

**EU- Central American Relations in the 21<sup>st</sup> Century:  
Interregionalism in Perspective**

**By**

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## **Acronyms and Abbreviations**

<b>CA</b>	Central America
<b>CACM</b>	Central American Common Market
<b>CAN</b>	Andean Community of Nations
<b>CFSP</b>	Common Foreign and Security Policy (EU)
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>EU-CA</b>	European Union-Central America
<b>EU-LA</b>	European Union-Latin American
<b>EU-LAC</b>	European Union – Latin American and Caribbean
<b>FDI</b>	Foreign Direct Investment
<b>FTA</b>	Free Trade Area
<b>FTAA</b>	Free Trade Area of the Americas
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GSP</b>	Generalised System of Preferences
<b>MERCOSUR</b>	Southern Cone Common Market
<b>NAFTA</b>	North American Free Trade Area
<b>ODA</b>	Overseas Development Aid
<b>ODECA</b>	Organisation of Central American States
<b>PDCA</b>	Political Dialogue and Cooperation Agreement
<b>RSP</b>	Regional Strategic Paper
<b>SICA</b>	Central American Integration System
<b>WTO</b>	World Trade Organisation

## Introduction

On the 28<sup>th</sup> and 29<sup>th</sup> of September 1984, the foreign ministers of the ten EU<sup>1</sup> member states, along with those of Spain and Portugal (then accession states), met with their Central American counterparts (and those of the Contadora group) in the Costa Rican capital, initiating what became known as the San José Dialogue. This became an institutionalised attempt to find a negotiated political solution to the crises that beset Central America throughout the 1980s. It also laid the foundations for closer interregional ties between Europe and the Central American isthmus as well as forming the basis for wider EU involvement in, and political relations with, Latin America as a whole; a region which had been very much neglected by European foreign policy for several decades.

As the 25<sup>th</sup> anniversary of the first San José meeting approaches, the EU and Central America are in the process of concluding negotiations which would lead to the signing of an Association Agreement between both regional blocs, resulting in a potential Free Trade Area (FTA) between them<sup>2</sup>. EU-Central American (EU-CA) relations have evolved over the course of the intervening years. They now form part of the set of interregional relationships which have

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<sup>1</sup> For convenience, and in order to distinguish it from the European Commission, EU shall be used throughout to denote the European integration project through all its stages from the 1950s onwards.

<sup>2</sup> The process was suspended in early July 2009 as a result of the constitutional crisis in Honduras. At the time of writing negotiations remain suspended.

become a hallmark of international relations since the end of the Cold War.

These forms of interregional cooperation have been particularly typical of EU foreign and trade policy.

This study aims to explore the key aspects of EU-CA relations and the way in which these relations have evolved over time. It will also attempt to explain the trend towards interregionalism in the context of EU-CA relations generally, and the proposed Association Agreement and FTA in particular. Relations between the EU and Central America, and indeed those between the EU and Latin America more generally, are often couched in very aspirational language. Emphasis is often placed on close historical and cultural links, or EU support for democracy and human rights. The intention of this dissertation is to look beyond the rhetoric of formal official statements and documents, and assess the true motives behind current forms of interregional cooperation.

The study will take the form of a discussion of important aspects of EU-CA relations and the factors which affect the process of EU-CA interregionalism. It will draw on a wide range of primary and secondary materials. Primary resources will include official documents such as the Political Dialogue and Cooperation Agreement (PDCA) signed in 2003 between

the EU and Central America and which forms the framework for current relations. Another important primary source will be the European Commission (EC) Regional Strategy Paper (RSP) for 2007-2013, which outlines the major aims of EU policy in the region. Further primary sources, such as *Global Europe*<sup>3</sup> provide an insight into the wider objectives of EU economic policy and how this might have a bearing on how we should view EU-CA relations. The secondary material consulted, consists primarily of academic works on a variety of subjects, such as interregionalism, the trade policy of the EU, European relations with Latin America generally and Central America specifically, as well as a range of internet sources such as EU or SICA (Central American Integration System) websites- as well as websites of individual government agencies or NGOs.

Following this introduction and a review of some of the key literature, the main body of the study will be broken down into two parts. The first section is mainly empirical in nature. It will look at important aspects of the EU-CA relationship under four broad headings: political relations, economic relations, regional integration, and finally the proposed Association Agreement. The purpose of this section will be to give an overview of relations as they stand and the way in which they have evolved over the past quarter century. This will

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<sup>3</sup> A document outlining the Commissions vision for a more competitive Europe in a globalised world

provide us with a basis for approaching the second part of the study, which will have a slightly more theoretical slant. It looks at the motives for interregional cooperation (particularly in its economic aspects), focussing on the way in which wider considerations of what could be termed *globalisation*, shape the way in which the EU and Central America interact with one another.

Broadly speaking, as regards expected findings, the first conclusion I anticipate would be that EU-CA relations are asymmetrical, both in the sense that the EU is by far the larger partner, in terms of size and population, as well as economic power, and in the sense that European integration has been more successful than the Central American variant, giving the EU a far greater cohesiveness as a single bloc when negotiating with other similar regional groupings. In this sense Central America may be at a disadvantage in terms of cohesiveness and experience at the negotiation table. Furthermore, I would expect to find that economic factors help more than historical, political or cultural ones, in explaining the interests of both the EU and Central America, in pursuing closer interregional ties and an association agreement leading to a Free Trade Area (FTA).

## Review of Literature

The theoretical part of the discussion presented here, draws from two main sources on the phenomenon of interregionalism in international relations. The first of these is Hänggi et al, (2006) who bring together a wide ranging collection of studies on subject. These include theoretical discussions of the factors explaining interregionalism as well as studies of concrete examples of interregional institutional arrangements. Though the emphasis is on interregional relations between the *Triad* of major economic blocs (North America, Europe and East Asia), it also includes chapters on relations between these economic superpowers and groups of developing countries. For the purpose of this study, the chapters by Jörg Faust on EU-MERCOSUR relations and that of Andrew Crawley, on EU-Latin American relations more generally, are of particular interest.

Hänggi et al (2006: 300-310) citing earlier studies by Jürgen Rüländ, put forward five major functions of interregionalism: (1) balancing, (2) institution building, (3) rationalising, (4) agenda-setting and (5) collective identity-building. In the context of relations between the EU and Central America, the argument put forward in the present discussion will be that balancing and rationalising are the major objectives sought by both parties, particularly the European side, and that collective identity building, while important, is of

secondary interest. I find little to support the view that either institution-building or agenda-setting are important functions of EU-CA interregionalism<sup>4</sup>.

Aggarwal and Fogarty (2004: 6-15) look at the reasons behind the EU's interest in pursuing interregional policies, paying particular attention to its trade policies. This is the second major source by which the present discussion is inspired. The authors put forward four hypotheses to explain EU interregional policy. A "pluralist" hypothesis sees EU policy as a forum within which various interest groups compete for influence. From this perspective EU policy is determined by the relative influence of each group over the policy-making process. A "bureaucratic politics" hypothesis views the policy-making arena as one of contest between the various EU institutions, the main competition being between a free trade- oriented Commission and a Council more in tune with the demands of protected national interests. The third hypothesis they put forward is an "international systemic" one. According to this hypothesis, EU interregional trade policy is the result of the constraints and opportunities provided by wider international economic, political and security systems within which individual EU interregional relations are nested. Finally a fourth, "constructivist" hypothesis, sees policy as conditioned by the EU's desire to create a common European identity. The following discussion will argue that EU-CA

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<sup>4</sup> It must be noted that interregionalism is discussed with major consideration to relations between the EU/US/East Asia economic triangle. I do not argue against the importance of these final two functions of interregionalism generally but rather their importance or applicability to the specific case of EU-CA relations.

interregionalism, while it potentially exhibits traits which would support each of the four hypotheses to varying degrees, is best explained by the presence of international systemic factors, with a secondary role played by concerns of EU identity put forward in the constructivist argument.

