

Central America: The Difficult Road Towards Integration and The Role of Canada

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EXECUTIVE SUMMARY

Central American integration is widely considered to be a key factor for the region's future development. Located in the heart of the Americas between a dynamic North American Free Trade Agreement (NAFTA) and a potentially powerful yet troubled South American Common Market (MERCOSUR), the Central American Common Market (CACM) has constituted — along with the Caribbean Community (CARICOM) — one of the most noteworthy examples of economic integration in recent decades.

The beginning of the 1990s saw Central America's integration potential significantly enhanced. After decades of violence and political instability, the countries of the region negotiated a key peace agreement — the Esquipulas II Accord — and free and fair elections were held in Nicaragua, El Salvador and Guatemala. The commitment to peace and democracy throughout the region for the first time in its history provided an unprecedented opportunity to reduce economic and social inequities. It also refurbished the integration process, whose terms of reference were updated or transformed in 1991 to meet the conditions of the new international system.

This notwithstanding, Central America remains fragmented and its political framework, the Central American Integration System (SICA), continues to experience major institutional crises. Moreover, lacking political will and profoundly conditioned by domestic concerns, Central American governments have neglected the regional agenda and are currently mired in bitter trans-border disputes that once again threaten peace. Poverty and exclusion have not abated either; over 70% of the region's inhabitants currently live under the poverty line, while illiteracy rates reach 50% in some countries and are significantly higher among women, peasants and indigenous peoples.

This paper describes the underlying historical trends of the Central American integration process — its institutional, juridical and political framework — and assesses its current situation. It also provides a general overview of the economic and trade variables that could help the integration system to overcome its paralysis, and suggests some plausible policy options that could enhance Canada's already significant role in the region.

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RÉSUMÉ

L'intégration de l'Amérique centrale est largement considérée comme un des facteurs clés du développement futur de la région. Situé au cœur des Amériques entre un Accord de libre-échange nord-américain (ALENA) dynamique et un Marché commun du Sud (MERCOSUR) potentiellement puissant mais agité, le Marché commun centraméricain (MCCA) a constitué — aux côtés de la Communauté des Caraïbes (CARICOM) — un des exemples les plus remarquables d'intégration économique des dernières décennies.

Au début des années 90, le potentiel d'intégration de l'Amérique centrale a connu un accroissement marqué. Après des décennies de violence et d'instabilité politique, les pays de la région ont négocié un accord de paix clé — l'Accord de Esquipulas II –, et des élections libres et justes ont eu lieu au Nicaragua, au Salvador et au Guatemala. L'engagement à la paix et à la démocratie qui survient pour la première fois dans cette région a fourni une occasion sans précédent d'atténuer les iniquités économiques et sociales. Il a aussi permis un réaménagement du processus d'intégration, dont le mandat avait été mis à jour ou transformé en 1991 pour satisfaire aux conditions du nouveau système international.

Malgré cela, l'Amérique centrale demeure fragmentée et son cadre politique, le Système d'intégration d'Amérique centrale (SICA), continue d'être secoué par de graves crises institutionnelles. De plus, dépourvus d'une volonté politique et profondément conditionnés par les problèmes intérieurs, les gouvernements d'Amérique centrale ont négligé le programme régional et s'empêchent actuellement dans d'amers conflits transfrontaliers qui menacent à nouveau la paix. La pauvreté et l'exclusion n'ont pas diminué non plus : plus de 70 % des habitants de la région vivent actuellement sous le seuil de la pauvreté, et les taux d'analphabétisme atteignent 50 % dans certains pays et sont beaucoup plus élevés chez les femmes, les paysans et les autochtones.

Ce document décrit les tendances historiques sous-jacentes du processus d'intégration de l'Amérique centrale — son cadre institutionnel, juridique et politique — et présente une évaluation de sa situation actuelle. Outre un aperçu général des variables économiques et commerciales susceptibles d'aider le système d'intégration à surmonter sa paralysie, il présente des options stratégiques plausibles qui pourraient accroître le rôle déjà important que joue le Canada dans la région.

