



Graduate School of Development Studies

**Central American Regional Integration:
Influenced by the EU through the
Association Agreement?**

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Ana Laura Aguilar Castillo
(Costa Rica)

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Members of the examining committee:

Dr Rosalba Icaza Garza
Dr Karel Jansen

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Dedication:

This paper is dedicated, first and foremost to my family, which from far away has always believed in me, and supported me throughout my entire educational life. Also to my friends, old and new, who have always shown me that nothing is as bad as it may seem, and for all the good and bad times we have shared.

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Inquiries:

Postal address: Institute of Social Studies
 P.O. Box 29776
 2502 LT The Hague
 The Netherlands

Location: Kortenaerkade 12
 2518 AX The Hague
 The Netherlands

Telephone: +31 70 426 0460

Fax: +31 70 426 0799

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List of Acronyms

AA – association agreement
ALADI – Asociación Latinoamericana de Integración (Latin American Integration Association)
ASEAN – Association of South-East Asian Nations
CA – Central America
CA-4 - Centroamérica-4
CACM – Central American Common Market
CAFTA – Central America-US Free Trade Agreement
CARICOM – Caribbean Community
CBI – Caribbean Basin Initiative
CET – Common External Tariff
CU – customs union
DR-CAFTA – Dominican Republic-Central American Free Trade Agreement
EC – European Commission
ECLAC – Economic Commission for Latin America and the Caribbean
ECSC – European Coal and Steel Community
EU – European Union
EU-CAAA – European Union-Central America Association Agreement
FDI – Foreign Direct Investment
FTA – free trade agreement
FTAA – Free Trade Area of the Americas
GSP – Generalized System of Preferences
MERCOSUR – Mercado Común del Sur (common market of the south)
MNC – Multinational corporation
NAFTA – North American Free Trade Agreement
PARLACEN – Parlamento Centroamericano (Central American parliament)
RSP - Regional Strategy Paper
SAP – Structural Adjustment Program
SICA – Sistema de la Integración Centroamericana (Central American integration system)
UN – United Nations
US – United States
WTO – World Trade Organization

Abstract

Central America is a small but complex geographical space. Practically since independence, the five small Central American nations have attempted to build a regional integration project. However, their efforts to achieve a concise project have always been thwarted by either internal or external factors, or a combination of both. The latest integration attempt, with the construction of SICA, had already started to lose dynamism, when it started to gain momentum again. This acceleration of regionalism comes hand in hand with the negotiation of an Association Agreement with the European Union. How are the geopolitical interests of the Europeans affecting regional integration in Central America? The fact that Europe is trying to branch out to other markets, that they intend to play a bigger role in world politics or that they want to spread their particular world vision definitely plays a role in Central American regionalism.

Relevance to Development Studies

Regional integration is a feature of the international world order that has been influenced, changed and intensified with the increasing globalization processes of the current world economy. As the new century progresses, and the need to find a niche in the world economy is ever more pressing for developing economies, regionalism has been presented as an option – the option – to achieve the ultimate goal: (sustainable) development. For five small countries, regionalism has been presented as the way to achieve preferential access – at least in paper – to a larger market they desperately need, as well as the way to institutionalize cooperation and dialogue with one of the most powerful regions of the planet, not to mention their third largest commercial partner. How the influence of a major power shapes regionalism in the development world has implications not only for the negotiation of the EU-CAAA, but it may shape the future of developmental policies in the region.

Keywords

Regionalism, Central American regional integration, EU-CAAA.

Chapter 1

Introduction

“Unión, unión, o la anarquía os devorará”

Simón Bolívar, 1830

1.1 Regional Integration in Central America and the role of the European Union

Regional integration is not a new phenomenon, but it has been exacerbated by the increasing level of global interactions. The depth and reach of globalization in everyday life, and the surmounting pressure for states to find their niche in the international system, have made regional integration a very predominant feature of today's international organization. In the current international political scenario, the relevance of individual states has been sometimes overshadowed by the increasing influence of a variety of regional actors, such as the European Union (EU), MERCOSUR, ASEAN, NAFTA or CARICOM, just to mention a few. These are the actors that have shaped the current negotiations in issues both current and global as trade, environmental degradation, policy making, development policies, international finance, or security, democracy and pacification initiatives. Central America (CA)¹ has been no exception to this regional integration phenomenon. Regional integration was re-launched in the 1990s, with the hope that this time it may lead to the development of the region, and also with the aim that it would help stabilize and democratize it, after more than 10 years of civil wars and conflict. The revival of the 1960's initiative of the Central American Common Market (CACM), and the creation of the *Sistema de la Integración Centroamericana*, SICA², were the predominant features of this new project, originated within the region. However, as enthusiasm and dynamism for the project started to wear out, influences coming from outside the region became an important factor for Central American regionalism.

During the last decade, the world's economic and political scenario has faced a transformation, with the deepening of regional integration in certain parts of the world, notably the EU, the changes brought about by terrorism and insecurity in the United States (US), as well as the subsequent war in the Middle East, and its implications. In the American continent, these changes challenged the traditional supremacy of the US in the region. Commercially, the deadlock in the multilateral trade negotiation rounds in the World Trade Organization (WTO), and the failure of the Free Trade Area of the Americas (FTAA), a US launched project that intended to create a free trade area for the entire continent (except Cuba), prompted the regional power to start seeking bilateral agreements, instead of attempting to unlock the multilateral negotiations. This shift signifies that instead of exerting their influences in the multilateral arena, the US is shifting to the bilateral one, as a way to tighten their grip on their commercial interests, without being challenged as they are at a more global level.

One of the examples of this bilateralism is recently approved Central American Free Trade Agreement (CAFTA), a very controversial commercial

agreement between the US and CA. This agreement was negotiated in a very short span of time, and includes issues that are not yet agreed upon in the multilateral trade forum, that is in the WTO. Besides dealing with sensitive issues, this agreement was also negotiated with the interests of the US prevailing over the interests of the different Central American countries. Even more, in the case of Costa Rica, one of the chief negotiators was on US payroll. As soon as the last of the Central American countries, Costa Rica, accepted CAFTA via referendum, another world economic superpower came into play: the European Union. It's not by chance or circumstance that referendum votes in Costa Rica were still being counted when the negotiation process for the Association Agreement between the EU and Central America (EU-CAAA) – as a bloc –, initiated³.

The association agreement (AA) that is being negotiated between the Central American nations and the EU has three major components: cooperation, political dialogue, and a free trade agreement (FTA), the latter being the most substantive part. This kind of association agreement is the instrument of choice of the EU to institutionalize its relations with developing countries, and has been used with individual countries such as Mexico or Chile, and with other regions, among them MERCOSUR and the Andean Community. The case of Asian countries is different, and the EU has offered to negotiate free trade agreements separate from other political or cooperation arrangements. In the Central American case, the EU made it clear that they would not use a CAFTA-like approach of bilateral negotiations for sensitive issues pertinent to each of the countries, but they intended to negotiate using an strict 'region-to-region approach'(Maes 2007a: 11-12). With this and the added prerequisite of CAFTA approval, the EU is guaranteeing that their MNCs operating anywhere in CA would have easier access to the US market, given the provisions of CAFTA. Furthermore, their cooperation in the region had, since 2002, been focused in the strengthening of regional institutions and to support regional integration. The EU required, before the negotiations started, a deeper and more committed integration in the region. Some countries in CA were willing to do so from the start, others insisted that regional integration should be a project that requires be carried-out in an appropriate manner, with an adequate timetable, and it should be based upon achievable objectives, given the constraints of the region.

The integration process in Central America has been very complex, as is evident from their historic experiences, which date back to their independence from Spain. These complexities have been manifested even more in the last decade, showing that there's still some reluctance from several countries to engage in deeper integration that the one provided by the CACM. This implies that there must be some pressing interests within CA, particularly in the sectors that are more likely to benefit (mostly the small industrial elites), for these countries to agree to accelerate the integration within the framework of the Association Agreement; and/or there are some pressures coming from the European Union in this respect.

This paper intends to examine the influence of the European Union in the Central American regional integration process. This will be done through an analysis of the context, prerequisites and of the interests at stake in the EU-

CAAA negotiations. The Union's policy has been the promotion of regionalism in other places of the world. The EU has shown a considerable interest in a concise and institutionalized Central American regional project. The European Commission (EC) furthermore made it clear in the Regional Strategy Paper (RSP) for Central America 2007-13, that EU cooperation with Central America for that period would be directed towards strengthening integration. The main objective of the RSP is to "...support the process of political, economic and social integration in the context of the future association agreement between the EU and Central America", described as the "fundamental common strategic objective of both regions" (EC 2007).

By analyzing the context and the prerequisites for the negotiation of the Association Agreement this paper intends to show, from a critical perspective, the power relations between the two analyzed regions. This will be done mainly by answering the question *which are the underlying interests of the European Union in negotiating an association agreement with a regional bloc in Central America?*

This paper has identified certain key analytical elements that must be considered in the analysis. First, it is very important to note that the relationship between the European Union and Central America is most accurately described as an asymmetric relationship, where the second largest market in the entire world is exerting its power upon a small, developing and unequal geographical space, in an attempt to impose a set of policies for their benefit, through the association agreement. The Europeans have a wide range of interests in the region, from commercial claims, especially in the services sector, to alleged altruism and desire for development in Central America – this has been claimed by European officials working in the region –; changing the relationship between regions, looking for a more partner-like association; the spreading of European-style regionalism as a way to seek a truly multilateral world order consistent with the European world vision; the promotion of democracy and the rule of law in the region to stabilize the political environment and make it more attracting for investors. However, that due to the very marginal effect of purely economic concerns and the limited influence of CA in the world system, geopolitics is quite an important element in the analysis. These concerns include Central American geographical location and its commercial agreements, creating an export platform to larger markets such as the US or South America for European corporations operating in CA; the desire of the Europeans to prevent the rise of extreme left tendencies in the region, which could prevent opening up of markets or the adoption of policies convenient for the EU. Also, the idea of influencing a region under the traditional control of the US as well as the positioning of EU interests in a key geographical region, with the possibility of enlargement to Panama; or the possibility of avoiding possible opposition in key sectors or countries with a joint negotiation. These last considerations have a greater weight or report larger benefits to the EU than just plain access to the relatively limited, small and poor Central American market, or than just the promotion of a multilateral world order. All of these interests the EU has in the region are better served with a properly institutionalized regionalism, where there is a regional body of institutions capable of overseeing and implementing policies at a supranational level.