Aside from its relative recent origins, interregionalism, as a phenomenon in international relations, is notable for the diversity exhibited by the various forms it takes. Roloff (2006) distinguishes five types of interregionalism, ranging from very loose relations between groups of states from two regions, to more institutionalised formal relations between two or more regional organisations (for example the EU and MERCOSUR). The fact that there are often more differences than similarities between various interregional associations makes it difficult to make general conclusions. Aggarwal and Fogarty (2004: 4-5) define a “pure” interregional agreement as one which “formally links two free trade areas or customs unions”. Where one party to the agreement is a free trade area or customs union and the other is not, they consider an agreement as an example of “hybrid interregionalism”. EU-CA relations fit somewhere between, but more closely fit the model of “pure interregionalism”. Not all the countries involved in the Central American regional integration project are active participants in negotiations with the EU

for an Association Agreement<sup>5</sup>. Unlike the now suspended EU-MERCOSUR negotiations, the EU is not making an official agreement between it and SICA. However, the majority of Central American states are involved in talks, and those that are involved, form a customs union (as of 2007).

Mario Telò, in a wide ranging discussion of the links between globalisation, the new regionalism and interregional cooperation argues that the EU's role as a global civilian power is a primary concern in its Latin American policy and that European interest in reinforcing its interregional relationship with Latin America is firstly strategic, then economic (Telò, 2006:133). While he specifically uses EU-MERCOSUR relations as an example, he makes it clear that he sees these as part of a wider pattern of EU-LAC relations. While agreeing with his general conclusion, this paper contends that the EU's strategic interests in Central America are essentially economic in nature, to such an extent that it is very difficult to separate the two or to claim that one is more important than the other. 'EU strategic interests' in Central America equates roughly with 'European economic/business interests' although broader concerns also feature.

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<sup>5</sup> Belize, a full member of SICA, comes under the Cotonu agreement as an ACP member as does the Dominican Republic, an associate member state. Panama, also a full member of SICA is currently participating in negotiations with the EU as an observer for the present

The literature on EU-CA relations, particularly in English, is very limited. Hazel Smith (1995) provides the best analysis. Smith looks at the origins of relations between the EU and Central America from the 1970s when the European Commission began to show interest in signing partnership agreements with the Central American Common Market (CACM) similar to those which existed at the time with ASEAN (Smith, 1995: 57), through the 1980s and EU involvement in the quest for a solution to the crises on the isthmus. She considers the strategic objectives of European policy in becoming involved, as well as the implementation of that policy, and discusses the importance or otherwise of the EU's role in the ultimate resolution of the conflicts in the region. For Smith (*ibid*:147-149) there were two major policy objectives of the EU: The containment of the Nicaraguan revolution through 'constructive engagement' on the one hand, and the prevention of Nicaragua becoming overly reliant on the USSR and thus potentially escalating East-West tensions between Washington and Moscow. Ultimately these objectives were achieved. Nicaragua did not become a 'second Cuba', the US did not invade, and the conflict did not develop into a full-scale East-West conflict (*ibid*: 149). While not concluding that EU policy was central in any way to the achievement of these objectives, Smith does consider EU policy in Central America as having had a positive impact on the EU's image as an international actor, giving "a more substantial foundation" to EU policy-making in the short term (*ibid*, 154).

Hazel Smith's work, published, as it was in 1995, deals primarily with the early years of the San José process and the EU role in the Central American crisis. José Ángel Sotillo (1998) brings the discussion forward a little, focussing on the evolution of EU-CA relations from the end of the Cold War, through most of the 1990s. He pays particular attention to the way in which relations weakened following the easing of East-West tensions and the resolution of the conflicts in Nicaragua and El Salvador at the beginning of the decade. He looks to the content of the San José ministerial meetings from 1984 through 1998 as the basis for his argument noting a decreasing interest on the part of the European side.

For Sotillo (1998: 253-254) both the EU (post-Maastricht) and Central America, (with the revival of integration in 1991) turned their focus towards internal matters. Furthermore, Central America, following the end of the Cold War, ceased to be a 'nine o'clock news issue' and lost its political significance for European policy makers. These two factors contributed towards a decreasing intensity of relations between both regions. Sotillo (*ibid*: 260) calls for a re-evaluation of EU-CA relations<sup>6</sup> and a renewed commitment to tackling issues of poverty and social exclusion which he views as dangerous threats to the

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<sup>6</sup> With a leading role to be played by Spain in the process

achievement of peace and democracy in the region. He looks forward optimistically to the 1999 EU-LAC summit which he sees as an opportunity to do this. The argument presented in the following discussion largely concurs with Sotillo in the assertion that economic matters now take priority. However, the optimism expressed (given the benefit of hindsight of course) is not shared to the same degree. The promise held out by the Rio summit has yet to be realised ten years on.

These then, are the main secondary academic sources from which both inspiration and support for the arguments presented here are drawn, though of course this is not an exhaustive review.

The next section presents an overview of EU-CA relations as they currently stand and the ways in which they have evolved over the past two and a half decades. It focuses on political and economic relations as well as looking at a key aspect of relations – regional integration, and the current process of negotiating an Association Agreement.

## **Political Relations**

Political relations between the EU and Central America have their roots in the crises of the 1980's in that region, particularly the armed conflicts in Nicaragua, Guatemala and El Salvador. They take place in the framework of the San José Dialogue, the institutionalised format for political dialogue between both regions.

This original San José process constitutes, for some analysts, one of the earliest and most successful foreign policies of the EU (e.g. Piening, 1997: 126). Others consider the lack of recognition of this point in either Europe or Central America somewhat surprising (Whitehead, 1999: 56). European support, moral and financial, to regional proposals for negotiated settlements to the various disputes on the isthmus, may have been a factor in avoiding external intervention in the region and ultimately facilitating a non-violent resolution to the crisis. In any case the San José Process earned the EU a great deal of political capital in the region, at least among the political classes, if only by virtue of the fact that it provided moral support and legitimisation to their own peace efforts.

Though Europe had no direct strategic interest in events in Central America, there were a number of plausible motives behind EU involvement in the quagmire that was Central American affairs in the 1980s. Among these were the desire for the EU to have a strong international voice, the fear of an escalation of the East-West conflict, and a Central American desire for a regional and inclusive (particularly of Sandinista Nicaragua) settlement.

The San José dialogue, which was institutionalised in 1985, was renewed in 1996 in Florence, and again in 2002 in Madrid, has changed format over the years. The ministerial meetings, initially annual events, became biennial ones following the 1996 renewal. On alternate years meetings would be between Central American representatives and the EU Troika<sup>7</sup>

By the early 1990s, the worst of the crisis had passed and the San José Dialogue became less significant as Central America ceased to become as major an international issue as it had been in previous years. Sotillo Lorenzo (1998:249-266) notes a shift in EU-CA relations over the course of the 1990s. Whereas earlier, the emphasis was on political relations, as the 1990s progressed, economic considerations took precedence over political dialogue which became less and less intense as the EU directed its economic attention towards more important partners (for example MERCOSUR in the Latin

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<sup>7</sup> Comprised of the Foreign Minister of the country holding the presidency of the EU Council, the High representative of the CFSP, and the EU Commissioner for external affairs

American context) and towards international issues closer to home and of greater political and security interest, especially eastern Europe and the process of further European integration.