RESUMEN

La integración de América Central es considerada por muchos como un elemento clave para el desarrollo futuro de la región. El Mercado Común de Centroamérica (MCCA), junto a la Comunidad del Caribe (CARICOM), constituye uno de los ejemplos más relevantes de integración económica de las décadas recientes. El MCCA se encuentra entre dos grandes bloques hemisféricos: el Acuerdo de Libre Comercio de América del Norte (ALCAN) caracterizado por su dinamismo; y el Mercado Común de América del Sur (MERCOSUR) que a pesar de las dificultades por las que atraviesa tiene grandes potencialidades.

A principios de los años 90 las posibilidades integracionistas de Centroamérica cobraron auge. Luego de varias décadas de violencia e inestabilidad política, los países de la región lograron negociar un acuerdo de paz muy importante: el Acuerdo de Esquipulas II. Asimismo, se realizaron elecciones libres y limpias en Nicaragua, El Salvador y Guatemala. Este compromiso con la paz y la democracia, nunca antes visto en la región, sirvió de oportunidad única para enfrentar las desigualdades económicas y sociales. Asimismo, en 1991 el proceso de integración recibió un nuevo impulso cuando sus objetivos fueron actualizados o cambiados con el propósito de reflejar las realidades de un sistema internacional diferente.

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A pesar de lo anterior, Centroamérica continua fragmentada y su estructura política (el Sistema de Integración Centroamericana — SICA), sigue padeciendo grandes crisis institucionales. Además, los gobiernos centroamericanos han descuidado los temas regionales y en su lugar se han envuelto en encarnizados conflictos fronterizos que amenazan con destruir la paz. Esto evidencia una falta de voluntad política y una posición muy dictada por inquietudes internas. La pobreza y la exclusión tampoco han disminuido; más del 70% de los habitantes de la región viven por debajo de los niveles de pobreza; la tasa de analfabetismo alcanza el 50% en algunos países, y es aún más elevada entre las mujeres, los campesinos y los pueblos indígenas.

El presente trabajo aborda los acontecimientos históricos del proceso de integración en Centroamérica, sus estructuras institucionales, jurídicas y políticas, y analiza su estado actual. Igualmente, se ofrece un panorama general de los aspectos económicos y comerciales que podrían sacar al sistema de integración de su estancamiento y se hacen algunas recomendaciones factibles que podrían estimular aún más el importante papel que ya tiene Canadá en la región.

THE NEED FOR REGIONAL INTEGRATION

In his well-known book on Central American history, Ralph Lee Woodward Jr. referred to Central America as 'a nation divided'. This has been an enduring — albeit controversial — notion of a region whose environmental, economic, social and political characteristics would normally unite, not separate, countries in most parts of the world.

Central America is an isthmus comprising roughly 500,000 km² — less than half the size of Colombia or Bolivia. It is formed by five, six or seven nations (depending on whether Panama and Belize are considered part of the region), with a total population of 34 million people, 20% of whom are either of indigenous or Afro-American descent. Given the region's common geography, environmental conditions and cultural heritage, the natural bonds between Central American populations are clear. Intra-regional immigration itself has become a powerful means of integration: 15% of Costa Rica's population is Nicaraguan, and as much as 20% of Belize's is Salvadoran. The region has also strived to integrate due to its economic and political vulnerability vis-à-vis its powerful neighbours to the north and south. Flanked by Mexico and Colombia, and subdued under the hegemonic presence of the United States after 1898, Central American nations have been subjected to frequent foreign intervention, both militarily and economically.

The realities of the international trading system add to the strong case for regional integration, as globalization imposes challenges that cannot be met

by small economic units such as Central America's. The revenues of the Central American economies individually considered are only as large as those of a medium-sized private corporation in any developed country. Even regional GDP is small — around US\$67 billion a year — traditionally driven by agricultural exports (coffee, bananas, sugar, flowers, fresh fruits, tobacco) or non-traditional products (textiles, computer parts), and more recently by tourism and remittances sent by family members living abroad (mainly in the United States).

Trading partners are seeking larger markets, greater productivity, more abundant suppliers of cheap labour and more eager consumers. These conditions — except for the labour factor — cannot be found in the economies of Central America on their own. Furthermore, given the countries' deficiencies in infrastructure, services and communication, the region as a whole suffers from an endemic lack of competitiveness compared to other parts of the world. It has been widely recognized that this situation can only be overcome through regional integration initiatives such as the 'Central American Logistic Corridor' or the recent Mexican-inspired 'Puebla to Panama' plan.

