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EVOLUTION OF CENTRAL AMERICA'S POLITICAL DEVELOPMENT & ECONOMIC INTEGRATION

Roundtable Report

May 30-31, 2002

Ottawa, Canada

The Canadian Foundation for the Americas (FOCAL) is an independent, non-governmental organization dedicated to deepening and strengthening Canada's relations with countries in Latin America and the Caribbean through policy discussion and analysis. FOCAL's mission is to develop a greater understanding of important hemispheric issues and to help build a stronger community of the Americas.

**EVOLUTION OF CENTRAL AMERICA'S
POLITICAL DEVELOPMENT & ECONOMIC INTEGRATION
ROUNDTABLE REPORT**

May 30-31, 2002, Ottawa, Canada

PARTICIPANTS

Ambassador Marianela Diaz [Embassy of Panama]; Ambassador Carlos Jimenez [Embassy of Guatemala]; Ambassador Carlos Miranda [Embassy of Costa Rica]; Ambassador Mauricio Rosales [Embassy of El Salvador]

Deborah Airey [DFAIT]; Lina Ajoy [Embassy of Costa Rica]; Hector Almendrades [Consulting & Audit Canada]; Carlos Blandon [Embassy of Panama]; Louise Branch [DFAIT]; Carolina Calderon [Embassy of El Salvador]; Kim Cronkwright [HRDC]; Deric Dubien [DFAIT]; Laura E. Flores [Former Vice minister of Foreign Trade, Panama]; Bruce Fox [Canadian Commercial Corporation]; Mario Gonzalez [Agriculture & Agri-Food Canada]; Sarah Graham Leon [FOCAL]; Paul Haslam [FOCAL]; Elaine Henderson [OXFAM]; Susan Howell [PCO]; Enrique Lacs Palomo [CENCIT, Guatemala]; Christian Lapointe [DFAIT]; W. George Lovell [Queen's University]; Donald R. Mackay [FOCAL]; Rolando Madrigal [Embassy of Costa Rica]; Rigoberto Monge [ODASP, El Salvador]; Kim Oliver [HRDC]; Manuel Orozco [IAD, Washington, D.C]; Oscar Padilla [Embassy of Guatemala]; Claudia Paguaga [FOCAL]; Xiomara Perez [Embassy of Panama]; Claudio Ramirez [DFAIT]; Brian Rankin Staples [Trade Facilitation Services]; Bertha Marina Reina [Embassy of Honduras]; Ana Renart [DFAIT]; Christopher Riedmueller [PCO]; Marc Rioux [HRDC]; Jack Smith [National Research Council of Canada]; Gloria Sola [Agriculture & Agri-Food Canada]; Jim Sutherland [CIDA]; Valerie Turbide [HRDC]; Paul Wever [Former Vice minister of Economy, Guatemala].

BACKGROUND

The *Central America* roundtable was organized by the Canadian Foundation for the Americas (FOCAL) with support from the Embassies of the Republics of Guatemala, El Salvador, Honduras, Costa Rica and Panama, the Department of Foreign Affairs and International Trade (DFAIT) and the Canadian International Development Agency (CIDA).

After Canada and the Central American Four (CA-4), Guatemala, El Salvador, Honduras and Nicaragua, launched free trade negotiations on November 21, 2001, it became evident that political and public support for the initiative would be enhanced by greater availability of information about Canada-Central America relations. While Canada's diplomatic and bilateral relations with the Central American nations, particularly Costa Rica, are well established, Canadians and Central Americans generally remain under-informed about each other's social, political and economic situations.

In this context, the May 30-31 roundtable provided a space and opportunity for dialogue between the Canadian and Central American public, private and academic sectors. The debate and dialogue laid the groundwork for 1) greater bilateral cooperation between Canada and Central American nations; 2) further research on the opportunities and challenges of a Canada-Central America Free Trade Agreement, and; 3) broadening and strengthening relations between the Canadian and the Central American policy making communities.