As regards the focus of EU-CA political relations from the 1990s, the emphasis changed from conflict resolution to other matters such as the consolidation of democracy or human rights issues, and towards support for the process of Central American integration. Sotillo Lorenzo gives, as an example of this shift in emphasis, the ninth San José conference (San Salvador 1993). At this meeting, a new cooperation agreement was signed between both regions (Political Dialogue and Cooperation Agreement-PDCA) whose stated objective was to: “strengthen and diversify relations and cooperation in all fields of common interest, especially in the fields of economics, finance, trade, social issues, science and technology and environment, and to promote the reinforcement and consolidation of the Central American Integration System”<sup>8</sup>

A look at the PDCA of 2003 would appear to confirm the conclusion that political relations are of secondary importance. Title II of the agreement, which deals with political dialogue, consists of just three short articles. The first (Art.3) outlines the dialogue’s objectives. It confirms the parties’ commitment

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<sup>8</sup> Sotillo Lorenzo, 1998: 255. Own translation from Spanish original

to the San José dialogue and lists the areas to be covered. The second (Art.4) outlines the mechanisms through which the political dialogue is to be conducted, while the third (Art.5) consists of a cursory acknowledgement of foreign and security policy and a vague commitment of both sides to coordinate positions and take joint initiatives within appropriate international forums. Overall the section dealing with political dialogue is short and vague when compared to the much longer section on cooperation which goes into much greater detail regarding issues relating to economic activity (trade, investment, energy, mining, technical regulation, industrial cooperation and so on).

It is perhaps to be expected that emphasis should have changed from political to economic in the years since the San José Dialogue began. Central America did lose relevance as a political ‘issue’ with the end of the Cold War and the resolution of most of the conflicts there by the early 1990s. However, the underlying social inequality which European and Central American leaders (correctly) identified as the source of conflict in the region is far from eradicated. There are many political issues (as the current ‘crisis’ in Honduras demonstrates) which remain unresolved, and though political dialogue is continuing, the extent to which it has been overshadowed by economic considerations which have come to dominate the interregional agenda,

represents perhaps something of a missed opportunity. It is to these economic factors that I will turn to in the following section.

### **Economic Relations**

It is a contention of this study that economic factors are most important in understanding EU-CA interregionalism in the 21<sup>st</sup> Century. Therefore, this section is directed towards providing an overview of economic relations between both regions and to highlight the most salient points which may provide some clues as to the motives behind the broader interregional political and cooperation agenda. This overview will focus on two main aspects of economic relations: Trade in goods on the one hand, and, on the other, Foreign Direct Investment (FDI) and services.

In terms of trade, the EU imported approximately €4.7 billion worth of goods from Central America in 2007 with exports to the region of roughly €5.3 billion<sup>9</sup>. EU-CA interregional trade is highly imbalanced in three senses. Firstly, Central America is much less important to the EU as a trading partner than the EU is for Central America, in the context of both regions' total foreign trade. EU exports to Central America account for just 0.43% of total EU exports while

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<sup>9</sup> Source: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113478.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113478.pdf) [accessed 18 July 2009]

imports from the Region make up just 0.33% of all imports. With a total of €10 billion in trade in 2007, Central America ranks very low among the EU's most important trading partners. On the other hand, the EU is the second most important trading partner for Central America as a whole. The EU consumes 13.3% of the region's total exports and provides some 11% of its imports. While in terms of total trade, the EU runs a distant second to the United States, it remains nonetheless a considerably important partner for Central America.

Secondly, a major imbalance can be seen in the recent evolution of EU-CA trade. EU exports to Central America, though modest, have increased in value a great deal more than have Central American exports to Europe despite the fact that overall Central American exports have increased significantly. Total exports from Central America rose from €23.8 billion in 2003 to €35.3 billion in 2007, perhaps partly as a result of the Free Trade Agreement with the US (CAFTA). This represents an increase of some €11.5 billion or 48%. In the same period, exports to the EU increased only slightly, from €4.3 billion to €4.8 billion, a rise of just €500 million, or 11.64%. On the other hand EU exports to Central America increased from €3.8 billion to €5.3 billion an increase of almost 40% between 2003 and 2007.

The third imbalance as regards trade can be seen within Central America. EU-CA trade is dominated, on the Central American side, by two countries: Costa Rica and Panama (particularly Costa Rica). Combined, they account for 71% of Central America's total trade with the EU. Costa Rica provides 64% of Central American exports to the EU alone (€3billion out of a total of €4.7 bn). The remainder of EU-CA trade is relatively evenly distributed among the rest of the Central American countries and in terms of volume is very small (as low as €275 million the case of Nicaragua for example, making the EU Nicaragua's 6<sup>th</sup> most important trading partner, behind Costa Rica and El Salvador)

Trade between the EU and Central America follows a typical North-South pattern. Central America primarily exports agricultural goods and raw materials to Europe, whose exports to the isthmus are comprised predominantly of manufactured goods. According to José Moisés Martín, of Grupo Sur, some 70% of Central American exports to the EU are accounted for by just eight agricultural products<sup>10</sup>. However, unlike trade between the EU and MERCOSUR, the main agricultural exports of Central America do not, in the main, compete directly with EU agricultural produce, therefore, conflict between Central American producers and the protected European agricultural sector should be less of a barrier to free trade than is the case in other

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<sup>10</sup> Source: Foro Europeo radio interview

interregional negotiations or those at the WTO level. Two sectors, which are important for Central America, however, do provide more of a stumbling block: bananas and, to a lesser extent sugar. These are major Central American exports which compete fiercely with the EU's own protected sectors in the case of the latter, or the interests of its small banana producing regions and ex-colonies in that of the former.

At the end of 2001, EU investment stocks in Central America stood at €111 billion. Three years later that figure had risen to €200 billion and by year end 2006 the EU twenty seven held investment stocks to the value of over €287 billion in the region<sup>11</sup>. Considering interregional trade in total (imports and exports) has never exceeded €10 billion in any one year, it is easy to see how trade is dwarfed by FDI in terms of volume and, perhaps, as an issue between both regional blocs.

Much, though by no means all, of European investment in Central America is accounted for by Spanish firms. From the early 1990s in Central America, as in Latin America generally, the neoliberal policies of regional governments opened the doors to FDI, particularly through large-scale privatisation programmes. Large European, often Spanish firms took advantage

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<sup>11</sup> Source: EU FDI Yearbook 2007 (for data from 2001-2005) DG Trade website for 2006 figure

of these policies, investing heavily in sectors such as financial and insurance services, telecommunications, transport and public utilities. There was a shift away from investment in primary or secondary sectors and towards services from the 1990s onwards, in contrast with FDI from the US in the region which is more heavily concentrated on manufacturing<sup>12</sup>. As European transnational corporations are very much involved in the service sector, trade in services is more important, from an EU standpoint, than is trade in merchandise.

