

Regional integration is one of the most effective mechanisms of cooperation among sovereign states to contribute to the welfare of their citizens and to diminish the chances of conflicts. The European Union has been until now the pioneer and undisputed leader in this respect. Since its inception in the 1950s, right after the Schuman Declaration that set in motion the innovative idea proposed by Jean Monnet of sharing the coal and steel industries, Europe has offered a useful model. Strengthened by the Treaty of Rome signed in 1957 (exactly half a century ago), this bold entity was later transformed into the European Union by the Maastricht Treaty. Having accomplished its central mission ("to make war unthinkable and materially impossible"), the EU currently faces challenges of expansion and presents doubts about its process of deepening its pooled sovereignty.

Among all of the regions of the world, Latin America and the Caribbean have been fertile grounds for the adaptation of the original European idea. It is for this reason that this volume is dedicated to the study of this effort. It also examines the balance of this special Trans-Atlantic relationship, as experienced in the summits periodically held between the two regions and expressed in the crafting of the Strategic Partnership. The new Central America Common Market, CARICOM, the Andean Community and MERCOSUR are the specific objects of individual analysis.

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After Vienna

Joaquín Roy and Roberto Domínguez

# After Vienna: Dimensions of the Relationship between the European Union and the Latin America-Caribbean Region

Joaquín Roy and Roberto Domínguez  
(editors)

Jean Monnet Chair  
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Center of Excellence



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and  
**The Jean Monnet Chair of the University of Miami**

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## Preface

Joaquín Roy and Roberto Domínguez

The present monograph is the result of considerable consultation and an enriching debate held in several seminars, symposia, and conferences throughout 2005 and 2006, under the auspices of the Miami-Florida European Union Center of Excellence (a partnership of the University of Miami and Florida International University), the Jean Monnet Chair of the University of Miami, and the International Studies Association (ISA). The content is only a fraction of the scholarly documentation recently produced, which is available on the Center's webpage ([www.miami.edu/eucenter](http://www.miami.edu/eucenter)) and which is selectively compiled in other volumes.

This volume is composed of three parts. The first one has an introductory purpose, composed of two essays drafted by the two co-editors. In the first one, Joaquín Roy reflects on the general scene of regional integration as prevalent in Europe and the Americas during much of 2006. Taking into consideration the dramatic changes observed in the Western Hemisphere with the stalling of the FTAA and the withdrawal of Venezuela from the Andean Community, the prospects of South American integration are further complicated. Consequently, expectations for change are high. Meanwhile, the freezing of the constitutional process in Europe has added a sense of frustration after the spectacular enlargement executed in 2004 with the incorporation of ten new members, and two more added at the start of 2007. However, the rapidity observed in the schemes of Latin America integration may be superficial, while the apparent inertia in Europe may hide a new bold step to be taken after a cyclical crisis.

The ambivalent EU model of integration, still caught in a debate between deepening and widening, has then had an impact in the Americas in the context of the IV Summit of the EU-Latin America-Caribbean countries held in Vienna in May of 2006. In this context, Roberto Domínguez reflects on the oddity represented by the fact that the deepest and most complete agreements signed by the EU and Latin America are with individual countries (Mexico and Chile), not with sub-regional blocs. Prospects of future agreements point toward Central America and the Andean Community, while MERCOSUR will have to wait until it resolves its internal difficulties, further exacerbated by the incorporation of Venezuela.

Three special dimensions of the EU-Latin America dialogue are discussed in part II of the volume. In the first chapter of the section, Alejandro Chanona discusses the multiple general scopes of the summits between the European



Union and the Latin America/Caribbean area since the trend was institutionally inaugurated in Rio de Janeiro in 1999. Social cohesion and the role of the Ibero-American bloc are just some of the angles discussed in detail. The conclusion is that the main obstacle for a solid relationship across the Atlantic is the lack of a true Latin American integration, making the relationship unequal not only because of the economic disparity, but also because of its intrinsic variable geometry. While the EU speaks with one voice on the most central issues, Latin America and the Caribbean seem incapable of presenting a common front.

The future of the Strategic Relationship between the two regions, the central objective of the whole dialogue, is discussed by Thomas Cieslik in his chapter. The author expands on the issues pointed out by Chanona, questioning the contribution to be made by the new brand of Latin America populism to a deeper integration given to the region. The result may be that the EU will elect to strengthen its relations with countries that offer the most open economies and best climate for investment, priming moderate social-democratic administrations, and avoiding the instability of others with more radical aims and purposes. This is the predicted scenario for the next summit to be held in Lima in 2008.

Finally, Stéphan Sberro deals in a monographic fashion with the urgent topic of social cohesion. This is a dimension that has been converted into a precondition for all the agreements considered by the EU with the less developed world, especially with Latin America, where poverty is not as significant a problem as is inequality, which represents the highest in the world.

The third section is dedicated to four individual assessments of the main subregions of Latin America and the Caribbean as distributed by the EU strategy: the Caribbean, Central America, MERCOSUR and the Andean Community.

Dealing with the smallest of the sub-regions, the Caribbean is discussed in the chapter authored by Wendy Grenade. CARICOM is the centerpiece of her analysis. She examines the current phase of Caribbean integration and explores the similarities and differences between the institutional framework of the EU and the Caribbean network. Five dimensions are then treated in depth: the political direction given by the Heads of State and Government in the tradition of the European Council; an external face to the world; the role of the Council of Ministers; the Court of Justice; and a mechanism for collective trade negotiations. The conclusion is that CARICOM has been shifting away from a purely intergovernmental scheme and becoming instead a "half-way house", creating a more cohesive and collective entity.

Fernando Rueda-Junquera examines the EU model of integration, identifying its main components which may contribute the explanation of the rationale of economic integration among LDCs under the old and new regionalism. Then he explores the major features acquired by this model in its implementation,

with an emphasis on its legal and institutional system. Next he makes a comparison between the EU and the new Central American Common Market (CACM). Finally, his conclusions include a warning: without taking additional measures to meet the specific needs of the relatively less developed Central American countries (Honduras and Nicaragua), integration will aggravate the intraregional asymmetries. Without implementing sensible economic and institutional policies, the new CACM will be unable to effectively contribute to the process of economic development in Central America.

Taking into account the fact that MERCOSUR has been both inspired and influenced by the EU process and structures and following its model of integration, Marcos Guedes de Oliveira considers the contrast between the claim that Latin American does not have conditions to create a stable integration and the reality that MERCOSUR has been growing despite all adversities. His chapter discusses the key aspects that MERCOSUR shares with the EU and stresses the particularities that once produced and maintain it as an original regional integration model. However, can MERCOSUR continue to exist within its limited intergovernmental institutions and mechanisms and while remaining functional? His answer is positive. In general, the decision to create a minimum number of institutions has helped to avoid the creation of large organizations with little political power. However, this does not mean that MERCOSUR does not need to change. The functions of its intergovernmental institutions are not yet adequately exploited and many ongoing conflicts could be reduced or eliminated if these institutions were fully active. In conclusion, it has a long way ahead in order to accomplish its goals and fulfill its ambitions.

Since its birth in the 1960s, the Andean Community has attempted to become a strategic mechanism for the promotion of a harmonious and balanced development among the Andean countries. This entity in transition is the object of analysis in the chapter authored by Angel Casas. Its content has three goals: (a) to explain and analyse the theoretical concept of the Andean New Regionalism in the framework of Latin American region in a comparative perspective with the European model of integration; (b) to show the coexistence of two different regional integration models, where the dominating one during the 60s was the “old regionalism”, and the other is known as “new regionalism”, and (c) to analyse the way in which this coexistence seems to be an obstacle for the Andean countries to define their regional integration model and to advance toward their main goal of harmonious development of each and every member country.

We truly hope that the contributions of these chapters will shed considerable light onto the most crucial aspects of comparative regionalism. By focusing on the adaptation and adoption of the EU model in Latin American and the Caribbean, as well as on its rejection in the area, students of the European Union process will be able to better understand the true nature of the most successful, until now, of the experiments in cooperation among states.

It is with this belief in mind that we would like to express our gratitude to the many staff members of the EU institutions and its leaders for the confidence bestowed on us for both the twin awards of the European Union Center and the Jean Monnet Chair and the acceptance of the proposal that a coherent interpretation of the standard Trans-Atlantic agenda be more complete with the addition of the valuable Latin American and Caribbean dimension. After all, we sincerely believe that, in this particular region of the world, the EU model, if properly modified and adapted, has great potential for success.

Works like this owe much to many people and institutions, impossible to all be listed here. However, the editors would to especially like to recognize the support and assistance during the conferences and symposia and in the preparation of the chapters and their previous partial distribution as occasional papers. We offer our special gratitude to Catherine Cottrell, Eloisa Vladescu, Aimee Kanner, Carlyn Jorgensen and Fernando Carretié.

*Miami and Boston*

*April 2007*

## **I. Overview of a Relationship and a Parallel**



## **Inertia and Vertigo in Regional Integration \***

Joaquín Roy

### **Parallel lives on both sides of the Atlantic**

With an apparently impressive synchrony (which in reality was a simple timely coincidence) worthy of careful study, the European Council meeting in Brussels in the last days of the Austrian presidency in June of 2006, and, across the Atlantic, the meeting of representatives of the four original members of MERCOSUR in Argentina were facing two crucial moments for the respective integration processes of Europe and the Americas. On the one hand, the EU decided to prolong the period of reflection and analysis provoked by the rejection of the Constitution project in referenda set a year earlier. On the other hand, MERCOSUR approved the accession of Venezuela into the South American scheme, after the Chávez government had announced its withdrawal from the Andean Community.

On the surface, it looked like the evolution of economic integration in the Western Hemisphere had reached a vertiginous speed, leaving analysts wondering what diagnosis to render, because any evaluation would become obsolete in a few days. Meanwhile, an unnerving calm feeling was emanating from Europe, appearing on the surface like other periods of inertia experienced in the past that finally led to the formation of the European Union in the early 90s. Both decisions (delay in decision-making in Europe and acceleration in MERCOSUR), taken at the highest level, not only attracted analytical interest in the two processes but also called attention to research on the nature of regional integration. The focus of this research has been the perennial model offered by the European Union, and the consequent absorption capacity and adaptation of that point of reference in the Americas.

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\* This text has as a base some ideas developed and presented in different institutions of a dozen Latin American countries and Spain from August of 2005 to August of 2006, while I was enjoying a generous sabbatical awarded by the University of Miami during the first semester of 2006, at the same time as having received an appointment as Visiting Professor at the Department of International Economics and Law at the University of Barcelona, thanks to a program sponsored by the Autonomous Government of Catalonia. My gratitude is due to Professor Francesc Granell for his efficiency and generosity in hosting my stay at his Department and 'Jean Monnet Chair'. Reference and documentation used in this chapter prioritize the production of European Union Center and the Jean Monnet Chair of the University of Miami.

In view of the difficulties faced by the wider inter-American project envisioned in the Free Trade Area of the Americas (FTAA), led by the United States, there was a panorama full of uncertainty regarding one of the most important potential projects of international cooperation in the last part of the preceding century. Nonetheless, this diagnosis needs to simultaneously avoid exaggeration and optimistic isolationism. Not everything is as catastrophic as it may seem, nor can it be pretended that it can continue following the old script, either in terms of political action or analysis.

In the European context, the streets of Brussels were not scenes of confrontations. The elevators and corridors of the buildings of the EU institutions have not been consumed with a stale air, as if nothing had happened since May 2005 when the decisive sectors of the Dutch and French electorate that bothered to go to the polls gave a blow to the EU constitutional process.<sup>1</sup> Something important has happened indeed, but nobody seems to know what it is. Moreover, experts and leaders do not agree on what remedies, if any, have to be applied, and when. While in the first five years of the new century, the crisis of the EU was labeled to be economic, it later on was considered to be essentially political. What is certain is that the patient (the EU) seems to be in denial and does not accept any confusing diagnosis, while the doctors abstain from taking initiatives.

Nonetheless, the great advantage of the EU is that, comparatively, it enjoys impressive health, just half a century after its foundation. It continues to be the “worst” single accomplishment of voluntary regional integration of states, with the exception of all the rest of the experiments, paraphrasing Churchill’s evaluation of liberal democracy.<sup>2</sup> This claim is further dramatized when a fast glimpse is given to the current integration processes in the Western Hemisphere, both those that are strictly intra-Latin American, and those dominated by the United States.<sup>3</sup>

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<sup>1</sup> As samples of the production of the Jean Monnet /European Union Center of the University of Miami on the process of the Constitution, see: Galinsoga, Albert. “La naturaleza jurídica de la Unión Europea en el Proyecto de Tratado que instituye una Constitución para Europa.” (Working Paper: February, 2005) (<http://www.miami.edu/eucenter/galinsogafinal.pdf>); Markus Thiel, “The Constitution and the Citizens – (Not) Much Ado about Nothing?” (Working Paper: August, 2004) (<http://www.miami.edu/eucenter/thielfinal.pdf>); Carlos Hakansson, “La evolución y elementos de constitucionalidad de la Unión Europea.” (Working Paper: April 2004, (<http://www.miami.edu/eucenter/hakanssonfinal.pdf>); Francisco Aldecoa Luzarraga, “The First Outcome of the Debate on the Future of Europe: Between Deepening and Revision (2000-2002).” (Working Paper: February, 2003) (<http://www.miami.edu/EUCenter/luzarragafinal.pdf>);

<sup>2</sup> For an analysis on the perception of the model of the EU: Markus Thiel, “Europe as a model for transnational peace? Identity changes in the emerging regional blocs of the Global South.” (Working Paper: June 2006). (<http://www6.miami.edu/eucenter/Thiel2.pdf>).

<sup>3</sup> Among the most recent bibliography on this topic, see the edited books produced by Jean Monnet Chair in cooperation with other institutions: Joaquín Roy, Roberto Domínguez y Rafael Velásquez (eds.), *Retos e interrelaciones de la integración regional: Europa y América* (México: UNAM, 2002); Joaquín Roy, Alejandro Chanona y Roberto Domínguez (compiladores), *La Unión*

Paradoxically, if the EU is sick and may die (as some within its domain, as well as many outsiders, may wish), it might be as a result not of failure, but ironically of success in fulfilling its goal. Even outside observers and the most skeptic members within the EU have recently expressed encomiastic samples of admiration and optimism.<sup>4</sup> The EU has met its foundational objective (to stop the European wars). It has functionally raised the standard of living of its citizens, providing them with such a feeling of security as never experienced before. It has converted itself into a point of reference (if not a clear model to imitate) for the rest of the planet. While there are a dozen countries hoping to accede, within the strictly geographical confines (the Balkans) and in its periphery (Turkey), there is not a single intention in any of the current 27 to leave. “Outside of the European Union is very cold”, the late minister of Foreign Affairs of Spain, Francisco Fernández Ordóñez, once said.

But the feeling is also that the EU seems today frozen in time with no clear direction for the future. With the exception of honorable cases, it is trapped under a vacuum of leadership. It is orphaned by innovative ideas. For this reason, when a political leader advocates continuing with the constitutional project,<sup>5</sup> wishing to return the confidence to the citizens of 15 countries that in mid 2006 had already voted “yes” in referendums or through the parliamentary mechanism, praise is given. This was done, for example, when the European Parliament thanked the Prime Minister of Belgium, Guy Verhofstadt, with a standing ovation in the plenary session held in Brussels.<sup>6</sup> At the same time, all agreed that the Belgian leader was in a minority, while his colleagues in the European Council have re-

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*Europa y el TLC* (México: UNAM, 2004); Joaquín Roy and Roberto Domínguez (eds), *The European Union and Regional Integration: a Comparative Perspective and Lessons for the Americas* (Miami: Jean Monnet Chair, 2005) y Joaquín Roy, Félix Peña y José M. Lladós (eds), *La Unión Europea y la integración regional: perspectiva comparativa y lecciones para las Américas* (Buenos Aires: CARI/Universidad Nacional de Tres de Febrero, 2005).

<sup>4</sup>As a sample, see: Jeremy Rifkin, *The European Dream: How Europe's Vision of the Future is Quietly Eclipsing the American Dream* (NY: Tarcher, 2004); Mark Leonard, *Why Europe Will Run the 21st Century* (London: Perseus, 2005); T.R. Reid, *The United States of Europe: the new superpower and the end of American supremacy*. (NY: Penguin, 2005).

<sup>5</sup>For some texts on the Constitution: Clive Church and David Phinnemore. *Understanding the European Constitution* (New York: Routledge, 2005); Lynn Dobson and Andreas Follesdal, *Political Theory and the European Constitution* (New York: Routledge, 2004); María Luisa Fernández-Esteban, *The Rule of Law in the European Constitution* (The Hague: Kluwer Law International, 1999); Christian Joerges, Yves Meny, and J. H. H. Weiler, eds. *What Kind of Constitution for What Kind of Policy?* (Florence: European University Institute, 2000); Roberto Miccù and Ingolf Pernice (eds.). *The European Constitution in the Making* (Baden-Baden: Nomos Verlagsgesellschaft, 2004); Brendan P.G. Smith, *Constitution Building in the European Union. The Process of Treaty Reform* (The Hague: Kluwer Law International, 2002); Javier Ruipérez, *La Constitución Europea y la teoría del poder constituyente*. (Madrid: Biblioteca Nueva, 2000); Enoch Alberti (ed.), *El proyecto de nueva Constitución Europea*. (Barcelona: Fundació Pi i Sunyer, 2004).

<sup>6</sup> See plenary session of the EU Parliament of May 30, 2006.



mained silent or considered themselves as powerless and extorted by the top national leaders who normally hide behind the inclinations of their electorates. The same doubts were raised when German Chancellor Angela Merkel announced in January 2007 at the beginning of her country's EU presidency her intentions for pursuing the revival of the constitutional process.

At the time of the rejection, there was no chance of applying Declaration 30 of the constitutional document. This Declaration establishes that if at the end of the ratification process (which according to the original schedule was to be completed by the fall of 2006), a maximum of twenty percent of the countries would have "difficulties", the Council could decide by a majority on a rescue procedure. The problem is that this escape hatch was actually designed with the United Kingdom as the primary candidate that would have "difficulties". Nobody thought that France, the country that invented the EU, accompanied by the Netherlands, the most powerful of the small members and a founding member state, would cause the trouble.

For the time being, the Council of Ministers of Foreign Affairs, in an exceptional meeting held in Vienna in early June of 2006, confirmed the decision to extend the period of reflection, and let the European Council set a feasible calendar to make decisions in 2008,<sup>7</sup> a plan that would be extended until 2009 to coincide with the elections to the European Parliament. This entity now has become the center of attention. It is estimated that 80 percent of its members are convinced federalists, responding to an unofficial coalition historically formed by Conservatives-Christian Democrats and Socialists, a marriage of convenience that made possible the foundation and development of the EU.<sup>8</sup>

This rescue schedule was then envisioned to be inserted in the presidencies of Germany (first semester of 2007) and France (second semester of 2008), with the French and Dutch elections in April-May of 2007, and the programmed accession of Romania and Bulgaria at the start of 2007. In this context, observers must remember that the enlargement of the EU has been consistently targeted as the cause for the constitutional difficulties. As a result, many decision-makers are now regretting in private the decision they took based on a sense of historical justice to correct the artificial division of Europe after World War II.

This early evaluation was present in the scholarly and analytical bibliography<sup>9</sup> generated before the execution of the enlargement plan from 15 to 25 countries. This assessment intensified during the process, becoming more acute

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<sup>7</sup> "Merkel and Chirac set timetable for EU constitution", EU Observer, June 7, 2006. (<http://euobserver.com/9/21782/?rk=1>)

<sup>8</sup> From the script written by Jean Monnet and read by Robert Schuman in 1950, on the basis of the reconciliation between France and Germany, this coalition took the necessary steps towards integration, beginning with the coal and steel industries.