To accomplish these tasks, the analysis is to be done using world system theory, and implementing the three levels of analysis identified by Grugel and Hout in their book (1999b). The analysis of the neo-liberal context in which this new regionalism is embedded, and the prerequisites imposed by the European Union, constitutes the main argument to be developed in this dissertation. An analysis of Central American interests at stake in the negotiation of the EU-CAAA and the intra-Central American regionalism drivers is used to further explain how the EU is influencing regionalism. This is especially important to identify the acceleration of the process as a result of European influences. It is argued that even though there are many commonalities among the Central American countries, and there has been an increase in intraregional interaction, this has occurred mainly in trade or finance, meanwhile coordination of economic policy is “still at a very early stage. The Central American countries continue to pursue independent fiscal policies, and while there is a regular consultation process among central banks, monetary and exchange rate policies evolve largely independent of each other” (Rodlauer and Schipke 2005). There is still a certain degree of discord within the CA countries as to the depth and pace of integration, and that hesitance within the region contrasts with the efforts of external actors to further the processes of regional integration. This is also complemented with a brief exploration of the interaction the EU has with other regions in the world, and through these interactions, to identify the motivations behind their desire for a regionalized Central America.

The relevance of the geopolitical considerations for the EU to promote regional integration in Central America will be explained through a framework that explores world-system theory, using the multilevel analysis proposed by Grugel and Hout as an analytical tool, since this is one of the only works that has explored regionalism in a North-South situation.

This is the analysis that will be proposed in the following chapters, which will be structured as follows: Chapter 2 will provide the theoretical framework, as well as important background information to understand how the EU is benefiting from Central American integration, and why they are negotiating with a bloc. This chapter will deal with key concepts that should be clarified, and will also provide the key analytical tools to carry on in the following chapters, following world-system theory to understand the domination of elites in the regions, and their influence in their respective governments. Also, this will be tied directly to asymmetric power relations in a North-South context, and the importance of the neoliberal policies that have shaped open regionalism.

The key analytical chapters 3 and 4, detailing the interests of the EU in pushing forward the Central American region, and how it is influencing regional integration through a bi-regional negotiation. Chapter 3 will analyze regional integration, and who is gaining from it: which sectors are interested in moving forwards with regional integration? Is there reluctance to deeper integration in Central America? Why? A careful consideration of regionalism drivers inside Central America will show that within the region there are specific sectors that have influence over the policies implemented, and these are the sectors that are pushing for regionalism. Also, the particular case of

Costa Rica is used to illustrate the resistance of certain sectors to deepen regional integration, given their very particular context. Following this analysis, the EU-CAAA is analyzed from both the perspective of the EU and of CA. This will expose the power asymmetries between the two regions, with an overview of the main interests of both in the negotiation process, showing which sectors will be benefited and putting into perspective the gains of the EU with regards to the benefits of CA. This section will also explain that economic gains or promotion of multilateralism, good governance and democracy, although they factor in the interests of the EU for promoting regionalism, are not strong enough or do not represent a significant benefit, and therefore cannot single-handedly explain the EU's region-to-region negotiation style. Basically, the purpose of this section is to provide an insight not only at several possible motivations for the EU to want a regionalized CA, but also the reasons as to why Central Americans themselves have not achieved an advanced level of regionalism on their own.

Chapter 4 will explain the importance of geopolitical considerations for the promotion of a more formally institutionalized regional order in Central America, breaking down the main aspects that are feeding the EU's interests in CA, and how these motivations are the main driving factor of the European interests in the proper institutionalization of Central American regional integration. The chapter will provide a brief explanation of geopolitics and how it has factored in regionalism in Central America. Also, this section will examine the importance of geopolitical considerations in inter-regional relations for the EU, with a brief overview of their relations with MERCOSUR and ASEAN. The second part of this chapter will detail the geopolitical considerations pertinent to Central America, and how these are the key motivation for the EU to promote or influence regionalism in Central America. This chapter aims at presenting the main motivations behind the EU's influence in Central American regionalism, by highlighting those aspects in which EU interests, mainly represented by corporations, are benefited through this influence in the ongoing regionalism, and also considers the possible losses those interests may face if they didn't try to influence regionalism.

Finally, chapter 5 will provide the summary and conclusions of this research paper. What will come of the unbalanced nature of the north-south negotiations? Hopefully this chapter will provide an insight of the current situation of regional integration in Central America, and explain to what extent this project has been mobilized from within and how much of the impact has been given to external influences, mainly from the EU and the negotiation of the Association Agreement.

Chapter 2

Background and Theoretical Framework: explaining how the EU influences Central American regionalism

This chapter will detail the theoretical and analytical tools that will be used in this dissertation to understand EU influence in Central American regionalism. First, all the key concepts and background are introduced, to both place the analysis in the appropriate context and to help the reader understand the concepts in the way they are intended to be understood. Then the more concrete theoretical tools are introduced, mainly with the use of Grugel and Hout's three levels of analysis (Grugel and Hout 1999b). Using these tools the asymmetric power relation between the EU and CA is exposed, and understood.

2.1 Key concepts, theoretical context

Regions, regionalism, and regionalization

What is a region? Can it be defined in terms of commonalities that go beyond geographic proximity, or is this the only trait that characterizes regional arrangements? Region formation has been exacerbated since the late 1980s, and it is said to be an accompanying phenomenon to that of globalization, by either supporting it through the integration of regional blocs into the world economy; or by contradicting it with the creation of exclusive, isolated protectionist arrangements embedded in a complex context of regional cooperation. Regions are not natural, but socially constructed and therefore, politically contested (Hurrell 1995: 38-39), making the task of defining any particular region more complex. Analytically, several authors choose to define them in terms of geographical proximity, whereas others prefer a non-geographic definition: use of a common currency, common cultures, languages, religions, ethnical backgrounds, amongst others; emphasizing that actors other than the state play an important role in inter-state relations (Mansfield and Milner 1997). A region may be defined by geographical spatial indicators, by existing networks or structures of transaction and communication, and by way of cognitive maps and collective identities (Hveem 2005), a definition partly adopted in this paper. Geographical proximity, existing institutional, political and commercial linkages between the analyzed states are among the most important elements of the Central American region, as well as the common historical backgrounds, colonization processes, language, religion, similar cultures and idiosyncrasies, and a sense of interdependence and solidarity, that dates back to independence and the first post-colonial experiences.

Regionalism has been conceptualized as a project that is consciously led by the state, in the shape of a set of policies that seek the formation of a cohesive regional unit, giving greater importance to policies in the emergence of regional integration, rather than more spontaneous factors, such as geography, language or culture (Grugel and Hout 1999a, Hurrell 1992, Icaza Garza 2008). Regionalization, on the other hand, emphasizes more those natural or spontaneous factors, and is understood not as a "state project but a

combination of historical and emergent structures – a complex articulation of established institutions and rules and distinctive new patterns of social interaction between non-state actors” (Gamble and Payne 1996, as cited by Grugel and Hout 1999: 10). Regionalization is the actual integration of economic and political institutions into a regional framework, while regionalism is the coordinated effort, led by the state to achieve the formation of a regional block.

Geopolitics

The EU-CAAA is presented in this paper as an instrument through which the EU intends to influence Central American regionalism. In order to explain this influence, the key argument is that the Europeans have particular interests or motivations that are driving their desire to influence regionalism in CA. Due to the undeniable fact that economic interests in such a small market can not be the main factor behind this influence, this paper turns to geopolitical factors, factors that deal more with political aspects, and that could provide a better explanation as to why the EU is showing interest in regionalism in CA. In this paper, geopolitics “... addresses the “big picture” and offers a way of relating local and regional dynamics to the global system as a whole. [...] it promotes a spatial way of thinking that arranges different actors, elements and locations simultaneously on a global chessboard” (Ó Tuathail 1998: 1). Another important aspect analyzed in this paper is that the EU is presented as a kind of hegemonic power, whose interests will be served in a global context, and as such, they have devised the EU-CAAA as an instrument to frame their domination over a particular territory, which to a certain extent, depends on their commercial relationships to survive in the increasingly globalizing world system.

2.2 Contextualizing regional integration: closed vs open regionalism

Regional integration can't be considered as new, it has been a constant feature of the international system, and seems to gain importance after particularly convulse periods of time. During the last sixty years there have been two different periods of intense regional bloc formation. The first one, during the late 1950s and early 1960s, labeled as ‘closed regionalism’ was characterized by regional arrangements designed to protect the markets inside the regional structure from competition coming from countries that were not in the regional arrangement, or as a response to security issues, under the then current bipolar world order. This was the case of European integration which started as an attempt to prevent conflicts between the major economic powers; Germany and France, by institutionalizing economic cooperation between them. The second wave is the current regional integration trend, initiated in the mid-1980s, and is different in several ways to the previous one. This is known as new or open regionalism, which attempted to create regions not as a way to shelter them from external parties, but seeks regional integration as an instrument towards a better integration in the global economy. It is in pursuit of such objectives that regional blocs as diverse, both in location and characteristics, as NAFTA, ASEAN or MERCOSUR have been constituted.

Central America's regional integration during those periods also followed the global trend: closed regionalism in the 1960s with the creation of the CACM, striving to create a customs union that would not only promote the development of the region, but also help industrialize it, by protecting key sectors from external competition, eventually generating an increase in intra-regional trade and the creation of an industrial base in the region; and after its decay, open regionalism in the 1990s, with an approach that was oriented to promote the integration of the economies not only amongst themselves but into the world system, at the same time that regional cooperation in the political and security arenas would help with its pacification and democratization.

Regional bloc formation: the post-Cold War world order

With the fall of the Berlin Wall in 1989 signifying the end of nearly 50 years of Cold War regime, and the later demise of the Soviet Union implying the end of the bipolar world order, the international world order needed to be reorganized. The post Cold War order was not only defined by the end of a bipolar world, in which the two leading powers had a complete control on their respective spheres of influence; but was marked as well by the declining hegemony of the remaining hegemonic power, which allowed for the formation of regional clusters of power. This trend of regional block formation "is seen by many as a central feature of the developing 'New World Order'" (Hurrell 1992: 121). In a world system where neoliberal ideas have prevailed for the past 20 years, specially in the economic sphere, and there has been an emphasis in the construction of a multilateral trading system, the emergence of regional blocks has generated mixed reactions: some interpret regionalism as a way to create better conditions to integrate in the world economic order considering that "regional frameworks are the most effective ones in which to achieve order and stability within particular regions, and they are likely to facilitate order at the global level as well" (Hurrell 1992: 121). However, for critics of regional integration, the creation of geographical spaces that attempt to protect their local products and industries through the imposition of trade barriers to those outside of the region, acts as a disruptive force that could endanger the multilateral trade order, promoting only intraregional trade.