Article 31 of the PDCA specifically deals with cooperation in investment promotion. The objective of cooperation in this field is the establishment of “an attractive and stable reciprocal investment climate” (Art. 31:1) and areas for cooperation are to include the development of a legal framework favourable to investment in both regions and promoting and protecting investment between EU member states and the Central American countries. (PDCA, Article 31: 2(b) and 31:2(c)).

Another important point to note is that Central America has increased in importance as a destination for European FDI in the early years of this decade relative to other areas in Latin America. EU investment stocks in South America declined by 14% between 2001 and 2004 while in the same period,

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<sup>12</sup> US investment focuses on manufacturing where costs are reduced and access to US market is relatively free.

those in Central America rose by 89% (EU Foreign Direct Investment Yearbook 2007, p.16)

### Perceived obstacles to FDI in Latin America by European Firms

*Source: Dunning, 2001, p.67*

(reproduced in Martín & Toral, p.78)

Political instability
Local regulation and bureaucracy
Legal judicial insecurity
Corruption
Fear of devaluation
Violence
Problems of repatriation of profits/capital
Level of local taxation
Underdeveloped infrastructure
Social problems/poverty
Lack of qualified human resources
Local safety, health and environmental standards
Underdeveloped local capital markets
Cultural Differences

When considering European private interests in interregional relations in Central America, account must be taken of the role of private investors. As noted previously, investment in the region by EU firms vastly overshadows trade in terms of value. The above table, listing the primary concerns of European investors in Latin America might shed some light on the matter. Certain concerns, such as political instability, legal judicial insecurity,

underdeveloped infrastructure, corruption and violence, for example find strong echoes in the stated aims of EU policy regarding Central America (and indeed other regional sub-groups).

Official EU investment policy considers that: “International rules on FDI contribute to improving the business climate by increasing legal certainty for investors and by reducing the perceived risk to invest<sup>13</sup>. It furthermore states that current investment policy is focussed on the various preferential trade agreements being concluded with various countries and regional blocs, including Central America with the goal of creating favourable investment conditions for European investors.

This does not demonstrate that EU private investors are controlling the interregional agenda. However it does, at the very least, highlight a remarkable convergence of preferences, especially in relation to the establishment of stable political and economic rules conducive to encouraging investment. What is clear, however, is that in economic terms, investment and trade in services in the Central American market, is of greater importance than interregional trade in goods. European firms see great potential in the region and their interests

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<sup>13</sup> Source: [http://ec.europa.eu/trade/issues/sectoral/investment/index\\_en.htm](http://ec.europa.eu/trade/issues/sectoral/investment/index_en.htm) [accessed 24 July 2009]

cannot be discounted as a factor in relations between the regions. *Global Europe* provides many insights into the motives behind a new generation of FTAs with many groups and countries worldwide, including Central America. It states that these should try to achieve “the highest possible degree of trade liberalisation including **far-reaching liberalisation of services and investment**” (bold typeface mine).

### **Regional Integration**

With the ending of most of the conflicts in the early 1990s, regional integration in Central America was given a new impetus. Such schemes were nothing new of course. The region had experienced similar initiatives in the Organisation of Central American States (ODECA) and the Central American Common Market (CACM) for example, but these projects had been dealt severe blows, first by the ‘*Soccer War*’ of 1969 between El Salvador and Honduras, then, in the late 1970s and early 1980s by the Sandinista revolution in Nicaragua and the Central American crisis that followed<sup>14</sup>. There has also been a long history of attempts at political unification in the isthmus since independence, and this tradition was one key factor in the resumption of the integrationist project (Sánchez, 2003:34).

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<sup>14</sup> For an excellent analysis of the successes and failures of regional integration from the 1950s through the 1970s, see chapter 10 in Woodward (1985).

Buoyed by the success of regional efforts to negotiate a settlement to the crisis, Central American leaders met in the Guatemalan city of Antigua to discuss the revival of the ODECA. For Sánchez, the positive experience of the Esquipulas process was instrumental in encouraging renewed interest in future cooperation and regional integration and the process led to “a great sense of political integration in the region by the end of the 1980s (*ibid*). The presidents of six Central American states met in 1991 and signed the Tegucigalpa Protocol in the Honduran capital. This protocol, a modification of the 1962 ODECA treaty of San Salvador, created the Central American Integration System (SICA)<sup>15</sup>. The SICA, which officially came into existence in February 1993, was to be the overarching framework within which, integration would take place.

The regional integration of the 1990s was quite distinct from the earlier version. Inward-looking and protectionist in nature, the ‘old’ regionalism was replaced by a new variety of so-called ‘open’ regionalism with an emphasis firmly placed on export-led growth and the reinsertion of Central America into the world economy. Similar initiatives of ‘open’ regionalism sprung up throughout the hemisphere. New regional economic arrangements such as NAFTA and MERCOSUR were created in the early 1990s, while the old

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<sup>15</sup> The founding members of SICA are: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Belize joined in 2000, and the Dominican Republic is an associate member.

Andean Community of Nations (CAN), which, like the ODECA, had fallen into irrelevance, was also revived.

Pro-market, neoliberal economic thought was dominant throughout the 1990s in Central America as much as throughout Latin America as a whole. Governments in Central America pursued a trade liberalising agenda and a form of regionalism which attempted to restrict internal barriers as well as open the region up to foreign investment. Regional integration in Central America can be seen as a response to the pressures of globalisation. However, the purpose was not to shield the region's economies from international competition, but rather to liberalise and coordinate economic policy so as to make Central America competitive and to adapt to the threats and opportunities of the world economy. The effect was a synthesis of what Telò<sup>16</sup> describes as the two typical (and contradictory) reactions of states to the increased speed and volume of financial, technological and trade globalisation: adapting to competition as a 'competitor' state or pursuing regional integration – understood as a critical reaction to globalisation through territorial cohesion and protective social and economic policies (Telò, 2006: 107). A similar point is made by Whitehead, (1999: 67) who suggests that the threats posed by globalisation to the importance and effectiveness of the nation state prompted political elites to adopt new strategies

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<sup>16</sup> This is not an argument that Telò explicitly makes though he does suggest that future research may show evidence that states in some developing regions pursue both the 'competition state' approach and the regional integration response simultaneously.

among which were regional integration schemes. Thus, the emergence of such schemes as well as bi-regional relations and agreements are very much part of the state's reaction to globalisation at the same time as they can be seen to be facilitating the advance liberal economic policy.

It is important to raise the issue of regional integration in Central America as it is a key aspect of relations between the region and the EU. Europe has long been a major, even principal, external supporter of regional integration projects in Central and Latin America. The EU demonstrates a preference, where possible, to deal with countries on a region to region basis rather than individually<sup>17</sup>. Crawley argues that integration “is fundamental to an understanding of European-Latin American relations” and support for regional integration in Latin America as a pillar of EU policy towards the region (Crawley, 2006: 174).