<sup>9</sup> For a recent analysis, see: Catherine Cottrell, "Enlargement: New Challenges for an Old Process" (EUMA, Miami, June 2006) ([http://www6.miami.edu/eucenter/Cottrell\\_EUMA1.pdf](http://www6.miami.edu/eucenter/Cottrell_EUMA1.pdf)).

when the first results were known.<sup>10</sup> Simultaneously with the decision to delay the period of reflection and analysis of the constitutional project, the EU also decided to ponder the new criteria of “absorption capacity” in terms of accepting new members, at the same time as confirming the admission schedule of Bulgaria and Romania for 2007. However, analytical evidence shows that the origin of the problems encountered by the EU is not the enlargement per se, but the ambivalence towards deepening,<sup>11</sup> in addition to the re-nationalization process. This conflict was further exposed by the polemical attempts of acquisition of energy conglomerates in Spain by capital originating in other Member States.<sup>12</sup>

Meanwhile, it is possible that the EU will reinforce its modus operandi by implementing (as an isolated action or as part of a slimmed down mini-treaty, as some governments are suggesting) some of the innovative measures prescribed in the constitutional project. Among them, there is the need for a wider exposure for the position of “Minister of Foreign Affairs”, now held by the High Representative of the Common Foreign and Security Policy, Javier Solana. Other items include the foundation of a diplomatic service, a more stable presidency to replace the ephemeral rotating semester, and a deeper shared sovereignty in the areas of immigration and internal security. Still valid is the plan announced by the President of the Commission, José Manuel Barroso, for a more effective leadership by inserting the role of Solana in different external activities of the Commission that spill over the limited agenda of one commissioner, touching a wider context of external relations and affecting the foreign image of the EU as a whole.

Besides the will of getting closer to the citizens through informational and educational campaigns,<sup>13</sup> there is no consensus in the institutions on a plan for the reinforcement of the “hard” nucleus of the EU, similar to the groupings managing the euro and the Schengen agreement, in order to re-launch an ambitious leadership that leaves behind the reluctant members. It was hoped that this way they would repent and decide to jump onto the bandwagon. This tactic presents the risk of breaking up the existing economic and border coalitions by inserting

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<sup>10</sup> As a result of the production of Jean Monnet Chair and its external partners, see the content of the volume entitled *Toward the Completion of Europe: background and consequences of the 2004 enlargement*, editors, Joaquín Roy and Roberto Domínguez (Miami: Jean Monnet Chair/ EU Center, 2006). All contributions are also available as individual papers in the web site: [www.miami.edu/eucenter](http://www.miami.edu/eucenter), “Publications”.

<sup>11</sup> José Ignacio Torreblanca, “Ampliar o no ampliar la Unión: ésa no es la cuestión” (Real Instituto Elcano. ARI, 6 junio 2006) (<http://www.realinstitutoelcano.org/analisis/991.asp>)

<sup>12</sup> José Enrique de Ayala, “Horas bajas: resurge la defensa de los intereses nacionales”, *Política Exterior* no. 111, (mayo-junio 2006): 13-20.

<sup>13</sup> See, for example, the Plan “D” executed by the Commission. For an evaluation, see the commentary by Euroactive: <http://www.euractiv.com/Article?tcmuri=tcm:29-144593-16&type=News>

political issues. Prudence is then the rule. However, careful action seems to be dictated according to electoral schedules, with very few windows of opportunity.<sup>14</sup>

### Two processes in crisis

In retrospect, the year 2005 was not a positive milestone for the history of the EU. At the most, it will fill a short space in the evolution of European integration similar to the long period of stagnation that dominated the scene from the 1970's to the mid 80's, known as *euroesclerosis*. The record of the following year 2006 did not raise optimism for the EU process and its counterpart in the Western Hemisphere. The "new" FTAA, with a reduced scope, currently only covers agreements between the United States and a handful of Latin American countries, causing friction with others.<sup>15</sup> Meanwhile, MERCOSUR<sup>16</sup> has swallowed with difficulty its own enlargement with the inclusion of Venezuela, while the Andean Community was negatively hit with the announcement of the withdrawal of the Chávez regime.<sup>17</sup> The shortcomings of the IV European Union-Latin America-

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<sup>14</sup> Markus Thiel, "Mission (im)possible? Lessons learned post-referendum surveys" (EUMA, Miami, December 2005) ([http://www6.miami.edu/eucenter/Thiel\\_EUMA1.pdf](http://www6.miami.edu/eucenter/Thiel_EUMA1.pdf)).

<sup>15</sup> For a selection of Jean Monnet Chair production: Ambler Moss, "Reflections on the Development and Prospects of the Free Trade Area of the Americas: Does It Relate to the European Experience?" (Miami European Union Center, Working Paper: July, 2005) (<http://www.miami.edu/eucenter/mossfinal.pdf>); Jeffrey Schott, "The Free Trade Area of the Americas: Current Status and Prospects" (Miami European Union Center, Working Paper: July, 2005) (<http://www.miami.edu/eucenter/schottfinal.pdf>); Francesc Granell, "Will the European Union follow the model of the Free Trade Area of the Americas' Project or will the FTAA ever decide to look like the EU?" (Miami European Union Center, Working Paper: November 2005) (<http://www.miami.edu/eucenter/granellfinal.pdf>).

<sup>16</sup> For a selection of recent works on MERCOSUR: Marcos Aurelio Guedes de Oliveira, "Mercosur: Political Development and Comparative Issues with the European Union" (Miami European Union Center, Working Paper: July, 2005) (<http://www.miami.edu/eucenter/guedesfinal.pdf>); Félix Peña, "Understanding Mercosur and its Future" (Miami European Union Center, Working Paper: June, 2005) (<http://www.miami.edu/eucenter/penafinal.pdf>); Marcos Antonio Guedes de Oliveira, "The danger of stagnation and crisis in South American Integration" (Miami European Union Center, EUMA, November 2005) ([http://www6.miami.edu/eucenter/Guedes\\_EUMA.pdf](http://www6.miami.edu/eucenter/Guedes_EUMA.pdf)).

<sup>17</sup> For recent samples of research on the evolution of the Andean Community: Eric Tremolada, "Fundamentalismo político e integración: ¿TLC vs. CAN?" (Miami European Union Center, EUMA: May 2006) ([http://www.miami.edu/eucenter/Tremolada\\_EUMA1.pdf](http://www.miami.edu/eucenter/Tremolada_EUMA1.pdf)); Angel M. Casas, "Lessons from the Andean Community Integration." (Miami European Union Center, EUMA. February 2006) (<http://www.miami.edu/eucenter/casasfinal.pdf>); Eric Tremolada, "Application of the Andean Communitarian Law in Bolivia, Ecuador, Peru and Venezuela in comparison with the European Union experience." (Miami European Union Center, Working Paper: January 2006) (<http://www.miami.edu/eucenter/Tremoladafinal.pdf>).

Caribbean summit held in Vienna confirm the obstacles and the contradictory balance.

The origins of the most recent and innovative attempts of European integration have historical roots. They can be traced back to the bold step taken in the mid 80s. The EU seemed to eliminate a sleeping habit that had lasted two decades in 1986 with the approval Single European Act and the incorporation of Spain and Portugal (two countries that had a decade earlier ended their dictatorships) in the EU's third enlargement. Soon after, it began its most glorious recent period with the approval of the Maastricht Treaty, creating the European Union; the adoption of the euro as common currency;<sup>18</sup> and finally proceeded to the most spectacular enlargement of its post Cold War history with a one-two-three punch, first through the incorporation of three neutral states, and then by adding ten countries previously dominated by Moscow, plus the addition of the Mediterranean states, Malta and Cyprus.

But the dream to adopt a Constitution in the first years of the new century seems a too ambitious step. It subsequently stumbled against the incomprehension of part of the electorate and powerlessness of the leadership. Nonetheless, historians have pointed out that in each critical chapter of its history, Europe has demonstrated to be able to react with energy and a vision of the future, and this time should not have to be different. Now the sensible thing to do is to analyze what has happened, with what actors and what means the EU can redress the scene.

Only the most unguarded observers may believe that all that has happened can be reduced to the failure of the constitutional ratification. The problem is more complex. The EU is facing a definition of its nature. How this issue is addressed will have an impact on other experiments taking place around the World.

### **Regional integration or economic cooperation?**

On November 4, 2005, the top leadership of the Western Hemisphere (with the exception of Fidel Castro) met in the Argentine city of Mar del Plata in a new Summit of the Americas. Eleven years earlier President Clinton convoked a similar gathering in Miami to announce the foundation of the FTAA. Its closest precedent was the summit held in Punta de Este in 1967. Now the political, economic and social context was not the same as in the middle of the Cold War and the Alliance of Progress or in the mid 90's before September 11.

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<sup>18</sup> For an evaluation of this process, see the content of the papers presented a conference on the "The euro and the dollar", organized by the Jean Monnet Chair of the University of Miami on April of 2006, with the support of the European Commission: <http://www.miami.edu/eucenter/conf/EuroConference.html>; all papers are compiled as chapters in a volume entitled *The Euro and the Dollar in a Global Economy*. Joaquín Roy and Pedro Gomis-Porqueras, editors (Aldershot, UK: Ashgate Publishing: 2007).

On the one hand, it is valuable to remember that at the beginning of the process of European reconstruction, European integration was barely a glimpse of its future shape. It just presented the offer to share coal and steel by which Schuman and Monnet designed “to make war unthinkable” and “materially impossible”, as the “Declaration of Inter-Dependence” of 1950 still resonates. A decade ago, half a century after its birth, the EU was already perceived as a competitor for the economic hegemony of Washington. Today, as we have seen above, the EU is experiencing a delicate moment.

On the other hand, the spectacular scheme announced in Miami in 1994, well before the failure of Mar del Plata, is a disaster of continental dimensions. The U.S. leadership is under question, more preoccupied with generating less ambitious alternatives, closer to U.S. territory, incapable of facing with intelligence the current trend of Latin American populism. The incorporation of some countries of Central America through the development of CAFTA, with the addition of the Dominican Republic, is the next to the last episode of a saga that can be labeled as “The Empire Strikes Back”, a reaction that began with the crafting of NAFTA, as an answer to the Single European Act, on the road to Maastricht.

However, the EU (stumbling with its own problems) was hovering over the summit in Mar del Plata. All the presidents there shared a common belief and a phobia. First, all arrived armored by presidential national sovereignty. This continues to be the main internal obstacle for Latin American integration. Historical tradition, reinforced by the new populism enshrined in the presidential figure convert the voluntary sharing of sovereignty in utopia. Second, all of the leaders, including the ones acceding to power by impeccable electoral processes, continue to be affected by regional integration allergy. Hence, the initial failure of the FTAA that tried to unite the continent from Alaska to Tierra del Fuego. It is for this reason that the EU is still a point of reference, but at the same time is a model that has been apparently abandoned. The result of the EU’s relative success is that it paradoxically is the cause of its failure as a scheme to be imitated.

How is this possible? Since the rebirth of the new regionalism in the Americas there has been a lamentable confusion between two contrasting and irreconcilable concepts. The first is the idea of economic cooperation, based almost exclusively on tariff reduction. This is the vision of a simple free trade area, as a medium and a goal. If taken as the first step of a true regional integration process then it becomes part of a larger and deeper second concept, bonded by the intention of sharing sovereignty.

This option, with many difficulties, as seen above, has steadily survived in Europe. This potential model needs to aim for the construction of a customs union, which only MERCOSUR, in theory and initially, contemplates in the Western Hemisphere. It also considered as a goal the implementation of a common market composed of four freedoms of movement: goods, capital, services, and people. For the moment, only the conditioned transfer of goods is tolerated.

The only human traffic allowed, promoted, or unstoppable is a modern sex trafficking, “balseros” and “mojados”, self financed or controlled by mafias.

An expression in English, which has become the *de facto* official European-wide language (with the futile resistance of France) supplies a perfect illustration of the innate nature of the EU and its practical functioning. “Pooling” sovereignty means to share, not cede or lose sovereignty, two accusations that are frequently present in the Latin American discourse when considering the benefits and disadvantages of regional integration. “Pool” does not exist in Spanish. “Shared sovereignty” and other expressions that try to fill the vacuum are poorly understood ideas, revealing more of a conceptual shortcoming than a linguistic deficiency.

The notion that joint and collective management that otherwise would be subject to a veto threat, is alien to the governmental and presidential custom prevalent in the Americas. While U.S. popular wisdom assumes as an unmovable truth that there is no other deciding legal authority “above the Supreme Court”, the Latin American political mind does not admit any authority that does not emanate from the presidency.

In the economic field, the location of strategic sectors, such as coal and steel, under the control and management of supranational entities (Commission, Court) where members are not subject to a governmental authority (European Council) that surprisingly has appointed them, is a process unfeasible in the Western Hemisphere. The alternative is the award of conditioned foreign aid or the bartering of energy supplies, but not the recognition of supranational bodies, dismissingly labeled as “bureaucracies”, without autonomous budgets to execute their mission.

An additional factor, closely associated with the “presidential syndrome”, necessary for explaining the difficulties in advancing the systems of Latin American integration, is the lack of juridical respect for norms and codes. This is a paradoxical phenomenon in a subcontinent obsessed with codification in the tradition of Roman and Napoleonic laws, bestowed by Spain. But it is also certain that presidential decisions sideline stipulations that have been accepted as well as the basic principles of international norms. From the speed used to announce the new alliances and frameworks (such is the case of the South American Union) to the rush to terminate commitments subject to international treaties (such as the withdrawal of Venezuela from the Andean Community), the current panorama is truly disappointing, if not alarming.

Let’s consider, for example, that a commonly accepted rule of regional integration is that a state cannot simultaneously belong to a free trade treaty and a different customs union, as it would be impossible to have double membership in EFTA and the EU in the European case. According to the government of Venezuela, with the silence of the Andean Community, it was possible to become a member of MERCOSUR, without first abandoning the Andean framework. On the other hand, similar violation of norms seems to affect the intention of Uru-

guay to negotiate a free trade agreement with the United States. As a result of the uncomfortable feeling in MERCOSUR, the Uruguayan president declared that leaving the bloc would be an option if his country's isolation in the framework of globalization would make it necessary. There was no surprise when Paraguay considered MERCOSUR as dead at the time.

It is paradoxical that this situation (if not, its systemic nature) experienced by Latin America happens precisely when experts had detected a new cycle of U.S. disdain toward Latin America. This new trend is the result of the priority attention given by the United States to the Middle East and its obsession with the threat of international terrorism anchored in the vicinity of the Persian Gulf, far from the relative isolation of the Latin Americans, left adrift to their own luck. From a European and Spanish perspective, it seemed that the void left by Washington represented a golden opportunity. This time the alternative strategy would be based on a trident formed by investment (considerable, considering the figures of the 90's), the support for regional integration (with the backing of the European Union), and the development cooperation aid (surpassing the United States and the rest of the world together).

The consolidation of formal democracy on the entire continent, with the exception of Cuba, left a terrain free for European and Spanish action. But the sequel to the erroneous application of the Washington Consensus and the endemic ills of the region (inequality, criminality, drug trafficking, uncontrolled migration, lack of prestige of traditional parties) has provoked a genie to leave the bottle. Populism again filled the space left by the failures of traditional Latin American parties.

The Spanish economic interests have decided to maintain communications open and good relations with the moderates in Brazil, Chile (by all means), Argentina, Perú, some Central American countries, and Mexico. Spain's pragmatism went as far as to treat separately two different phenomena as distant as the Cuban political system and the peculiarity of the Chávez regime. But the unnerving axis formed by Havana, Caracas and La Paz transformed all the schemes, while Bolivia's declaration to nationalize the gas industry prompted responses of prudence and preoccupation in the Spanish government and media, transmitting a nervous feeling from the Spanish enterprises that so decisively had opted for the Andean country as a target for their investments, as subsequent development confirmed.

Naturally, the decision of Evo Morales had arrived at a weakened moment in the Andean Community as a result of Hugo Chávez's decision to flee to MERCOSUR, and Bolivia feared to be the ultimate victim of the fragile regional integration overall framework. Even though there was the possibility of Bolivia's accession to the integration scheme that was the favorite of the EU and Spain, the uncomfortable movements made by Paraguay and Uruguay, feeling disdained by the ad hoc and fast agreements made by Brazil and Argentina, perspectives were not that rosy. For its part, the prospects for the survival of the Andean Commu-

nity generated an array of diverse opinions among observers and leaders. On the one hand, some certified its demise.<sup>19</sup> On the other hand, others kept their hope after the election Alan García in Perú and the positive signals emanating from Chile,<sup>20</sup> once the government of Michelle Bachelet was set in power.

In this context South American integration may end up with the simple foundational declarations of the South American Union (in reality, a Brazilian inspiration) and Bolivarian Alternative of the Americas (ALBA), labeled by the Spanish and European press as an “alternative for nothing”.<sup>21</sup> The resulting scene would be partially the result of the wrath in the attitude of Chávez. The free trade agreements obtained by some Andean members (Colombia and Perú) with the United States, in addition to the Northern oscillation of some Central American countries, attracted by Washington, provided a convenient excuse for the Venezuelan leader. CARICOM, for its part, would be left to its own fate, in a perennial Hamlet-like dilemma of insularity and double dependency on the United States and Europe. In the background would rest an FTAA with its membership reduced, composed of only the faithful members (a majority geographically closer to the United States), that only compute the number of affiliates as in a sporting score, sidelining the demise of the foundational message of a free trade zone from Alaska to Tierra del Fuego.

In any case, from a European (and, especially, Spanish) perspective, these unilateral Latin American moves (in reality, nationalizations) or superficial integration (South American Union, ALBA, expansion of MERCOSUR and reduction of the Andean Community) only accomplished the weakening of the support of Brussels and Madrid, precisely on the eve of the IV European Union-Latin America-Caribbean held in Vienna. Taking into account that the new strategy includes the contribution of local resources, as important as the ones originating from Europe, the questions overpower the facts. Ironically, the loss of credibility for the South American schemes and the disastrous inter-American adventure have opened a window of opportunity for Central America, now rediscovered by the European Union as a favorite daughter. However, promises of completing the deepening of its own integration rules with a viable customs union will have to be confirmed to receive the due attention of Brussels.

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<sup>19</sup> Jaime Acosta Puertas, “El fin de la Comunidad Andina.” (EUMA, Miami, July 2006) ([http://www6.miami.edu/eucenter/Acosta\\_EUMA1.pdf](http://www6.miami.edu/eucenter/Acosta_EUMA1.pdf))

<sup>20</sup> Noticias del SELA, “Chile formalizó pedido de ingreso a la CAN”, 24 agosto 2006.

<sup>21</sup> For a skeptical evaluation, see Francesc Granell, “Morales y la alternativa bolivariana de Chávez” *Política Exterior* no. 112 (julio/agosto 2006): 3742.



### **Balance conclusions**

In view of the European impasse and the failure of the FTAA, considering the challenges faced by the EU and the political, social and economical realities of the Americas, some conclusions are in order. First, in spite of the great difficulties and defeats experienced by the European process in its deepening (Constitution) and its widening (not only in its latest stage, but also regarding Turkey and the Balkans), it is a fact (backed by comparative data) that the EU still is the most successful and ambitious accomplishment of integration and cooperation (voluntary, not imposed by force) among sovereign states, in European and world history. This fact can be explained by two sets of evidence.

One explanation is cultural and the second is economic. The first is that comparatively Europe enjoys a dense cultural and historical cohesion that, even though is obtained by elimination of other origins, makes citizens feel European. The second is that there has been for a long time a pragmatic political consensus that has detected the benefits of integration, especially the completion of the early stages of deepening that imply the sharing of important sectors of sovereignty.

Whatever will be the evolution of the European process, chances are that in the long run the current obstacles will somehow be overcome, as has happened in previous chapters of the EU experiment. However, the truth is that the indecision produced by the constitutional derailment has been interpreted as the tip of the iceberg of the imperfections of the system and of its innate peculiarity. This “collateral damage” has already had a negative impact on the integration processes of the rest of the world, most especially in Latin America.