Despite criticism, recent regionalization trends are not necessarily mutually exclusive with the creation of a multilateral trading system, and the way in which regional agreements are being negotiated, they provide for 'WTO plus'-type arrangements, and pursue more ambitious outcomes than the ones achieved in the multilateral arena. This is so especially after the failure of the WTO's Doha Round of trade negotiations, which had started in 2001, and is currently continuing in discord between the major potencies and with very slow progress. The difficulties faced by the so called 'Development Round' have been overcome by developed countries with the negotiation of bilateral arrangements, and for the EU, bi-regional ones, making the AA with the Central American countries a clear example of European policy towards developing countries.

After almost two decades of continuous progress in different parts of the world, one can conclude that the current international system is functioning

around regional block formation. The way in which these arrangements are formalized, the institutions they have created and how each of the blocks is working within itself varies across the different parts of the world, but the regional integration trend is nonetheless undeniable in the current world order.

2.3 Theoretical Framework: understanding regionalism

Regionalism in the south and the impact of globalization

The characteristics of regionalism in the 1990s are quite different to those of the 1960s, and this has changed how regionalism has impacted the different countries. Regional bloc configurations include those in which the member states are both developed and developing, as is the case of NAFTA. Also, how regionalism impacts developing countries (also called the South, or Third World) has changed. Both economic and political elites in those countries and in occasion civil society have changed in response to their new role in the global order, sometimes weakening the capacities the state has, as those actors seek partnerships outside of it. Despite the fact that the state may face a reduced role, it remains the main actor in 'new- regionalist blocs' and have to respond to both internal and external pressures. An important circumstance that has changed the shape of regionalism is the role played by globalization. This phenomenon; though global and far-reaching, impacting all the states, and particularly their ability to autonomously act to shape their policies; has had different effects on the different states: weaker states, logically, suffer a greater constraints that strong states, which may be able to mitigate the damaging effects of globalization. The existing differences among states are most likely increased by globalization, "creating a sharp division between 'core states' which share in the values and benefits of a global world economy and polity, and the marginalized states, some which are already branded as failed states" (Hurrell and Woods, as cited by Grugel and Hout: 5).

Globalization as an independent phenomenon, has impacts by it self on development, generating increased competition among developing countries (in race-to-the-bottom kind of way, in which they keep making concessions and harming sources of profit), a reconfiguration of the interests represented by the state, the increased number of actors in the policy process, which increase the power of external actors over state policy, including foreign firms, other states, multinational agencies, all of which reduce the autonomy of the state and the range of policy issues it commands (Grugel and Hout 1999a).

For the analysis in this paper, the third aspect cited is of grave importance. How much can external actors influence other states' policies? Or even more, can this be applied to regional policies? By analyzing the power a regional bloc like the European Union may have over small, developing countries in Central America, which are highly dependent on both international trade and cooperation, making them vulnerable to pressures from their main partners, one may be able to explain how the EU is affecting the regional integration process of CA, using globalization as the vehicle through which their influences are channeled. Increased globalization, in short, is reshaping the role of the South, by diminishing the scope of action of the state to implement autonomous policies, and therefore being a source of regionalism, which

occurs as a response to the constraints faced by individual states. Despite this, it is not true that states in the South do not retain certain capacity to shape their economic and political strategies; though a state's position in the world system is a very important determinant of how and why a particular country decides to engage in regionalist arrangements, other factors are equally important. Grugel and Hout have identified three levels of analysis that shape state strategies toward regionalism:

1. The world system, which constitutes the structural constraint to independent state actions.
2. State-society interactions among the states in the weaker regions of the world, referred to as the semiperiphery⁴. The decision of entering regional arrangements does not come only from their position in the world system, but from negotiations, bargaining and political struggle.
3. Policies of other states and regions, which also condition the region-building process in the semiperipheral states (Grugel and Hout 1999a: 11-12).

These three levels of analysis are the main analytical tool in this dissertation, and the importance of this type of analysis is that it allows for all the actors involved in the Central American regionalism to be appropriately placed within a power struggle analysis, in which the interactions are all based on who has power and to what extent, to have their interests better served. In this case, the first level of analysis, the world system, allows the interaction of the European Union as a supranational body, the second largest market in the world, and the major trading power, with Central America, at the beginning pressuring individual countries to compromise to act regionally, and later, the entire region to impose their vision of regionalism, with the neo-liberal agenda attached to it, and seeking their interests and well-being. At this point the second level of analysis is introduced: it is not the interests of Central America or the EU as whole units, but the interests of certain elites that are being served with the association agreement, and whose benefit is more significant if regionalism develops according to their strategies. Finally, the third level of analysis is introduced when CAFTA is introduced as a prerequisite for the EU-CAAA, since this is a third state, whose policies are indirectly influencing regionalism. All of these analyses will be carried out in the following two chapters.

Adding to this multilevel analysis, it is also important to mention that some of the analysis carried out in this paper uses a little bit of neo-marxist theory of imperialism. "International exploitation has been analyzed predominantly in terms of the siphoning off by external actors of economic surplus produced in developing countries" (Hout 1999: 19). This concept of international exploitation is very important for this paper, since the main argument is that regionalism in Central America is being influenced by a greater economic power, the EU, who is trying to appropriate itself (mainly for their MNCs) of the little surplus that can be generated in the CA region. North-South arrangements, by definition asymmetric, are usually framed within FTAs, or other instruments, and according to neo-marxist theory, are used by the North to continue their dominance over the South. Neo-marxism deals with imperialism, mostly drawing on classical imperialism theory, taken to

be the domination and exploitation of an area (country) by foreigners (Grugel and Hout 1999a).

Following this ideology, regional block formation involves the subordination of weaker countries to the demands and interests of the powerful ones, when it comes to investment and trade opportunities. Therefore, one can interpret the demands of the EU in the case of Central America, as their strategy to lock a poor, underdeveloped region, dependent on trade and foreign investment, in a position in which European companies can get a favorable environment to invest, trade, or simply impose their commercial interests. Regional integration is can therefore be defined from this perspective as what Galtung defined as neo-colonialism: the joining together of nations by the principle of division of labor into an interdependent system.

This concepts and theories are explored in the following analytical chapters, which provide a more imperialistic vision of the current world order, in which a strong power, the European Union, is attempting to use its position to accommodate its interests in the small, dependent Central American region, within which elites are also doing what they can to serve their interests, presenting a multi-level and complex analysis of inter-regional relations.

Chapter 3

Regionalism in Central America: who gains what?

The aim of this chapter is to present the power asymmetries present in the relationship of the European Union and Central America, and in doing so, present several motivations for the EU to influence Central American regionalism. This will be done in three separate sections. The first one explains the different inside drivers to Central American regionalism, considering the role of the elites, and overviewing the potential threats to continue the integration process. The second section explores the EU-CAAA from the European perspective, specifically their economic motivations, and their political benefits, whether by improving the perception of the Union as a benevolent superpower, or by directly gaining political influence in the region. The third section does a similar analysis from the Central American perspective, emphasizing on market access, and questioning the need for a change in the current structures of political dialogue and cooperation.

All of this analysis is done based on the three analysis levels presented in the theoretical framework. For the inside drivers of regionalism in Central America, the second level of analysis is predominant, as it overviews state-society interactions, and how elites within countries can influence policy making, and therefore regionalism. With the analysis of the more globalized nature of these elites, the third level of analysis also comes into play, as it is necessary to also consider the policies of other states and regions. Finally, the entire chapter, which emphasizes power asymmetries, is obviously framed in the first level of analysis, which sees the world system as a whole.

3.1 Central American regionalism: inside drivers

Regionalism in Central America has been somewhat controversial and unsuccessful, since it has always been a feature of the intraregional relations, but it has never fully accomplished all the goals proposed, and the countries have always had difficulties agreeing on the institutions and sectors that should be included in a regional framework, or the procedures and the pace at which regionalism should be implemented. Furthermore, despite the increase in intraregional trade, no initiative has maintained momentum for more than a few years. Whereas some countries want a far reaching integration, including some sort of political integration, others have maintained that a simpler, merely economic integration is sufficient. Despite the fact that there efforts have been made to centralize as much as possible the process, there are still a lot of loose institutions, claims of corruption and doubts about the viability of political integration. These countries attempted to create the first customs union in the continent with the CACM, but the initiative was thwarted by several problems, including the products included in the agreement and, even more, the ones that weren't included; the small size of the market; or the fact that intraregional trade levels were pretty much nonexistent before the creation of the CU. The initiative was temporarily abandoned, and currently is in the process of being re-launched. With the adherence of all the countries to the customs union

protocol, an initiative that has been long postponed, a new step towards regional integration has been taken.

The latest attempt at regional integration in Central America can be traced back to the mid-1980s, when the pacification process was initiated. This signified not only the end of the armed conflicts, but the removal of the main obstacle to integration, and the conformation of Central America into a peaceful and democratic region, based on the principles of good governance and respect for the rule of law. Furthermore, it was within the Esquipulas framework that CA's integration gave a step forward with the creation of PARLACEN, although only three countries are currently members. The deepening of the integration process was further confirmed with the creation, in 1991 of SICA, which was intended to regulate and promote integration.

Who benefits from regional integration in Central America?

Integration in Central America has been mainly economic, measured by the increased levels of intraregional trade, the internationalization of financial institutions and some corporations. As such, it has been mainly pushed by the small, economic powerful groups in the isthmus, allied with large transnational capitals that are investing in Central America. Both these groups have been increasingly expanding their businesses regionally and internationally, and have been pushing their expansionist agendas upon the governments of the isthmus, thus integrating it. To understand better their influence in regional integration one must understand that these economic groups have been historically powerful, and able to exert their influence on their governments. These groups are the old oligarchs, enriched exporting agricultural products in the 1800s, and who took direct control of Central American governments. Later, as their political grip started to loosen, they focused more on their economic power, diversifying into other economic activities after World War II. These other economic activities were in key sectors, including construction, finance and industry, in which they ventured using the surpluses they had accumulated over the last century. Later, during the years of import substitution industrialization (ISI), new elites started emerging due to increased trade and traditional industry. Also groups with ties to the Armed forces became important, and in the countries in which the military took control of the State, they implemented policies to secure their enrichment. More importantly, these elite groups have ties with each other along the region, both in and out of national state boundaries, forming strategic alliances not only among themselves, but with important transnational capital present in the region (Segovia 2007)⁵.

