on the loans they had taken from the developed countries when kick starting their economies. The international debt crisis, as it came to be known, affected many countries throughout the world sending the world’s economy into a recession. To worsen matters civil war erupted in Guatemala, El Salvador, and Nicaragua, changing the focus of the region from trade and integration into a militarized frame of mind. In this context of war, economic crisis, and militarization, the region saw its intraregional trade fall drastically to 1970 rates.⁵

All these factors combined proved too devastating to the CACM. By 1985 intraregional exports had fallen by more than half. The Central American political crisis ruled out any attempts to revive the integration process. Several outsiders pointed out to the CACM as the culprit for the turmoil in the region, many began to see it as the problem instead of the solution.

Another Attempt at Reviving the CACM

During the mid 80s another attempt to revive the CACM was made. It was difficult to lift it up from the ground mainly because of political unrest that was still prevalent in the region. Tension between the Sandinista government in Nicaragua and the other Central American governments made the notion of integration seem impossible. International institutions such as the World Bank were also opposing the new attempt to integrate arguing it would return the region to import substitution policies which were largely blamed for the economic maladies the region experienced at the beginning of the 80s.⁶ The United States was also not keen on the idea of Central American integration, thinking it would enable the Sandinista movement in Nicaragua to garner support in the other countries.

³ Ibid

⁴ Bulmer-Thomas, V. *The Political Economy of Central America since 1920*. Cambridge University Press, Cambridge UK 1987

⁵ Ibid

⁶ Bulmer-Thomas, V. *The Central American Common Market: From Closed to Open Regionalism*. World Development, Vol. 26, No. 2 pp 313-322 1998

The collapse of the Sandinista government in Nicaragua in 1990 cleared the path for the true revival of the CACM. The Central American presidents met in Antigua, Guatemala, in June of 1990 to revitalize the CACM. It was agreed that the CACM would not be the same as it was conceived back in 1960, while integration was still accepted as the way for rapid economic growth the focus of the common market shifted. Instead of the economies concentrating on import substitution policies and domestic regional trade, they would support an outward growth model based on the promotion of non-traditional exports.⁷ The following year the leaders met in Tegucigalpa, Honduras and signed the Protocol of Tegucigalpa its main feature was the creation of the *Sistema de Integración Centroamericana* (SICA). Then in 1993 the 14th presidential summit was held and the Protocol of Guatemala was signed. The protocol's main objective was to update the treaty that launched the CACM in 1960 and re-establish the common export tariff (CET) with a ceiling of 20%.⁸ This goal proved unrealistic to reach due to short term macroeconomic conditions.

The rapid intraregional growth of the 1990s reversed negative thoughts dating back to the crisis of the 80s. A high level of optimism pushed governments to embark on many projects that could not realistically be completed. In 1994 the Central American Presidents adopted the Alianza para el Desarrollo Sostenible (ALIDES), but environmental protection continued to lack the financial funding needed to take on any significant projects. Later in 1995 during the 16th presidential summit the Treaty of Central American Social Integration was sign but there was no defined explanation of how the CACM would alleviate the region's social problems much less resolve them.⁹ After many critical reviews from international agencies, the Central American Presidents decided during their meeting in 1997 that SICA would be given the leading role for the implementation of most integration projects and most of the regional organizations were transferred to San Salvador. However, the Central American Parliament was allowed to remain in Guatemala and the Court of Justice in Nicaragua but their budgets were sharply reduced.

The process of transforming the Central American region from an inward looking scheme to an outward orientated one was still far from complete and much remained to be done. A source of major concern was and has continued to be the case of Costa Rica. Costa Rica is the region's most successful economy but it has been reluctant to fully participate in all of the integration projects. Costa Rica did not feel any obligation to join in creating a CET in the 1990s. It was against and would not consider the prospect of free labor movement. It stayed outside of the Triángulo del Norte formed by Guatemala, El Salvador, and Honduras whose main goal was to create a true common market. Costa Rica made it clear to all the other Central American countries that it would pursue bilateral agreements with any country it wanted and did with Mexico in 1994 complicating the prospects of a true customs union in Central America.¹⁰

The main initiatives of the new CACM have been directed at restoring the two essential instruments of a customs union namely free intraregional trade and the CET. Progress has been made in regards to customs procedures and legislation. This was mainly pushed by the Central American Free Trade Agreement with the United States. There has been a process of modernization of the Central American customs, this has enabled an expedient process of trading procedures as well as better methods and controls of goods entering and leaving the countries. Regulations have been standardized and there is now a Central American Uniform Customs

⁷ Roy, J. and Domínguez, R. *The European Union and Regional Integration. A comparative perspective and lessons for the Americas*. University of Miami, European Commission. 2005. P 113.