The most skeptical sectors to the deepening of the schemes of economic cooperation feel strengthened by what they perceive as a bad European example. This stresses the negative approach towards what erroneously is interpreted as “loss of sovereignty” or “cession of national prerogatives”. It is insisted that citizens feel the uncertainty caused by this oscillation and therefore do not understand the central message based on supranationality, shared sovereignty, and the common existence in a globalized uncertain environment. The European model, in essence, fails in its projection all over the Americas.

It should not be surprising that the current evidence shows that the Western Hemisphere experiments are until now modest, limited at best to free trade. Two considerable obstacles are presented on the path towards a deeper integration. One is the taboo represented by national sovereignty that does not count with the political complicity of a leadership in transition and the economic. The other is the economic and cultural gap of the different sub-regions, most especially between the United States and the rest of the continent. Observers may ask if there is a base for the division of the hemisphere into two FTAA's. One would be basically Northern, linked to Washington. The other would be a numerically reinforced MERCOSUR, but weakened in practical terms. A similar question

may be raised about the division of the South American sub-continent into West (Pacific) and East (Atlantic). While the first front will be dominated by the Andean Community, seeking individually to obtain free trade deals with the United States, the second would be anchored towards the West, based on the current state of MERCOSUR, progressively acquiring the profile of the ALBA as proposed by Chávez.

These are not the only questions to address. Others loom over the horizon, resonating as soon as the summits are dismissed. For example, what is really the cultural and ethnic logic and prospects for ALBA as envisioned by Venezuela? How can its strategy be compatible with a traditional MERCOSUR? What will be its juridical anatomy, under the support of ALADI?<sup>22</sup> What are its limits, beyond the opportunistic alliance formed by Chávez with Cuba and Bolivia? In this context, what is then the economic, strategic, and political logic of the South American Union? If it is true that its inspiration is Brazilian, as the talk goes in the continent, what are then the objectives of the government of Brazil? Is the South American scheme a widening of MERCOSUR or its further weakening?

Focusing on the Andean Community, what are its future prospects taking into account the escape of Venezuela, the corresponding follow up of Bolivia, while Chile has returned as an associate member? At all times, how does its present or future shape fit with the wider South American projects? Naturally, answers to all these questions rest on the repercussions of the behavior of Venezuela and Bolivia. There is also much to be observed after the results of the election in Peru in June of 2006, with the triumph of Alan García, who protested Chávez' backing of fellow populist Ollanta Humala. At least Garcia promised to respect the international free trade arrangements made by his predecessor Alejandro Toledo, providing in such a way a sense of a stability zone, which was later shaken by the subsequent victory of Correo in Ecuador. Finally, the global panorama will have to take into account the decisions to be taken by the leadership in Brazil and Argentina, jointly or separately. With due consideration to the differences in history and economic capacity, the role of these two countries in MERCOSUR parallels the experience of Germany and France in the European Union. Both the EU and MERCOSUR would be inconceivable without each pair.

Addressing the traditional concepts of nationalism, a major concern for the foundation of the European Union, as transferred to the Americas, it is possible to detect the surge of ethnic nations wishing to be provided with the cover of a state, or at least within a region inside the current states? Signals emanating from Bolivia and Ecuador would point in that direction. One enigmatic dimension of the Peruvian presidential election was that Humala received the support of the interior and the indigenous sectors, while García won in the urban centers.

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<sup>22</sup> Noticias del SELA, "ALADI: encargada de elaborar el corazón jurídico de la Comunidad Sudamericana de Naciones," ADN Mundo, 23 agosto 2006 (<http://www.sela.org/sela/prensa.asp?step=3&id=8006>).

In any case, a factor that needs to be part of the equation is the social exclusion and inequality present in many Latin American countries, at a level much higher than in any European region. These dimensions constitute the most impressive obstacle for the state structure and for any prospects of Latin American integration, as implemented or planned for the future.

To conclude, on a comparative basis, it would appear through 2006 that the process of Latin American integration was proceeding at a faster speed than the European, stalled after the leap taken by the enlargement and the crashing of the constitutional project. Optimism was the order of the day in MERCOSUR after its own peculiar and shocking enlargement. A reborn Andean Community was dressed up after the reincorporation of Chile as an associate, to make up for the Venezuelan desertion. Moreover, the plans of both schemes to be conflated in a more ample one, as envisioned by the South American Union, to which the venerable ALADI was ready to provide juridical base, inspired high hopes. For its part, the EU has pressured Central American integration to implement a solid customs framework. This will lead the region to receive the benefits of free trade, coming out of a weak position to take a leadership role. As a whole, this panorama would indicate that the integration of the Latin American nations has acquired a vertiginous speed. Compared with the apparent inertia of the European process, paradoxically one would bet for an era of Latin American advancement.

Appearances, however, may lead to wrong impressions, much different than reality. The slow process usually taken by the European experience, with the exception of the speeding phase of recent years, may well surpass in the long run the contradictory and frustrating path taken by Latin America. The EU pattern of behavior shows a legacy of prudence, steady movement, still in the tradition of functionalism and spill over effects. Only when circumstances dictate otherwise, bold decisions (usually taken by an irreplaceable elite) have been taken, but always after a considerable homework. In retrospect, the disaster encountered with the constitutional project can be explained by a relative lack of preparation of public opinion that has taken center stage when leadership goes into hiding. But the EU record also shows that it usually learns from its own mistakes. Utopian in its true sense can be the term applied to the ultimate record rendered after fifty years since the foundation of the European Economic Community, set as a remedy for the failure of the European Defense Community and the exhaustion of the apparently limited mandate of the Schuman Declaration of May 9, 1950.

The Latin American process of integration has been more inclined to make spectacular announcements and to maintain its resistance to the establishment of independent institutions. Claiming that these entities, as set in the past, lacking budgets and authority, were the culprits of past failures, the process was left in the hands of a leadership consumed by a fever for summitry. The result has frequently been a string of media declarations, grabbing headlines, grasping for air to breath, with no time to enjoy between one announcement of a virtual entity and the next.

The balance of a dozen Western Hemisphere elections held in 2006 (including the Canadian and mid term poll in the United States) left observers with a mixed panorama regarding the prospect of regional integration. On the one hand, the virtual tie resulting in the North American scene only points to a moderate strengthening of the basic tenets of NAFTA. The victory of the reformed Sandinista party in Nicaragua has added a counterweight to the internal debate between the deepening of the feeble integration scheme and the free trade pacts with the United States through CAFTA. It all depends on the political will of the diverse leadership of the Andean countries where the organization will go. The radicalization and nationalization process that was announced by Chávez in his new January 2007 inauguration adds more questions than answers for the reinvigoration of MERCOSUR.

Meanwhile, the European Union faces its own challenges, and has to choose between two basic alternatives. One is the complete abandonment of the ambitious reform as envisioned in the constitutional process. That will ultimately lead to a freezing of the entity, a glorious incomplete common market, with only half of its members adopting the common currency and no joint foreign policy. This would be in turn a wrong message sent around the world, especially to Latin America. How then could Brussels insist on deepening the different stages of regional integration with a model that apparently has exhausted its capacity?

The second alternative is the pursuit of a solution acceptable to the most important leadership of the EU to enable them to sell it to electorates. In the event that an offer based on a document that is barely an edited copy of the constitutional project is evaluated as unfeasible, then the alternative of a treaty that includes much of the most innovative institutional aspects of the original idea should be contemplated as the ideal solution. This will keep sending the message worldwide that the EU does not renounce its principles; it is flexible, it again has learned from mistakes, and finally prevails. However, only time will be able to issue the ultimate verdict.



# Between Vienna and Lima

Roberto Domínguez

## Introduction

While the North-Transatlantic community is deeply intertwined, the relationship between the European Union (EU) and Latin America, another transatlantic association, is trying to find formulas to revitalize their partnership. Today, the EU is the leading donor of aid in Latin America, its largest foreign investor and the second most important trade partner in the region. Nevertheless, an unenthusiastic atmosphere about boosting the dynamism in the bi-regional relationship pervaded the Forth EU-Latin America/Caribbean Summit held in Vienna in May 2006. On the road to Peru 2008, site of the fifth bi-regional summit, the main target of both partners is the enhancement of the network of association and free trade agreements and strengthening the existing ones with Mexico and Chile. Will the EU and Latin America be able to reach such an objective? If that is the case, what can we expect from those association agreements?

## Current Challenges

The European Union has undergone profound transformations since the end of the Cold War, guided by the paradox of simultaneous deepening and widening of the integration process. The combination of both processes has forced the EU to reevaluate its priorities; the result is that enlargement and the close neighborhood policies are at the top of the agenda, while Latin America is one of the lowest in the rankings.

On the other hand, Latin America has gone from democratic enthusiasm to institutional skepticism. In the mid-1980s, only three countries in the region had democratically elected leaders; today, only Cuba remains reluctant to adopt the basic rules of any electoral democracy. However, even though Latin America has largely adopted democratic practices such as elected civilian governments and peaceful transitions of power and basic civil liberties, scholars and political analysts- even the most conservative ones- agree on the fact that corruption, weak institutions and economic inequality, coupled with the inability of regional governments to provide basic services, are undermining the democratic consolidation in the region.

The immediate effect of the growing frustration with Washington-backed economic prescriptions and disillusion with the failure to deliver prosperity is the left turn in Latin America. From different perspectives, scholars concur with the

assessment that there are at least two lefts in the region. The first is open-minded and modern; Lula da Silva in Brazil and Bachelet in Chile head this wing. The second is close-minded and stridently populist; this is the case of Chavez in Venezuela. A third group is composed of recently elected leaders who are defining themselves as leaning towards the modern or the strident populism; these are the cases of Ortega in Nicaragua and Morales in Bolivia. In light of these transformations, what are the effects on the relations with the European Union?

### **The Distant Dialogue**

The region-to-region dialogue between the European Union and Latin America was institutionalized in 1999 when the first bi-regional summit took place in Rio de Janeiro.<sup>1</sup> The second summit was held in Madrid in 2002 and the third one in Guadalajara in 2004. Despite the limitations of the bi-regional dialogue, the 2004 summit brought about a sense of confidence, in light of the recognition of social cohesion as the top priority in the summit agenda. Nonetheless, regional transformations in Europe and Latin America were taking place, and by 2006, the atmosphere in both regions was quite different: the EU was exhausted from the 2004 enlargement process and was undergoing a period of reflection after the difficulties of trying to ratify the Constitutional Treaty, while elections in several countries in Latin America made evident the rising skepticism of free markets.

In May 2006, the fourth EU-Latin America summit was held in Vienna. The meeting had few positive outcomes. First, the European Commission published new communications to the Council on Latin America and the Caribbean, replacing those of ten years ago. Second, the European Parliament strengthened its role and delivered its opinion in several documents about the bi-regional relationship. Third, in the context of the EU financial perspectives up to the year 2013, the EU was able to sketch concrete commitments to buttress social cohesion policies in Latin America. Fourth, for the first time, a business summit took place in parallel with the political meeting.<sup>2</sup> However, the general assessment of the achievements of the summits, including the most recent one, seems to be unenthusiastic even in the voice of one of its protagonists: “But we must also ask ourselves in a mood of self-examination whether we have really done everything that we might have undertaken. And there, the answer can only be a self-critical no. And so here in Vienna, we cannot have a summit of self-satisfied, empty rhetoric; this must be a working meeting where we improve our own work.”<sup>3</sup>

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<sup>1</sup> Joaquín Roy and Roberto Domínguez (editors), *The European Union and Regional Integration. A Comparative Perspective and Lessons for the Americas* (Miami: Miami-European Union Center/University of Miami, 2005)

<sup>2</sup> Chancellor Wolfgang Schüssel, “Opening Speech at the EU-Latin America Summit,” Vienna, May 12, 2006.

<sup>3</sup> *Idem.*

Along these lines, and unlike the Guadalajara summit, signs of disagreement and irreconcilable differences were apparent during the Vienna summit and overshadowed the meager agreements. As stated above, the political environment in Latin America eroded European enthusiasm to deepen cooperation in the context of the strategic alliance due to the emergence of populist governments and policies in the region.<sup>4</sup> Particularly, the Venezuelan withdrawal from the Andean Community of Nations shattered one of the historical objectives of the EU on the continent: the development of integration processes in Latin America. Likewise, in the case of Bolivia, President Evo Morales nationalized the gas sector, which affected Spanish investments in that country, while the Venezuelan government announced plans for a new tax on foreign oil firms.

In response to this challenge, the President of the European Commission, José Manuel Barroso, argued that European businesses have found some obstacles in Latin America: lack of predictability of the economic setting, market access difficulties (trade and non-trade barriers), political instability, excessive red tape, customs problems, insufficient regional infrastructures, corruption and so forth. However, he straightforwardly emphasized that:

On top of these obstacles, there is a worrisome new one: the tendency to understand European investment under a negative light... Make no mistake, whether this political attitude prospers, *European businesses will not be harmed as a consequence because there are abundant investment opportunities in other regions*, and the victims will be poor people in Latin America... In order to facilitate investment and trade in Latin America and the Caribbean, we need to guarantee predictability and safety for investments...<sup>5</sup>

Between Vienna and Peru, the European Commission has recommended following several strategies depending on the specific particularities of each one of the sub-regions in Latin America. In the long run, however, reaching association agreements is the most important objective for both the EU and the sub-region in Latin America (Central America, Caribbean, MERCOSUR and Andean Community of Nations).

### **Two Lane Traffic Negotiations: Explaining Association Agreements**

How should one explain the relationship between two parties whose priorities, interests, and political and economic developments are different? The rhetoric of official statements emphasizes the “common” heritage of the European presence

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<sup>4</sup> Stephan Sberro, “Cartas desde Europa,” *El Universal*, May 28, 2006.

<sup>5</sup> José Manuel Barroso, “Speech to Heads of State and Governments at the IVth EU-Latin America and Caribbean Summit,” SPEECH/06/295 (Vienna, 12 May 2006).



in Latin America. However, an evaluation of the European and Latin American relationship by almost any political and economic standard reflects the moderate impact of European strategies on Latin America, while the Latin American leverage in Europe is quite marginal. In other words, it would seem that, as in any negotiation, there is a two-way street, but the traffic is heavier in one lane than on the other.

#### EU's Main Trade Partners in Latin American Partners

Imports		Exports		Major Trade Partners	
Country	100% <sup>1</sup>	Country	100% <sup>2</sup>	Country	100% <sup>3</sup>
1. USA	13.9%	1. USA	23.7%	1. USA	18.0%
2. China	13.5%	2. Switzerland	7.7%	2. China	9.4%
3. Russia	9.1%	3. Russia	5.3%	3. Russia	7.3%
7. <i>LAT.</i>	5.5%	4. <i>LAT.</i>	5.1%	5. <i>LAT.</i>	5.3%
8. <i>Mercosur</i>	2.6%	15. <i>Mercosur</i>	1.9%	9. <i>Mercosur</i>	2.3%
10. Brazil	2.0%	17. México	1.6%	11. Brazil	1.8%
29. <i>Andean Comm.</i>	0.9%	18. Brazil	1.5%	22. Mexico	1.2%
30. Mexico	0.8%	29. <i>Caribbean Comm.</i>	0.8%	30. Caribbean	0.7%
32. Chile	0.7%	35. <i>Andean Comm.</i>	0.7%	35. <i>Andean Comm.</i>	0.8%
35. Caribbean	0.6%	39. Chile	0.4%	38. Chile	0.5%
38. Argentina	0.5%	38. Argentina	0.3%	40. Argentina	0.3%
46. Venezuela	0.3%	51. Venezuela		49. Venezuela	

1. 1174633 Mio €=100%

2. 1061013Mio €=100%

3. 2 235 645 Mio€=100%

Source: Own Elaboration based upon EUROSTAT, DG Trade/Statistics, May 18, 2006.

In the case of the EU's relations towards United States, for instance, common history, legacies and above all shared challenges (security, migration, and economic growth) provide a firm and solid ground for applying theoretical assumptions such as rationalism or constructivism. However, when one shifts the attention to Latin America, one can see that the driving forces of interests and/or identities diminish and the bilateral agenda becomes less complex due to the lack of intense and deep structural links.

In this regard, the asymmetry of economic and political power and the different goals in the negotiations of the EU-LAT agenda would lead us to approach the association agreements under the premises of absolute instead of relative gains, which is a key concept in the debate between realist (of any kind) and (any variant of) liberal scholars in International Relations. While the former emphasizes that policy-makers will be primarily concerned with *relative gains*; the latter argues that *absolute gains* should be the priority of any cooperation, which

means that the parties will be more focused on what they can get from any negotiation, regardless of the gains and power of the other party. This framework can be helpful and useful in explaining the agreements between two parties with different political and economic leverages.<sup>6</sup>

### **Association Agreements: Why Mexico and Chile First?**

On a number of criteria ranging from the size of their economies to the nature of their political evolution, there are outstanding differences between Mexico and Chile. Nonetheless, both countries have undergone a simultaneous and gradual process of erosion of political authoritarianism, and implementation of free market policies since the mid-1980s. Mexico has gone through a process of steady electoral democratization and has become one of the most open economies in Latin America since late 1980s. Chile, on the other hand, was welcomed to the family of democratic nations in the early 1990s and has made significant progress in the normalization of the relationship between the civil and political society on the one side, and the military class on the other. In such processes, both countries first implemented a “perestroika” and then a “glasnost” later on in the 1990s.

Mexico was the first and strongest candidate to launch a new generation of EU Association Agreements with Latin American countries. On the Mexican side, the following objectives were crucial in the negotiations: a) to deepen the process of economic modernization and trade liberalization, and b) to improve the conditions for Mexican exporters’ access to the European market. On the European side, three reasons seemed quite relevant: a) NAFTA as a catalyst for negotiations, b) ending the discrimination in the Mexican market against European investors and exporters as a result of NAFTA, and c) the prospects of a free trade area in the Americas as proposed in the 1994 Summit of the Americas.<sup>7</sup>

In the case of Chile, this South American country managed to re-insert itself into the international community after years of relative isolation during the military regime and actually become a very active actor in a number of international fora.<sup>8</sup> In the economic realm, Chile has distinguished itself in Latin America by its good economic performance (high growth rates, low inflation and public sector surplus). After a peaceful transition, Chile became the second natural candidate for an association agreement.

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<sup>6</sup> John Baylis and Steve Smith, *The Globalization of World Politics* (Oxford: Oxford University Press, 2005), 343.

<sup>7</sup> Jaime Zabudovsky and Sergio Lora, “The European Window: Challenges in the Negotiation of Mexico’s Free Trade Agreement with the European Union” (Working Paper SITI-09, INTAL, July 2005).

<sup>8</sup> European Commission, “The EU’s relations with Chile. Overview;” available from [http://europa.eu.int/comm/external\\_relations/chile/intro/index.htm](http://europa.eu.int/comm/external_relations/chile/intro/index.htm); (accessed March 6, 2006).

The relevance of the Association Agreements between the European Union and Mexico (2000) and the EU and Chile (2005) is based on the assumption that both agreements are significant for the EU-Latin American relationship for two chief reasons: a) they are the first comprehensive – political, economic, and co-operation - agreements with countries in the region, and b) they set a precedent for future agreements with other countries or groups of countries in the region. Certainly, these association agreements are not a solution for Latin America's problems. Instead, they complement the political and economic reforms in Mexico and Chile and their overall impact is moderate.