Finally, Central American countries would clearly benefit from a common negotiating position in hemispheric initiatives, including the Free Trade Area of the Americas (FTAA) and the Summit of the Americas process, as well as in global fora such as the World Trade Organization and the United Nations. The Caribbean Community's ability to advance a regional

position within the FTAA, for example, has given the sub-region a powerful voice in the negotiation process. Without forming a common front at the international level, the small countries of Central America may find it very difficult to have their concerns addressed, and will likely be overshadowed by larger states and other regional blocs.

HISTORICAL BACKGROUND

Central America became independent from Spain on September 15, 1821. Unlike other parts of the Americas, the region's emancipation process came about peacefully. The result was the appearance of a *Federation of States (1823)* comprised of contemporary Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica. Independence, however, later brought about a bloody and prolonged civil war between 'liberals' (federalists) and 'conservatives' (republicans) that ultimately resulted in the dissolution of the Federation. By 1838, Central America was already fragmented into five independent republics that struggled to survive amidst a turbulent world economy dominated by the rising industrial powers.

For the next 125 years, Central America, with the exception of Costa Rica, endured the pains of regional fragmentation, violence, social exclusion and economic deprivation. The predominance of agricultural exports, a weak industrial base and an almost non-existent services sector, explain the region's lack of economic vitality and high external vulnerability throughout most of its history. These factors also consolidated the rule of extremely conservative land-based elites, supported by militarized regimes that proved unwilling to share political power with other increasingly demanding social actors. Social exclusion led to further unrest, and ultimately resulted in civil war.

While political union was unsuccessfully attempted on several occasions after 1838 — mostly through military means — Central America did not experience any serious economic integration initiatives until 1962, when all the Central American republics became members of the first *Economic Integration Treaty* (first enacted in 1959). For almost a decade afterwards,

the *Central American Common Market (CACM)* grew steadily at an average of 5% – 6% per year. This development startled even European observers, who frequently visited the region to witness the “miracle” first-hand.

In 1969, military operations to expel Salvadoran dwellers accused of invading Honduran territory (the so-called ‘Soccer War’ because it erupted after a rather infamous soccer game between the two national teams) shattered the CACM's continued growth. It also put an end to the *Organization of Central American States (1961)*, an institution created to provide the economic integration process with a political framework. For a decade, Central America languished in a context of increasing social unease and the continued presence of military regimes thriving in the tensions brought about by the Cold War.

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By 1979, Central America was experiencing the most severe political and military crisis of its history. Over the next eight years, more than half a million people would die as a result of civil wars in Nicaragua, El Salvador and Guatemala. More than two million others would be displaced or forced into exile, and billions of dollars would be lost in property and other productive goods.

After the devastation inflicted by its civil conflicts and Cold War-inspired foreign intervention, Central America was finally able to negotiate the *Esquipulas II Peace Agreement (1987)*, a plan originally proposed by then-President of Costa Rica Oscar Arias. The de-escalation of civil conflicts allowed the countries of Central America to begin a process of political normalization that included the election of civilian presidents in all the countries of the region by 1990. It also brought about a new consensus to re-invent the Central America integration framework. In 1991, the Presidents signed the *Protocol of Tegucigalpa* by which the *Central American Integration System (SICA)* was created.

SICA's emergence was accompanied by an intense process of political consultation among the new democratic governments of Central America. These consultations would ultimately culminate in the

enactment of multiple regional treaties and the renewal of the regional agenda. Salient among them are the *Central American Court of Justice (1992)*; the *Central American Alliance for Sustainable Development (1994)*; the *Central American Social Treaty (1995)*; the *Central American Treaty of Democratic Security (1995)*; and the *Central American Union Proclamation (1997)*.

Unfortunately, the integration mood was severely hampered by the time Hurricane Mitch hit the region in October 1998. Ironically, instead of bringing Central American governments and civil societies together, the disaster produced unexpected competition among them, leading to the ‘cannibalization’ of the regional foreign cooperation agenda. Integration efforts had also been undermined by the reluctance of Central American governments to enact SICA reforms recommended by a joint United Nations Economic Commission for Latin America (ECLAC) and Inter-American Development Bank (IDB) mission in 1997. Additional complications resulted from the severe domestic crises (political and economic) experienced by most countries in the closing years of the decade. By the year 2000, hopes for a refurbished SICA had all but disappeared. Today, Central America remains fragmented in the face of formidable challenges whose magnitude can only be matched through concerted, regional strategies.