The furtherance of the process of Central American integration has been a key objective of EU-CA relations since the end of the Cold War but especially so over the course of the past decade. Reference is continually made to this in

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<sup>17</sup> In the case of the Americas, NAFTA is a major exception in this regard. The EU has no group to group relations with NAFTA, though it has extensive relations with all three NAFTA members individually. This may be due to the preferences of the US as much as those of the EU and the fact that NAFTA does not have the mechanisms or institutions necessary for bilateral negotiations.

official documents such as the Regional Strategy Paper (RSP's) and in the PDCA

Under the RSP for 2002-2006, the European Commission provided €75 million in funding to Central America. Of this €40 million went to directly support the process of regional integration. This contrasts with the period from 1984 to 2000, when, out of a total Commission budget of €450 million, only 5% was directed at integration (RSP 2007-2013: 15). The Regional Strategy Paper for 2007-2013 states that Regional Strategy for this period in Central America will focus on just one main objective: support for regional integration under three suggested headings<sup>18</sup>:

1: Strengthening the institutional System

2: Reinforcing the process of economic integration

And 3: Strengthening regional security

Article eleven of the PDCA deals specifically with cooperation in the field of regional integration. It places particular emphasis on: “the development and implementation of a common market in Central America”. This was a

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<sup>18</sup> Source: EC-CA RSP, 2007-2013, p.19

specific precondition of the EU side before negotiations could take place on an Association Agreement.

Central America also commits to promoting : “the development of common policies and the harmonisation of the legal framework.... including sectoral policies in areas such as trade, customs, energy, transport, communications, environment and competition” (PDCA: Article 11.3).

The EU as the world’s largest and successful example of regional integration has sometimes been seen as a model for such efforts in other regions. It has at times been suggested that the EU in its support for regional integration in Central America and elsewhere, is attempting to ‘export’ the EU model of integration. Karen Smith casts doubts over such suggestions, highlighting the specific circumstances under which the EU was created<sup>19</sup>, the prevailing political conditions and the nature of the European states themselves, and questioning the transferability of the EU model to other regions (Smith, K.E, 2003: 70-72). The EC has also denied that this is an aim of the EU:

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<sup>19</sup> Particularly the gradual nature of the integration process, the fact that European states were long-standing democracies, or at least had long democratic traditions, the recent memory of devastating war, security issues (Franco-German), support from the US for European Integration and the security provided by the US and NATO

“The efforts of the EU to promote and support regional integration among developing countries should not at all be interpreted as an attempt to ‘export’ the European integration model. Clearly, there are different approaches towards integration and economic development. It should be recognised that the European model, shaped by the continent’s history, is not easily transferable or necessarily appropriate for other regions.”<sup>20</sup>

Support for regional integration and interregional forms of political dialogue and cooperation however, remains fundamental to the EU’s dealings with Central America and with other regions of the developing world where such forms of interstate cooperation exist. Whether this support derives from a genuine belief, derived from the EU’s own experience, in regionalism as a path to sustainable development for Central America or from a desire to create new markets for European Trade and investment by encouraging the establishment of stable, reliable rules and institutions favourable to European private interests is a different matter.

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<sup>20</sup> European Commission Communication 95: 219 (cited in Karen Smith, 2003: p72)

The overall sense that one gets from reading either the Strategy Paper or the Cooperation Agreement is one of European eagerness for Central America to commit to integration measures such as the customs union, regularisation or homogenisation of customs procedures, capital markets, and investment rules and so on. Though issues of human rights and democracy are given pride of place in the preambles and early sections of these documents, the bulk of the provisions deal with technical issues related to economic matters.

### **Towards an Association Agreement**

Current relations between the EU and Central America are very much centred on negotiations leading to the conclusion of an Association Agreement between the two regions. This proposed agreement would replace the current Political Dialogue and Cooperation Agreement as the basis for interregional relations. An Association Agreement is the most developed form of institutionalised bilateral relationship which the EU can have with a third party, be it a single state or a regional bloc. In the context of Latin America, the EU has already signed Association Agreements with two countries: Mexico (2000) and Chile (2002) and is in the process of negotiating others with the three main regional groupings: Central America, the Andean Community (CAN) and

MERCOSUR<sup>21</sup>. These Association agreements involve three key areas or pillars: Political Dialogue, Cooperation and Trade.

The origins of the proposed Association Agreement are to be found in the series of EU-Latin American and Caribbean (EU-LAC) summits held since the initial Rio summit in 1999. Further summits have taken place in Madrid (2002) Guadalajara (2004) Vienna (2006) and Lima (2008). These summits were initiated with a view to creating a new strategic relationship between the two regions. At the 2004 summit, EU and Central American leaders decided to initiate negotiations for the Association Agreement ( Article 2: 3 of the 2003 PDCA explicitly states that one of the main objectives of both parties is the creation of conditions under which such an agreement along with a Free Trade Area, could be negotiated). At Vienna two years later, both sides reiterated their intention to begin negotiations once the Central American Customs Union had been established. The establishment of a customs union was the main precondition set out by the EU before the process could officially begin.

Negotiations have taken the form of several ‘rounds’ of discussions, held alternately in Europe (Brussels) and Central America (various major cities). To

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<sup>21</sup> Although negotiations with all three groups are stalled at the time of writing, there are continuous efforts being made to restart the processes.

date there have been eight rounds of negotiations. Initially, progress was made relatively rapidly. Early rounds concluded as scheduled. Negotiations were temporarily suspended in April 2009 due to an issue with Nicaragua relating to the establishment of a fund designed to mitigate the asymmetry between Central America and the EU on one hand, and the asymmetries within Central America on the other. A ninth round, which was to have been the final round of negotiations, after which the Association Agreement would be signed, was due to conclude in July 2009 but following the ‘constitutional crisis’ in Honduras, this round was suspended indefinitely and the planned entry into force of an agreement in early 2010 looks increasingly unlikely<sup>22</sup>.

Proponents of an Association Agreement and Free Trade Area argue that it will increase economic relations between both regions and lead to investment and job creation in Central America, leading ultimately towards the holy grail of sustainable development. On the other side, opponents of the agreement counter that the proposals constitute nothing more than another FTA with a heavy emphasis on opening Central American markets to EU goods and capital, without affording many concessions on the issue of subsidies and other protectionist measures for European agriculture in particular.

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<sup>22</sup> Spain has suggested re-starting talks in September without Honduras. Source: [http://www.nacion.com/ln\\_ee/2009/agosto/04/pais2047780.html](http://www.nacion.com/ln_ee/2009/agosto/04/pais2047780.html) [Accessed 17 August 2009]

Some civil society groups in Central America fear that the proposed Association Agreement is little more than the EU seeking to gain the same concessions for European business as those that have been granted to US interests under DR-CAFTA, thereby compounding the negative impacts which they claim have already resulted from the latter. The Central American Women's Network (CAWN), for example cite the impacts of DR-CAFTA on small local businesses and agricultural communities such as job losses and unfair competition from subsidised imports which they believe would only be exacerbated by the proposed Association Agreement.<sup>23</sup>

Two other important issues have been raised in relation to the proposed agreement. Firstly, the secretive nature of the negotiations has been criticised by many. Secondly, the degree to which civil society is able to actively participate in negotiations has been a concern for several groups commenting on the process. CAWN (2008: 3) claims that to date, the negotiations demonstrate “a lack of transparency” and that they have given “little priority to the participation of civil society including women's representation.”

The Consultative Committee of SICA (CC-SICA), the organ of the Central American integration project which gives voice to the concerns of some

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<sup>23</sup> Source: CAWN Briefing Paper, March 2008, p.2

sectors of civil society, is accorded a role in the process of negotiations but that role is limited and, in any case, the CC-SICA leaves out many sectors of Central American society.