### **Mexico and the Association Agreement**

Bilateral relations between the EU and Mexico are governed by the Economic, Political and Co-operation Agreement (Global Agreement), which was signed in Brussels on 8 December 1997 and entered into force in October 2000. The Free Trade Agreement (FTA), part of the Global Agreement, covers a broad spectrum of economic aspects and included a full liberalization of industrial products, substantial liberalization for agricultural and fisheries products, and, with regards to rules of origin, a satisfactory balance between the EU's policy of harmonization and market access considerations. The FTA has also provided EU operators with access to the Mexican procurement and services markets under equivalent conditions to the ones offered to NAFTA partners. In the five years following the entry into force of the FTA, bilateral trade between the EU and Mexico grew by nearly 40%. While European exports to Mexico have risen by 30%, Mexican sales in Europe have grown by 19%. Thus, the association agreement has certainly brought about new opportunities for both parties. Nevertheless, the magnitude of such opportunities is different for each party. In the Mexican case, the association agreement, and particularly the section on trade, has complemented the extensive network of free trade agreements that Mexico has concluded in the past 15 years.

As for the political sphere of the agreement, the EU has contributed to strengthening the consolidation of Mexican democracy. The deeply atavistic and orthodox views about the meaning of sovereignty in Mexico postponed any major negotiation of an association agreement in the early 1990s because of the "implications" of the Democracy Clause for Mexican sovereignty. Once such a clause was accepted by the Zedillo administration and the EU supported the decision of the Mexican government to prohibit the death penalty and the legitimacy of the contested electoral process in July 2006. Likewise, Mexico was one of three priority countries in Latin America for the 2002-2004 European Initiative on Democracy and Human Rights. By the same token, the Association agreement facilitated the cooperation in a range of important areas such as tropical forests, NGOs, ECIP (European Community Investment Partners), ECHO (humanitarian

aid), economic co-operation, demographic policies, and refugees and displaced persons.

One last element to be considered in the relationship between the EU and Mexico is the way in which the Joint Committee and other mechanisms of dialogue have helped to accelerate the cooperation between both parties. For instance, in the area of cooperation, both parties have intensified their efforts to reach a Horizontal Civil Aviation Agreement, as well as to establish a form of cooperation in the context of the European Program for Global Navigation Services (Galileo). Likewise, both parties have discussed alternative options for assuring a follow up of the Dialogue with the Civil Society.

### **The Association Agreement EU-Chile**

In the context of the relations with Europe, Chile followed in Mexico's steps by pursuing an Association Agreement with the EU. Unlike the Mexican case, the relationship between Chile and the EU is a more recent one. The Community Cooperation Framework Agreement, signed in 1990, was the main instrument that permitted the initiation of government level contacts after the re-establishment of democracy in 1990. This agreement was replaced by the Cooperation Framework Agreement signed in 1996, which has as a final aim the establishment of a political and economic association between Chile and the European Community and its member states.<sup>9</sup> The EU and Chile began these negotiations in April 2000 and the Association Agreement was signed on 18 November 2002.

The Association Agreement has been in force since 1 March 2005 and covers the main aspects of EU-Chile relations, namely political and trade relations and co-operation. Certainly, while the elimination of customs duties is clearly a major step forward, in view of the Commission the agreements on services, market access and investment are the areas where the most important liberalization has been made.<sup>10</sup>

As a result of the bilateral cooperation, Chile has participated in Operation ALTHEA. In this regard, the Chilean President, Michelle Bachelet, is quite sensitive to the role of military forces in this type of operation because, during her tenure as minister of defense in 2002, Bachelet modernized the armed forces and, most importantly, shifted them further away from the repressive role they played under Pinochet's regime toward one of international peacekeeping.<sup>11</sup>

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<sup>9</sup> European Commission, Chile. "Country Strategy Paper" (Brussels, 2002), 6-7.

<sup>10</sup> Final Report, "Sustainable Impact Assessment (SIA) of the trade aspects of negotiations for an Association Agreement between the European Communities and Chile (Specific agreement No 1)," Planistat, Luxembourg, (October 2002)

<sup>11</sup> Marcela Sanchez, "Bachelet, A Subtle Force," *Washington Post*, March 10, 2006.

Likewise, a recent agreement is in order to facilitate transportation cooperation between the two parties: the EU-Chile Horizontal Agreement in the field of air transport was reached and there is a firm intention to move forward with Chile's request for the liberalization of services in this area.

Along the same lines of establishing bilateral institutions of cooperation, the agreement sets in motion the Association Committee on Technical Level, the Association Parliamentary Committee (European Parliament and National Congress of Chile), and the Joint Consultative Committee (channeling dialogue between the Social and Economic Committee of the EU and its Chilean counterparts).

<sup>12</sup> Both of these institutions are an innovation in comparison to the EU-Mexico Agreement.

With regard to the trade area, it is still too early to assess the economic effects of the agreement on the Chilean economy. However, the mere expectations of the association agreement since the end of the 1990s and the economic and political stability promoted confidence in investing and trading with that country. Unlike Mexico, Chile has a high degree of dependence on primary products that makes it vulnerable to external market fluctuations. This is the main challenge for Chile. Thus, traditional activities still represent an important share of the country's GDP and export structure: during the first semester of 2003, mining (predominantly copper) still represented 46% of total exports, while agriculture, farming, forestry and fishing products combined represented 13.02%. In such a context, trade with the EU represents less than one-fourth of the overall Chilean external trade: 25% of its exports go to the EU and 19% of its imports come from the EU.<sup>13</sup>

Nonetheless, it is expected that the specific areas covered by the trade chapter of the agreement will contribute to the diversification of the Chilean economy. In this regard, the agreement establishes a free trade area covering the progressive and reciprocal liberalization of trade in goods over a maximum transitional period of 10 years. It also establishes a free trade area in services and provides for the liberalization of investment and of current payments and capital movements. Likewise, it includes rules to facilitate trade in wines and spirits, animals and animal products, and plants, and provisions in areas such as customs and related procedures, standards and technical regulations. Another important aspect is that it provides for the reciprocal opening of government procurement markets and for the adequate and effective protection of intellectual property rights.

In the context of the negotiations of the agreement, the cooperation offered by the EU to Chile is of utmost relevance. Since 2000, 22 projects have been committed for a total amount of about € 7,790,000. The bulk of the funds (87%) committed so far have been allocated to NGO projects, 15% of the funds went to

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<sup>12</sup> Christopher Patten, "Prologue" in *The Strategic Association Chile-European Union*, Patricio Leiva Lavalle, (Chile: CELARE, 2003), 22.

<sup>13</sup> *Idem*.

projects related to the European Initiative for Democracy and Human rights, and 3% went to a project in favor of the environment.

Similar to the Mexican experience, the political area of the agreement is significant. Having fresh memories of the recent past, the democracy clause in the agreement upholds no return to authoritarian practices, or at least raises the political cost if such regression takes place in the future. Thus, for Chile the respect for democratic principles, human rights and the rule of law are essential elements of the Agreement.

In the field of co-operation, the association agreement explores new areas, which were not foreseen in the 1996 Framework Co-operation Agreement between the two parties. Likewise, an increased participation of civil society is suggested and the EU and Chile will meet at regular intervals to exchange views on this topic.

### **Who is next?**

Based on the results of the association agreements between the EU and Mexico and Chile, it could be said that such instruments should be seen not as a panacea, but as a way to strengthen the current implementation processes of free market policies and democratization in Latin American countries. Three main characteristics will be included in future association agreements. First, they will be negotiated with regions rather than individual countries; this scheme of dealing with regions has actually been implemented by the United States in the negotiation of CAFTA. Second, Central America and the Andean Community are the regions that will most likely reach association agreements with the EU. In fact, on December 6, 2006, the European Commission proposed that the EU should start negotiations for Association Agreements with Central America and the Andean Community in 2007. In order to accelerate this process, the EU granted the Central American countries €7 million to consolidate their customs union.

The third trend in the creation of association agreements is that the MERCOSUR-EU negotiation will not be completed before the end of the Doha Round. It is interesting to note that although the MERCOSUR-EU negotiations started in 1999, the progress has been slow due to the economic leverage of Brazil. Likewise, an element of uncertainty is the role that Venezuela can play in the strategies of MERCOSUR. In the meantime, some business groups have estimated that the cost of lost opportunities in trade of goods alone represents \$3.7 billion per year.

### **Conclusions**

The challenge for Latin America is to make use of these free trade agreements to improve and promote sustainable economic and social development, as well as equitable distribution of the benefits of the association agreements with the EU.

In the case of Mexico, there is an emergent consensus among the political establishment that free trade agreements are not enough for improving the standards of living. In the case of Chile, former president Ricardo Lagos has accurately referred to this challenge and stated that while his country has followed the so-called “Washington Consensus” of free markets and deregulation, they have also tried to wed this to a network of social protection.<sup>14</sup>

Thus far, the evidence suggests that, from the Latin American perspective, the association agreements with the European Union should be negotiated under the premise that they will open windows of opportunity for investment, trade and political cooperation, but they do not substitute the domestic efforts for economic and political reforms. In fact, both countries attracted the attention of the EU once they had proven that their free market reforms were moving forward and their political systems presented clear evidence of democratization.

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<sup>14</sup> Ricardo Lagos, “Presentation before the European Parliament,” October 25, 2005.

## **II. The Dialogue: Scope and Details**





# **An Assessment of the Summits**

Alejandro Chanona

## **Introduction**

Since its establishment at the 1999 Rio de Janeiro Summit, the objective of the Latin America and the Caribbean (LAC) and European Union (EU) Summits has been the creation of a Strategic Partnership based upon political and economic cooperation as well as common principles and values. However, in spite of the existence of some positive economic indicators (like trade and investment) that provide evidence of some significant progress in strengthening interregional relations between the LAC and the EU, the goals of the strategic association are still limited. In that vein, the Fourth Summit Meeting of Heads of State and Governments of the LAC and the EU, held in May 2006 in Vienna, was a challenge for the bi-regional relationships because both partners faced the possibility of detonating a new relational stage wherein they see themselves mutually benefited by a truly strategic association. This would imply obtaining tangible results within the framework of the strengthening of political, economic and cooperative links.

With a GDP four times smaller than the EU (€2, 453 billion compared with €8.524,2 billion, respectively),<sup>2</sup> the LAC aspires to attract European investment, increase transfers of Official Development Aid (ODA) and guarantee access of Latin American agricultural and manufactured products to the Union's market. In this regard, the EU's method of cooperation and transference of resources is being tested in its relation with the LAC. According to the equation, the more resources are transferred from northern Europe to southern Latin America and the Caribbean, the more the opportunities to trade with and invest in the Latin American markets will increase for Europeans. From the EU's point of view, economic growth will improve social cohesion and democratic governance in the LAC.

## **The Bi-regional Relationships**

In broad terms, we can locate three significant stages within the LAC-EU relationship: the first encompassed the decades of the seventies and eighties and the political aspects prevailed in the relationship; a second phase began in the nineties, occurring simultaneously with the economic opening and structural adjustment programs of the LAC countries and highlighting the conquest of in-

vestment and trade markets of the subcontinent by Europeans. The third stage was inaugurated with the process of the 1999 Summits, with the purpose of developing a strategic association together with a political understanding and economic matters. This third stage underlines cooperation to foster social cohesion, as well as democratic governance in the Latin American and Caribbean area.

The Rio de Janeiro Declaration, issued from the first high-level encounter of the LAC region and EU countries, settled the so-called “three strategic dimensions” of the bi-regional relationship: fruitful and respectful political dialogue on international law and norms (multilateralism), strong economic and financial relationships (free trade and investment/promotion of social cohesion), and more dynamic and creative cooperation in the educational, scientific, technological, cultural and social spheres (promotion of governance/social cohesion and development).<sup>1</sup> However, despite the establishment of the Bi-Regional Mechanism in 1999, the relationships between the LAC region and the EU have experienced a series of ups and downs in the last few years. Both parties seem to have lost the initial impulse and enthusiasm as a result of immediate priorities of each of the sides and also due to the complex international atmosphere, characterized by the importance of the security agenda since September 11, 2001, which has pushed the agenda for cooperation and development into second place.

In the field of foreign relations, the EU has prioritized three areas during the last few years: a) the geographic neighborhood policy, centered on the development of a “ring of friends”<sup>2</sup> collaborating to protect European security, b) attention to crises in Northern Africa, so as to contain migratory waves to the European territory and c) more attention has been given to the countries in Africa and Asia as a part of the international consensus surrounding the Declaration of the Millennium. Consequently, although the political discourse still emphasizes the importance of strengthening the political and economic relations with the region, as well as fostering social cohesion and democratic governance through cooperation, a certain marginalization of Latin America may be perceived in the priorities of the European agenda.

In the case of the LAC region, the call to establish a mechanism for dialogue and bi-regional cooperation with the EU was perceived “as the great alternative of development to overcome domestic and foreign problems,”<sup>2</sup> but which has not

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<sup>1</sup> Paragraph 7 of the *Rio de Janeiro Declaration*, adopted in the First Latin American and Caribbean-European Union Summit, June 28 and 29, 1999.

<sup>2</sup> In the framework of the European Security Strategy, the idea of create a “ring of friends” means the development a stable and pacific zone around Eastern Europe and the Mediterranean (The ring of friends states) bound together by shared values, open markets and borders, and enhanced cooperation in such areas as research, transport, energy, conflict prevention and law enforcement. This strategy includes rapid deployment of troops, humanitarian assistance, policing operations, enhancement of the rule of law and economic aid. Jean-Yves Haines, *ESDP: an overview*. European Union, Institute for Security Studies (France. 2005) ([www.iss-eu.org/](http://www.iss-eu.org/))

occurred. Latin American and Caribbean countries still face multiple challenges: poverty, natural disasters, institutional weakness, democratic fragility, and societal violence as well as hot spots in security such as the trafficking of arms, people and narcotics, coupled with the impossibility of advancing sub-regional integration processes.

Together with the internal dynamics of each of the regions, certain changes appear within the international context, which necessarily affect bi-regional relations and influence the definition of the priorities of foreign action of each of the partners. It is certainly true that the security agenda, specifically the issue of the fight against terrorism, has displaced the agenda of development in all encounters and international forums. The bi-regional dialogue has not escaped that situation. Consequently, the combat against terrorism has escalated from paragraph 27 of the Rio de Janeiro Declaration<sup>3</sup> to Paragraph Four of the Madrid Declaration, wherein terrorism is identified as “a threat to democratic systems, to freedom, to the development of both blocks, to peace and to international security.”<sup>4</sup>

The 2004 Guadalajara Summit Meeting seemed to open an opportunity to reinvigorate the bi-regional relationships. Thanks to the innovative format created by spreading the tasks to different worktables according to geographic zones and division of topics, the level of exchange of ideas and integration of all actors could be expanded. Furthermore, two central topics were established for the Summit: social cohesion and multilateralism. This clearly allowed for steering the course to be taken by the Summit and broadened the expectations for the LAC countries to reach effective cooperation for development coming from the EU. The item of combat against terrorism appeared in paragraph 17 of the Guadalajara Declaration, preceded by a paragraph of commitment to enter into a multilateral and broad focus on international security, biased the tendency to *securitize* the bi-regional agenda.

The London terrorist attacks in July 2005 and the vital need of the EU to face the terrorist challenge have derived into the preeminence of security topics in the European agenda, having a renewed impact on the bi-regional agenda. Miguel Angel Moratinos, the Spanish Minister of Foreign Affairs and Cooperation, has openly regretted the circumstance that Latin America is not on the European agenda, despite the “insistence” uttered by Spain and Portugal of the benefits of a strategic association.<sup>5</sup> Nevertheless, a recent communication of the European

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<sup>3</sup> The Rio de Janeiro Declaration gathered in its paragraphs 22 to 27 commitments surrounding the cooperation for international peace and security, placing special emphasis on disarmament, non-proliferation and struggle against the trafficking of persons, arms and drugs and leaving the combat against terrorism as the last topic. *Rio de Janeiro*, First Summit LAC-EU, June 1999.

<sup>4</sup> Paragraph 4 of the “Madrid Commitment Political Declaration”, adopted in the Second Summit LAC-EU, held in Madrid, Spain, May 17, 2002.

<sup>5</sup> Europa Press, “Spain regrets that Latin America is not on the European agenda and that the EU only takes care of large crises,” October 13, 2005.

Commission toward Latin America stated that the Fourth Summit could be the beginning of a renovated “Strategic Partnership” between Latin America and the European Union. The European Commission proposes to the Council and European Parliament a renewed strategy designed to strengthen the bi-regional relationships, based on six objectives:

- a) Establish an enhanced strategic partnership through a network of association and free trade agreements involving all the countries of the region.
- b) Strengthen the political dialogue which increases the influence of both regions on international scene. (Multilateralism)
- c) Promote the social cohesion and sustainable development in LAC countries. (The Commission proposed the development of a bi-regional dialogue, through a social cohesion forum and a meeting of environment ministers every two years to prepare for the Summits.)
- d) Contributing to development of a stable and predictable framework to help LAC countries attract more European investment, including loans from the European Investment Bank to set up a Latin America Facility in support of interconnectivity of infrastructure networks.
- e) Support LAC countries in the fight against corruption, drug trafficking and other forms of crime. (Improve regional and international security)
- f) Increasing mutual understanding through education and culture.<sup>6</sup>

For the LAC countries, the challenge of the Vienna Summit shall be to avoid the antiterrorist agenda from upsetting that of development, in order to ensure that social cohesion, multilateralism, the opening of the European market and democratic strengthening continue to be the axes of bi-regional dialogue. Otherwise, these topics shall be approached “as a grapevine of good intentions,” but they will be lacking in action plans and specific commitments to enforce them.

### *Economic Relationship*

From a quite indulgent perspective, we can affirm that the relations between both regions showed considerable progress. For example, the recurring statement that by taking advantage of the liberalization of Latin American economies and the

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<sup>6</sup> European Commission, “Communication from the Commission to the Council and the European Parliament. A stronger partnership between European Union and Latin America,” Brussels, December 8<sup>th</sup> 2005.

privatization programs of public enterprises since the 1990s, the EU consolidated itself as the top investor in the region, particularly in Argentina, Brazil and Chile, and as its second leading commercial partner, being the leader in MERCOSUR and Chile.

Thus, by 1998, 10 out of the 15 major transnational companies established in the region were European, as were 9 out of the 15 banks with the highest volume of assets. In 2000, European community investments amounted to €38,983 million Euros, which represents 75.3% of the total direct foreign investment in the region. Furthermore, over the last decade, trade between both regions grew by 60%: by the year 2002, exports from the EU to Latin America amounted to €57,500 million, whereas imports from the EU from Latin America reached €53,700 million; in the case of the Caribbean, exports to the EU reached €4,979 million and imports were €7,670 million.<sup>7</sup>

Nevertheless, the consolidation of the Strategic Partnership, understood as a way of setting up an economic and political counterbalance to the United States and promoting an effective mutual diversification of markets, still appears to be quite a ways off. With the exception of the MERCOSUR countries and Chile, the countries of Latin America continue to prioritize relations with the U.S., as it is the hemispheric hegemony. Trade, investments and political alliances at the international level are still highly conditional upon the relation with the “Northern Neighbor.” Hence, the figure of the 60% growth in trade in the EU during the nineties is put into perspective, even overshadowed, by the 240% increase in the trade of these countries with the United States in the same period.

In real terms, the EU only represents 10% of imports and nearly 9% of LAC exports, whereas our region represents 5% of imports from the EU and 6% of its exports. Additionally, an analysis of the structure of trade between both regions underlines the inequalities involved in this North-South relation. For example, raw materials and agricultural products continue to be the predominant imports of the EU from the LAC, whereas exports of goods from the Union to the region consist mainly in machinery, equipment and chemical products.<sup>8</sup> It is clear that both partners recognize the mutual benefits to be obtained from the reinforcements of their economic relationships, to the extent that the EU sees in the LAC region the possibility of expanding its markets and consolidating its economic scope through local investments; whereas the Latin American and Caribbean countries consider the European market attractive for their primary products. Currently, only Chile and Mexico have Association Agreements with the EU, and therefore the expectation of Latin Americans for the next Summit Meeting

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<sup>7</sup> See: “EU-Latin America Trade Data,” web page of the European Union at: <http://europa.eu.int/comm/world/lac/ladata.htm> and “Bilateral Trade Relations, Latin America and the Caribbean (May 2002)” web page of the European Union at: [http://europa.eu.int/comm/trade/bilateral/lac/index\\_en.htm](http://europa.eu.int/comm/trade/bilateral/lac/index_en.htm)

<sup>8</sup> Eurostat, *op. cit.* 3-4.

resides in a consolidation of association agreements with MERCOSUR and the Central American Community.