OVERVIEW

The *Evolution of Central America's Political Development & Economic Integration* roundtable gathered together several governmental and non-governmental Central American experts with Canadian policy makers and policy researchers to discuss increasing Canada-Central America relations. Focusing specifically on the political development, social evolution and the economic and trade integration that Central America has experienced in the last decades, the roundtable served to underscore the importance of greater bilateral cooperation between Canada and Central America as a region.

Discussions resulted in agreement that these nations have much to learn from one another, which could be key during negotiations. It was evident throughout the sessions that Central Americans were well prepared to share information and inform Canadian participants about Central America's evolution. Discussions also stressed the need for continued dialogue as a means of eliminating preconceptions and deepening relations.

Canada-Central America relations will inevitably deepen and broaden if and when a Free Trade Agreement (FTA) is signed. Trust, which is the basis of any sustainable relationship, will improve with more dialogue and debate, more public awareness and participation, and with better collection and sharing of accurate, transparent information. Further research on the opportunities and challenges of a Canada-Central America Free Trade Agreement should also be encouraged along with the continuation of the dialogue that occurred on May 30-31, 2002.

POLITICAL DEVELOPMENT & SOCIAL EVOLUTION

For a region that was devastated by civil war and political conflict during the 1980s and 1990s, the recovery and performance of Central American nations in the new millennium has been remarkable. The peace accords signed by Nicaragua (1990), El Salvador (1991) and Guatemala (1996) ended decades of civil war and began a new era of democratization and political stability in the region. Free and fair elections have become the norm for achieving political power, civil liberties are for the most part respected and civil society participation has increased. Also, over the last two decades, illiteracy rates for both men and women throughout the region have decreased by almost 9 per cent. Infant mortality rates decreased by at least 60 per cent in most countries, while life expectancy increased by 11 years in every country indicating that health conditions in

Central America have improved. Central America, however, continues to face challenges resulting from high levels of poverty, unemployment, discrimination (i.e. race, gender), increasing levels of delinquency, corruption, weak government institutions and a high vulnerability to natural disasters.

Discussions of the first panel concluded with the recommendation that Canada needs to pay more attention to Central America because of its strategic geographic position. Moreover, it was recommended that Central America move forward in addressing some key areas, which need further attention, i.e. human rights, corruption, education, public safety, modernization of party system, environment, labour, taxation system and civil society participation. Canadian participants maintained that Central America is important to Canada and thus the government will continue to enhance relations with the region. The most appropriate role for Canada continues to be the facilitation of Central America's ability to face its own challenges by providing financial support when possible, and more importantly, technical assistance in the form of sharing knowledge (i.e. training) and capacity building (i.e. technology transfers to small-medium enterprises).

Land distribution was an issue that dominated much of the discussion during this session. Some Canadian participants pointed out that this issue continues to be a concern vis-à-vis Central America. However, other participants emphasized that land ownership or the lack of access to land is not the *real* problem in Central America. The major problem is productivity and the under-utilization of land. In Guatemala, for instance, only 10-15 percent of the land is used productively, thus indicating that inefficiency is the problem.

Participants reiterated that land alone does not sustain people. For that reason, land reform in Central America is not viewed as a contemporary solution. Producers need technical training and access to markets. It was also agreed that tax and wage reform had to be addressed before addressing the issue of land reform. However, some Canadian participants suggested that land reform was still important for countries with large indigenous and rural populations because of their cultural connection to the land.

Central America is not a poor region; it has been impoverished by the mismanagement of its resources. Central America is a region that in spite of decades of natural and unnatural turmoil wants to work and move forward. It is a region that wants to take responsibility for its future. Some Central American participants noted that even though a free trade agreement with Canada would not solve the existing challenges in the region, it would be a step in the right direction.

ECONOMIC & TRADE INTEGRATION

Central America launched some of the earliest sub-regional integration schemes in the Americas. Until recently the track record of the Central American Common Market (CACM) of the 1960s has been mixed. In the last few years, however, the benefits of economic reform have started to be felt and outside partners, particularly Canada and the

United States, have recognized that trade agreements with Central America as a bloc can be supportive of overall developmental goals.