⁸ SGSICA-CEPAL, *La integración centroamericana: beneficios y costos*. SGSICA-CEPAL, México, 2004 www.eclac.cl/.../xml/4/20464/L603%20I.%20Integraci%F3n%20Centroamericana-un%20proceso%20multidimensional.pdf

⁹ Bulmer-Thomas, V. *The Central American Common Market: From Closed to Open Regionalism*. World Development, Vol. 26, No. 2 pp 313-322 1998

¹⁰ Ibid

Code. There is also a single manual of customs procedures which some countries have begun to apply.¹¹

Challenges for Central American Integration

Fernando Rueda–Junquera¹² points out seven challenges and weaknesses that are preventing the successful integration of the Central American countries into a true common market. The first shortcoming of the region is predominance of extra-regional trade. A true common market such as the EU reports intraregional trade of both exports and imports of more than 60%, while intraregional trade in Central America has only accounted for nearly 26% of exports and 13% of imports. In order for development to take place through integration, Rueda-Junquera explains there has to be an expansion of intraregional trade through the removal of non-tariff barriers and effective liberalization of trade throughout the region wishing to integrate. Closely linked to the first shortcoming is the second which is the slow improvement in the quality of intraregional trade. Quality of trade once again seems to be greater extra regionally rather than intra regionally. The CACM did improve intra regional trade since the beginning of the 1990s but at a slow pace that was not strong enough to invigorate it or counterbalance the extra regional trade effects promoted by the Caribbean Basin Initiative (CBI) and the CAFTA. With trade liberalization there is a need for proper infrastructure and an appropriate level of investment in order for regional productive resources to be maximized.

A third problem facing successful integration has to do with distributive issues of costs and benefits. This problem is affecting the lesser developed countries of Central America, namely Nicaragua and Honduras. Costa Rica, El Salvador, and Guatemala account for nearly 85% of exports intra regionally, mostly between Guatemala and El Salvador. The prospect of a true common market turning into a reality would seem to only significantly benefit those countries that are already enjoying trade with each other while pushing the other countries to the periphery. This translates into a big problem for successful integration because if all countries cannot see a benefit to joining the common market they won't. The absence of a real common trade policy is a fourth challenge facing the region, Rueda-Junquera points to the lack of a common customs administration, limited coordination of macroeconomic policies, and weak regional institutions as being three other issues that must be addressed in order for successful integration to happen.

EU Prospects for Central America

The relationship between the European Union and Central America in the context of the San Jose Dialogue can be traced back over two decades to 1984. The process was launched on September 28th in Costa Rica and has been called by the EU one of its most successful relationships with any sub-region of the world. The main goal of the San Jose Dialogue is to extend peace, democracy, security, and economic and social development.¹³

The EU has seen Central America as a region that can benefit from the same process of integration that it once pursued. The pursuit of peace and stability through co-operation and

¹¹ Roy, J. and Domínguez, R. *The European Union and Regional Integration. A comparative perspective and lessons for the Americas*. University of Miami, European Commission. 2005. P 116

¹² Ibid

¹³ Commission Européenne, *Le Processus de San Jose: Dix and Apres*. Direction Generale Pour Les Relation Nord-Sud, Madrid, 1994

collective security while achieving economic integration has been diagnosed by the EU as a possible solution to Central America's underdevelopment and instability.

The San Jose Dialogue has served as the cornerstone for relations between the two regions. The EU was able to foster the peace accords in Guatemala and El Salvador taking advantage of its position as a neutral actor. Unlike the U.S. the EU was not perceived as a power that would use force or break international law in order to pursue its objectives. Its prolonged absence from the Central American scene made it less responsible than the U.S. for the circumstances that were affecting the region.¹⁴ Because of its key role in the pacification of the region, the EU has established a high degree of political credibility in the region which it has used to promote regional integration.

In relation to trade, the EU is the regions second most important trade partner trailing behind the U.S. EU investment has grown significantly during the past decade. Commercial relations are governed by the drugs-regime of the Generalized System of Preferences (GSP) which is considered one of the main pillars of EU-CA relations. The GSP provides duty free access into its market to 90% of Central American exports.¹⁵ The focus on trade was conceived as a way to combat drug production and trafficking while promoting European investment in the region. Economic cooperation has been a constant part of the dialogue since its inception. During the Madrid Summit of 2002 the EU confirmed its position of creating a path for a future Association Agreement that would include free trade between the Central American countries and the EU with the prospects of deepening integration in Central America. The EU's intention was again stated during the Guadalajara Summit held on May, 2004, and furthered during the Vienna Summit that took place on May, 2006. During the Vienna Summit the Heads of State and Government of the EU and Central America reaffirmed their pledge to strengthen their relationship. Building on the concepts set forth during the San Jose Dialogue, both regions admitted that their continued relationship had helped the Central American countries in their pursuit of economic and social development, integration, and democracy and peace building. Furthermore, both regions agreed to continue building on the prospect of a future Association Agreement that would include the creation of a Free Trade Area.¹⁶

Central America receives most of its developmental aid from the EU. The EU contributes some 60%¹⁷ of the total assistance development aid that the region is given. The Central American sub-region received the largest share of absolute and per capita co-operation from the EU. This co-operation has traditionally been directed towards programs relating to human rights and democracy, as well as disaster prevention and reconstruction, rural development, social development, and regional integration.