The LAC continues to represent a very attractive market for European companies. The coverage of banking, telecommunications, telephone and electricity services, among others, is still low in the region. It is therefore a fertile terrain for long-term investments. Consequently, although the crisis of some Latin American economies, particularly that of Argentina, has lowered the profits of the big European companies, the option to withdraw from the region appears to be ruled out.

Likewise, from the perspective of the EU, the increase in business exchanges with the Latin American countries shall point at their economic growth, eventually resulting in an improved distribution of wealth and promotion of social cohesion in the region, always with the intervention of an institutionally sound and socially responsible democratic State.

Starting from this rationale and within the framework of the Generalized System of Preferences (SGP), in June 2005, the EU replaced the old Special Regime of Support for the Fight against Drug Production and Trafficking (“SGP” – Drug)<sup>9</sup> with the Special Regime of Stimulus for Sustainable Development and Governance, known as SGP-Plus.<sup>10</sup> It is a plan that grants tariff preferences to developing countries “that are vulnerable due to their lack of diversification and their insufficient integration in world trade”, pointing out economic growth and thus responding positively to the need for sustainable development.”<sup>11</sup> The access to the SGP-Plus is conditional upon the requirement of the beneficiaries belonging (or ratifying, as the case may be) to a total of 27 international agreements linked to human rights, the environment and governance. The SPG-Plus started in July 2005, and is especially beneficial for Central America and the Andean Community because it eliminates tariffs for a number of agricultural, agro-industrial, textile, fabrics, leather, shoes and plastic products.<sup>12</sup>

#### *Political Dialogue: Multilateralism and Governance*

Throughout the three high-level encounters of the countries of the Latin America and the EU, both regions have committed themselves to sharing values and gen-

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<sup>9</sup> Granted since 1990 to the Andean countries under the principle of shared responsibility through the Regulations of the Board of the EU (CE) Number 2501/2001.

<sup>10</sup> Regulations of the Board of the European Union (CE) Number 980/2005, adopted on June 27, 2005.

<sup>11</sup> *Idem*.

<sup>12</sup> The Ministry of Trade, Industry and Tourism of the Republic of Colombia, “European Union, approves the regulations of the new SPG PLUS that will benefit Colombia as of July 1, 2005,” July 1, 2005.

erating communication links related to two key objectives: the promotion of multilateralism and the achievement of democratic governance in the LAC. The commitment to multilateralism, explicitly defined in paragraph 1 of the Madrid Declaration, was reinforced at the Guadalajara Summit, being one of the vital topics of the Summit, proposed by LAC countries and starting from the great coincidences existing between both blocks regarding some international issues.

Within the framework of an international context marked by the growing unilateralism of the United States in its war on terror, the bi-regional alliance between the LAC and the EU could become a real counterbalance to this characteristic of U.S foreign policy. The idea is to progress toward a multipolar international system that respects International Law, redevelops regional alliances and searches for consensual solutions to the problems countries are facing. For example, both regions share a multidimensional vision on security; hence, terrorism, transnational organized crime, drug trafficking, money laundering, corruption and the illegal arms trade are joined by extreme poverty, natural disasters, HIV/AIDS and other diseases, the deterioration of the environment, white slavery and attacks on cybernetic security as security threats.

Consequently, it is indispensable to strengthen the dialogue between both regions in the face of the need to mend multilateral institutions, from the reform of the United Nations to the international financial and trade bodies. There are clearly many accords: the common position of a good number of European and Latin American countries with respect to the conflict in Iraq and, more specifically, the understanding between France and Germany with Chile and Mexico in the Security Council, as well as the consensus in the Human Rights Commission of the UN and other international bodies, give an account of the ample possibilities of progression in this understanding.

In the Declaration of Guadalajara, both blocs undertook to work together on the construction of a new and renovated multilateralism, recognizing that the strength of the regional organizations is the essential means for contributing to its development.<sup>13</sup> On the basis of full respect for International Law, both partners stressed their multilateral approach to security, their commitment to international disarmament accords and the importance of cooperation in fighting terrorism within the framework of international institutions.

Due to the terrorist attacks in Europe, it is clear that the priority of the EU is the combat against terrorism and a toughening of European policy on the subject of security and defense, with a trend to bring it closer to the United States' point of view of a frontal combat against *Islamic* terrorism and distance it from the multidimensional vision shared with Latin America.

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<sup>13</sup> Paragraph 14 of the "Declaration of Guadalajara," adopted at the Third European Union-Latin America and the Caribbean Summit, held in the City of Guadalajara, Mexico, May 28 and 29, 2004.



Likewise, the commitment accepted by both regions towards a democratic strengthening has been mentioned in each of the Declarations issued by the several Summits. Here, the European concern is centered on the problems still being faced by Latin American democracies in the area of institutional consolidation, with regard to the state of law and human rights, among other aspects. From the perspective of the EU, the LAC countries require the strengthening of their democratic systems in order to provide the economic, political and social stability necessary for the development of the region. Thus, the trade liberalization and democratic strengthening equation should be translated into improved living standards for Latin American and Caribbean citizens (social cohesion), and this, in turn, will guarantee regional stability and a good performance of European investments. Undoubtedly, one of the priority topics for LAC should be the consolidation of their democracies, by going through the necessary institutional strengthening and by paying urgent attention to the social debt caused by structural adjustment programs.

#### *Bi-regional cooperation*

The bi-regional cooperation in the educational, scientific-technological, cultural, human and social spheres makes up the third area of the bi-regional strategic association. For the EU, the deployment of cooperation mechanisms allows for the consolidation of its international image, linked to a commitment towards sustainable development, by promoting democracy and social inclusion in the destination countries and by positioning it as the fundamental actor of contemporary international relations. In turn, LAC countries aspire to benefit even more from the receipt of finances designed to support their development.

The EU is the first donor of ODA for the LAC. Since 1996 it has contributed 500 million Euros a year via the Commission and the European Investment Bank,<sup>14</sup> which represents 45% of the resources for development received by the region. The help to the LAC countries is concentrated in the following sectors: social (41%), infrastructure (18%), teaching and health (17%), multi-sector (14%) and production (10%), whereas the five main beneficiaries of this help are Nicaragua (with \$928 million); Bolivia (\$729 million); Honduras (\$678 million), Peru (\$451 million) and Colombia (\$380 million).<sup>15</sup>

It is beyond any doubt that the main goals of the bi-regional relations include the cooperation programs that have widely benefited the LAC, from those aimed at productive investment (AL-Invest) and urbanization (Urb-AL), to those con-

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<sup>14</sup> "The EU's Relations with Latin America," webpage of the European Union ([http://europa.eu.int/comm/external\\_relations/la/index.htm#4](http://europa.eu.int/comm/external_relations/la/index.htm#4))

<sup>15</sup> European Commission, *The European Union, Latin America and the Caribbean, a strategic association*, (Luxembourg, Office of Official Publications of the European Communities, 2004), 20.

cerning education (ALBAN and ALFA) and the development of the information society (@LIS). The amounts allocated to the cooperation programs are listed below:

Program	Contribution
<b>AlBan-</b> European Union Programme of High level Scholarships for Latin America.	€ 113.5m
<b>ALFA</b> - Latin America Academic Training	€ 83m
<b>AL-INVEST</b> enhancing commerce between SMEs	€ 46m
<b>@LIS</b> Alliance for Information Society	€ 77.5m
<b>URB-AL</b> - Urban Policy Coordination	€ 50m
<b>EUROsociAL</b> – Regional Programme for Social Cohesion	€ 30m
<b>EURO-SOLAR</b>	€ 24m
<b>OBREAL</b> - Observatory of the Relations between Europe and Latin America	€ 1.35m

**Source:** EuropeAid Co-operation Office – Latin America, European Commission, Brussels 2006.

Electronic version available at:

<http://europa.eu.int/comm/europeaid/projects/amlat/documents/argentina.pdf>

However, the results of the cooperation programs, although important, are still limited. Latin America and the Caribbean do not require a focus on cooperation for welfare, but rather a differentiated focus starting from the needs of each of the beneficiary countries and under the optic of supporting the development of feasible productive processes directed towards the improvement of the quality of life of the population.

It is desirable for the EU to rethink its cooperation schemes with the LAC, generating new, broader and more profound schemes. It is clear that the needs of the region require more than the 500 million euros allocated each year by the Europeans, and that these needs can only be met by implementing viable internal measures. Likewise, the success of a bi-regional cooperation requires the commitment of the political and economic Latin American elites with a balanced development inside their countries, under the renewed perspective of social responsibility.

### **Social Cohesion: Fundamental Issue for the LAC region**

The countries involved in contemporary capitalist economic relations have experienced, in global proportions, the growing widening of the breach in levels of development between the North and the South, between the industrialized countries and countries seeking development options. The limit that has been reached is such that the international financial bodies are now heavily promoting the search for links between ethics and globalization in order to identify the param-

ters of an international responsibility of the grand capitals and of those who hold it. Globalization has deepened the inequalities and injustices in the world that are the quintessence of the new Global Political Economy.<sup>16</sup>

Hence, although important economic reforms have been carried out, from the liberalization of the economy to increased exports and international trade; poverty in the countries of Latin America and the Caribbean has risen, and at the same time the indices of concentration of wealth worldwide are ever higher. One of the fundamental issues of the Summit was therefore social cohesion, proposed, oddly enough, by the Europeans and not by the Latin American and Caribbean peoples.

According to the Economic Commission for Latin America and the Caribbean (ECLAC), 20% of the Latin American households situated in the lower part of the income distribution bracket captures between 2.2% (Bolivia) and 8.8% (Uruguay) of the total income, whereas the higher percentile is appropriated from between 41.8% (Uruguay) and 62.4% (Brazil) of the total income. Thus, the wealthiest households receive on an average 36.1% of the income of households in Latin American countries, although in cases like Brazil, this percentage surpasses 45%.<sup>17</sup>

In 2002, the lowest difference between the two groups was recorded in Uruguay, where the tenth part of the population captured 27.3% of the national resources; it showed a mean income 9.5 times higher than that of the first four, whereas on the other end we observe Brazil, where during the year 2001, the lowest 40% of the distribution received barely 10.2% of the total income, and the wealthiest part of the population received close to half (46.8%), which implies a mean rent quotient for both groups of 32.2 times.<sup>18</sup>

Every country in the region has its peculiarities, but in almost all of them an ample proportion of the population is living below a minimum level of human development, not only in terms of material goods and access to public services, but also in terms of basic civil rights.<sup>19</sup>

Both regions recognize that poverty and exclusion constitute a serious limitation to sustainable development. The development of cohesive societies must be a priority. In this respect, the model of the European welfare state, conceived

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<sup>16</sup> Alejandro Chanona, "La Economía Política Global del nuevo milenio (América Latina en la Geopolítica, Geoeconomía y la Geografía de la desigualdad)," *Cartas de Relación*, Fundación por la Socialdemocracia de las Américas, no. 4 (July-September, 2001), 143-155.

<sup>17</sup> José Luis Machinea and Martín Hopenhayn, "La esquivada equidad en el desarrollo latinoamericano Una visión estructural, una aproximación multifacético", ECLAC. Series Informes y Estudios Especiales no. 14 (Santiago de Chile, November, 2005).

<sup>18</sup> *Idem*.

<sup>19</sup> Guillermo O'Donnell, "Notas sobre la democracia en América Latina" in Programa de Naciones Unidas para el Desarrollo (PNUD), *La democracia en América Latina: hacia una democracia de ciudadanas y de ciudadanos. El debate conceptual sobre la democracia*, (PNUD-Taurus- Alfaguara, S.A., Buenos Aires, Argentina, 2004), 40

on the basis of solidarity, social cohesion, democracy and respect for human rights may become a point of reference for our countries and an alternative route to the single free-market model promoted by Washington.

Social cohesion was one of the crucial and innovative issues of the Third Summit. The idea is to go beyond the fight against poverty and advance in the construction of integrated, supportive and democratic societies that will guarantee the inclusion and equality of its members. As was defined in the works prior to the Summit, social cohesion also means a transparent, accountable state, governed by principles of solidarity and social justice, with citizens who have full use of their rights and clear responsibilities.<sup>20</sup>

The above-mentioned does not mean renouncing the market economy, but instead making the development of our countries viable. It is clear that the market alone does not solve the problems of concentration of poverty, inequality and underdevelopment; therefore, the state must have a broad social responsibility based on the promotion of economic activity and the implementation of a wide-ranging social policy that enables the benefits of development to be extended throughout society. On this point, the Declaration of Guadalajara is innovative in recognizing the global common responsibility<sup>21</sup> of fighting against the elements that damage social cohesion. This element will be a key to future bi-regional relations. Furthermore, the primary responsibility of the governments is to lead processes and reforms aimed at increasing social cohesion, by fighting poverty, inequality and social exclusion through the promotion of social investment.<sup>22</sup>

The EU recognizes that it is necessary to allocate more official aid funds to development and to strengthen the region's cooperation programs. In the Declaration, the LAC countries managed to get a European commitment to increase the amounts allocated to such an end, following the accords assumed in the Monterrey Consensus, regarding the allocation of 0.7% of the gross domestic product of developed countries to ODA.<sup>23</sup>

Although the materialization of the European commitment regarding the allotment of greater funds of assistance to the LAC development is still pending, the most important need to cope with the challenge of poverty and marginality in the region is the commitment of political and economic Latin American elites to

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<sup>20</sup> Enrique V. Iglesias, "Hacia una agenda de cohesión social" in *Aportes a la III Cumbre Unión Europea América Latina y el Caribe, Guadalajara 2004* (Centro Latinoamericano para las Relaciones con Europa, Santiago de Chile, Chile, 2004), 41- 51 and Christopher Patten, *Social Cohesion: a Common Challenge*, presentation by the External Relations Commissioner of the EU, Christopher Patten to the XI Rio Group Ministerial-European Union in Vouliagmeni, March 28, 2003. Published in *Eurolat, Carta Informativa*, no. 49 (February-March, 2003), Santiago de Chile, Chile, 2-4. Both texts are available at [www.celare.cl](http://www.celare.cl)

<sup>21</sup> Paragraph 39 of the "Declaration of Guadalajara."

<sup>22</sup> Paragraphs 40 and 41, *ibid.*

<sup>23</sup> Paragraphs 72 and 73, *ibid.*

an economic model that will recuperate the social responsibility of the State in order to achieve a greater distribution of wealth and the creation of more balanced societies in the region.

**The Absence of Latin American Regional Integration: An Obstacle to the Consolidation of Bi-regional Relations.**

It is undeniable that the strengthening of networks of cooperation, political dialogues and economic exchanges that have been woven over recent decades at all levels between both regions is indispensable. However, Latin American integration is an essential step that needs to be taken to strengthen and consolidate relations between the EU and the LAC.

We know that European dialogue with the region is developing on three levels: regionally (LAC-EU Summits), sub-regionally (MERCOSUR, Andean Community, Common Central American Market, Group of Three) and bilaterally. The EU has strived to generate channels of communication that respond to the realities of each sub region or country, a situation which has introduced a criterion of selectivity and of different rhythms in such association. Moreover, the absence of comparable regional institutional structures means that there is an inability to negotiate free trade agreements together, common positions in international forums or cooperation that strengthen relations at that level. In other words, the European community's institutions do not have an equivalent regional Latin American interlocutor.

From the standpoint of the EU, the benefits of regional integration are considerable in terms of attracting foreign investment, increasing competition, reducing external dependence and vulnerability, and promoting sustainable development. This is why the promotion of Latin American integration has been one of the pillars of recent European policy toward the region.<sup>24</sup>

However, the possibility of realizing a project of integration in the LAC still appears to be far off. Neither its common history and language, nor the fact that it shares common problems, such as poverty, social exclusion and lack of access to other markets, has been sufficient to foster this integration. While the Europeans, since the fifties, have committed themselves to healing the wounds of war and exploring their functional equivalents: industrialization, pluralism and democracy, concerns for national sovereignty have always been at the heart of the refusals to discuss the deeper integration of Latin America. The question arises as to whether or not the European model is exportable and what lessons remained to be learned.

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<sup>24</sup> Porfirio Muñoz Ledo, "América Latina, Ser o no Ser," *El Universal*, September 22, 2003 and Héctor Casanueva, "América Latina, integración para la cohesión social" in *Aportes a la III Cumbre... op. cit.*, 51-62.

In Latin America, discussions on regional integration have a long history. If we make a comparison with those of the EU and look at key dates for both cases, 1951 is as significant for the European Union as 1961 is for Latin America, in view of the emergence of their experiences with integration. The ten year difference between both cases is not very significant; however, given the characteristics of regional and cultural development, the theoretical traditions took very different roads.<sup>25</sup>

The Latin American theoretical tradition has, to a large extent, focused on the analyses of the Orthodox Theory of Customs Unions, in which it was anticipated that the potential advantages of economic integration are derived from the fact that the members can obtain those advantages in the form of faster growth rates, generated by wider markets, external economies and less uncertainty, but also from raising the efficiency of the use of resources in accordance with the static comparative advantages. All the attempts at regional integration have emerged with very weak institutional and administrative systems. Of course, any kind of supranationalist suggestions were avoided.

There are lessons to be learned from the advances and setbacks in regional integration in Europe. However, it is not a case of applying regional models uncritically in Latin America, but of taking into account the most valuable points of the economic, political, social and cultural development of the European model. In this sense, it is up to citizens of Latin American and the Caribbean to lend form to content in the future of its regional and sub regional integration. For this reason, more needs to be learned from the Europeans' intergovernmental networks than from their supranational politics and, in the immediate future, to tackle two institutional systems between both regions that will lead to more specific results rather than just good intentions.

The case of Latin America requires a particular approach, which sets out debates on the definition of priorities and ways in which to construct regional integration. It is not a matter of copying the European model; rather it is about taking the method of European integration and adapting it to the reality of the LAC, generating schemes that are actually viable for these countries.

### **The Importance of the Ibero-American Block**

Traditionally, Spain has been one of the main promoters of bi-regional relations and the bridge between both regions. The government of Rodríguez Zapatero has started an ambitious return to the LAC, thus overcoming the Spanish distancing from the region during the mandate of José María Aznar, who privileged its relationships with the United States.

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<sup>25</sup> Alejandro Chanona, "Repensando teóricamente la integración en las Américas: la integración desde el norte y la integración desde el sur" in *Revista de Relaciones Internacionales*, FCPyS-UNAM, no. 79 (January-April, 1999), 11-15.

Among the actions by the Spanish government to reinforce its relationships with Latin America, there is the initiative “exchange of debt for education,” launched by the head of the Spanish government in September 2004 within the framework of the General Meeting of the United Nations. This initiative has been translated into the signing of a series of bilateral agreements between Spain and some Latin American countries, surpassing €291 million. The countries of the LAC that have been benefited are the following: Ecuador (€50 million); Honduras (€148 million); Nicaragua (€39 million); El Salvador (10 million) and Uruguay (€11 million); whereas Peru, Bolivia and Paraguay have begun conversations to reduce their debts.<sup>26</sup>

From the Spanish perspective, apart from considering aspects of expanding this initiative to other sectors, like the environment and infrastructure, it would be desirable that the EU, altogether, adopted it as a strategy of cooperation for development. Spain appears to be recovering its traditional role as a bridge between both regions. This situation is opening a window of opportunity for Latin America and the Caribbean to continue developing their relations with Europe. Recovering the idea of Ibero-America as a bloc and the development of relations with Spain and Portugal may be key elements in strengthening the bi-regional relation.