THE CENTRAL AMERICAN INTEGRATION SYSTEM (SICA)

The Central American Integration System is the institutional framework within which regional integration operates. The SICA is ruled by the Protocol of Tegucigalpa, signed on September 13, 1991 and enacted on February 1, 1993. The SICA is formed by four subsystems (economic, political, social and environmental) and is chaired by the Central American presidents. Their decisions are implemented through ministerial councils with the support of an Executive Committee (formed by national representatives of each member state) and the General Secretariat headquartered in San Salvador.

The SICA also incorporates the Central American Court of Justice, the Central American Parliament, several specialized secretariats, the Central American Bank for Economic Integration, the Central American Monetary Council, the Consultative Committee of Civil Society, and 27 other regional institutions.

Legal instruments

The Protocol of Tegucigalpa is reinforced by some 200 treaties, declarations and covenants enacted by the Central American countries. Among the most noteworthy are: the *Covenant of the Central American Parliament (1986)*; the *Covenant of the Central American Permanent Commission for the Elimination of the Production, Trafficking, Consumption and Use of Illicit Drugs (1993)*; the *Central American Treaty of Mutual Legal Assistance in Criminal Affairs (1993)*; the *Central American Treaty of Social Integration (1995)*; the *Central American Treaty of Democratic Security (1995)*; the *Central American Treaty Against Stolen Vehicles (1995)*; the *Covenant of the Central American Superior Institute of Police Studies (1996)*; and the *Central American Covenant of Customs and Tariffs (1997)*.

SICA’s financial woes

Technically, the System is financed by quotas paid by member states on an annual basis. In the past few years, however, these quotas have either become insufficient to cover the

operation costs of ever expanding institutions, or have not been provided by the countries as expected. In order to survive, some institutions have begun an aggressive pursuit of external resources that has led to increased dependency on foreign sources, including major governmental donors such as the European Community, USAID and Taiwan.

The lack of reliable and permanent sources of funding presents SICA with one of its most critical challenges. Unable to access adequate funding, it cannot comply with its obligations, thereby increasing the dissatisfaction of member states and their unwillingness to pay already delayed dues.

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Proposals for SICA reform

Many experts have suggested the need to reform SICA. While diverse, all proposals have recommended the strengthening of the General Secretariat's coordinating role within the system, increasing its levels of efficiency and administrative rationality, and improving its capacity to implement the directives issued by the Central American governments.

In 1997, experts led by Edward Best under the auspices of ECLAC and the IDB published a much-anticipated report on the reform of the SICA's organs and specialized institutions. This report highlighted the need to reduce the operational and fixed costs of the System as a whole, and insisted on the necessity of combating institutional duplicity and unnecessary expenditures. Other recommendations included:

- The relocation of all SICA institutions' headquarters to San Salvador;
- A reduction in the size of the Central American Court of Justice (CCJ) and the Central American Parliament (PARLACEN), along with the length of their sessions and the political immunity and diplomatic privileges of their members;
- The definition of a general salary scale for all employees of the system as well as the creation of a modern civil service statute; and,
- The reduction of the number of integration institutions in order to streamline decision-making processes and reduce the system's overall costs.

While the Central American presidents stated their intention to move forward with the commission's recommendations, no further action was undertaken. This was due in part to the impact of Hurricane Mitch in late 1998, in combination with a number of political developments including the election of presidents in Costa Rica and Guatemala whose commitment to integration was questionable. Further complicating matters has been the continued resistance of the regional bureaucracies, including the deputies of the PARLACEN and the Justices of the CCJ, to have their privileges curtailed.

ECONOMIC INTEGRATION AND TRADE

Main economic and trade indicators

In the past three years, Central America economies have shown rather weak progress at the regional

level. On average, production levels are down, exports have not grown at a sufficient rate, and imports have also diminished from over 15% of GDP in 1997 to slightly over 10% in 2000. While some of these trends were generated by severe natural disasters such as Hurricane Mitch that devastated much of the region, external factors have had a powerful conditioning effect as well. These include the world financial crisis of 1998-1999 and its impact on emerging markets; the violent drop of coffee, banana and sugar prices; the hike in the cost of petroleum and its derivatives; and the rise of interest rates in international markets, among others.