Taking its own experience as a model, the EU's strategy for Central American cooperation and integration functions on the basis of three main principles.¹⁸ The first is to promote regional integration, implement common policies and reinforce regional institutions. The CACM is the main project under this principle and it is hoped it will be the cornerstone of the integration process. The EU both regionally and bilaterally has supported economic cooperation programs which seek to improve competitiveness in regional and international markets in order to attract investment and assist in the transfer of technology. In regards to institutions the EU seeks

¹⁴ Roy, Joaquín. *The Reconstruction of Central America: The role of the European Community*. Iberian Studies Institute, European Community Research Institute, University of Miami 1992 pp. 33-36

¹⁵ Comisión Europea, *La integración centroamericana: realidad y perspectivas*. Luxemburgo: Oficina de Publicaciones Oficiales de las Comunidades Europeas 2004 pp. 19-23

¹⁶ Council of the European Union, *Joint Communiqué, EU-Central American Summit*. Brussels, 13 May, 2006 9337/06 (Presse 139)

¹⁷ Ibid

¹⁸ Comisión Europea, *La integración centroamericana: realidad y perspectivas*. Luxemburgo: Oficina de Publicaciones Oficiales de las Comunidades Europeas 2004 pp. 24-27

to consolidate technical and administrative capabilities so they can successfully play their corresponding roles in the region.

The role of civil society in the integration process is an aspect that the EU deems highly important and is the second priority in its strategy for Central America. In order for successful integration to take place, national societies must be involved in the process and share in it. The lack of information and appropriate participation by societies and the fact that benefits are not sufficiently visible have been identified as major weaknesses in the integration process. The EU strategy seeks to encourage awareness rising among Central American societies in order to garner the political impetus needed to re launch the regional integration process in Central America by educating people about the economic and sustainable development benefits integration can offer.

Because of its geography and topography, Central America has always suffered from natural disasters. Because of its vulnerability several initiatives have been taken to improve natural disaster prevention and a common legal framework. The EU has allocated over 74.5 million Euro towards the Democratization and Human Rights Programme, the European Community Humanitarian aid Office (ECHO) natural disaster prevention programs,¹⁹ and activities intended to fight crime and drug trafficking.

The Future of Central American Integration

There are many factors impeding the successful integration of the Central American isthmus. The objectives have changed from the inception of the CACM in 1960s. The region has been able to change its focus from industrialization to export led growth, as a result trade liberalization has been implemented and external tariffs have been reduced drastically. The new regional integration scheme did bring some success and intraregional exports did grow although not significantly. But this may no longer be such a drawback since the new goal of regional integration has now shifted to the international competitiveness of firms, as well as the development of an environment that attracts foreign investment.

The challenges earlier delineated show that the path to Central American integration will not be easy if ever possible. On the one hand there is Costa Rica who repeatedly has demonstrated its desire to seek bilateral agreements with third countries rendering the possibility of a true CACM with a genuine CET virtually impossible. On the other hand there is the problem of the institutional framework being too weak to accomplish significant goals towards integration. Several Central American leaders have called for the complete dissolution of the Central American Parliament (PARLACEN) and the Court of Justice on the basis of their inability to demonstrate their reason for being and the high cost of running them which has turned into a burden for the countries.²⁰

Despite the obvious challenges facing Central American integration the EU reiterated its continuous support for the process during the last Ministerial Meeting of the San Jose Dialogue process that was held in Santo Domingo, Dominican Republic on April, 2007. During this meeting EU representatives reaffirmed their support for the creation of an Association Agreement between the two regions which includes a free trade agreement.²¹ The strategy for Central America was approved for the period of 2007-2013 and was given a budget increase with the

¹⁹ European Community Humanitarian aid Office, *ECHO at Work: Global Reach*. 2003
http://ec.europa.eu/echo/pdf_files/annual_reviews/2003_globalreach_en.pdf

²⁰ Cerdas, R. *Las Instituciones de Integración en Centroamérica, de la retórica a la descomposición*. Editorial Universidad Estatal a Distancia (EUNED) San José, C.R. 2005

²¹ Consejo de la Unión Europea, *Reunión Ministerial del Dialogo de San José entre la Troika de la Unión Europea y los Ministros de los Países de Centroamérica*. Santo Domingo, R. D. 19 Abril 2007
http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/es/er/93751.pdf

hopes of deepening integration within the region towards the prospect of the future Association Agreement between the two regions.

After several failed attempts to create a common market that would seem could cure many of Central America's problems the EU has continuously supported any attempt that would encourage integration. The European model of integration has proven so successful that it would seem the ideal prescription for those underdeveloped nations to finally join and together rise from poverty towards a globalized world where they could compete as a bloc. However successful integration of independent countries is easier said than done, and most are not in the same circumstances Europe was post World War II. What served for one region may not be the ultimate solution for another. The Central American countries will have to keep trying to work together and find a way to reconcile their differences while taking advantage of their common heritage, proximity, and of being part of a region that is seen as a whole.