### **Conclusion**

Aside from a good political understanding between both regions, what the fragile Latin American and Caribbean democracies urgently require is to find a steady way to promote development and social progress, and the most feasible approach to achieve this will be to seek support, opportunities and the transfer of resources from the European north to the Latin American and Caribbean south. Tackling the challenges of development individually has been proven to be ineffective in the LAC. This is why the promotion and reinvigoration of strategies of regional integration seems to be one of the few strategies the subcontinent will have in the short-term.

Finally, beyond the summits, the bi-regional dialogue will continue with a series of reciprocal demands. Latin America continues therefore to await clear signals from the EU on:

1. Effective access of LAC products to the markets of the EU, specifically agricultural products, an area in which the EU maintains protectionist policies through the Common Agricultural Policy (CAP).

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<sup>26</sup> CELARE, “Moratinos will ask the EU to add itself to the exchange of debt for education in Latin America,” *Boletín Eurolat* no. 94, March 3 to 9, 2006 (CELARE, Santiago de Chile, March, 2006).

2. The obtainment of an EU commitment on the increase of ODA.
3. For the LAC it is indispensable that the flow of European investments toward the region is not suspended, i.e. that the process of broadening the EU is not completed at the expense of our region. However, the lack of structural reforms in our economies and the permanent political and social instability in the region are elements that are detrimental to Latin Americans and the Caribbean.
4. With respect to multilateralism, Latin America and the Caribbean are waiting for the EU to commit itself to the reform of international institutions, especially financial ones, such as the International Monetary Fund, the World Bank and the World Trade Organization, in favor of common positions regarding a new economic development model for the region. However, no great progress is being made in this area either, at least for the time being.

For its part, the EU expects the following from its Latin American and Caribbean counterparts:

1. The necessary reforms to move ahead with the modernization of the state in the LAC: the strengthening and consolidation of processes of democratization and clear signals about the economic model followed by the countries, which will include the pending structural reforms and the creation of new investment opportunities.
2. The strengthening of regional integration in order to have a single regional interlocutor.
3. After the terrorist attacks of 11-March (Madrid) and 7 and 21-July (London), the EU has focused its attention on the issue of security and fighting terrorism, and today, the EU is waiting for its Latin American and Caribbean partners to implement more effective common security policies in order to become an effective pole of international security.





# The Future of the Strategic Association

Thomas Cieslik

## Introduction

The Fourth Summit<sup>1</sup> of the European Union (EU) and the Latin American and Caribbean countries (LAC), held on May 12<sup>th</sup> and 13<sup>th</sup>, 2006 in Vienna, was the largest meeting of heads of state and government that has ever taken place in Austrian history. Of course, it was not as meaningful as the Congress of Vienna in 1815, which established a New European (World) Order after the defeat of the French Napoleon Empire. Nonetheless, the 2006 Summit has had several implications for both the future of multilateralism and the relation between Europe and Latin America, which also reflects the positions of both regions towards the United States and their understanding of regional integration. This chapter examines the context of the Summit and focuses on the implementation of tools aimed at deepening integration in the Latin American region. Finally, by reflecting on the former three summits, this essay classifies and evaluates the future of the European-Latin American relationship in order to identify the performance of the set goals towards the realization of a strategic association until the next summit in Lima.

## The Vienna Summit and Regionalization Processes

Globalization has been promoting economic integration worldwide, and international institutions have helped to support economic and political regionalization. In the Vienna Summit, the European Commission wanted to “encourage the involvement of key stakeholders in the Summit’s preparation (public authorities, civil society and business sector) by supporting the organization of meetings and events.”<sup>2</sup> For political leaders, the involvement of multinational corporations and NGOs is a necessary political tool in order to share responsibility. Furthermore, the Commission still wants to implement social cohesion as the major subject in the EU-LAC commitments. Social cohesion is the key for prosperity and regional

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<sup>1</sup> CELARE (ed.), *EuroLat, Carta Informativa Especial: IV Cumbre Unión Europea / América Latina* 13, no. 69 (April, 30, 2006) and CELARE (ed.), *EuroLat Carta Informativa Especial: Resultados IV Cumbre* 13, no. 70 (May, 26, 2006).

<sup>2</sup> Delegation of the European Commission to Colombia and Ecuador, “The EU and Latin America,” [http://www.delcol.cec.eu.int/en/eu\\_and\\_la/introduction.htm](http://www.delcol.cec.eu.int/en/eu_and_la/introduction.htm), (access: January, 2, 2007).

integration and may reduce the inequality in the distribution of wealth, which is one important factor for the recent emergence of left wing populism in Latin America. Therefore, the European Commission has been extensively proposing that social cohesion become a major subject of the EU-LAC commitments. At the summit in Guadalajara in May 2004, the European Union and the LAC received additional concrete agreements in multilateralism and regional integration.

The second summit was held in Madrid in 2002, and it emphasized the progress in three pillars of the relationship: political dialogue, economic and financial relations that include trade and capital transfer, and the bi-regional cooperation mainly in education, culture and science. The first summit was organized in Rio in 1999, when Europe and Latin America expressed their will to encourage the development of a strategic partnership in different political, economic, and social fields.<sup>3</sup>

In 2006, Austria prepared the summit with the purpose of reviewing and evaluating the steps towards a deeper relation and partnership in politics, economics and social affairs between the EU and the LAC countries. Though the EU has already established Free Trade Agreements with Mexico and Chile, the negotiations with MERCOSUR have come to a halt because of the lack of willingness of the EU agriculture policy makers to accept the reduction of terms and tariffs. Moreover, these protection and subsidies policies that cost more than 40% of the EU budget reflect the difficulty of the EU to substitute the traditional French-German Rhine Capitalistic Industry (Coal and Steel)- and Agriculture politics through modern British knowledge-based industry which could actually promote the implementation and realization of the criteria of the Lisbon strategy.

After the failure of the United States to create the "Free Trade Agreement of the Americas" in Mar de Plata (Argentina), the EU could create with MERCOSUR the largest free commerce zone in the world which may contain more than 700 million people. Indeed, Europe is the second largest business partner after the United States, but the question is whether the Latin American countries are willing to change their new political (and in some parts even economic) independence from the United States with a new form of dependence on EU trade policy.

The member states of the EU and the EU Commission are the most important actors in giving development aid to Latin America and the Caribbean. Most European states and civil organizations have taken a strong position on keeping the traditional social welfare state and rejecting US (in some parts even the United Kingdom) foreign policy, especially in Iraq and the Middle East, but the European leaders are conservative and "neo-liberal". French president Chirac and German chancellor Merkel have to struggle with opposition because of their policies of cutting social benefits, improving investors' environment and creating

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<sup>3</sup> European Commission, "The EU's relations with Latin America," [http://ec.europa.eu/comm/external\\_relations/la/#1b0](http://ec.europa.eu/comm/external_relations/la/#1b0), (access: January, 2, 2007).

more employment. They are following the so called Third Way of Tony Blair, and also that of Austrian's Chancellor and president of the Summit, Wolfgang Schüssel, who is recognized for a "Happy Austria" with strong economic growth after reducing social achievements. The only well-known social democratic leader in Europe is Spain's president Rodriguez Zapatero. Though his reforms in regional cultural politics like in Catalonia and his feminist and homosexual liberalization politics in Catholic Spain have provoked many protests, he has continued to implement the liberal economic policy of Aznar. The European "social" model has shifted, in order to face the challenges of globalization, towards more liberalism, both competition and subsidiary.

### **Strategic Associations in the Time of the Construction of New World Orders**

By reviewing the debate about strategic partnerships,<sup>4</sup> the term strategic partnership or association is found to be, in many cases, lip-service. Nations follow their own interests in international politics in order to strengthen their power and enlarge their sphere of influence. Therefore, strategic partnerships are classic tools for this objective. In fact, they need political cooperation in distinctive political fields, based on common rules, ideologies and objectives. Strategic partnerships shall be exclusive and be considered in international politics a form of active cooperation with a strong influence on agenda setting and political decisions. They shall provide and guarantee advantages in politics, likewise, they have a mutual and dynamic effect and input on other fields of politics, economic or social issues.

For the EU, a strategic partnership is a tool to demonstrate political motivation and willingness to become a serious, credible and reliable new political actor after the end of the Cold War. However, the failures of its Yugoslavia politics in the 1990s, the failure to respond to the genocide in Rwanda, and the wavering of many European states during the Iraq crisis have shown the unsteadiness of a Common Foreign and Security Policy of the European Union. In the concert of global powers with the United States, China, Russia, Japan and new rising powers like India or Brazil, the European Union as a supranational organization does want to successfully implement a foreign policy, which includes soft power, as opposed to that of the United States shown under the Bush administration. Foreign political objectives like democracy, rule of law, human rights, economic transformation, liberalization and social cohesion have helped the EU and the majority of its member states to be recognized as a global civil power.

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<sup>4</sup> A review about the objective and the measures of strategic partnership is provided by Klaus Backhaus, Karl Piltz: "Strategische Allianzen – eine neue Form kooperativen Wettbewerbs" in Klaus Backhaus (ed.), *Strategische Allianzen*, Special Issue, *Zeitschrift für betriebswissenschaftliche Forschung*, no. 27 (1990), 2-11.

For example, in 2005, the EU decided to establish a strategic partnership with Africa. It supported the guaranty of free elections in Congo with a US\$285 million program. By deploying peace keeping troops in Kinshasa the EU could demonstrate its military responsibility for international security.

After the end of the Cold War and especially after the terrorist attacks of September 11, 2001, constructing a new world order means the EU must emerge as an independent actor. The new world order has different poles. In such a context, the EU's politics are focused on multilateralism, though different governments like those in the United Kingdom and Poland, and the Netherlands or Italy under Berlusconi have developed political-military strategic approaches close to U.S. interests. A strategic partnership with Latin America means, first of all, continuing traditional and strong political, economical and social relations; secondly, it promises new markets; and thirdly, it could involve political opportunities.

There can be no doubt that the EU and the LAC share common commitments to human rights, democracy and multilateralism based on its shared historical experiences. A key document for the strategic association between the European Union and Latin America and the Caribbean is the Communication from the Commission to the Council and the European Parliament, entitled *A stronger partnership between the European Union and Latin America*.<sup>5</sup> The coordination of new multilateral politics in the UN framework like the Kyoto Protocol, the International Criminal Court and the abolishment of the death penalty have been considered key issues for global governance in a mutual partnership. Because of the dramatic fall of commercial relations in the 1990s, the EU and the LAC have been interested in promoting trade and investment. In this document the EU recognizes social cohesion as a key factor for the successful consolidation of the democratic transformation process and reducing the phenomenon of migration toward the United States. According to the United Nations Development Program (UNDP), around 50% of Latin American people would give up democracy for economic and social progress.<sup>6</sup> The danger of left wing populism that undermines democratic institutions and creates parallel political and institutional structures, such as the case of Venezuela, marks the beginning of new authoritarian regimes. According to Samuel Huntington's theory on democratic waves in the 19<sup>th</sup> and 20<sup>th</sup> century,<sup>7</sup> we can observe the first amplitudes of the third counter wave on democracy in the beginning of the 21<sup>st</sup> century.

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<sup>5</sup> [http://europa.eu.int/comm/external\\_relations/la/doc/com05\\_636\\_en.pdf](http://europa.eu.int/comm/external_relations/la/doc/com05_636_en.pdf), (access: March, 20, 2006).

<sup>6</sup> "Democracy in Latin America: Towards a Citizens' Democracy", report, UNDP, PRODDAL project, 2004.

<sup>7</sup> Samuel Huntington, *The Third Wave. Democratization in the Late Twentieth Century* (Oklahoma: Oklahoma University Press, 1991).

Therefore, the EU recommends the emphasis on the political dialogue and convincement on common interests like UN reform and crisis prevention, among others. The troika format (dialogues on the Head of State-, ministers- and senior official level) may support the mutual confidence building. Within the WTO framework the EU proposes the multilateral trading system with a view to facilitate trade and investment, reduce corruption, abolish terms and non-tariff barriers and develop new industries like the biotechnology, for example. Social cohesion (as mentioned above) should be included in all actions. Moreover, promoting good and democratic governance calls for the EU the creation of a Euro-Latin American parliamentary assembly. Encouraging sustainable development, targeting aid and development cooperation more carefully, and promoting common higher education programs are also part of the agenda.

### **Greater Regional Integration**

The strategy paper of the European Commission examines the political will of the EU to encourage a greater regional integration. It also recognizes that this process in Latin America “has already made a considerable impact.”<sup>8</sup> The EU policy towards further integration is clear: it is understood as an opportunity for more economic growth. Consequently, the EU supports free-trade agreements with MERCOSUR, in spite of all the negotiations’ problems with subsidies and protection of the agricultural sector in Europe, the Andean Community and Central America. On the one hand, the presidential leaders of these regions pursue an agreement, but on the other hand, they know that reducing tariffs and duties on the import of industrial products to the LAC and the import of agricultural products to Europe is a very complicated situation. Finally, the EU accepts the special role of states like Brazil as dominant and leading players. For Mexico, however, the EU recognizes only the challenge to “pursue current efforts to exploit more fully the possibilities offered by the Association Agreement.”<sup>9</sup> There can be no doubt that Mexican foreign and economic policy is mainly focused on the United States and that Brazil has used its geopolitical power to drive regional integration in both MERCOSUR and Latin America. In this context, the key for political integration should be as it has been in European economic integration. Although the economic growth will decrease in contrary to the booming year in 2004 and 2005 (GDP-growth 5.7% and 4.2%), the substantial growth will continue, achieving average rates of 3.5% in countries like Mexico and Brazil. According to a study of the German Institute of Global and Area Studies in Hamburg, in the long run, macroeconomic trends are moderate and skeptical, and poverty will not

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<sup>8</sup> [http://europa.eu.int/comm/external\\_relations/la/doc/com05\\_636\\_en.pdf](http://europa.eu.int/comm/external_relations/la/doc/com05_636_en.pdf), 14.

<sup>9</sup> *Ibid.*, 17.

be reduced significantly until 2015 due to the Millennium Goals of the United Nations.<sup>10</sup>

In spite of the propaganda against globalization, regionalization process might have more success, because without the United States and the EU these processes permit participation and keep identities and self-determination. However, the debate about opportunities of regionalization processes is academically and politically underdeveloped. Nevertheless, it advocates the involvement of civil society and enterprises which might be against the political (and personal) interests of political leaders in the region.

### **The EU Dilemma: Enlargement vs. Deeper Integration**

Since the rejection of the European Constitution by French and Dutch citizens in their referenda in the summer of 2005, the European Union has been in paralysis. The Luxembourg, British and Finnish presidencies did not find a solution for the problems that the EU faces today:

- sustainable budget policy,
- stable fiscal policy and the accomplishment of the Maastricht criteria,
- citizens' participation in more democratic institutions,
- enlargement negotiations with Turkey and Croatia,
- deeper integration within the EU,
- implementation of the Lisbon strategy,
- competition of the EU economy with the goal of the creation of more jobs,
- effective Common Foreign and Security Policy
- a way to deal with the nuclear crisis in Iran and the growing anarchy in Iraq,
- stabilization policy in the Balkans, especially after the death of the former nationalist dictator Slobodan Milosevic,
- the reduction of the energy dependence on Russia (51% of natural gas; and 80% of it is conducted through Ukraine),
- the peace-building process between Israel and Palestine after the victory of Hamas,
- the new definition of the transatlantic relations with the United States after the Iraq-War in facing coming challenges like the growing Islamic fundamentalism even in European cities,
- the reform of the performance and capability of the social system due to the demographic problems.

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<sup>10</sup> Hartmut Sangmeister, "Lateinamerikas Wirtschaft wächst langsamer," *GIGAFocus*, no.1 (January 2006).

The recent decision of the European Parliament to set a transition phase for candidates that apply for adhesion to the community reflects the concern about the absorption capacity of the EU. Because of the broad rejection of further enlargement, as was shown by *Eurobarometer*, European leaders developed new patterns for the political-geographic shape of the EU. German chancellor Angela Merkel, for example, has suggested several times not only for Turkey, but also for the Balkan states and Ukraine, a “privileged partnership.”<sup>11</sup> With France, Germany plans to deepen the community in order to re-build the confidence of the people towards both the EU institutions and their improvement of performance. Whether this model will help to modernize the EU is questionable, as Laurent Cohen-Tanugi recently asked in his remarkable essay “The End of Europe?”<sup>12</sup> The fiasco of moderating European policy was obvious after the French and Dutch vote, but according to Cohen-Tanugi the deconstruction had begun earlier, in spite of the successful introduction of the Euro and the “reunification” of Europe with the adhesion of the new ten mostly Central and Eastern European states that have successfully achieved the transformation process from former communist to democratic states and free market economies:

Long-term vision and strong management have long been absent from many European political circles, and coordination has suffered from the declining effectiveness and legitimacy of the EU institutions... The EU’s intergovernmental institutions (mainly the European Council) took control of European unification at the expense of the European Commission and the European Court of Justice, which had been the twin boosters of European integration until then. The European Council committed itself to enlargement as the least controversial post-Cold War policy, but it proved incapable of strengthening EU institutions in a way that would preserve the cohesion and effectiveness of an expanding union. Without effective leadership from Brussels, the 15 western European member states diverged significantly in their economic and social policies and practices – not to mention their visions of the EU itself. And the EU’s eastward expansion, [...], was carried out without institutional reform, a sufficient financial commitment, or popular consultation and support.<sup>13</sup>

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<sup>11</sup> Ekrem Krasniqi and Mark Beunderman, “Merkel moots ‘privileged partnership’ for Balkans,” *EUobserver*, March, 17, 2006, <http://euobserver.com/?aid=21163&rk=1>, (access: March, 17, 2006).

<sup>12</sup> Laurent Cohen-Tanugi, “The End of Europe?” *Foreign Affairs*, vol. 84, Issue 6 (Nov/Dec 2005), 65.

<sup>13</sup> *Ibid.*



Although the United States has consistently demanded a wide and open union, the EU has become more skeptical about this call. Europe is in a strategic dilemma, because it has promised expectations that it cannot realize in the near future. Europe is on the way to re-defining itself. National governments are more willing to blockade proposals in the European Council legislative because of internal election campaigns and propaganda purposes.

### **The New Bolivarianism in Latin America: Does Left Wing Populism Help Integration?**

The left wing populism in different Latin American states (starting with the authoritarian regime of Hugo Chávez in Venezuela, the Bolivian president Evo Morales, the Argentinean leader and Peronist Nestor Kirchner, the coming back of the Sandinista Daniel Ortega in Nicaragua and the elected president in Ecuador, Rafael Correa) have created a new reflection about the future of the continent. However, social democratic and pragmatic politicians like Lula in Brazil or Michelle Bachelet in Chile have proven that left-oriented politics can be successful without radical populism.

The Venezuelan experiment of Hugo Chavez depends clearly on the export of oil. Venezuela is worldwide the fourth largest oil export nation. His social programs and gifts for the poor are paid for by the enormous revenues. His strategy of implementing an energy community as a tool for economic and later political integration is still successful today. Playing the “reincarnation” of Simon Bolivar, Hugo Chavez is recognized as the new left leader, out of the shadow of the dying Fidel Castro. Chavez supports the left-nationalist movements in Latin America and may be able to support integration with his idealistic vision to unify the Latin American continent. In this logic Chavez wants to re-organize the structure of MERCOSUR. During the summit of Córdoba (Argentina) in July 2006, Brazil, Argentina, Paraguay, Uruguay and the new member Venezuela agreed to deepen the political dimension.