Despite the fact that negotiations for an Association Agreement have reached an advanced stage, there are many question marks remaining and it cannot be said with any certainty that an agreement will be signed and come into force in the very near future. The constitutional crisis in Honduras has continued for longer than some might have predicted. New administrations have taken power in El Salvador and more recently Panama, which up until now has participated only as an observer but may now move towards fuller participation. The economic downturn of the past year is another factor which may have an as yet undetermined effect. It may lead to decreased trade but perhaps more importantly reluctance or an inability of EU investors to continue further investment in the region. Most of all, throughout negotiations, particularly in the past year and months, opposition among social groups to the proposed agreement has been increasing and more light is being shed on the potential negative impacts of the deal on the most vulnerable sectors of Central American society.

## **Interregionalism from an EU Perspective**

Hänggi et al. point to the increased importance of institutionalised relations between world regions (interregionalism) as a relatively new, and increasingly important phenomenon in international relations. EU-CA relations form part of this network of interregional arrangements. What explains the EU's propensity towards interregional relations, particularly with regard to trade? Why might Central American states see this form of dialogue as useful for the pursuance of their own goals? These are the key questions to be addressed in this section. As the EU is by far the larger of the partners in this process and as few studies are available on Central American economic or political strategy, the emphasis will inevitably be on interregionalism from a European perspective.

As discussed in the literature review, Aggarwal and Fogarty (2006) put forward four hypotheses: 'pluralist', 'bureaucratic politics', 'international systemic' and 'constructivist', in order to explain EU interregional policies. Following Aggarwal and Fogarty's third hypothesis, it will be argued that the EU's interregional relations with Central America are best viewed as a product of the wider international context.

## **International Systemic Factors**

Beginning with Aggarwal and Fogarty's third hypothesis the first point we can make, in the context of EU-CA interregionalism, and of wider EU-LAC relations, is that the most obvious threat to EU economic security comes from US competition in the region. EU policy in Central and Latin America, from the 1990s onwards, is seen by many (for example Crawley, Hazel Smith, Bulmer-Thomas among others) as partly, or in some cases primarily as a response to US-led free trade initiatives in the western hemisphere.

The timing of EU actions or negotiations with Latin American countries or groups, or statements by EU leaders and officials often lends credence to such assertions. Throughout the 1990s, the administrations of George H.W. Bush and of Bill Clinton placed great emphasis on free trade arrangements between the US and Latin American countries. The creation of NAFTA was one major example of this. Following shortly after the creation on of NAFTA in 1994, the EU, fearful of the negative effects the agreement would have on its commercial relations with Mexico, began trade negotiations and signed a trade agreement in 1995. Furthermore, for a number of years the expansion of NAFTA to include Chile was held out as a distinct possibility. An agreement was subsequently signed with Chile in 1997.

The renewed activism of the US in trade relations with Latin America throughout the 1990s prompted the EU to show ever greater interest in the region, fostering closer ties with the newly formed MERCOSUR as well as working closely with the Andean Community and Central America also. A major step taken by Europe was the 1999 EU-LAC summit at Rio, which proposed the establishment of a new 'strategic partnership' between both regions. The current processes of negotiations for Association Agreements with all three regional blocs in Latin America stem from the series of subsequent EU-LAC summits since 1999.

The greatest threat posed to the EU's economic interests in the region was the proposed Free Trade Area of the Americas (FTAA) which initially envisioned hemispheric free trade by 2005. In 2001 Pascal Lamy<sup>24</sup>, then EC trade commissioner, announced that the proposed FTAA would damage EU interests, putting them at a competitive disadvantage in Latin American markets<sup>25</sup>. The current policy of the EU of negotiating bilateral and bloc to bloc FTAs in Latin America could even be seen as an attempt to create an FTAA but with Latin America linked to Europe rather than the United States. This point is made by GRAIN (2008: 3-4) who note that with the already concluded AAs with Mexico and Chile, and those proposed with CAN, CA and MERCOSUR,

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<sup>24</sup> Currently director general of the WTO

<sup>25</sup> Cited in Karen Smith, p.80

the EU and virtually all of Latin America, with the possible exceptions of Venezuela and Cuba, will form one enormous FTA.

Although progress towards establishing the FTAA has stalled indefinitely, the US did succeed in negotiating a free trade area between it and Central America<sup>26</sup>, creating CAFTA (Later DR-CAFTA when the Dominican Republic joined). Critics of EU trade policy charge that this directly led to Europe's initiation of negotiations for an association agreement with the region<sup>27</sup>. The belief that EU eagerness to conclude an agreement stems from the threats posed by CAFTA is more than just a sceptical view of EU motives by opponents of globalisation. *Global Europe*, the EC's strategy for European competitiveness, for example, recognises that its trading partners in the developing world are negotiating FTAs with the EU's competitors and suggests that: "Where our partners have signed FTAs with countries that are competitors of the EU, we should seek full parity at least". Such statements by EU officials and leaders clearly indicate that perceived threats posed by economic competition with the US in Central America and the rest of Latin America are a key consideration for the formulators of EU trade policy.

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<sup>26</sup> Comprising Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. Panama is not party to CAFTA

<sup>27</sup> Source: [http://www.bilaterals.org/rubrique.php3?id\\_rubrique=152](http://www.bilaterals.org/rubrique.php3?id_rubrique=152) [accessed 16/07/09]

A second set of international systemic constraints relates to the wider economic and security systems within which any set of interregional relations take place. As security issues between the EU and Central America are of minimal importance, it is more relevant for the purposes of the present discussion to look at economic considerations. From this perspective we might see the way in which EU-CA interregional economic relations are 'nested' within the broader system of world trade established by GATT/WTO and also within global European trade strategies.

One criticism of EU trade policy in respect of the Association Agreement with Central America is that the EU is simply attempting to achieve concessions at a bilateral or interregional level, what it has been unable to achieve at the WTO. Faust (2006: 165) makes the general point that the EU is more interested in pursuing progress of the global trade regime than in engaging in negotiations at interregional level.

It would come as little surprise to those who hold this view, that EU-CA negotiations for an Association Agreement did not begin in earnest until after it became clear that the Doha development round of WTO negotiations were not going to be completed in the short to medium term at least. In his analysis of the

EU-MERCOSUR partnership, Santander (2006: 51) claims that the accelerated pace of free trade negotiations in the early years of the new century were as much a result of the failure of the WTO Ministerial Conference at Cancun in 2003 as of US moves to advance the FTAA project. EU relations with Central America are similar, in this respect, to those between the EU and the southern cone.

This observation is supported by official EU Commission trade policy documents. *Global Europe* (2006: 3) explicitly states that the EC remains committed to the Doha Development Round as European trade policy's first priority, in spite of its suspension in 2006. Furthermore it confirms that a new series of bilateral and bloc to bloc trade negotiations form part of its strategy in response to the slow progress at the WTO. While the EU's preference may be for global free trade, interregional arrangements can be seen as a 'second best strategy'. With reference to this new generation of FTAs, *Global Europe* envisions these as running in parallel with efforts to resuscitate Doha. It warns that: "FTAs cannot be a substitute for multilateral liberalisation" and that they must be seen as "a stepping stone" rather than a "stumbling block" on this path (Global Europe, 2006: 16).

In addition to competitive advantages, these interregional negotiations offer other possible benefits from a European perspective. Firstly, they allow the possibility for issues not covered by WTO rules, such as intellectual property or investment regulations, to be negotiated. The second is that the EU's relative size (in these arrangements the EU will almost always be the stronger partner in negotiations, and usually by some distance) its coherence in economic policy and its experience of negotiations, will usually place it in a strong position to set the agenda. This is certainly the case in negotiations with Central America.