As a result, real GDP growth dropped from 4.7% in 1997 to 3.6% in 1999. While there was a sizeable recovery in 2000 (back to 4.5%), these numbers were far lower than the 6.0% target set by the International Monetary Fund. According to leading scholars, Central America's real GDP needs to grow by at least 6% for ten years in order to achieve acceptable human development standards.

Regional GDP in 2000 represented about US\$67 billion with unemployment rates reaching around 8%. It is noteworthy, however, that in 1999 and 2000 Central America was able to achieve the lowest inflation rates in a decade (6.4%), coupled with the highest levels of net dollar reserves since 1998. This largely explains El Salvador's decision to dollarize its economy in 2000, and the announced intentions of Guatemala to follow suit in the next few years.

International economic and trade partnerships

Central American countries have opted for an 'outward-looking' development model. This model is dominated by the negotiation of free trade agreements (FTAs) that are pursued either individually or collectively pertaining to market access. The region is also committed to the establishment of the Free Trade Area of the Americas (FTAA) by 2005.

Parallel to the efforts to stimulate trade, Central American countries actively promote foreign investment in key sectors such as tourism, textiles and services. The US decision to enhance the terms of the Caribbean Basin Initiative in 2000 has been a major incentive for foreign investors interested in Central America as a possible (albeit still unlikely) stepping-stone towards NAFTA.

The United States remains Central America's main trading partner. In 1999, Central American exports to the US reached US\$13.4 million (over 50% of the region's total exports), while imports represented US\$18.6 million (nearly 40% of the total).

Mexico, for its part, signed a free trade agreement with Guatemala, Honduras and El Salvador in June 2000, thereby enhancing its already significant trading status with Central America. This agreement, coupled with those previously negotiated with Costa Rica (1994) and Nicaragua (1999), will lead the way for similar understandings with Belize and Panama in 2001 and 2002 respectively. The consolidation of a single Mexico-Central America FTA would constitute a trading block of more than 135 million people, with exports in excess of US\$274 million, and imports totalling more than US\$1.3 million yearly (based on 2000 levels).

Central America and Chile finalized their FTA in 1999. Largely stimulated by complementary economies that could profit from each other without competing for similar market niches, the agreement is expected to enhance today's volume of exports (US\$37.4 million) and imports (US\$82 million), roughly representing 0.3% and 0.4% of the current totals respectively.

In all likelihood, Central America and Panama will finish negotiations for a FTA in the next two years. Current bilateral trade levels reach US\$249 million in exports to Panama (2% of the total), and US\$471 million in imports (3% of the total). Panama also plays an important role as a source of transportation and financial services.

Last but not least, Central America has voiced interest in advancing a FTA with Canada. This has come in the wake of a free trade agreement between Canada and Costa Rica signed in April 2001. For Central America, the possibility of a FTA with Canada is strategic: after reaching an understanding with Mexico, it could represent a second cornerstone in the region's quest for eventual access to NAFTA.

Mid-term outlook

According to leading Central American economists, the region's economic indicators will not experience dramatic changes in the next 24 months. GDP growth will remain in the 3% – 4% range on average, with higher percentages benefiting Nicaragua, Honduras

and Guatemala, and lower ones affecting El Salvador, Costa Rica and Panama. Among the reasons for this stability (or stagnation if seen in a less favourable light) are: the post-earthquake reconstruction efforts in El Salvador; the maintenance of low coffee and banana prices in international markets; and the continuation (or deepening) of recessionary trends in the United States that have already affected the exports of manufactured goods, notably textiles and high-tech components.

On the political front, three of the six countries of Central America (Honduras, Nicaragua and Costa Rica) will hold presidential elections in the next year, events that often strain the confidence of producers and investors alike. This will likely be the case in Nicaragua, given the possibility of a *Sandinista* comeback to power in November 2001. The dramatic increase in common crime in Guatemala and El Salvador is another source of grave regional concern, particularly due to its effect on tourism and new investment.

In sum, the economic outlook of Central America for the 2001-2004 period is reserved but not critical. This notwithstanding, a strong Central American Common Market (CACM) remains a key factor to ensure regional economic stability. As much as 40% of Guatemala's total exports (excluding draw-back products) go to the CACM, along with 35% of El Salvador's and 24% of Costa Rica's total exports. Given these realities, it is crucial to prevent any disruptions in the operation of the CACM. This can be ensured through the establishment of new trade conflict resolution mechanisms, and by putting an end to border conflicts such as the current dispute between Nicaragua and Honduras.