The South American customs union has become a platform for political rants, not an organization of trade promotion. During the summit, [...] Fidel Castro gave a three-hour speech promoting a political ideology contrary to the ideology of democracy and trade promotion [...]. Secondly, MercoSur [sic!] member countries acknowledged that the Free Trade Agreement of the Americas (FTAA) had been defeated. [...] Venezuela’s entrance into the customs union has brought with it little more potential for trade ideas and a maximum of political rhetoric that opposes any possibility of promoting the only trade agreements in the region that seem to work – free trade agreements with the United States.”<sup>14</sup>

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<sup>14</sup> Sam Logan, “An alternative to a failed MercoSur,” *ISN Security Watch* (August, 9, 2006).

According to Chavez, MERCOSUR should become both a region-wide economic union with a single currency and a region-wide military union under what he calls ALBA: the Bolivarian Alternative for the Americas. However, its economic integration has failed due to the fact that until today only 40% of the commerce is regulated. Trade exceptions have successfully prevented the foundation of a single market. Asymmetric interests of the great players – Argentina and Brazil – toward the smaller ones – Paraguay and Uruguay – have blocked a sustainable integration. Venezuela's withdrawal from the Andean Community in April 2006 was a consequence of the bilateral negotiations toward a Free Trade Agreement of Peru and Colombia with the United States, but it also had a financial background. Since May 2005 Venezuela has bought Argentine bonds of around \$3.24 billion, which has permitted the Kirchner administration to reduce IMF debts gradually.<sup>15</sup> These kinds of financial transactions culminated in the idea of the so called "Bond of the South"<sup>16</sup> and are without a doubt also attractive for smaller countries like Paraguay and Uruguay. However, Venezuela's intention is to find in South America an alternative and reliable market for its oil that could substitute for that of the U.S. Even today, around 50% of Venezuelan oil exports still go to the United States. In this context the integration of a common energy infrastructure with the construction of a 2,700 kilometer long gas pipeline from Puerto Ordaz in Venezuela through the Brazilian Amazons to Buenos Aires is a logical consequence of this political approach. Moreover, it is a clear political call to Washington to undermine its relations to South America fundamentally and to fight globalization. In addition, even the dominant role of Brazil in South America could suffer from Chavez's strategy.

The reason for United States' lack of credibility in the continent is not only the fatal foreign policy of President George W. Bush in Iraq, but also the negligence of Latin American affairs. Andrés Oppenheimer writes: "U.S. aid to Latin America -- currently about \$1.2 billion a year -- has been decreasing steadily for the past two decades, and is relatively unimportant compared with the \$20 billion a year in U.S. investments in the region, the estimated \$40 billion in family remittances sent by Latin American migrant workers, or the \$276 billion worth of U.S. annual purchases from Latin America."<sup>17</sup>

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<sup>15</sup> Jörg Husar and Günther Maihold, "Neue Prioritäten im Mercosur," *SWP-Aktuell* 36 (August 2006), 2.

<sup>16</sup> Benedict Mander, "Latin allies forge political bond," *Financial Times*, July, 11, 2006, <http://www.ft.com/cms/s/9d4707c6-10fb-11db-9a72-0000779e2340.html>, (access: January, 2, 2007).

<sup>17</sup> Andrés Oppenheimer, "While U.S. cuts aid, Spain plans volunteer corps," *Miami Herald*, December 12, 2006. <http://www.miami.com/mld/miamiherald/14109586.htm>. Oppenheimer explains the Spanish activities: "Since it took office two years ago, the left-of-center Rodríguez Zapatero government has increased foreign aid to Latin America from little more than \$400 million in 2004 to more than \$600 million in 2005. For this year, aid to the region is scheduled to surpass

After years of not having an active Latin American policy under the presidency of Aznar, Spain wants to be promoted to the leading European nation in its traditional sphere of influence. At the Ibero-American Summit in Montevideo, Rodríguez Zapatero promoted new social projects, which include migration plans. The “Corps of Volunteers” project, for example, aims to reduce left wing populism in the region. This project is similar to President John F. Kennedy's Peace Corps and is an answer to the reduction in U.S. influence in the region. The prestigious journalist Miguel Angel Bastenier characterizes this plan as the best answer against populist agitations in the region.<sup>18</sup>

### After the Summit of Vienna

The results of the Summit of Vienna were disappointing. Despite the announcement in the Final Declaration<sup>19</sup> of launching negotiations with Central America towards an Association Agreement which should include a Free Trade Area and the intention to clarify the bases of negotiations with the Andean Community, the beginning of a new era in the relations between the EU and the LAC was not achieved. The declaration repeats only well known objectives from the past like the combat on poverty and inequality and the promotion of democratic values. Günther Maihold, the vice-director of the German think tank *Stiftung Wissenschaft und Politik*, expressed that both continents still remained committed to their foreign political principles like free trade, political dialogue and cooperation in development, but without considering the new political circumstances.<sup>20</sup> Both continents suffer inner political crises and the stagnation of (sub-regional) integration processes which restrict obvious foreign political activities. For the EU, Latin America does not enjoy priority status in spite of the above quoted strategic paper of the EU-Commission. The majority of the LAC does not even have a developed and formulated European policy. The political tensions among the Latin American countries and between some European ones are obvious. The plan of the Bolivian government to nationalize natural gas confronts mainly Spain, the key player in the EU-LAC bi-regional relations.

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\$700 million. [...] The Spanish government has vowed to increase its world-wide foreign aid from 0.28 percent of the country's gross national product in 2004 to 0.5 percent in 2008. Spain's plans are in sharp contrast with the Bush administration's recent announcement that it plans to cut U.S. development funds to Latin America and the Caribbean by about 28 percent next year, and to reduce the overall U.S. economic and health-related assistance to the region by an estimated 7 percent.”

<sup>18</sup> Miguel Angel Bastenier: “Alianza para el progreso a la española,” *El País*, March, 13, 2006.

<sup>19</sup> IV EU-LAC Summit, Declaration of Vienna, [http://ec.europa.eu/world/lac-vienna/docs/declaration\\_en.pdf](http://ec.europa.eu/world/lac-vienna/docs/declaration_en.pdf), (access: January, 2, 2007).

<sup>20</sup> Günther Maihold, *Nach dem Wiener Gipfel. Europas schwierige Suche nach einem besonderen Verhältnis zu Lateinamerika, Ibero-Analysen*, Ibero-American Institute Berlin, no. 19 (June 2006).

The dynamic of the Summit was ponderous. Fifty-eight heads of state or government participated in this event, which is more than one quarter of the United Nations. Effective policy making in two days is almost impossible. Furthermore, the results are not acknowledged in reality. A clear pattern of bi-regional cooperation on the international stage or within the United Nations is missing.<sup>21</sup> Consequently, multilateral approaches in international politics promoted by both the EU and the LAC are still far from becoming realized, especially because of the fact that most of the members of LAC prefer a “defensive multilateralism”<sup>22</sup> that guarantees sovereignty. Also, the visit of the alternative social Summit by Morales and Chavez enhances the impression of the lack of political will to bring the Vienna Summit to a successful conclusion.

### Conclusions

The expectation of a deeper strategic association between the EU and the LAC were realistic before the Vienna Summit. In a conference in February 2006 in Mexico City, Benita Ferrero-Waldner, the European Commissioner for Foreign Affairs, stated that Europe is willing to support Latin American development, especially in terms of social cohesion<sup>23</sup> and regional development. The conditions have actually been brilliant. All Latin American governments want to have stronger political and economic relations, because the United States has had a dramatic loss of influence in Latin America.

The Bush administration has demonstrated neither the determination nor the capability to pursue policies in the Americas that would mobilize the support of the other nations of the hemisphere. Latin American countries, divided among themselves, are by no means clamoring for a renewal of hemispheric cooperation. Chávez’s antics at the Summit of the Americas in November 2005 obscured the real tragedies of the gathering – that is, how little the leaders accomplished, how badly the hemispheric agenda has unraveled, and how deeply divided the countries of the Americas are.<sup>24</sup>

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<sup>21</sup> Porfirio Muñoz Ledo, “Lecciones de la Cumbre de Guadalajara,” in CELARE (ed.): *De Guadalajara a Viena: hacia una Cumbre Nueva*, (CELARE, Santiago de Chile 2005), 79-88.

<sup>22</sup> Günther Maihold, *op. cit.*, 9.

<sup>23</sup> European Commission, *Social Cohesion in the EU-Latin America/Caribbean strategic partnership*, [http://ec.europa.eu/comm/external\\_relations/la/sc/sc\\_en/index\\_en.htm](http://ec.europa.eu/comm/external_relations/la/sc/sc_en/index_en.htm), (access: January, 2, 2007).

<sup>24</sup> Peter Hakim, “Is Washington losing Latin America?” *Foreign Affairs* 85, no. 1 (January/February 2006), 53.

The threat of a split in regional integration and growing social and political conflicts in Latin America should be a chance for European foreign policy to step in. In order to avoid the failure of democracy in Latin America, Europe had to demonstrate unity in promoting human rights and democratic and parliamentary principles with soft power. The ascent of populist leaders has shown again that the presidential system in Latin America might be the main obstacle toward working democratic systems. The politics of social cohesion is also one necessary approach which must be supported by new patterns of developing aid and trade.

In this context the EU should focus its initiatives on democratic leaders like Bachelet, Calderón, Uribe or Lula. The Commission should clearly state that Chavez is not a dialogue partner for the EU's purposes to promote its model of prosperity, reconciliation, liberal rights and social equality within Latin America.

The summit was a chance for Europe to demonstrate international responsibility for regional integration according to the European model after the Second World War, but it failed to emphasize the democratic dimension. Consequently, political influence on Latin America will be lost as in the case of the US, and a strategic partner will be won, probably by non-democratic China.

In conclusion, the Summit in Vienna was the key event for the future performance of the EU-LAC strategic partnership. The realistic perspective of disintegration versus the idealistic approach to deeper integration has become the dialectic dilemma of European foreign policy at the beginning of the 21st century. In addition, the Venezuelan alternative of Hugo Chavez will deepen the division of Latin America. Therefore, the prospects for the next summit to be held in 2008 in Lima are pessimistic in terms of the realization of the strategic association. The enhancement of Regional Latin American Integration under the leadership of Chavez is not welcome. It is more likely that the EU will change its strategy and negotiate bilaterally to establish free trade and political agreements with selected Latin American countries and democratic key players like Mexico, Chile or Brazil. Gradually, Europe will work to improve political, social and economic participation and regional development in these countries in order to demonstrate that the European social welfare state model would be more successful and attractive to the Latin American people than a return to socialist experiments. Democracy will become the key to regional integration in the long run, especially if it is based on an efficient and sustainable economic model that provides social cohesion. In order to achieve these goals, the EU should focus its activities on "governability"<sup>25</sup> and accountability. Populist governments would be excluded as partners from the bi-regional strategic partnership.

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<sup>25</sup> Laurence Whitehead et. al., "Regierbarkeit für Entwicklung. Die EU und Lateinamerika – ein Manifest zum Gipfeltreffen in Wien," *GIGA Focus*, no. 5 (May 2006), 4.

# Social Cohesion: Practical and Conceptual Problems

Stéphan Sberro

## Introduction: the Social Cohesion *Problématique*

In 2003, when Christopher Patten, the European Commissioner for External Relations, proposed that “Social Cohesion” would be the central topic of discussion chosen by the European Commission at the Third Summit of Caribbean, Latin American and European heads of states and governments to be held in Guadalajara in May 2004, he aroused mistrust and worries in Latin America. Nevertheless, given the strategic importance of the European Commission in the bilateral relationship with Latin American governments, “Social Cohesion” seemed impossible to elude. In fact, this theme came to the forefront of European debates, and more so with the rejection of the Constitutional Treaty, the failure of the debate on the directive for liberalizing services and the admission of ten poor but very liberal countries. However, the main reason is that despite economic liberalization and economic growth, never has the number of individuals living below the poverty line been so high.<sup>1</sup> Income distribution is acute in Latin America and it is in fact the most unequal continent in the world.

While 64% of the Latin American population lives in poverty<sup>2</sup>, (20% in extreme poverty) only 15% do so in the European Union<sup>3</sup>. The social spending per capita is 30 times higher in Europe than it is in Latin America. Unemployment has never been worse in Latin America<sup>4</sup> and only 41.7% of Latin Americans enjoy the benefits of social security.<sup>5</sup> No wonder the Inter-American Development Bank severely assessed the region’s results concerning the fight against poverty.<sup>6</sup>

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<sup>1</sup> CELARE, “Antecedentes y resultados de la III Cumbre Unión Europa-América Latina y el Caribe” (Document prepared for the seminar “Balance y perspectivas de la III Cumbre ALCUE: propuestas de acción sobre los consensos de Guadalajara,” CEPAL, Santiago de Chile, October 25-26, 2004).

<sup>2</sup> “Statement by José Luis Machinea, Executive Secretary of ECLAC, before the Board of Governors of the IDB” ( March 2005, Lima, Perú).

<sup>3</sup> EUROSTAT, “Social Exclusion in the EU Member States,” (EUROSTAT 1/2000, Brussels).

<sup>4</sup> “Statement by Enrique Iglesias, President of the IDB, before the Board of Governors of the IDB” (March 2005, Lima, Perú).

<sup>5</sup> *El País* (Spain) March 15, 2006.

<sup>6</sup> Inter-American Development Bank, “La reducción de la pobreza y el BID: evaluación de estrategias y esfuerzos” (Washington, D.C., 2004).

Notwithstanding the economic liberalization and the advent of a modest but steady growth, social exclusion and the lack of access to basic services, mainly in the health and education sectors, still constitute an enormous obstacle to the region's development. This in turn translates into insecurity and governance problems that weaken the tenuous progress reached by some Latin American countries, such as Mexico.

Social exclusion is a problem that affects all parts of the world, even the most developed countries. Nevertheless, no one can refute the fact that the problem of income distribution is particularly serious in Latin America, for two main reasons. First, Latin America is the region with the most disparate income distribution in the world—worse than Asia, Africa and the Middle Eastern countries with a lower GDP per capita. Second, as noted by Christian Freres and José Antonio Sanahuja,<sup>7</sup> Latin America seems to be caught in a sort of progress trap. These countries have sufficient resources, both human and financial, to solve their own problems. However, because of their intermediate level of development, they have the worst of both worlds. Like the industrialized countries, they are highly exposed to the volatile forces of international markets. Unlike them, however, they do not have the solidity to resist these forces or the social institutions that would avoid paying a high social price after each readjustment. Furthermore, their high degree of inequality means that it is necessary for them to make an even greater effort than the developed countries to ensure that growth leads to an improvement of social cohesion.

Notwithstanding the conscience of this reality, the perspectives of a common discussion about social cohesion with the Europeans caused strong reservations in most Latin American capitals. This could be explained by several reasons:

- The diffuse fear of the future imposition by Europe of a “social clause” comparable to the “democratic clause” included since 1997 in every external agreement between the EU and third countries. This fear is founded both by the double standards that Europe manages as far as democracy is concerned and by the unilateral conditions introduced in the Generalized System of Preferences.
- The fear of European paternalism, which is a general trend as far as developing world is concerned, even more so as Europe is the continent with the best social cohesion results while Latin America is the worst. Even so, Europe has experienced many failures, while Latin America has shown some success.
- Many Latin American countries estimate that their efficiency in applying social cohesion policies was constricted not only by their lack of will or

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<sup>7</sup> Christian Freres and José Antonio Sanahuja, “Study on Relations between the European Union and Latin America, New Strategies and Perspectives” (Instituto Complutense de Estudios Internacionales, Madrid, November 2005), 28.

capacity, but also by the guidelines and conditions of the IMF or World Bank programs.

- The Latin American countries had fears about the efficiency about such a general debate and the relevance of posing these problems in a forum with almost sixty heads of state and government.
- Last but not least, most Latin American countries give priority to trade liberalization over social cohesion in their relation with Europe. They argue that without growth, promoted by trade in their competitive sectors, and for instance agriculture, they will not be able to generate the resources that would allow them to fight against social exclusion. Thus they fear that the inclusion of the social cohesion theme, although relevant, would divert attention from the real debate.

### **Social Cohesion as the main topic of the bi-regional relationship: important obstacles**

#### *Conceptual obstacles*

Even if these concrete problems had not restricted the enthusiasm of the Latin American governments, some deeper obstacles would remain to be resolved.<sup>8</sup> The first one is to find a common definition of “social cohesion.” There is no consensus about the meaning of the concept. It has been sometimes understood as the fight against poverty and inequality, although the terms are not necessarily synonymous.

Americans speak more often of social “exclusion” or “inclusion”, although the term was first coined in France in 1974 when it came to define a whole range of socially disadvantaged groups and became central to French debates about the “new poverty.”<sup>9</sup> Now, Europe has its own common definition, such as the one expressed in the Social Charter that was integrated in the Amsterdam Treaty in 1997. This integration was long overdue, as the necessity was expressed by Jacques Delors at the beginning of the negotiations for the single market in 1985. The refusal of the British government in particular delayed the adoption of a common definition until 1997, even though eleven governments had accepted it since 1989. The definition is general but offers a legal basis for the development of the European social policy. The EU also has strong institutions that could define, develop, and amend the definitions and objectives of social cohesion, such as the Economic and Social Committee and, above all, the European Commission with its Commissioner for Employment, Social affairs and Equality of Opportu-

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<sup>8</sup> Stephan Sberro, “La cohesión social: nuevo tema de la agenda bilateral Europa/América Latina: problemas conceptuales y prácticos” in *La Unión Europea, su evolución y relaciones con América Latina y El Mundo* (Porrúa-ITAM- Konrad Adenauer Stiftung, México, 2005), 73-76.

<sup>9</sup> [http://www.iadb.org/exr/events/conference/pdf/chapter1\\_eng.pdf](http://www.iadb.org/exr/events/conference/pdf/chapter1_eng.pdf)



nities. Even with these antecedents, the concept of social cohesion was not defined precisely, but only in reference to what it relates to or what its objectives are. For the Commission it “relates to poverty, inequality and social exclusion”. In the European Union’s Social Policy Agenda (COM (2000) 379), social cohesion is defined as an objective: “To prevent and eradicate poverty and exclusion and promote the integration and participation of all in economic and social life. Latin America does not have such strong institutions or definitions. The CEPAL has long started to reflect on these questions but its role is limited merely to making proposals<sup>10</sup>. In this area, more than in any other, we bump into the problem of the fundamental asymmetry between the various parts involved in the negotiation: institutional asymmetry, experience and knowledge asymmetry and policy means asymmetry.

However, once a definition is agreed upon, another fundamental problem still remains. Are the social cohesion problems in Europe and Latin America comparable? Some are, such as social security, the tax legislation or gender equality. Some are not: employment, migration and demography in general, as well as minority integration, and they have different meanings on both sides of the Atlantic.

#### *Practical obstacles*

Even if these conceptual obstacles were sorted out, some questions would still arise: are there areas where the bi-regional strategic association could more easily find a concretion? Are democratic governance and economic growth resolved problems? Democracy is still frail, fiscal capacities limited.

Notwithstanding their problems, all Latin American countries, with the exception of Chile and Mexico give trade liberalization priority over political or social items in their external/international relations agenda. With respect to the European Union, even if trade relations are somewhat ambivalent as we saw, since it is a subject of discord and also since in relative terms, the importance has diminished over the years and today it conducts less than 5% of its trade with Latin America.<sup>11</sup>

Some political topics could also give the strategic alliance a more visible and concrete content. Subjects such as the International Financial System reform, environmental improvement, through the efficient application of the Kyoto protocol, or the International Penal Tribunal could lead to a real strategic relationship between the two regions.

Finally, the subject of social cohesion raises difficult issues about sovereignty and the possibility for Europeans to internationalize a topic they have not

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<sup>10</sup> Oswaldo Rosales, CEPAL, ex chief negotiator of the Chile-US FTA <http://www.tlc.gov.co/VBeContent/Documentos/tlcsept2005/eventoscuarto/ronda12/osva.ppt>.