These new and enrich entrepreneurial class, and the old oligarchs now turned industrialists are the key groups behind Central American integration. They are acting from within the region, driving integration with the economic power that they have concentrated amongst themselves⁶ in the past, which has allowed them a huge influence in politics. Therefore, they are able to shape policies so that these benefit their expanding economic interests. Also important to note is that some of these elites have alliances with European companies, which also influences their decisions to push for the agreement, and in doing so, to push for further integration, which would allow easier

control over their regional business interests, as well as easier expansion throughout the Central American isthmus.

Facing regional integration: why the reluctance to move forward?

Regional integration, although generally accepted by all Central American countries, has not been a smooth or gradual process. For a variety of reasons, none of the regionalism attempts have managed to keep the momentum for more than a limited number of years. The various attempts to create a regional bloc have collapsed under disagreements and the lack of a homogeneous ideal of integration in the region. There is also a lack of a Central American identity, despite sharing a common background, history, and similar socio-cultural characteristics; and the complexity of the framework within which Central American integration is framed, the differences within the Central American countries, regarding the pace and depth of integration remain an important obstacle towards true regional integration.

The northern countries of Guatemala, El Salvador and Honduras, who share a lot of similarities both at the socio-cultural and economic levels, have sought a high level of integration, not only at the economic level, but also at the political, security, migratory and socio-cultural levels. Deep integration seemed to be a desired outcome, and they moved forward with agreements to deepen the process. They formed the *Triángulo del Norte*⁷, a sub-regional micro grouping that aims for the conformation of a true common market and to that effect has signed trade agreements with third parties such as Mexico or Colombia as a regional entity. For Nicaragua, initially, the pace of regionalization should be slower, but they also favored deeper integration. Eventually, its position moved closer to that of the *Triángulo del Norte*: the four countries have formed a grouping called the *Centroamérica-4*(CA-4), which has agreements on areas as diverse as economic development, tourism promotion or migratory issues, are in which they made significant progress, allowing the movement of people without a passport.

The case of Costa Rica is slightly different. The country has prided itself in being a peaceful, long standing democracy, with welfare oriented policies and a mixed political system allowing the state to control key sectors, such as social security, water provision or electricity⁸; recognized as the most developed country in the region⁹, and the only country with no armed conflict during the 1970-90s, and even led the initiatives to pacify its neighbors, with the aim of creating a secure and stable region; and has very good social and economic indicators (See Table 1).

However, when it comes to a regional arrangement, it has continued to refuse integration in a deeper level, and has advocated for a slow-paced economic integration. Political integration is not on the table, since there's fear that agreeing to it is the equivalent of renouncing its international recognition as a peaceful, democratic country, given its neighbors militarists tradition (Briceño Ruiz 1997)¹⁰; they are "unwilling to contemplate free movement of labor, and made no secret of its desire to enter into bilateral trade agreements with countries outside the region, [...] complicating even further the prospects for a customs union in Central America" (Bulmer-Thomas 1998: 318).

Furthermore, they argue that the work to be done to achieve economic integration is still significant, and must be done step by step to guarantee its success.

Table 1
Central America. Main Social and Economic Indicators

	HDI	GDP per capita [†]	Growth Rate [†]	Illiteracy Rate [‡]
Costa Rica	0.846	10.180	6.9	3.8
El Salvador	0.735	5.255	3.5	16.4
Guatemala	0.689	4.568	3.9	28.2
Honduras	0.700	3.430	4.8	22.4
Nicaragua	0.710	3.674	3.8	31.9

Source: (ECLAC 2007, Monterrosa 2008, UNDP 2007)

[†]PPP US\$, 2005. [†]Average, 2005-2006, in %. [‡]For population over 15 years of age, in %.

One key aspect as to why Costa Rica is not interested in regional integration and has always postponed or favored a more gradual approach is that their economic structure is quite different from the one of the other countries, and has substantially more to win from easier access to other markets than it has from integration with the other Central American governments. This is evident in the country's priorities when negotiating trade agreements with other states or regions, and when they neglect regional compromises to stabilize internal macroeconomic crises or to favor local interests, as is the case of exchange rate policy or interest rates to control inflation or to make their export more competitive in the international markets, fact that was reinforced by the chief negotiator of commercial issues for Costa Rica, after the fourth round of negotiations of the Association Agreement.

3.2 The EU-CAAA: who is benefiting? An EU perspective

The European Union has been seeking bilateral agreements with different developing countries, in pursue of something that has not been readily available at the multilateral level. That's not only the objective of the European Union; industrialized economies that have turned to bilateral arrangements, negotiated in such a way that they can obtain benefits in a WTO- plus form, by bringing to the negotiation table issues that haven't been decided upon at the multilateral forum. One case is that of the Singapore Issues, four topics thus called because they arose during the 1996 WTO Ministerial Conference in Singapore. These issues are: [trade related] investment measures, competition policy, trade facilitation and government procurements. Although these issues first arose in 1996, the agreement then was to start negotiations in 2003, at the Cancun Ministerial Conference. The negotiations started as planned, but the Conference ended in discord and deadlocked over agricultural issues and of course, the Singapore Issues (WTO 2008). These have been highly contested, and are one of the key aspects that keep the Doha Development Round of the WTO

blocked. In the first place there were many questions around the nature of the issues, since out of the four issues, only one is trade-related, and the argument was whether a trade forum was the most appropriate for their discussion.

The implications of any compromise in those issues have a great impact in development policies, giving them grave importance for developing countries. One of the main fears of developing countries is that in the case that these agreements come into the WTO, their liberty to “devise their own development policies, including for building the capacity and competitiveness of local enterprises” (Khor 2004) would be highly compromised. Developing countries fear they would no longer have enough liberties to provide adequate support to their local industries, and would be in the obligation to provide national treatment to foreign companies even when it comes to government procurement. On the other hand, for the industrialized countries, the Singapore Issues mean opening long closed niches for their enterprises, providing huge opportunities for profit. The deadlock in the trading round negotiations has arose because of the reluctance of the developing and newly industrialized countries (such as Mexico, China, Brazil or India), to provide easy access to foreign multinational corporations (MNCs) to these sensitive areas of their economies.

Therefore, the EU has the intention of gaining market access and benefits that go beyond whatever has been agreed in the multinational arena. In the case of Central America, the agreement that is being negotiated since late October 2007 is set as the logical next step in a cooperation scheme that had Central America as a European priority in Latin America. After several years of European cooperation in Central America, mainly directed towards the strengthening of regional integration, they agreed to start negotiations for the association agreement.

Economic gains: enough to support regionalism?

The EU has become a very important player in the economic sphere. It's the major trading power in the world, accounting for approximately one fifth of the global imports and exports (EC 2008). For them, regional integration was not only the best way to prevent conflict among the major European powers, but is was also an attempt to find a more comfortable, advantageous situation in the world economy, and a response to the increased level of globalization, which forces national economies to interact with each other, and with other actors, such as multinational corporations. Corporations have a predominant role in the current organization of the world economy and their interests are none other than gaining profits. A very important aspect to reinforce is that, as is the case for Central America, the EU is influenced in its policy-making by different groups within the Union. A very powerful group is for instance, the farmers. Due to their amount of influence, is not likely that the EU would abandon any subsidies, or would concede market access to products that could threaten the position of their internal agricultural sector. Also, it is important to note that the European industrial elite has specialized in service provision, and their interests are the ones that are being served with the EU-CAAA in the most part.

The European Union is looking to negotiate an AA with Central America, but one of their main conditions before starting the negotiations was to negotiate with a region, not a loose group of countries, but a fully institutionalized region. In commercial terms, Central America is composed of five very small countries with their corresponding small markets, with a very limited purchasing power. Therefore, for EU corporations to benefit from an FTA with these countries, they must get access to their combined markets. There are greater benefits in operating in a regionalized market than in individual country markets, even though that commercial interests are pretty much negligible, with a relatively small and poor market: 37 million people, with an average GDP per capita of close to \$2,500 (Monterrosa 2008)¹¹.

However, the services sector has increased in importance in the last few years, even surpassing agriculture as the main contributor to the GDP of the region. The opening up of opportunities in this sector for major European corporations through the AA, is therefore one of the drivers of the interest of the EU in Central American regionalism. "The EU is the largest exporter of services in the world, with 26% of the market share, and this sector accounts for 40% of their balance of payments. Therefore it's very easy to think that their interest in Central America lies in that sector" (Rodriguez 2007: 1). To further support this point, it is important to note that European corporations are seeking to profit from the opening-up of the Central American market, especially in sectors where the profit margin is guaranteed. Such sectors include engineering, construction, water and energy distribution, handling hazardous materials, environmental and financial services, telecommunications, education, sanitation and health, or security, just to mention a few.

With the establishment of a Customs Union in the isthmus, they get access to the entire Central American market. The main interests of the EU in this Association Agreement are "the 'consolidation of a larger market, trade with clear rules and advantages to be able to participate in large infrastructural projects, government procurement and services'. This reinforces the idea that the interests of the EU go far beyond simple exchanges of goods, and this could very well represent an opportunity or a threat" for the Central American Isthmus (Pérez Rocha 2006), objectives unattainable without a deeper regional integration, at the very least in the economic arena. However, other considerations have greater importance for the EU. The Central American region is rich in biodiversity, does have great potential for investment in infrastructure; following the structural adjustment era, privatization of key services such as water, construction, energy, minerals, or oil, has opened the services market; or the geographic position of the region, makes it a key geostrategic region. This may provide enough incentive for EU to have a particular interest in negotiating an association agreement, since the main component of it is the FTA. Much of the criticism towards the EU's proposal is that it's just a CAFTA-light style agreement, in the sense that the European Union is trying to impose something that may force the Central American nations to comply with certain conditions that eventually may hinder their development, instead of promoting it.