CURRENT POLITICAL RELATIONS

The predominance of domestic agendas: Integration subdued

One of the most damaging factors to Central American integration after 1997 has been the predominance of very complex domestic agendas over regional visions and concerns. The priority given by Central American governments to their domestic agendas has largely resulted in the abandonment of the SICA framework and the fragmentation of the goals set forth by the Central American Alliance for Sustainable Development in 1994.

While understandable given the very serious institutional, political and economic crises facing Central American governments, the current situation has affected the regional integration agenda in at least four negative ways. **First**, it has interrupted a much-needed dialogue between regional leaders. One direct consequence of this has been the appearance of renewed border tensions throughout the region. **Second**, it has undermined what should have been a common quest for support from the donor community, as countries have instead been competing with each other for international aid. **Third**, it has weakened SICA's organs and institutions. The System is bankrupt and badly disorganized, with no real possibility of leading the integration process creatively or efficiently. **Fourth**, it has hampered a joint approach to common challenges that could have increased the region's margins of autonomy vis-à-vis extra-regional interests. Such is the case with anti-narcotics agreements, a number of trade negotiations, and specific positions on issues such as global warming, women's rights and de-mining.

It is essential for Central American governments to understand that local and regional agendas complement each other, and for them to renew commitments to undertake their joint implementation. Reasonable as this may seem to external observers, it constitutes a major challenge due to the reluctance with which some SICA partners, most notably Costa Rica and Panama, have participated in the integration process since its inception. Other member states, such as Guatemala, Belize and Nicaragua, are less vocal but similarly committed to defending their national interests above and beyond the priorities of the Central American region as a whole.

Border tensions and the need for trans-boundary cooperation

Border disputes have plagued Central America since before independence, with many of these tensions even resulting in serious military confrontations. As recently as 1969, Honduras and El Salvador fought a short war over border issues, and their dispute was only resolved in 1996 after a ruling by the International Court of Justice. While there are many

factors that explain the lack of border harmony in the Isthmus, three in particular stand out in their importance: deficient territorial demarcations; extra-regional geopolitical interests; and the lack of instruments for the peaceful resolution of trans-boundary conflicts.

It is particularly troubling to realize that most maritime borders of Central America are still awaiting definitive demarcation. This remains a critical issue for a region that is twice as large at sea as it is on land, and whose sea borders reach neighbours as diverse as Colombia, Mexico, Ecuador and Jamaica. Central American borderlands are also extremely vulnerable regions; they constitute the final reservoirs for some 40% of the total conservation lands of the Isthmus, and their citizens are among the poorest in the area. Furthermore, nearly all the surviving indigenous

peoples of Central America (of pre-Colombian or African descent alike) dwell in the borderlands. Forgotten and neglected, these regions only become visible during times of severe nationalistic outbursts.

The abandonment of the integration agenda, added to the nasty tendency of weak governments to use border disputes for self-serving domestic purposes, brought about the latest wave of conflicts between various Central American countries: Nicaragua and Costa Rica over the river San Juan; Honduras and Nicaragua over

the latter's claims to the Caribbean continental platform; Belize and Guatemala over half of Belize's territory and Guatemala's access to the Caribbean Sea; and Guatemala, El Salvador and Nicaragua against Honduras in the Gulf of Fonseca. While it is unlikely that any of these conflicts will result in war, bi-national or tri-national tensions threaten to disrupt the natural interactions between the trans-border communities. They also inhibit trans-boundary cooperation efforts through which neighbouring communities empower themselves to face common challenges and opportunities.

The democratic deficit: dealing with new political challenges

Central America has experienced a positive, albeit gradual, trend towards democracy since the early

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1990s. While most progress has been achieved on the electoral front, the improvement in the quality of democratic institutions as well as in the political culture of the region's dominant regimes should not be overlooked. The challenges of old, related to the achievement of peace, respect for individual human rights, and free and fair elections, are largely no longer. Today, Central American societies are struggling with new problems resulting from secular economic asymmetries and democracy's inability to ensure good governance and social equity.

