



**INTER-AMERICAN
DIALOGUE**



FOCAL

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REGIONAL COOPERATION AND GLOBAL INTEGRATION IN CENTRAL AMERICA

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Conference Report*

The Inter-American Dialogue, in cooperation with the Canadian Foundation for the Americas (FOCAL) and the Central American Bank for Economic Integration (BCIE), organized a conference to discuss Central American regional cooperation and global integration. The meeting was held on April 6 and 7 at BCIE headquarters in Tegucigalpa. Some 60 participants took part, 40 from Central America, and the rest from the United States, Canada, and Latin America. They were a highly diverse group, drawn from national governments, regional and international agencies, parliaments, corporations, non-governmental organizations, academic institutions, and the media. About 20 percent of the group participated in an earlier February 1999 meeting in Washington also organized by the Dialogue and FOCAL. The meeting addressed two principal questions: 1) what could be done to promote more productive and enduring cooperation among the countries of Central America, and 2) how should the region's governments pursue economic integration with North America and globally. Despite diverging perspectives on integration, the group agreed on the importance of increased regional cooperation for Central American development, and called for more work to design specific recommendations for the region's governments and the donor community.

PERSPECTIVES ON CENTRAL AMERICAN INTEGRATION

The enthusiasm for Central American integration of the early 1990s has given way to more divided views on regional linkages. Recognizing the importance of integration for regional development, security, and competitiveness, participants suggested that the slow progress reflected a lack of political leadership and an uncertain institutional capacity to implement a comprehensive integration agenda. Although business leaders and social groups have forged important transnational ties, concerns over sovereignty, distrust among nations, and an absence of strong regional leadership have weakened the integration process among governments. Strained relations are evident in border disputes between Central American countries, which have in turn fragmented the region and damaged its image in the eyes of international investors and donors.

* The Inter-American Dialogue and FOCAL are grateful to James Buchanan for his contribution to this report.

Two different perceptions of integration emerged in the meeting. The first, a more 'comprehensive' approach, calls for wide-ranging cooperation to meet the needs of the region's populations, and emphasizes the importance of regional institutions, political coordination, and common strategies for human development. The second, a more piecemeal approach, argues for integration to be pursued where it is most feasible and can bring clear benefits to particular sectors of Central American society. Advocates of the latter note the value of quickly removing obstacles to trade and investment in the region, and suggest that social issues are probably best left to national governments.

Regional Cooperation to Resolve Border Disputes

Given the recent rise in border tensions, the importance of establishing mechanisms to address territorial issues was stressed. Speakers noted that constructive solutions to the current conflicts would be an important step in building political trust for future integration. The need for regional mechanisms of conflict resolution was underlined, and it was suggested that foreign donors assist Central American nations in covering the high costs of international arbitration and providing expertise in such technical areas as mapping territory.

Education

Education was identified as the key to social advance and the competitiveness of the region's labor force. It was agreed that countries would benefit from a coordinated approach to education, including common standards and curriculum, integrated teacher training programs, and a joint strategy to provide students with access to new technologies. Participants also highlighted the value of student exchanges, particularly in higher education, and the success of regional training programs, such as Zamorano, the Pan American Agricultural School based in Honduras, which offer economies of scale not possible at the national level in Central America. Participants disagreed about the role of private education, which some advocated as a means to overcome state shortcomings. Others warned that creating a two-tiered system would further divide rich and poor.

Monetary Policy

The topic of monetary policy generated particular interest. One speaker emphasized the inefficiency of national currencies and the benefits of monetary union, including reduced exchange rate volatility, greater export stability, lower regional transaction costs, and increased intra-regional trade. He proposed three different options: currency boards, a single regional currency, or dollarization. Most participants, however, were skeptical about the prospects of generating political or public support for a regional currency union. They did, however, agree that the region's governments should seek to harmonize their legal and financial frameworks and sustain macroeconomic stability, which would be advances in their own right and prerequisites for any potential monetary union.

Infrastructure

A discussion on infrastructure and investment focused primarily on telecommunications as a spur to regional competitiveness. The benefits of new technologies are apparent throughout the region, and participants called for further development, with many advocating continued

privatization in this sector. Participants also underlined the importance of harmonizing services and improving infrastructure in order to attract capital.

CENTRAL AMERICA IN THE HEMISPHERIC ECONOMY

Remittances

It was made clear how much Central American development relies on remittances sent from abroad. Remittances are important for nearly every country in the region, ranging as high as 23 percent of GDP in the case of Nicaragua. For the region as a whole they represent 40 percent of export revenues, and 10 percent of GDP. While some immigrant associations in the United States channel individual remittances into community projects, the bulk of remittances flow directly to family members. Participants did not agree on what could or should be done to enhance the development role of remittances. Nor did they agree on whether Central America would be able to count on current levels of remittances into the future.