Today, Central America, which includes Panama, has a clearer vision for economic integration than in the past. Current efforts to negotiate regional free trade agreements with Canada, the United States and other countries, such as Mexico, demonstrate the region's interest in developing as a trade bloc within the hemisphere. Central American nations have adopted the regional agenda and there is a willingness on the part of governments to discuss trade with private sectors and civil society.

Discussions concentrated on the agriculture sector and the difficulties (i.e. coffee crisis) that Central America is currently experiencing. It was agreed that in agriculture the problem is competitiveness, thus there is a need to convert sectors in Central America to find new areas of production. Nevertheless, participants noted that Central America does not have the resources (i.e. financial, infrastructure) or the knowledge to diversify its economy.

Having the knowledge and expertise in the agricultural sector, Canada could offer technical assistance to Central American producers. Canadian participants introduced the idea of forming commercial/business partnerships as pilot projects for sharing information. The Central American participants embraced this initiative openly as it would add value to the competitiveness of the agricultural sector.

CANADA-CENTRAL AMERICA RELATIONS

Canada's involvement and interest in Central America has grown since it joined the Organization of American States (OAS) in 1990. Since then, Canadian and Central American leaders have adopted a tradition of meeting periodically for consultations on issues of shared interest and importance. In 2000, Prime Minister Chrétien met with Central American heads of government at the Canada-Central America Summit in Guatemala City. Leaders met once again in April 2001 at the Third Summit of the Americas in Quebec City during which Prime Minister Chrétien and former President of Costa Rica, Miguel Angel Rodríguez, signed the Canada-Costa Rica Free Trade Agreement (CCRFTA). On November 21, 2001, Canada launched free trade negotiations with Guatemala, El Salvador, Honduras and Nicaragua (CA-4) to further enhance trade relations with Central America.

Canada-Central America relations have thus far been largely characterized by aid or developmental assistance. Central American participants highlighted that they want to move beyond this donor-recipient relation with Canada. Today, Canadian representation in the region has increased and relations have improved. Ten to fifteen years ago, Canada would not have thought of negotiating a free trade agreement with Central America.

Negotiating a free trade agreement with the CA-4 is important for Canada because it would enhance relations with Central America. The signing of the CCRFTA

demonstrated Canada's willingness to engage with smaller countries and it set a precedent for the negotiations that are currently underway between Canada and the other four Central American nations.

Free Trade Agreements (FTAs) are a sign of good political will between nations. Participants, particularly Central Americans, noted that a FTA with the CA-4 would basically be "risk-free" for Canada, as it would not negatively affect the business structure or the level of jobs. The exchange of services would mostly be from Canada to Central America because of the need for the modernization of services in those countries. Central America has more at stake and has more to fear than Canada does. Central America is a marginal market for Canada and trade relations between these countries are complementary; hence a FTA would only add value to the current relation between Canada and Central America.

The purpose of trade negotiations is attaining sustainable social and economic development, which inevitably leads to more secure, stable democracies. Central American countries want to grow, develop and move beyond aid; hence these countries have "united" and have agreed that integration is a means to achieving that end.

Discussions for this session concluded with the recommendation to continue promoting the regional agenda in Central America. It was also recommended that in the case of border disputes, Canada's preventive diplomacy could be of great assistance.

ROUNDTABLE CONCLUSIONS

Overall, roundtable deliberations illustrated a diverse exchange of ideas between Canadian and Central American participants. Participants maintained that Central America is ready to move beyond its current *aid recipient* status and that Canada could assist and benefit from the potential market opportunities in Central America. Participants cited Canada's trade relations with Cuba, which does not have more developed economic infrastructure than Central America, as an example of constructive engagement.

The need for increased public awareness and participation in dialogue and debate was deemed crucial. If the societies are not given the space to learn about and participate in the negotiation process, then a public backlash may be the outcome. Moreover, the need to strengthen national capacities and institutions was stressed as being crucial for improving cooperation among the countries.

Finally, it is not clear at this point what the outcome will be of the negotiations between Canada and the CA-4. What is evident, however, is that many of Central America's development goals could be met by working bilaterally with Canada. A balanced approach based on dialogue, technical assistance and active commercial links would not only improve Canada-Central America relations but would also benefit all societies involved.