Promoting democracy, security and development in CA: altruism or image?

European support during the pacification process of the region was considered key to its success. It also marked the beginning of European cooperation in Central America, which coincided as well with an increase in the EU's interest on Latin America as a whole. The EU has constantly framed their foreign policies towards third world countries in a broad framework of development policies, a very important aspect of the role the EU plays in international politics. There is a danger in this type of approach, which basically seeks to cement European presence in the international scene, and that is that expectations become too high compared with the capabilities to deliver (Holland 2002). In itself, establishing foreign policies with objectives as unrealistic and unachievable as the eradication of poverty in the developing world is already acting in EU interests, giving them a particular role in international politics, and portraying a very particular characterization of Europe in the international scenario as a more benevolent superpower, which seeks to benefit the developing countries and not only to exploit them.

The need of a regionalized Central America is to secure that the region remain stable in political terms, and that there are more incentives to prevent military coups or conflicts both within each country and amongst them. The region is being built to abide by the rule of law, and implement democratic values and good governance principles, benefiting the Central American themselves. When the EU approached Central America to negotiate the association agreement, several EU officials working in the isthmus argued that their interest in an association agreement in the region is not about market access, or EU gaining economic benefits, but it's about the EU wanting to promote the development of the region. This ideal is further reinforced with the negotiation not only of the FTA, but negotiating as well the additional components of political dialogue and cooperation. In spite of this, there is one aspect that needs consideration: the FTA is the only new element in negotiations. There are existing frameworks of dialogue and cooperation in place, which have been properly institutionalized for over 20 years. And besides, the most substantial component of the agreement is the commercial one.

Another important consideration is that security and democracy in Central America are not only beneficial for the region itself, but it provides the stable political environment that European MNCs require to invest and obtain some profit in the region. Besides this falls into the good governance agenda that the 'Western powers' (namely Europe and the US) have been promoting after the failure of their Washington Consensus neoliberal framework in the late 1980s and early 1990s. All of these arguments, added to the fact that the EU is actually willing to negotiate only FTAs with the Asian countries, with which the relations and interests have a very different nature, reinforce the idea that the altruism portrayed by European officials in charge of negotiations and commercial issues in Central America is just a façade to mask other interests in the region, as will be argued further ahead.

The world according to Europe: multilateralism based on regionalism

A very significant aspect of European foreign policy is the promotion of a new world order, even more so after the collapse of the Soviet Union and the increasing civil conflicts of the developing world during the 1990s. The European Union envisages a world order in which there are no superpowers, but a true multilateral system, in which all states are governed by international norms regulating the main international features: trade, respect for human rights, security, or environment. “The European model does not envision the transformation of the Union into a super state. Rather, it envisages an entity able to shape the formulation of international rules within a network of interdependent multilateral institutions, such as the WTO and the ICC [...]. The aim is to construct a system, accepted by a majority of states, governed by international norm for international trade, security, the protection of human rights and the environment.”(Vasconcelos 2003: 38). In order to achieve this multilateral system the European Union has been promoting regional integration, as they consider that multilateralism can be effective if it is based on regional blocks. Formally institutionalized regional entities are a way of assuring a stable security environment; facilitate crisis prevention and resolution; or managing economic interdependence (Vasconcelos 2003).

In this context, the European Union is seeking for allies, for other entities that can help them internationalize their conception of the world, to expand this multilateralism to all geographic spaces of the world. This would allow the EU to shape the norms and rules that will regulate international interaction, within an effective multilateral network of institutions, widely accepted by other regional arrangements. The Union is attempting to promote multilateralism through inter-regional relations, which is why the promotion of regionalism is a key aspect of the EU’s foreign policy. For European policy makers, the promotion of regional integration needs to be done in a way that it can “support multilateralism effectively [...] favoring the model of ‘deep integration’ whereby market access liberalization is underpinned by new and better rules” (Lamy 2002: 1401).

It is understandable that the EU is seeking a different relationship with Central America, a relationship that is more like a partnership and less one-sided. As much as regionalism in other geographical spaces is congruent with European foreign policy guidelines, it is very narrow-minded to argue that the EU is seeking to regionalize Central America as an instrument to promote their world vision, given the (extremely) limited influence this region has in the international system. A small and poor market, with no valuable (profitable) mineral resources has virtually no influence in the world system, and the main commercial interest is the Panama Canal, which facilitates inter-oceanic trade, but Panama is not included in the analysis as it is not included in the negotiation of the AA.

3.3 The Central American interest in the EU-CAAA

For the Central American economies, easy access to European markets, the lowering of trade barriers for certain key products, the possibility of more

cooperation in the region, as well as the institutionalization of future cooperation from the European Union, and increased political dialogue constitute the main advantages of an AA, whereas they're going to have to give certain concessions, such as opening up to competition from US companies in the services sector (telecommunications, insurance, banking, among others), or new investment opportunities. The main challenge is that to negotiate, they are agreeing to a fast-paced and deeper regional integration, with a strong institutional base.

How is the Association Agreement going to benefit the Central American nations, and in what ways the region is going to be hurt by this agreement is pretty much up for debate. Whereas some industrial elites seemed to be thrilled with the idea of being able to expand their business to such an important market: 493 million people with an average income of close \$23,000 (EC 2008), some sectors fear the rough competition of European MNCs, especially in sectors such as investment, or some services, given the asymmetry of the negotiations: usually, it's easier for service providers from industrialized countries to move into developing countries' than the other way around. Also, in the agricultural arena, in which the bulk of trade with the EU is concentrated, the fact that the EU along with the US has the largest agricultural subsidies, and still has highly protective policies towards their agricultural sector, is a source of concern for farmers and peasants in Central America, a region that is known for its agricultural based economies.

Table 2
Central America. Main Traded Products

Products	Millions US \$
Coffee	1.713
Integrated Electronic Circuits	1.441
Bananas	1.181
Parts and Accessories for Machinery	1.022
Medical Instruments	670

Source (SICA 2008)

Market access: expanding to new and better markets?

Most developing countries in the world are trade dependent. Due to the lack of industrial production, they depend on imports of a wide variety of manufactured goods. And to be able to import those goods, they depend on exporting, mainly primary commodities. This is the case of the Central American economies, which, particularly after all the import substitution industrialization (ISI) policies failed, have turned to export oriented policies as the path not only to integration into the international market, but to development.

There are some sectors, mainly the small industrial elites, which are looking forward to increased market access. However, as it is often the case,

benefiting large industrial clusters is not the same as benefiting the country, and those that are more likely to lose in the process are also the more vulnerable groups. In the case of the agricultural sector, and particularly sensitive crops are being challenged not only with competition from subsidized markets, but from the preferential treatment that the EU grants to Asia-Pacific countries, which despite the AA, will remain in place. Also, migratory laws are another aspect that has been considered as sensitive, given that there are a lot of Central American citizens that migrate to developed countries in search of better living conditions, and to send back remittances.

There are therefore, many considerations for the Central Americans to engage into a negotiation with the EU, which may report great benefits, but without proper measures to assure that the sectors most likely to be hurt in the agreement are going to be somewhat compensated or protected, it may end up being a hurdle in the development of the region. A key issue both in the negotiations and in the regionalization process in this region is that despite the many commonalities, the exportable offer of every country is different, and all the countries have different sensible areas or products. This may complicate both processes, especially when it comes to unifying positions to bargain with the EU. This basically makes it more difficult for the countries to get a consensus in certain aspects, such as which products should be considered sensitive, or which are the most important sectors to protect or in which to demand greater access.

Cooperation and Political dialogue: is there a need to change the current structures?

In the mid-1980s, European interests in the Latin American countries started to gain importance, and stronger bonds were being forged. One of the reasons for this change was the accession to the Union of Spain and Portugal, the former colonial powers of Latin Americans. In the case of Central America, the role of the Union in supporting the pacification process was a key for its achievement. This was done through the San José Dialogue, a process started in San José, Costa Rica in 1984. The initial idea was to collaborate with the work of the Contadora Group in the pacification of the region, and from there, a very fruitful exchange has developed, moving past the political dimension and allowing for considerable cooperation initiatives. The objectives of the Dialogue have gone beyond the promotion of democracy, peace, security and social and economic development, and now include equitable development, intensification of the fight against insecurity and delinquency, the consolidation of the rule of law, and the reinforcement of social policies.

The EU's strategy in Central America has been to implement an association agreement instead of a simple free trade agreement. This type of arrangement is the type that has been preferred by the EU in Latin America, both at the individual level, as with Mexico and Chile and at the regional level, with MERCOSUR and the Andean Community. The benefit of this type of agreement is that is easier to promote in 'hostile' environments in developing countries. That is, when there are sectors of a particular region or country that could be opposed to a FTA, they present an agreement that does not only include commercial aspects, but cooperation and political dialogue, which may

be perceived as a more benevolent agreement and therefore, could face less opposition, or at least less radical opposition. For the CA nations, however, when negotiating the AA, they seem to forget that there are mechanisms already in place o channel political dialogue in the region, and EU-CA cooperation has been constant since it started in the 1980s, and furthermore, the EU is the largest provider of cooperation in the region. Then, if there are mechanisms already in place for two of the three components of the AA, the one aspect that must be radically different from the arrangements already in place is the commercial one, and this is partly hidden by the EU's negotiation strategy.

3.4 Regionalism in Central America: chapter summary

In conclusion, this chapter has presented, in three different sections, how the EU uses its greater power in the international order to influence Central American regionalism, and starts theorizing why. The first section explained the different inside drivers to Central American regionalism, represented by the elites, which have evolved from the old oligarchs that became enriched trading agricultural commodities in the 19th Century to the industrial and financial groups that have become part of a more globalized, transnational capital sector. These elites are not only economically powerful, but due to their wealth, they have the ability to influence political structures. These are the main groups behind the regionalism in the region, with which they benefit due to the transnational nature of their wealth, but also due to their ties to foreign MNCs. Also, this section analyzed fears and doubts in moving forward with integration, exploring the situation of Costa Rica, the country that has always shown more reluctance to deeper integration. The second section explored the EU-CAAA from the European perspective. It gave an overview of the commercial gains for EU companies, especially in the services sector, representing as well the European elite that benefits from the FTA component of the AA. Also, it analyzed other motivations for Europeans to be influencing regionalism, including altruistic motivations such as the promotion of development, security and democracy, all consistent with the good governance ideology that has been spreading from western powers – mostly the EU and the US – since the failure of the Washington Consensus. It also considered a third EU motivation: the policy directive of promoting regionalism in the various regions of the world as a way to facilitate the construction of a world order consistent with the European view of a multilateral international system, based on regional arrangements. Finally the third section provided an overview of the interests at stake in the negotiation of the AA for the Central Americans, including the access to the world's second largest market, and questioning the need of revised structures of political dialogue and cooperation.