Central American Integration and the Global Economy

Speakers noted that increasing exports were crucial for the sustained growth of the region's economies. Most participants thought that the reinvigoration of the Central American Common Market (CACM) was key to increasing competitiveness and attracting foreign investment. In the last decade, the region expanded extra-regional exports and investment, created new export sectors, and enhanced intra-regional trade. Some commentators saw these changes primarily as a success for individual governments, rather than for the CACM. Others expressed concern that regional economic growth levels – of 3% to 4% per year – are below World Bank estimates of the growth required to reduce poverty. Removing the region's remaining barriers to trade and investment are critical to enhancing the region's competitiveness according to most participants.

Several participants noted that Central America is losing out to Mexico because of that country's preferential access to the U.S. market through the North American Free Trade Agreement (NAFTA). (Our meeting preceded the approval of the Caribbean Basin Initiative, or CBI, enhancement bill.) The region's economies will suffer if they do not gain equal access to their most important export market. Some participants argued that accession to NAFTA should be the objective, for both the Central American countries and the three NAFTA partners. Others preferred a slower course to inter-American free trade.

Trade Negotiations with other Regions

Many participants argued that the region should negotiate as a group with other countries and economic blocs—given the lack of negotiating experience and capacity in individual Central American countries, and the reluctance of large economies to undertake lengthy negotiations with small nations. Others, however, called for individual country-specific trade negotiations so that the negotiations would not be delayed. It was suggested that some bilateral agreements, such as the proposed free trade agreement between Costa Rica and Canada, could serve as building blocks for regional and hemispheric economic integration over the long run.

Additional Policy Issues

It was impossible to adequately address all of the important issues in this one-day meeting. Among those ignored were the role of civil society groups in the region, the failure to develop regional strategies for post-Hurricane Mitch reconstruction, and the limited attention given to environmental protection, transnational crime and drug trafficking, all of which may well require regional solutions. Labor reform and harmonized tax policies were discussed, but not in sufficient detail.

DEVELOPING A REGIONAL STRATEGY

The conference was not intended to generate a consensus or offer specific recommendations. But a number of key areas of agreement did emerge.

- Issues of regional cooperation and integration with North America are at the heart of Central America's development.
- There is no overarching vision for regional integration and no strong regional leadership promoting it. Accordingly, it is crucial to move forward incrementally on many fronts—including to reinforce private sector initiatives, help build transnational networks of NGOs, identify specific problems (education, crime, etc) where cooperation is particularly important, and strengthen national institutions that serve the region. Media groups will be important in building broad support for integration.
- External donors should press hard for regional approaches; such pressure is an incentive for national governments and institutions.
- Global integration should not wait for greater regional integration; this would give the slowest reformers veto power; countries should move quickly to align their economies with global economic requirements.

Specific recommendations include:

- Eliminate the remaining barriers to trade within the Central American Common Market (and there are a great number of them).
- Reduce the costs of doing business intra-regionally.
- Harmonize legal and financial frameworks.
- Establish common educational standards and recognize the credentials of other nations.
- Seek to build networks of teachers and social organizations.
- Widen access to new technologies.

- Develop the region's physical infrastructure in ways that will enhance integration efforts.
- Promote dialogue among politicians in the region, including regular meetings of parliamentarians.
- Strengthen Central America's weakened regional bodies, including the regional integration system (SICA), BCIE, the Secretariat for Central American Economic Integration (SIECA), and the Central American Parliament (Parlacen), among others.

NEXT STEPS

The group called for future meetings of this kind to keep attention on the issues of regional cooperation and international integration, and to develop specific policy recommendations for the region's governments and the donor community. In communication with BCIE and other Central American institutions, the Inter-American Dialogue and FOCAL will begin to develop plans for a third meeting early in 2001. In preparation, we propose to convene a small advisory committee to shape the agenda and organization of the meeting. The committee will largely be drawn from a representative group of participants in the Tegucigalpa and Washington meetings. It is difficult at this point to identify the issues that ought to be discussed, but some priorities are clear.

The implications of the passage of the CBI enhancement will be emphasized. What does this mean for Central America? What does Central America have to do to take advantage of this opening and prepare for the end of the multifiber agreement in 2005? How does this fit within the broader trade agenda for the region? The Dialogue will host a meeting in Washington to begin reviewing these issues on June 14.

We will examine the role of the institutions of regional integration. How can current institutions play a more productive role? What role should be played by private business and civil society groups? How should they relate to official organizations?

Education reform and remittances—two areas of special Dialogue interest—may also be topics for more intensive exploration.

Finally, what can be done to promote greater dialogue and cooperation in pursuit of democratic consolidation? How can members of congress, mayors, and other political leaders work together to improve the institutions and practice of democracy?