### **Collective Identity**

Aggarwal and Fogarty's fourth hypothesis looks at the relationship between EU interregional trade strategies and long standing concerns for the creation of a common European identity. The strengthening of a common EU identity is a much less tangible benefit of interregional relations than are concerns of economic security. However, this hypothesis argues that it (common identity): "is valued both in and of itself as well as a means to future policy goals" (Aggarwal and Fogarty, 2004: 15). By forming a common EU policy towards other regional groups the EU creates awareness of common European interests and presents a set of shared norms and values (such as respect for democracy, human rights and environmental protection among

others). The perception of these common interests and shared values contributes to an overall sense of common identity among EU citizens. The emergence of such an identity, the authors argue, is a necessary condition for the creation of a coherent Common Foreign and Security Policy (CFSP), which has long been an elusive goal of European integration.

There is much in the history of EU-CA relations to support the view that the EU is seeking to generate a common identity. Europe's role in the San José Process is held up by the EU as an example of a coherent and successful common foreign policy. There is a great emphasis placed on values such as human rights, democracy and political stability in both the RSP and PDCA. Support for Central American integration is presented to a large extent as Europe, backed by its own experience of successful integration, encouraging other regions to achieve peace, stability and economic progress by following its lead. The role played by the EU and its member states as a major source of overseas development aid (ODA) to the region is one that is often highlighted in policy papers. The juxtaposition of an altruistic EU policy with that of the US which is primarily concerned with strategic security and economic interests, also suggests that at least on some level, interregional relations with Central America are intended to foster a greater sense of *Europeanness*. This sense of common identity can only be a positive thing from the perspective of those who

would seek deepened EU political integration and a greater role for the EU on the international stage. However, the vague and intangible nature of these benefits of interregional cooperation suggest that although a factor, concerns of EU common identity are of relatively secondary importance compared to economic ones.

### **Other Factors Explaining EU Policy**

EU-CA interregionalism can primarily be explained in terms of the previous two factors (primarily international systemic ones with concerns over collective identity as secondary). Since EU-CA relations are principally based on strategic policy in the context of neoliberal economic principles<sup>28</sup> it is perhaps to be expected that other theories explaining EU interregional policy look at EU policy-making as an arena in which free trade and protectionist oriented interests vie for influence over policy outcomes. This sums up the thrust of Aggarwal and Fogarty's first and second hypotheses. We might expect to see intense competition between competitive manufacturing exporters and less competitive agricultural sectors reliant on EU protectionism as is the case in EU negotiations with MERCOSUR.

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<sup>28</sup> A point made by both Faust (2004:50) and Santander (2006: 37) in relation to the EU-MERCOSUR partnership but which I feel is equally applicable to the EU-CA relations.

However, perhaps because trade between the EU and Central America in terms of volume is almost insignificant in comparison, or because there is comparatively little competition between imports from Central America and EU agricultural producers, this tension, though it exists to some extent, is much less pronounced. Likewise, intra bureaucratic competition between the Commission and the Council is minimal in the EU-CA case. A possible exception could be seen in the role of grassroots organisations, and other civil society actors who oppose the process of global and interregional economic liberalisation. Instead of competition between pro-free trade and protectionist lobbies, there is a certain source of tension between the former and civil society actors warning of the negative impacts of such a process.

Overall considerations of international systemic factors , principally competition with the United States on the one hand, and the global trade regime and the quest for global economic liberalisation on the other, go a long way to explaining the EU's policy of interregionalism in Central America. Interregionalism in this sense, serves a *balancing* function in that it helps the EU to offset US influence in the region, if only partially. It also serves a *rationalising* function in that it seeks to use the interregional forum in conjunction with mechanisms at the global level in order to obtain its desired results.

The next section will go on to look at the motivating factors on the Central American side, behind interregional cooperation with the EU. Though the region's objectives differ from those of its European counterpart, interregionalism serves broadly similar functions of balancing and rationalising as we shall see.

### **Interregionalism from a Central American perspective**

Until now, the focus has been very much on the motivating factors for EU trade policy towards Central America. This brief section will turn to considerations from a Central American perspective. As noted earlier, there is a lack of academic work focussed on Central American trade policy, especially in English. However, there are a number of important comments to be made on the subject.

In the first instance, similarly to the EU, the factors which push Central American states to pursue interregional relations and trade agreements with the European bloc can generally be divided into two categories: economic and political. Secondly, as with the EU, the emphasis is heavily on economic concerns. Thirdly, the interests of the Central American states vary and policy is less cohesive than that of the EU side.

There are a number of economic reasons why Central American states would have an interest in closer interregional cooperation with the EU. The first and most obvious of these has to do with access to markets. The EU, as the world's largest single market offers at least possibilities for increasing traditional exports and expanding newer non-traditional ones. As has already been noted, the EU accounts for a significant share of the region's exports and the prospect of an FTA holds out the possibility of further increasing this share. Francisco García of INCEP (2007: 12) suggests that a further incentive is to make permanent the temporary tariff reductions which CA exports enjoy in the EU market. Whether or not this is a valid argument remains to be seen as negotiations have not been concluded but some (for example José Moisés Martín of Grupo Sur (an alliance of European NGOs) criticises the EU position, arguing that it seeks to use WTO rules as a starting point for negotiations on trade, which, in fact offer less to CA exporters than the temporary bilateral agreements on trade currently in force<sup>29</sup>.

Aside from trade, the perceived need to 'insert' the region into the global economy by being more open to economic flows in order to attract increased investment continues to be a factor in CA's continued relations with the EU and

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<sup>29</sup> Source: Foro Europeo radio discussion

others. An association agreement with Europe might improve the region's image, presenting it as a modern, stable, and, most importantly, investor friendly region. In this sense, CA policy can be seen as a response to the challenges of economic globalisation, adopting the idea of a 'competition state' but at a regional level.

Other factors, particularly the region's relationship with the United States, may also inform EU-CA interregionalism from a Central American perspective. Closer EU-CA political ties as well as increased cooperation in trade may be seen as strategies to mitigate the overwhelming reliance on trade with, and enormous political influence of the US in the region. Despite European rhetoric, Central American historical and cultural ties with the United States have long been stronger than those with Western Europe. It could be argued that cooperation with the EU is a form of *balancing*, and allows Central America to expand its international relations. Monar (1997: 268) suggests that the assertion of an independent standing in international relations is one potential benefit of interregional dialogue and cooperation with the EU, citing the example of Australia vis-à-vis the United States and of Ukraine vis-à-vis Russia. Although perhaps not as dramatically as the latter, Central American leaders might view interregional relations with the EU in these terms, perhaps stemming more from the legacy of San José than current realities.

Aside from *balancing*, another political factor in shaping CA policy can be found in regional integration. As the EU is the primary supporter of regional integration efforts in the region, closer relations between the two could be a way of strengthening the very process of Central American integration. As well as providing funds for, and generally supporting the process, relations with the EU provide an international forum for the various organs of regional integration, and negotiations force the individual states involved to negotiate a joint plan of action or set of proposals to bring to the table. There are potential benefits in that negotiating as a bloc with the EU should reinforce the process of integration, forcing individual governments to reach consensuated positions prior to negotiation and generally foster cohesiveness particularly in terms of economic policy. Central America, in its own way, could see these negotiations as a means of having a greater say in the formulation of international trade rules. These possible motives would be consistent with Santander's view that: "European persistence in recognising and supporting regional groups... as international actors in their own right, has... contributed to the strengthening of their internal structures and the reinforcement of their negotiation power internationally" (Santander, 2006: 50).