Chapter 4

EU's Geopolitics game: reason to push regionalism?

An increasingly globalized world presents different countries with new challenges and opportunities, but also, it can present threats. This is no exception for the European Union, which faces the globalization of the economy as a context within which the Union must implement the adequate policies to rip-off all the possible benefits, while successfully overcoming its possible dangers. "A stronger EU economy at home means Europe has to be more competitive abroad. We need to open markets and create new opportunities for trade and ensure European companies are able to compete fairly in those markets. [Globalization] has eroded some old certainties and aroused new fears"(Mandelson 2006). In this context, regional block formation also arose as a defining feature of the international system.

This chapter intends to highlight geopolitics as the main factor for the EU to push regionalism in Central America. First, some general geopolitical aspects and how they relate to regionalism are covered, covering their influence in Central America, and later showing their importance for the EU. The other half of the chapter draws on the EU's particular geopolitical interests for influencing regionalism in Central America.

4.1 Geopolitics and inter-regional relations

Regional integration in the Americas

Despite the fact that Central American regionalism in the 1990s seemed to have originated in the Esquipulas peace process, the international context has also played a part in fostering or preventing integration processes. Actually, Bull makes the point that there are two official processes: the one emerging from the pacification of the region, and the other as "a response to global and hemispheric integration"(Hurrell 1995), mainly leading to integration into the world market.

In a broader context, the Latin American one, is important to note that regionalism has a double meaning: for one part it refers to regional integration amongst Latin American countries, mainly through some sort of cooperative | arrangement, and hemispheric regionalism, involving the US (Hurrell 1992). This later variety has largely influenced Central American regionalism in the past decades. One such hemispheric initiative was Bush's (Senior) Enterprise for the Americas, which pretended a Western Hemisphere free trade area. In a context of increasing regionalism in the continent, NAFTA would prove to be a key development for CA regionalism. The Central American economies are hugely dependent on trade with the United States, and the potential loss of privileges in that market to Mexico, given the structure of benefits through which the US manages its commercial relationships with developing countries, proved to be a serious threat. CA was under the Caribbean Basin Initiative (CBI), a unilateral initiative that provided them with preferential access to the US market, and since the conditions Mexico was granted within the NAFTA framework were greater than those of

the CBI, there was a possibility of trade and investment diversion from the Central American isthmus to Mexico, hence damaging economic development in the region.

Another attempt of American-led hemispheric integration was a free trade area that would stretch from Alaska to Tierra del Fuego, the Free Trade Area of the Americas (FTAA), a way for the US to expand their influence in the continent through a NAFTA-like arrangement. A FTA comprising the entire American continent could provide easier access to one of the world's largest market for the developing economies of Latin America, but simultaneously allowing US based multinational corporation opportunities to diminish their costs by operating outside of the US, with less strict environmental and labor legislation, easier access to natural resources, or plainly by access to cheaper labor. This initiative has been put on hold due to the reluctance of MERCOSUR countries to enter into the agreement. Also, the leftist governments of Bolivia and Venezuela launched an alternative initiative, ALBA¹², as a way to promote a counter hegemonic regional integration for Latin America.

Although enthusiasm for NAFTA decreased with the Mexican peso crisis, and the subsequent tequila effect on Latin America, and the FTAA and ALBA do not seem to be viable short-term options for integration, these hemispheric initiatives were an obstacle for the deepening of regional integration in the isthmus (Bulmer-Thomas 1998), since potential gains for all of the Central American economies of unrestricted –or more preferential –access to US market via continental or bi-regional agreements are greater than any gains from a Central American regional integration, whether in the form of the CACM or other. This fact slowed integration within Central America, as the countries moved to secure negotiations with the US, with which eventually they would sign CAFTA.

EU-MERCOSUR: seeking a multilateral world order

The European relationship with MERCOSUR is one of the most developed inter-regional relationships in the world. This region is one of the world's more highly institutionalized, as well as the one region that is seen as the one following the EU's path towards deep integration, not only at the economic, but at the political level as well. The European Union sees in MERCOSUR a partner to help them promote multilateralism as the best way to organize the world system. Both of these regional arrangements share plenty of commonalities: deep integration, present themselves as blocks in trade negotiations, and share a similar vision of regionalism and globalization.

A very important aspect that led to increased inter-regional relations is that, despite the fact that the EU has established it self primarily as a regional power, it has also been developing a more global vision. The EU is aiming, by seeking support for their vision of the international system, not to replace the unipolar and unilateral world order led by the United States with a system based on multilateralism, using as a basis regional groups, “whose experience with the supranational regulation of relations between states can be put to good use. In other words, it seeks the transformation of the international system into a community that is based on the success of its own experience

and on the reinforcement of international institutions, particularly the UN. This system is also the most appropriate for the administration of a world that seems to be heading towards multipolarity, with the emergence of great powers that have adopted a power politics perspective of foreign relations” (Vasconcelos 2003: 43-44).

The conformation of MERCOSUR as a region is not directly pressed by the EU, but it is widely supported by it. “The MERCOSUR countries’ dedication to staying solidly in the path of regional integration has paralleled an important development outside the region – the growing interest of the EU in strengthening and broadening its contacts with South America. The EU’s interest in MERCOSUR is obvious. History, language and culture provide the rationale for ties with the countries of the region, and from the South American perspective, the overall relationship has been richer and deeper than the dialogue with the United States, which narrowly focuses on trade concessions” (Roett 1999: 4). Basically, the EU sees in MERCOSUR not only a partner to help establish a more Europeanized world order, but as a very good trading partner, especially since the possibilities for European corporations to profit from ventures in the Southern Cone are very significant, given the size and importance of their economies.

EU-ASEAN: the other model

The Southeast Asian regional association is one of the newest regional blocks, as well as one of the more loosely organized one. However, given the importance of Asian economies, it is one of the most important regions in the world. The relationship between the Union and the ASEAN economies, as well as with other Asian countries not part of the regional association, is essentially different from their relationship with other regions in the world. The EU is already negotiating cooperation schemes with ASEAN countries, and therefore, while they launched association agreements initiatives with the various Latin American countries, whereas they are pursuing directly FTAs with these Asian economies. Despite the fact that the European Commission has argued that the reason to pursue FTAs and not more comprehensive agreements with ASEAN is that they already have cooperation and political dialogue agreements in place with them, the Latin American economies also have this kind of agreements in place. Therefore it seems as if the reason for this distinction is that the “EU is more eager to negotiate FTAs with the Asian countries and that these countries are more reluctant to take on board stringent essential principles or to accept the linkage between these and their trade opportunities. Civil society organizations in Latin America have also been more supportive for human rights, democratic, social and environmental clauses in trade agreements” (Maes 2007b: 2).

There is a significant inconsistency in what the EU wants from Asian economies and what it wants from Latin American economies, therefore making it more evident that there is something underlying the interest of the EU in the deepening of the regional integration processes in Central America, something that appears also to be connected to what they want or expect from other Latin American regional groups.

4.2 Geopolitical considerations and how they are influencing regional integration in Central America

CAFTA: A preview of the Association Agreement?

Despite that the EU has a different perception than the US, when it comes to the contents of free trade agreements, they are very alike. In the Central American case, one of the conditions to start negotiations was that all countries agreed to CAFTA, and actual negotiations started a mere fortnight after the Costa Rican population voted yes to its implementation in a referendum. This was so, because the Europeans intended to use CAFTA concessions as floor to negotiate the AA. The negotiation of a FTA with the US was not easy or without polemic. It was a long and difficult process to negotiate the agreement, and the implementation has not been easier: since it was finally signed in 2004, it has had to overcome a lot of protests and criticism. The agreed text regulates many areas, not only free trade, but intellectual property, agricultural products, environmental issues, trade in services, amongst other provisions. Many sectors in Central America, mostly farmers opposed the agreement, considering that it provides easy access to US corporate interests in the region, and does not allow for fair trade to occur between the two regions, as there are no considerations for the asymmetries amongst them. Some sectors in the US also felt threatened by the agreement, but nonetheless it has been ratified by all the member-countries and its implementation is only pending in Costa Rica.

The European Union has started negotiations with Central America under the directive to accept nothing less than what these countries have already agreed to concede to the US. That is, Central American farmers will have to face competition from not only one, but two largely subsidized economies; the investment sector will be also open for European entrepreneurs; the services sector in Central America will be open to service providers from the EU, and of course, the virtual elimination of trade barriers, promoting an increase in trade flows amongst blocks. Also the respect and strengthening of environmental, labor and property rights legislation is to be enforced.

In many ways, as mentioned before, the agreement to CAFTA was explicitly a prerequisite for the negotiation of an Association Agreement. Also, it's not the first time that the EU has started negotiations with a Latin American country right after they signed an FTA with the US, making it clear that the European Union's business interests may just be in gaining easier access to the US market, by using Central America, or other Latin American countries as mere platforms to export to the US, and one key sector in the European economies is services, one of the main sectors to which an association agreement could provide access.

There's evidence to argue that CAFTA may serve as an accurate idea of which aspects are likely to be included in the AA, as well as which areas are likely to be sensitive during the negotiations. However, one must keep in mind that the EU has also other interests in the region that go beyond the commercial aspects, but go into the geopolitical sphere, as the EU's chief negotiator Joao Aguilar Machado was quoted saying: "for the EU it's not a matter of economic benefits, or market access. Markets are elsewhere. It's a world vision, creating stability centers, that we believe are more achievable when countries

work jointly than when they do work with their backs turned to each other”¹³ (AFP 2007).

Therefore, one might just conclude that the prerequisite of CAFTA approval for the start of negotiations with the EU is nothing more than the desire to control the Central American economies, and locking them into a situation in which their room for maneuver in their own economies is limited to what is established in the current neo-liberal oriented world order. This is especially true when it comes to FTAs in a bilateral or bi-regional context, in which developed economies have found easier to incorporate all those ‘trade-related’ issues, such as the Singapore Issues, that they haven’t been able to incorporate in the multilateral trade schemes.