The democratic deficit in contemporary Central America expresses itself in the void between formal democratic institutions (public and private, governmental and non-governmental alike), and in their capacity to generate more and broader opportunities to improve the quality of life of both citizens and immigrants. Interestingly enough, the legitimacy of democratic institutions is no longer in question, nor is the concept of representative democracy seen with as much suspicion as is the neo-liberal model with which it is generally associated. Quite to the contrary, recent polls continue to show a strong adherence of Central Americans to democratic values, even in the midst of great deprivation. Yet, there is a strong sense of frustration and fatigue with governments and political systems that are perceived as incapable or unwilling to promote more participatory and fairer decision-making processes. This seems to be particularly true in what pertains to public security (as it relates to the protection of persons and their goods), and corruption (as a metaphor of bad government and private greed).

An intense discussion persists regarding the positive impact that political integration could have in improving the democratic climate in Central America. Many analysts believe that regional strategies to fight corruption, combat poverty, improve education standards, and protect the environment would be of great benefit to the region's populations and public perceptions of state institutions. This would in turn strengthen democratic systems. However, while most countries agree that economic integration should be pursued and strengthened, regional leaders have

neglected to extend their vision of integration to the political arena. There have been some joint policing initiatives and strategies to combat international crime (drug trafficking in particular), but Central American leaders continue to insist that political issues are exclusive to their internal jurisdiction.

The Role of Civil Society

Civil society organizations are formally incorporated into SICA through the Consultative Committee. Currently, the Consultative Committee is formed by 22 organizations that represent a wide range of sectors including trade, industry, small and medium-sized enterprises, transport, unions and cooperatives, local governments, universities, indigenous peoples, peasants, women and Afro-Central Americans, among others. While the Consultative Committee has no decision-making capacity within the SICA, it is entitled by the Protocol of Tegucigalpa to advise the Secretary

General of SICA in all matters pertaining to regional integration. Thus, it has provided the Central American governments with important alternative visions of regional development. It also constitutes a strategic and privileged interlocutor before the international community.

The Central American integration process has been invigorated 'from below' by civil society. Civil society organizations and individuals

throughout the region — including the large private sectors represented by industrialists, bankers and other manufacturers — continue to interact with each other regardless of the difficulties experienced by the 'official', mainly state-centred integration process. This cooperation is also notable in the relations between neighbouring peoples who live along the 23 river basins that surround political frontiers in the region. Clearly, civil society's 'integration tempo' varies significantly from the governmental one, and could become an important starting point to build a true integration culture in Central America.

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EXTERNAL RELATIONS

Since 1994, Central America has established specific political and cooperation fora with at least seven countries: Canada, Chile, Korea, Japan, Mexico, the

Russian Federation, and the United States. It has also continued a longstanding tradition of regular contacts with the European Union (through the so-called San José Dialogue started in 1984), CARICOM, and more recently, MERCOSUR and its associated members. These associations vary in intensity and depth, but reflect a clear regional strategy of fostering strong bonds with the world.

That Central America is very vulnerable to external conditions is unquestionable. For better or worse, the region has been historically bound to the powerful geopolitical currents that have dominated the Greater Caribbean Basin. Located at the crossroads of north and south, east and west, Central America has always been a point of passage. This situation has been stressed by the Isthmus's economic weaknesses and its heavy dependency on extra-regional markets.

Since the 1880s, the most influential external economic, military and political factor in Central America has been the United States. This will remain true for decades to come. Traditionally, US-Central America relations have pivoted between cycles of intervention and neglect. After a highly interventionist 1980s, in the 1990s the democratic outcome and the end of the Cold War brought about an unprecedented phase of cooperation and partnership that has nevertheless been complicated by two negative issues: the massive immigration of Central Americans to the US and drug trafficking.

Mexico, Colombia and Venezuela (the so-called G-3) are also important actors for Central America. Mexico and Venezuela are vital suppliers of petroleum through the Pact of San José, and Mexico is already Central America's most important trading partner after the US. Colombia, meanwhile, is an important maritime neighbour, but has lately become a source of security concerns due to its own internal crisis.

Canada and Central America

Canada emerged as a trusted partner for Central America in the late 1980s, largely as a result of its decisive participation in the implementation of peace accords in Nicaragua and El Salvador. In Central America, Canada is regarded as capable of playing a

positive moderating role vis-à-vis the United States, as well as symbolizing a useful trading partner. This explains the insistence with which Central American governments have pursued free trade negotiations with Ottawa.