## **Relevance of EU-CA Relations**

Given the general lack of academic interest in EU relations with Central America and the relative peripheral nature of these relations when compared with other interregional efforts at cooperation (for example between the EU and ASEAN, the EU and MERCOSUR or relations between Central America and the United States) the question could be posed as to what value there is in studying EU-CA interregionalism.

Firstly, the study of interregionalism is in its infancy. The way in which the world's major economic blocs and various regional groupings have increasingly moved towards this form of cooperation is attested to by the plethora of regional and interregional acronyms that are a hallmark of modern international relations. While emphasis has naturally been placed on the way in which the bigger players interact, it is important to study the way in which the economic giants behave towards the regions of the developing world.

Secondly, it is a historically appropriate time to take a look at relations between the two regions. The 25<sup>th</sup> anniversary of the initial San José ministerial meeting makes this an ideal juncture at which to reflect on the direction of EU-CA relations. It is also ten years on from the EU-LAC summit in Rio which

promised a new dawn for relations between both regions. Though a broad statement, it is nonetheless true, for most commentators, that progress on this front has been disappointing.

Finally, and perhaps most significant is the role played by EU-CA relations in the wider context of EU-LA relations. As noted previously, EU-LA relations grew out of European involvement in the San José Process. Relations with the region's larger economic powers (MERCOSUR, Mexico and Chile) have since tended to dominate the EU-LA agenda. However, EU-CA relations may be about to take a lead role in hemispheric relations with Europe. The proposed Association Agreement if and when it is negotiated, is likely to be the first one of its kind between the EU and a Latin American regional group. In this sense it could have consequences for similar interregional agreements with CAN and to a lesser extent MERCOSUR.

## **Concluding Remarks**

What conclusions can we draw then, regarding the state of EU-CA relations in the 21<sup>st</sup> century? In terms of relations generally, I have argued that we can see three key characteristics of EU-CA relations and the way in which they have evolved over the past quarter century. The first is the asymmetrical nature of relation. Between the EU and Central America and within Central America itself relations exhibit a high degree of asymmetry. The EU is by far the larger partner in all senses, has far greater experience of negotiating as a coherent bloc and has more resources, all of which give it a distinct advantage when it comes to negotiating interregional agreements. There is also asymmetry in that countries within Central America have different economic strengths and some have more to gain than others by pursuing negotiations with Europe.

A second important point is that strategic economic considerations have come to take precedence over political ones in the construction of closer ties between the regions. Relations between both regions were once almost exclusively politically motivated. However, economic considerations have now come to dominate the interregional agenda.

A third, and related point is that though economic factors dominate relations, these are focussed primarily on the fields of services and investments, EU businesses have been heavily involved in investing, particularly in the provision of services (finance, transport, communications, utilities etc) and the EU has placed particular emphasis in its support for regional integration, on cooperation in the fields of investment protection and the regularisation of capital markets.

Regarding EU-CA interregionalism, we can draw three broad conclusions. Firstly, interregionalism, like so-called new regionalism, is driven by the challenges and constraints posed by the processes of economic globalisation.

Secondly, from an EU perspective, its policy in Central America is best explained by international systemic factors and two key strategic considerations: competition with the US for access to regional markets and pursuing a global free trade agenda on a region to region basis as a second-best strategy in the context of painfully slow progress at WTO level.

Thirdly, from a Central American perspective, involvement in interregional relations with the EU also serves a number of important strategic interests. Even allowing for asymmetries in size and economic importance, negotiations allow the countries of the isthmus to negotiate as a regional bloc giving them more influence and a louder voice in global economic matters than they would have as individual states. It also offers the opportunity for balancing its international political and economic relations. Central American states like those all over Latin America, have been preoccupied, since the 1990s, with access to global markets and insertion into the world economy. Closer ties with the EU form part of their strategy to achieve this.

It is difficult, in a restricted space, to discuss all aspects of EU-CA relations and many topics have had to be sacrificed in the attempt to present a coherent view of said relations. Chief among these is the role played by the EU as a leading donor of overseas development aid (ODA) in Central America. The EU institutions (chiefly the commission) and individual member states provide hundreds of millions of Euro annually to help fund various important social and environmental projects in Central America quite aside from aid given to deepening regional integration. The EU has overtaken the US as an aid donor throughout Latin America including Central America which had been particularly dependent on US aid.

Other questions, such as the institutional framework for EU-CA interregionalism or the negotiation process between both sides are topics which it has not been possible to discuss given restrictions of space. Of course, since negotiations have not, at the time of writing been concluded and owing to the relatively secretive nature of these negotiations, it would be difficult to provide a clear and decisive analysis of the process. However, these might provide the basis for useful further research. One area of particular interest would be the role of civil society in the negotiation of an Association Agreement.

The degree to which the San José Process actually helped to bring about a peaceful resolution to the Central American crises of the 1980s is debatable. However, on a fundamental level it offered an example of a positive foreign policy whereby the EU supported Central American initiatives and regional solutions to regional problems, either by providing financial resources, or just moral support and a political space within which to work. In the intervening period, EU-CA relations have undergone significant change, and bear very little resemblance to those of the 1980s. Firstly, whereas the motivation for interregional cooperation from 1984 to the early 1990s was almost exclusively politically driven, on both sides, since then strategic considerations, especially those of an economic nature have come to define relations between both

regions. Secondly, the San José dialogue was fundamentally driven by Central American leaders, with the EU acting in more of a supporting role, initially of the Contadora process, then later of Esquipulas. The current EU-CA interregional agenda however, is very much set by the European side. Support for regional integration is one area where this is evident. The EU, through its funding of various integration projects and initiatives, and the insistence on further and deeper integration as a pre-condition for an Association Agreement, is driving forward the process of Central American integration much more so than Central American political leaders or societal groups themselves. In this way the EU is also controlling the both the pace and content of the process, ensuring that the type of regional integration that emerges is potentially one which favours European business rather than the needs of Central American society.

The fundamental difference between the European and US approaches to the crises of the 1980s was in their respective assessments of the root causes political conflict. EU leaders saw poverty and social inequality as the main source of the crisis. The extent to which these problems still persist might teach us a lot about the success or otherwise of EU policy. In its RSP for 2007-2013, the EC highlights many of the same social problems, such as uneven income distribution, serious educational problems, unemployment and

underemployment, and food security among many others (RSP: 5-7).

Nevertheless, the single greatest priority of EU-CA interregional relations continues, from an EU perspective, to be the process of regional integration, with a strong focus on economic integration and cooperation in the fields of services and investment.

In seeking to pursue a policy that will provide more benefits to European business interests than to the peoples of developing regions, in this case Central America, the EU is missing an opportunity to promote the lofty goals of democracy, respect for human rights, regional integration and sustainable development, which it claims are at the heart of its relations with the region.

The EU continues to use capital gained from the perceived successes of San José and continues to present itself as an ‘honest broker’ in the region. However, as civil society is becoming more and more aware of, and increasingly draws attention to, the motives behind its policy in the region and the negative consequences it brings, this mask is beginning to slip. A fundamental re-think of policy is necessary if the EU truly wants to narrow the gap between the rhetoric of its policy documents and official statements, and the reality of the actual effects of its strategic, pro-EU business approach in the region.

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