Central America’s geographic location and its commercial arrangements: a platform for European exports

The fact that the Central American countries have just signed a commercial agreement to obtain preferential access to the United States market is very telling when analyzing Central American regional integration. A unified market located in a strategic area, which allows easy geographical access to other more significant or larger markets including South America, Asia, or the US, with which now there is a preferential market access given the implementation of CAFTA, is a very good incentive for European corporations to invest in any of the countries of Central America. The formation of a CU would provide access to European companies in the isthmus to all other markets in the Americas, whether to the North or to the South. Also, the potential joining of Panama in the Association Agreement, which could only happen if they joined the Customs Union, would provide exceptional access to transport to both the East and the West.

Furthermore, regional integration in Central America may allow the reduction of operation costs and transport and commercialization costs, by exploiting cheap, but relatively skilled labor, and all the natural resources the region has to offer. There is a vast biodiversity in the region, and added to a growing and unexploited services sector, the isthmus is a very attractive place to invest if certain criteria are met, such as greater political stability, and easier transportation mechanisms within the region. Both questions are solved with the formal regionalization of CA. Besides, the countries in the region have commercial arrangements not only with the US, but with other countries in Latin America.

Using EU regionalism to prevent alternative regionalism

Latin America is in the middle of an interesting process. There has been a resurgence of what has been called the new left, a more revolutionary (in the sense of the quality and quantity of the reforms they attempt to implement, not in the sense of it being violent and forceful) and populist project than any other left-wing project in the world at the moment. One aspect that has stemmed from this is that there are several integration projects that are a little bit more alternative, so to speak. These leftist projects attempt to promote a more bottom-up regional integration project in Latin America, one that

contradicts the current trend of globalization led by corporations and MNCs, and could challenge the economic control the US exerts in the continent. One such project is the Venezuelan-led ALBA, an integration vision “based on the writings of Simón Bolívar, grounded in the principles of complementarity (rather than competition), solidarity (instead of domination), cooperation (not exploitation), and respect for sovereignty (instead of corporate rule). And ALBA is based on grassroots citizen participation, as the citizenry are both the implementers and the beneficiaries of the agreements under the banner of ALBA” (Global Exchange 2008).

This alternative regionalism may be a great alternative, at least in paper¹⁴, for a more inclusive regionalism. There are other options in Latin America that have been promoted by a variety of institutions. However, any kind of alternative option of regional integration may impede European corporations from benefiting in the region, as it may prevent the neoliberal integration model that they are trying to promote. Instead of getting easy access to a Customs Union, they may have to fight against protectionist structures, or just lose control of some of the key sectors they are aiming to control in the region. Therefore, for the EU it is more convenient to spread their neoliberal regionalism than to wait for other forms of regionalism that may threaten their profit in CA to take over the region. The particular economic and social context of Central America comes into play since the Nicaraguan government is left-wing, and quite close to Venezuela’s left wing and it is one of the three members of ALBA. This fact can be interpreted as a warning sign for the EU to hurry up to align regionalism in Central America so that it benefits their companies, and to prevent any further influence of alternative projects.

Fighting the regional hegemon: the EU vs the US as the source of influence in the Central American Isthmus

The relationship between the EU and Latin America can be characterized at best, as asymmetric. The region is marginal in the economic, trade and geopolitical priorities of Europe, for several reasons: the European Union is opening up towards the east, both politically with the expansion of the Union, and decreasing trade; respect in which Latin America has been at the bottom of the commercial privileges pyramid of the Union. Geopolitically, the US has a major influence and has many interests in the region, and despite the efforts of Latin Americans to break free from the trade dependency with their northern neighbor, they haven’t being able to do so, unbalancing their relations with Europe towards the political and not the commercial. Therefore, the EU sources from African countries, with which they have preferential agreements, raw materials and basic commodities they could obtain in Latin America, in occasion with greater confidence, and prompted the region to have the least commercial privileges of the developing world from the EU (Holland 2002). “Whether rightly or wrongly, Europe gave the clear impression that Latin America was not party to its development strategy and could not expect preferential concessions” (Holland 2002). However, the political situation opened up an opportunity for political relations. Considering this context, a very important aspect of the current Euro-Latin American relations is that Europe is determined to exert more influence in the region, and expanding

their vision of a regionalized multilateral economy, right under the nose of the US constitutes a component of their desire to promote regionalism in Central America. Europeans are not aiming for the loose regionalism model that the US has in North America with NAFTA, but plans to contribute to the formation of a highly institutionalized region in Central America, that can provide the EU with a set of countries that would be willing to in the future, constitute a broader arrangement in the Latin America area, one that responds to a desire from the EU to have an Euro-Latin American free trade area in the coming years.

Regional integration as a way to facilitate negotiations in a possibly hostile environment

Although generally perceived as a less hegemonic or less harsh power than the United States, the EU also makes sure that their interests are well served in any agreements that they negotiate. One advantage the Europeans have when negotiating with Latin America is that, by comparison with the United States, they are perceived as nicer, or more genuinely interested in helping developing countries solve their problems. This actually means that there is less reluctance towards achieving an agreement, and although there are always opponents, these are less radical than the ones opposing an FTA with the US. This actually makes it easier to carry out the negotiations, and may facilitate the process of implementing the new AA, as well as its acceptance by the population at large. One key aspect in the Central American case is that after the whole CAFTA controversies, and the tough time the different Central American countries have had with its implementation after the signature of the final document, the EU may prefer to negotiate with a highly institutionalized region to avoid facing country-based opposition, especially considering their status as a cooperative and helpful region in some of the countries, and therefore, avoiding one of the potential problems that they could face when negotiating, and most importantly, when implementing the agreement.

The simplicity of leaning in what's there... a final note

Finally, the last argument to support that geopolitics has played an important role in the EU's desire for a more institutionalized Central America, one could claim that the regional institutions, however badly organized, corrupt or inefficient, have been there in the region, and were launched by the Central Americans themselves. This is a simpler way to carry the negotiations for the Europeans, that would much rather carry out one single negotiation process, and would allow them to argue that regionalism in Central America is not a completely EU-led process, but regionalism has been there for a very long time, and the EU's role is to support it and to strengthen it. That way their influence is much more covert, and they can argue, that for them it is much more convenient to just use the structures that are already in place at the regional level than just attempt to negotiate with five separate small markets, that at large, are not significant enough for the EU to embark in that kind of complicated process. However, the true conformation of a regional entity that

follows their commercial and geopolitical interests, which is a project worth getting into.

4.3 EU geopolitics and regionalism in Central America

This chapter has shown that geopolitics plays a very important role in regionalism, particularly in the case of how and why the EU is influencing regionalism in Central America. First, with a brief understanding of the context in which Central America's regionalism developed on its own, and also, had very strong motivations to slow down, or was not the most appealing option for the individual countries in the region considering the geopolitical context in which they are embedded. Then with a clearer view or understanding of the role of geopolitics in the EU's other inter-regional relationships, in the cases of MERCOSUR, a region considered to be the main European partner to help them promote a particular world vision, and also the one region that is building institutions that closely resemble those of the EU; and of ASEAN, an opposite case to MERCOSUR, given the difference in the conformation of its regional arrangement and the willingness of the EU to let economic interests take precedence over geopolitics, given the structure of their relationship. Then, the EU's geopolitical motivations for influencing regionalism in Central America are examined: the prerequisite of CAFTA approval, geographical location and previous commercial agreements, the use of a more neo-liberal regionalism to obtain greater benefits and to prevent alternative regionalism in the area, the possibility of exerting a greater influence in an area that was before considered of exclusive US influence, and the facilitating of the negotiation process of the EU-CAAA.

Chapter 5

Summary and conclusions

5.1 The influence of the EU in Central American regionalism, true or imagined?

When the European Union announced it was willing to negotiate an Association Agreement with the five Central American countries, many Central Americans received the news with a lot of optimism and expectations that the outcome would be beneficial for the five small countries. However, the agreement with the Union was placed on hold, as the negotiation of the free trade agreement with the US started in the midst of great controversy. After only twelve months (thirteen in the Costa Rican case), there was a final draft to be signed, and one by one, the Central American countries started moving forward with its implementation, despite a lot of opposition all throughout the region. The European Union, meanwhile, started to stir again their proposition of signing an agreement as well, but under certain conditions. For one, they demanded a formally integrated region to negotiate with, not a loose agreement of five countries. Another condition was the full implementation of CAFTA by all the Central American countries, and therefore, there was a lot of pressure for Costa Rica to make a decision they had postponed for the better part of two years. Finally, the decision to hold a referendum to decide whether they would implement the agreement, or simply opt-out was announced and the rest of the isthmus looked as the Costa Ricans closely confirmed their will to start implementing it. Finally, with the Costa Rican compromise to implement CAFTA and to adhere to the Central American customs union, the negotiations kicked off: a mere few days after the referendum, Europe and Central America sat down in San José, to start the first negotiation round to complete the much anticipated association agreement.

Central America may not have a large market, or a wealthy one, but it does have a lot of opportunities in the services sector, which is of key interest to the EU, and to pretend that they won't try to get a big profit out of the ventures in Central America is to blind oneself to reality. The Union has been promoting regional integration, it's one of their main policy directives, but in doing it they try to get as much benefits from it as they can. It is clear that the European Union seeks to benefit their particular interests when demanding a more formal regional integration in Central America. In changing the dynamics within the region, the EU hopes to gain a new ally, which would help them promote their world vision, to promote true effective multilateralism, based on inter-regionalism. This is a priority for EU foreign policy, to formalize regional arrangements so that the world is better suited to face a regionalized multilateralism. Also, access to the full Central American market, the possibility of the use of the advantageous geographic location of the isthmus, and the increasing weight of the services sector in the region provide economic incentives to demand regional integration. The fact that there is already a regional framework, as ineffective as it may be, can also be used to simplify

negotiations, and to argue that the EU is simply helping CA to achieve what they set out to construct with SICA.

Other interests of the EU in Central American regionalism are mainly logistical issues for the EU-CAAA negotiation: it is easier to negotiate with one region than with five small countries, a regional negotiation may prevent or diminish opposition in CA, since regional opposition is more difficult to organize, and it is more complicated to have one or two countries opposing what the rest are endorsing. Besides logistics in negotiations, the fact that regionalism is presented as the option for development added to the rise of left-wing ideology in the region, may cause alternative ways of regionalism to rise in the area, which could prevent the easy access to the Central American market that the EU is trying to secure for its MNCs.