The high diplomatic profile Canada has had in the region under Prime Minister Jean Chrétien (three presidential summits in Ottawa and Central America since 1995) bears witness to the importance of this newly developed association. It also shows the potential Central America holds for Canadian economic interests (mining, services, tourism, manufactured goods), and to its 'value-based' foreign policy of supporting democratization, social development and other humanitarian causes such as the elimination of anti-personnel mines.

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Canada has generally been supportive of Central America's integration efforts and has often encouraged a regional approach in its own programming. While the success of regional initiatives has been mixed, most analysts feel that a continued push to promote common regional development efforts is desirable.

RECOMMENDATIONS FOR ACTION

In interacting with Central America in the first years of the 21st century, Canada is clearly in a position to enhance its role as a respected regional partner. It can do so by pursuing a series of actions, among others:

- **Support integration without neglecting bilateral approaches:** Even at a time of great fragmentation and institutional disarray within SICA, Canada can and should continue to uphold the value of a regional vision for Central America. This can and should be done without undermining other bilateral approaches that have already proven substantial in the promotion of Canadian economic and trading interests. Working simultaneously at both levels can be complicated though. This has already been evidenced by the Costa Rica/Canada FTA negotiations that generated ill feelings from the other members of SICA. Yet, there is added value in the promotion of integration and the strengthening

of bilateral relations in the context of greater hemispheric cooperation.

- **Empower Canada as a regional broker in the case of ambivalent US policy under the new administration in Washington:** It is likely that the new administration in Washington will continue to regard Central America in 'negative terms', i.e. as a source of migrants and drugs whose passage to the north should be repressed through early interdiction. Additionally, while it is expected that US — Central America relations will remain cordial during the next few years, nobody really knows (but everybody fears) the consequences of a potential spillover of the Colombian crisis on the region. Canada could very well ease Central American concerns (and ultimately help in promoting a fresh dialogue with Washington) by exercising its convening capacity and proven credibility both in the Isthmus and in the north. The European Union played this role in the mid-1980s with much success, helping both the US and Central America to develop broader strategies and cooperation mechanisms.
- **Transform the Canada-Central America dialogue into a process:** Canada is the only country other than Mexico that has sustained reciprocal summits with the Central American presidents on a regular basis. These meetings, as well as the many ministerial encounters that have preceded them, have resulted in a rich agenda that could easily be enhanced and updated. Central America and Canada could formalize their already extensive political dialogue just as Central America and Mexico have done within the Dialogue of Tuxtla since 1991.
- **A Canada-Central America partnership for OAS reform and other Hemispheric issues:** Central America and Canada could agree to collaborate more strongly at the multilateral level. So far, the experience has shown important coincidences on issues such as de-mining, gender and housing that

are at the core of the SICA agenda. One specific area in which more cooperation can be advanced is in the reform of the Organization of American States. Cooperation can also be explored in other hemispheric global issues including trade, education and the environment.

CONCLUSION

The Central American integration process is at a standstill. This situation poses a paradox: never before has Central America been more peaceful and democratic or integration been more crucial for the region's future, yet seldom has it been so difficult to achieve the vision needed to consolidate those extraordinary, even historical, gains in a regional framework.

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Fortunately though, complex as they are, the main problems facing Central American integration today are political, not structural in nature. They relate to the ways in which SICA members must decide to implement (or reform) agreements already adopted, but never enacted, by themselves or their agencies. Nobody seems to question the overall importance of the Central American Common Market, nor the need to promote more intense economic, financial or trade exchanges within it. Neither is it common to hear of problems regarding the 'real' integration processes occurring on a daily basis

between neighbouring populations in the Central American trans-border regions.

In the end, Central American integration has not advanced because the fundamental premises of the region's political culture remain too nationalistic and narrow. Changing this culture of exclusion and traditional sovereignty notions will take time, political will on the part of the Central American states, and a lot of support from international donors and international trading partners. It will also require the participation of civil society to counterbalance the centripetal forces that dominate Central American political systems.

Regional integration must eventually succeed simply because it makes sense, and because its importance cannot continue to be ignored by either small or large nations in today's globalized world. Particularly for a

region as vulnerable as Central America, the benefits of coordinated development strategies are clear, and the stagnation of cooperation efforts will continue to undermine the region's full potential.

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