Finally, the thought of gaining political influence over an area that has been traditionally under US influence is more than appealing for the EU, as it already is visible in their dealings with MERCOSUR. The ability to contest the influence the US exerts on Central America, and furthermore use that influence to promote their particular world vision could be a big step for the EU to have a greater political influence in the world system. Therefore, they demanded regional integration in exchange for an association agreement.

This regionalism demands have exerted pressure on the small region, which was evident in the sudden change of policy of Costa Rica regarding the signing of the Customs Union Protocol: in June 2007, the position was to be prudent and await for the results of October's referendum; shortly after the results of the referendum were known, the position shifted to the need to amend the document before its signature (to make explicit that there will be no obligation to achieve a common commercial policy amongst all the Central American countries); and by the start of negotiations with the EU in late October, it had changed to the document will be signed shortly, so that the negotiations could start as planned. To add to European pressures, the regional integration wave sweeping the world, the increased pace of globalization pressures and the conception of regional integration as a necessary middle step towards the world economy, threaten the five small economies to be left out if they do not integrate.

Although the influence of the EU in Central American regionalism is there, and due to the ability of the Europeans to put pressure on the Central American elites that, in turn, exert influence in the Central American government, it is a significant influence, one cannot deny that regionalism is also an inside idea in the region. This may be masked by the globalization of the elites in the region, and their ties with foreign capital, but is nonetheless there. The creations of the CACM in the 1960s and of SICA in the 1990s were initiatives that came from within Central America. Although their success was limited, and it can be argued that one of the reasons of their decline was that they were not inclusive, and not all sectors were benefiting from them, they were implemented by a certain elite in the region that saw regional integration as a way to achieve development.

5.2 Integration and Development

Central Americans face a challenge: external pressures are, to some extent forcing, or maybe just accelerating the ongoing, self-started integration process. However, given the pressures, and the opportunity presented to them (EU cooperation has offered to finance regional integration), they have to figure out how to make regional integration an instrument to aide in the development of the region. One of the main concerns for Central American countries with regards to the implementation of an association agreement with the EU and its possible impact in their development policies is in the services sector. There are still many controversies in this sector, so much so that the issue is one of the key issues blocking the multilateral trade negotiations in the framework of the WTO. This issue is quite sensitive, as it refers to key issues in the development arena such as water provision, finance, electricity and telecommunications. The lack of a strong regulatory framework at the regional level, or even more, at the national level may leave these key sectors in the hands of European corporations, which intend only to make a profit. The consequences of the complete surrender of such issues to corporations are potentially disastrous when it comes to development policies within Central America. In spite of all the neoliberal analysis claiming that all economic activities should be regulated by the market, it's clear that these key sectors have remained under the control, or at least heavily regulated by the state in the industrial countries, considering their importance for the proper functioning of their economies. This is even truer for economies that are attempting to develop in a hostile context, such as the current international economy.

5.3 The possible impact of the EU-CAAA in CA regionalism

Any influence may hinder or up hold development in the region, and therefore it is very important to consider the consequences and possible impacts of European influence. Central American countries face many challenges, however, there's also an opportunity for them to take advantage of a specific international context. Regional integration should not be the end in itself, but serve as means to achieve a greater goal: development, welfare, to just achieve a greater living standard. As with any agreement between two entities, the association agreement that is currently being negotiated between the European Union and Central America has both positive and negative aspects. The one aspect that of the negotiations that has been highlighted in this paper is the fact that through the negotiation of a bilateral agreement, the EU is influencing regionalism in Central America. This particular argument has been proven with the analysis of the prerequisites of the agreement, and of the context in which the agreement is being set. After careful analysis, the conclusion is that there are several motivations for the EU to influence regionalism in Central America. Out of those factors, geopolitical considerations are argued to have a greater weight, due to the marginal economic gains, or the limited influence CA has in the world system. However, this influence is of grave importance for Central American countries, since regionalism can be considered the 'option' to achieve development, as a stepping stone towards the global.

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Notes

¹ Central America usually comprises Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, countries that have been part of a series of integration processes, going back to their independence from the Spanish crown. It is of note that Panama has signed some of the regional agreements, and it's a member of the integration system currently in place, as is Belize. In this paper however, analysis will be focused on the five aforementioned countries, and in the case that any other state factors into the analysis, that will be made explicit.

² Spanish name an acronym for the Central American integration system, created in 1991 through the Protocol of Tegucigalpa. This is the main institution that sets guidelines and oversees the integration process in the region.

³ The referendum in Costa Rica was held on October 7th. Negotiations between Central America and the European Union began October 22nd, in San José (capital of Costa Rica). The European Union had as a prerequisite the approval of CAFTA to begin negotiations.

⁴ Grugel and Hout define the semiperiphery as consisting of two types of states: the strong semiperiphery, which is constituted by Western states, in which core and peripheral activities coexist, and the weak semiperiphery would be constituted by states that are considered as newly industrialized, such as Brazil, Thailand or Korea, in which "intermediate levels of capital-intensive/labor-intensive production predominate" (Grugel and Hout 1999a).

⁵ Original document is in Spanish, own translation.

⁶ Central America is one of the world's more unequal regions. Unequal access to healthcare, income, quality employment and such remain one of the greatest challenges for all the countries in the Isthmus.

⁷ Literally, northern triangle.

⁸ Until 2007, telecommunications and insurance were also a state-run monopoly. These sectors have been opened to competition during 2008 as a result of CAFTA provisions.

⁹ Out of the five Central American countries in analysis, Costa Rica is the only one with a high Human Development Index (no. 48 in the world, fifth in Latin America), and its GDP per capita is almost twice as the one of El Salvador, the next economy in the region. The country also leads the region as the country with the highest reception of Foreign Direct Investment (FDI) (UNDP 2007).

¹⁰ Original document is in Spanish, own translation.

¹¹ Refer to Annex 1 for the main facts and figures of the region.

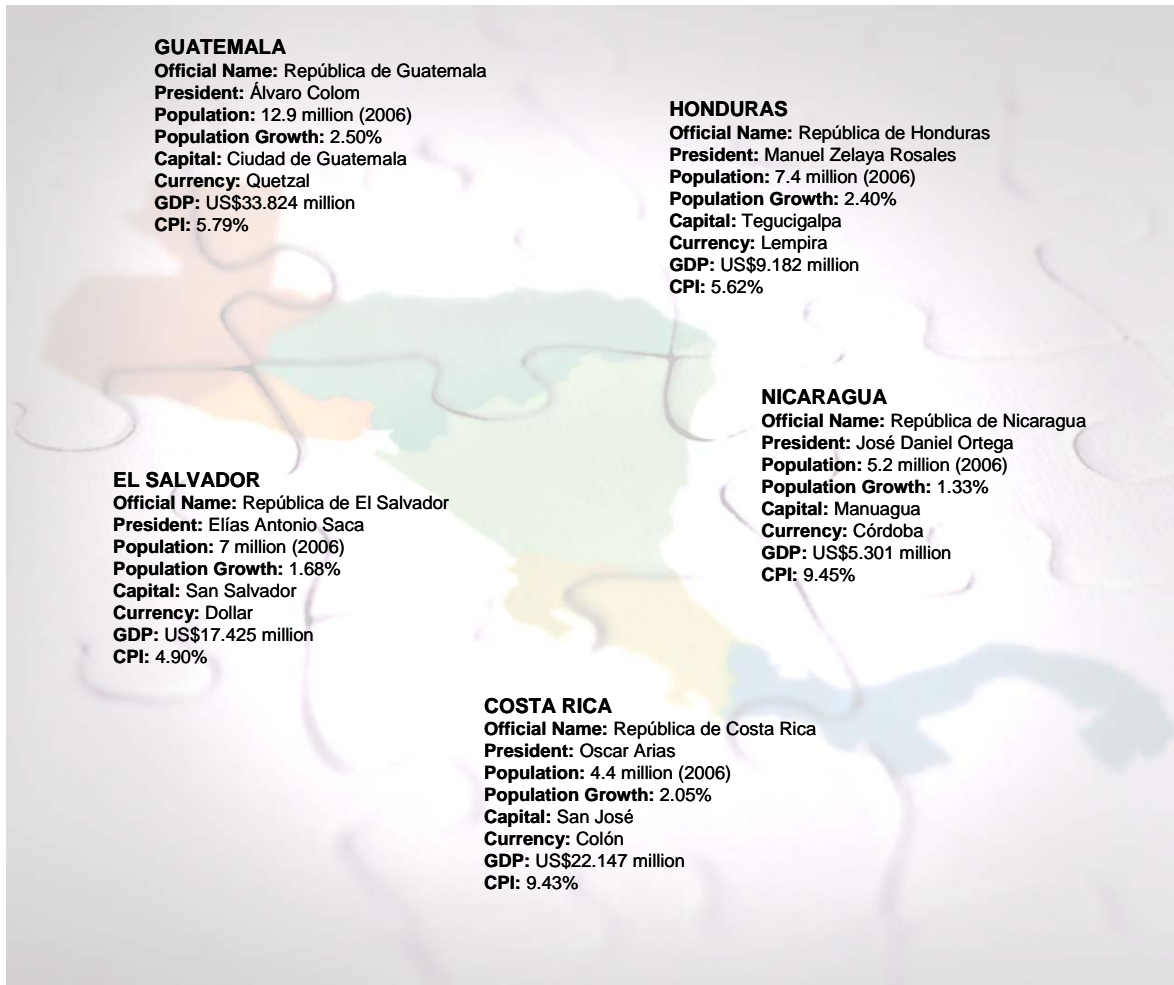
¹² The Alternativa Bolivariana para las Américas, ALBA is a Venezuelan led initiative that intends to unite the people of Latin America under a more socially conscious project, based on cooperation and solidarity.

¹³ The original document is in Spanish, own translation.

¹⁴ Despite the fact that ALBA looks like a good way to promote regional integration in Latin America, there are serious questions to the credibility of the reforms and to the extent of the benefit these initiatives could bring to the region. This is mainly a project created by the Venezuelan president Hugo Chavez as a way to try to extend his influence in Latin America.

Annex 1

Central America: Main Facts and Figures



Source: (Monterrosa 2008)