<sup>11</sup> Heinrich Kraft, “The EU and Latin America Should forge a Strategic Partnership,” *European Affairs* (Summer, 2005).

yet fully discussed themselves internally. Nevertheless, the Guadalajara Declaration, in clause number 46, promotes a regional or sub-regional dialogue to exchange information on aspects of social cohesion in the national plans and to examine the common objectives for social cohesion in order to share experiences about successes and failures. In the same order of ideas, it does not mention public policies, such as in the article 44 of the Guadalajara Declaration, running the risk perhaps of intruding on a very complex national debate?

### **But Concrete results**

#### *Since Guadalajara 2004*

Nevertheless, despite these very serious conceptual and practical obstacles, the Social Cohesion dialogue among Latin America, the Caribbean and the European Union allowed for concrete and original progress in bilateral relations as well as innovation in the realm of international relations, putting the social cohesion objective higher up on the international dialogues agenda.

1- The European Union institutionalized the dialogue between civil societies in Europe and America as well as with Chile and Mexico. The European Economic and Social Committee decided to participate in the dialogues, institutionalizing the dialogue one step further. In the meantime, countries such as Brazil and Chile decided to create their own Economic and Social Committee while Mexico and the Andean countries<sup>12</sup> opened up the debate on the same issue. The rising interest of the European Parliament for Social Cohesion joined with the development of the inter-parliamentary dialogue could allow for further institutionalization. These growing interests translate into a demand from the Parliament and some parts of the civil society for more funds devoted to Social Cohesion. The preparatory and follow up meetings for Guadalajara allowed for an intense dialogue among universities, trade unions, local authorities, and non governmental organizations in transversal and thematic discussions, creating a network of society relationships, independent of progress in the governments' negotiations. European NGOs, as well as Latin American NGOs, not only help to change social conditions but also make the point that building democracy requires social and international changes.<sup>13</sup>

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<sup>12</sup> ALOP, "Cohesión social e integración regional andina: desafíos desde la perspectiva de la sociedad civil: comentarios para el Primer foro de la sociedad civil UE-CAN" (Asociación Latino Americana de Organizaciones de Promoción y Pontificia Universidad Católica de Perú, Lima, Febrero 16, 2005) 5.

<sup>13</sup> Jean Grugel, "Romancing Civil Society: European NGO's in Latin America," *Journal of Interamerican Studies and World Affairs* 42, num. 2 Special Issue The European Union and Latin America: Changing Relations (Summer 2000), 104.

2- Social cohesion was the only topic in which the Guadalajara summit reached a concrete decision. With a new element in the relationship, the *EurosociAL* program is able to promote and diffuse the good practices and technical knowledge between the public administrations of the two regions as far as Social Cohesion is concerned. A financial envelope of 30 millions Euros in four years was also decided upon by the European Commission just before Guadalajara. Five areas were identified, which are in order of priority, as defined during the Guadalajara Summit: Health, Education, Taxes, Justice and Employment. A program of action was defined in September 2005 in Cuernavaca, Mexico. *EurosociAL* aims at developing better political awareness on Social Cohesion and improving the authorities' and public administrations' capacities in the formulation and implementation of efficient policies to promote Social Cohesion and inclusion. It allows for dialogues on public policies, exchange visits, education, and diffusion adaptation of intervention methodologies that were successful in Europe and Latin America<sup>14</sup>. Thirty eight consortiums that will execute the program were chosen for the five areas<sup>15</sup>. The International Labor Organization is responsible for the area of employment. The managing committee of *EurosociAL* is composed of the European Commission, the Inter-American Development Bank, the UN Programme for Development, and the Economic Commission for Latin America (CEPAL). This should guarantee coherence with the cooperation policies implemented by other multilateral organizations, which makes this the third most important result of Guadalajara.

3- The European Union could join with the Inter-American Development Bank to pursue the same objectives, making it more institutional, more sustainable and using more synergies. More generally, the EU and Latin America are succeeding in making Social Cohesion an important, permanent and global debate. For example, social protection will be the central theme of the 21st session period of CEPAL between 20 and 24<sup>th</sup> of March in Montevideo.

### *Vienna 2006*

In May 2006 in Vienna, 25 heads of state from Europe and 33 from Latin America and the Caribbean met. It was an opportunity to establish the priorities for the future in the framework of several important appointments, such as the preparation of the cooperation program for the years 2007-2013 between the two regions, the WTO Doha round negotiations and the meeting of the Millennium objectives for development. Social Cohesion was once again at the top of the agenda, above democratic consolidation, regional integration and multilateralism.

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<sup>14</sup> Delegation of the European Commission in Mexico, "Europa en México" (Mexico, 2005), 40.

<sup>15</sup> Seven are Spanish, four Mexican, Brazilian, French, three Argentinean, two Chilean, Colombian, German and Italian.

Nevertheless, it is quite unlikely that the proposal of the European Parliament of a bi-regional solidarity fund will finally materialize. Latin America cannot hope to enjoy the benefits of structural or cohesion funds as it is not member of the EU. Unfortunately, the official help for development has not increased either. However, a special line for Latin America in the European Investment Bank was proposed unanimously by the external affairs commission of the European Parliament in February 2006, along with a Euro-Latin American Chart for peace and security, the creation of a bi-regional Centre for preventing conflicts, a transatlantic bi-regional assembly, the institutionalization of a business dialogue and a better coordination with the Ibero-American Secretariat and conferences. Finally, the idea of using the voting majority that could enjoin the European Union and Latin America together in international agencies such as the World Bank or the International Monetary Fund did not progress either.<sup>16</sup>

Other ideas are the adoption of a specific and differentiated framework for the European Cooperation towards Latin America and the opening of professional education programs for Latin America.<sup>17</sup>

Instead of multiplying the programs, it might be more useful to build upon what has already been done. *EurosociAL* and the more and more institutionalized dialogue between civil societies and organizations are good ideas that could be further developed. Both avoid abstract political discourses that abound in Summits or Parliament reports.

### **Conclusion**

It may be that the EU is using and transferring its neo-functionalist method to create pragmatic and original links with Latin America. Whether it will work or not remains to be seen. Latin America is not really a bloc. The concept of Social Cohesion must be more precisely defined and the necessity to deal with it in international forums strengthened. Finally the economic aspects of the relationship seem to prevail over social ones, even when Social Cohesion is evoked over its own merits.

In Europe, functionalism started with the economy. The social part of integration remains to be developed. With Latin America too, since Rio, the most visible part of the bilateral relationship has not been political or social. The Association Agreements are better known for the trade liberalization they have allowed. In Madrid, the agreement with Chile and Mexico were initialized. In Vienna, the analysts will see what happens with the trade negotiations with MERCOSUR and the opening of trade negotiations with the Andean Community

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<sup>16</sup> Porfirio Muñoz Ledo, "Lecciones de la Cumbre de Guadalajara," *De Guadalajara a Viena, hacia una Cumbre Nueva* (CELARE, Santiago de Chile, 2005), 81.

<sup>17</sup> José Ignacio Salafranca, "Las relaciones UE-ALC, hacer de la Cumbre de Viena un éxito" in *De Guadalajara a Viena.....op. cit*, 51.

of Nations and Central America. Agriculture will no doubt again constitute a stumbling block for progress in the negotiations. And, once again, the European Union will prefer to wait for the conclusions of the Doha Round. The enormous development problem of the Andean and Central American countries will also constitute a formidable obstacle for real progress. A number of participant countries from Latin America are therefore likely to feel disappointed by the Vienna Summit. They would again consider that the relationship is too asymmetric, with the European Union setting the agenda, the conditions and the rhythm of the negotiations<sup>18</sup>. In this context, the proposal of a Euro-Latin American free trade area for 2010, presented in Puebla by the two common Parliaments, looks more like a utopia than a concrete and viable proposal, even more so with the failure of the American Free Trade Area in Mar del Plata.

Notwithstanding these huge drawbacks, or maybe thanks to them, Social Cohesion has been proven to be resilient in the bilateral relations. It has also demonstrated to be more concrete than one would have thought. After the 55 themes of the Rio declaration in 1999 and the general debates in Madrid in 2002, Social Cohesion appeared to be both genuine and up to date.

In Guadalajara, the social part also was the one with more concrete results, although it only had 10 of the 104 articles of the Guadalajara declaration. It is also the only theme of the strategic relationship that had a real follow up between Guadalajara and Vienna. Social issues are now increasingly more than just a counterpart of the trade negotiations meant to attenuate the negative effects of economic liberalization. They are a topic of their own merit. They might also be, against all odds, the central and most important topic in Vienna, too.

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<sup>18</sup> *Ibid*, 37.

### **III. Models and Lessons**



# The Emerging CARICOM Model

Wendy C. Grenade

## Introduction

Regionalization is a central pillar of the contemporary global political economy. During the first wave of integration (1950s to mid 1980s) some projects suffered setbacks while others were derailed. Early attempts at integration were particularly problematic for the developing world. As Adebayo observes with reference to Africa, “When a state finds itself in crisis, it does not see beyond its nose. If you can’t provide enough transport facilities at home, how can you be thinking of West African or pan-African facilities? These are states that can’t even pay the salaries of their civil servants. How can you expect them to take out their non-available resources to pay contributions to regional organizations?”<sup>1</sup> Some of the constraints to viable integration in the developing world stem from historical and structural factors, lack of political will, institutional deficiencies, political conflicts within member states and the inability to balance national interests and the greater collective good. Yet, despite odds and missed opportunities, many countries in the global south have now placed regional integration high on their policy agendas as a strategy to achieve sustainable development. Hence, the second wave of integration, which began in the late 1980s, is characterized by the renewal of old projects and the proliferation of new ones.

The European Union (EU) is by far the most sophisticated and advanced form of regional integration in the world. Over fifty years ago, Jean Monnet had a vision to “make wars unthinkable and materially impossible” in a war-prone and war-torn Europe. Today, what has evolved into the EU, despite setbacks and weaknesses, is a relatively successful experiment which blends inter-state cooperation and supranational governance. As it celebrates fifty years since the signing of the Treaty of Rome in 1957, there appears to be a consensus that the EU model of integration is an inescapable reference point for any regional project. For example, Mattli<sup>2</sup> compares European experiences with experiences in other regions of the world, using variables such as market gains and regional

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<sup>1</sup> Adebayo Adedeji, “You Must First Set Your House in Order: Create Conditions for Integration” *African Recovery* (September, 2002b): 16.

<sup>2</sup> Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (Cambridge: Cambridge University Press, 1999).



leadership and found that the EU, the North American Free Trade Agreement (NAFTA) and the European Free Trade Area (EFTA) until 1973 have the highest success rates. The Southern Cone Common Market (MERCOSUR), the Asian Pacific Economic Cooperation (APEC) and the EFTA after 1973 have the second most successful rates. The lowest success rate is given to the Central American Common Market (CACM) after 1969, the Association of Southeast Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS), the Latin American Free Trade Association (LAFTA), the Andean Pact, the Caribbean Community (CARICOM) and the Arab Common Market.

Given the EU's relative success, what lessons can other regional movements draw from the EU, cognizant of the structural differences and peculiarities which exist? The chapter specifically examines areas in which CARICOM can benefit from the European experience. The first section discusses some success factors which have sustained European integration. The second explores the emerging CARICOM model and discusses how CARICOM can draw on the EU model, in keeping with the Caribbean reality. The final section offers some broad conclusions.

### **The European Union: Success Factors**

There are several factors which have contributed to the EU's relative success and to its distinctiveness. This section discusses two factors: institutional structure and decision-making process and political leadership.

#### *Institutional Structure and Decision-Making Process*

A sound institutional structure and effective decision-making are critical to sustain integration among sovereign states. This chapter argues that the EU's relative success can be attributed in large part to its institutional design and decision-making process. The EU is made up of elements of *inter-governmentalism* and *supranationalism*. The Maastricht Treaty provided for a pillar structure within the EU. The first pillar is the most important, as it incorporates the existing European Community and includes the vast majority of pooled competencies of the EU. Within this pillar, decisions are usually supranational, that is, *Qualified Majority Voting* (QMV) is used which is free from the threat of national veto. In the second pillar, member states attempt to forge common positions and take joint action on foreign and security affairs. The third pillar, which is the domain of Justice and Home Affairs, is designed to increase cooperation in the areas of internal security, such as the fight against international crime and the illicit drug trade. Decision making in this pillar is intergovernmental as unanimity is required for virtually all important decisions. Further, besides QMV, the EU has a system of *reinforced cooperation* which allows member states to opt out of a particular EU directive without the use of

veto or the threat of sanctions by other member states. For example, in the EU-15, while Britain, Denmark and Sweden opted out of the eurozone, this did not prevent the launch of the euro.

Within this framework, the *common institutions*<sup>3</sup> of the EU play a critical role. These institutions help to balance the national interests of member states with the ‘common good’ of the Union. For example, the *European Council of Ministers* is the legislative arm of the EU. It is considered one of the EU’s most powerful institutions, since it is the main decision-making body. In the Council of Ministers there is a combination of elements of supranationality and intergovernmentalism, depending on the method of voting that is adopted, which is subject to the topic at hand. Much of EU decision-making in the Council is based on searches for agreements between competing interests. Here, member states have the opportunity to place their national interests on the EU’s agenda. This is necessary to sustain integration, since integration involves sovereign, independent states which pool sovereignty to achieve their own interests.

Yet, the process of integration can be undermined if it centers solely on promoting the interests of individual member states. The common good must be established and some means of supranationality is then necessary to promote and sustain it. The chapter argues that some measure of supranationality is essential to cement integration projects. In the case of the EU, the *European Commission* plays a fundamental role in this regard. It has the right to propose legislation; draft the budget; act as a guardian of the Treaties; and negotiate international trade agreements. The main function of the Commission is to defend the fundamental interests of the Community. It also represents the Community to the rest of the world and manages, supervises and implements EU policies. However, accountability is a major issue for the Commission, since it has only limited authority and ability to execute EU policy ‘on the ground’. In addition, the Commission lacks the political resources to mediate between competing interests, because its policy competences are constrained and it has no direct political mandate. Moreover, member states can be reluctant to relinquish their control over sensitive or politicized policies. For example, member states have been cautious about surrendering control over policy areas such as immigration and defense. Nonetheless, the Commission is empowered to initiate legal action in the Court of Justice against member states perceived as failing to carry out their treaty obligations. The history of the Commission has been fraught on the one hand, with pressures to act in the ‘European interest’ and constraints which are imposed by member states. Yet, the Commission plays an essential role in the success of European integration.

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<sup>3</sup> Much has been written elsewhere about the EU’s common institutions. See Elizabeth Boonberg and Alexander Stubb, *The European Union: How Does It Work??* (Oxford: Oxford University Press, 2003) and John McCormick *Understanding the European Union: a concise introduction*, 2<sup>nd</sup> edition. (New York: Palgrave, 2002).

However, the Commission does not, on its own, direct the affairs of the EU. In fact, the strength of the EU is its power-sharing arrangements. For example the *European Parliament (EP)* is elected by the citizens of the member states and brings together all the political parties operating in the EU member states. The EP has three main roles. First, it shares with the Council the power to legislate. The co-decision procedure is the most common procedure for adopting EU legislation. This method makes the EP and the Council of Ministers equal in adopting EU laws and applies to the following areas: free movement of workers, creation of the internal market, research and technological development, the environment, consumer protection, education, culture and health care.<sup>4</sup> Besides the co-decision procedure, the EP must be consulted and its approval is required for certain important political and institutional decisions. Second, the EP exercises democratic supervision over all EU institutions. For example it has the power to approve or reject the nomination of Commissioners and it has the right to censure a Commission as a whole. The preemptive resignation of the Santer Commission in 1999 is a case in point. The EP also closely monitors the work of the Council and can further exercise democratic control by examining petitions from citizens and setting up temporary committees of enquiry.<sup>5</sup> Third, the annual budget of the EU is decided jointly by the EP and the Council of Ministers.

The powers of the Parliament have increased with successive revisions of the founding treaties, both in response to pressures from the Parliament itself and as the member states have recognized a need to give the process of European integration greater democratic legitimacy based on accountability to the citizens. For example, the Maastricht Treaty gave the EP the right to amend and pass legislation in limited range of areas (i.e. the co-decision procedure). The Maastricht Treaty also gave the EP a greater role in appointing the Commission. With the Amsterdam and Nice Treaties the co-decision procedures were further extended. The EP was also empowered to place matters before the Court on an equal footing with the Council and Commission.<sup>6</sup> The EP has seen its powers grow further since direct elections were first held in 1979. The EP also now has veto power and can prevent the admittance of any new member to the EU.<sup>7</sup> Many still question the EP's ability to bring legitimacy to the EU's decision-making process. The EP is the only EU law and policy-making body directly elected by the voters. However, the parliament has almost no role in two of the most

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<sup>4</sup> Aimee Kanner, "The Impact of Regional Integration on the Foreign Policy Options of Small and Middle Power States: The Cases of Argentina, Portugal, Spain and Uruguay." (Ph.D. Dissertation, University of Miami, 2001), 55.

<sup>5</sup> European Commission. *How the European Union Works: A Citizen's Guide to the EU Institutions* (Brussels: European Communities, 2003), 12.

<sup>6</sup> See Boomer and Stubb, 45.

<sup>7</sup> A. Duff, "Building a Parliamentary Europe" *Government and Opposition* 29, no. 2 (Spring, 1994): 154.

important areas of first-pillar policy-making: agriculture and foreign trade, and its powers generally do not extend to the second or third pillars, where decisions must result from intergovernmental agreement among member states. Weaknesses of the EP include multiple locations, (Strasbourg, Brussels Luxembourg); language; and size. EU enlargement further compounds the problem. Yet, the EP plays a unique role and brings a measure of balance to the EU.

Another central institution is the *European Court of Justice (ECJ)*. It was set up under the ECSC Treaty in 1952 and it is the judicial authority that interprets 'Community Law' and ensures that it is applied uniformly in each member state. The main function of the Court is to give rulings on cases brought before it. Each member state of the EU, as a prerequisite for becoming a member, must adopt national laws stating that the government will abide by the rulings of the ECJ. The judgments made by the ECJ are therefore binding on member states. A series of decisions in the early 1960s widened the Court's jurisdiction and gave real substance to the EC/EU's legal system. Two landmark decisions during the 1960s developed the essential rules on which the EU legal orders rest. In the 1963 *Van Gen en Loos* case, the court established the doctrine of *direct effect*, which mandated that EU citizens had a legal right to expect their governments to adhere to its European obligations. In 1964 (*Costa v. ENEL*), the Court established the supremacy of Community law, which means that if a domestic law contradicts an EU obligation, European law prevails. The impact of the ECJ on the European policy process is undeniable, although national courts have not always accepted easily either the supremacy of European law or the judgments of the ECJ on individual issues.

### *Political Leadership*

This chapter contends that visionary political leadership is an important prerequisite for successful regional integration. Nevertheless, powerful nationalists and skeptics can undermine integration. In the case of the EU, the founding fathers envisioned a peaceful and prosperous Europe, where wars were "unthinkable and materially impossible." Today that vision is not only being realized but it is also being enlarged. The EU is a ship that has always been guided (for good or bad) by powerful political captains. In the DeGualist era, the 'empty chair crisis' almost sunk the ship. Thatcher's powerful anti-Europe stance, which was underpinned by ideology, helped to create stalemate in the 1980s. Since the mid 1990s we have seen an invigoration of European integration which can be attributed in part to the leadership role played by powerful leaders. France and Germany have always given direction to the EU. Recently the Franco-German-British axis is steering the course of the EU. French Presidents, such as Jacques Chirac, have continued to played pivotal roles in the current era. Former German Chancellor Schroeder can be remembered for his leadership role

in some of the most critical moments of the EU-15. Since 1997 prime minister Blair has engaged in a relatively positive posture toward Europe, a far cry from the Thatcher years. Currently German Chancellor Angela Merkel presides over the EU presidency and she has promised that Germany has “very ambitious” plans to review the EU treaty. Merkel calls for a “roadmap” and “method for adoption” of the constitution.<sup>8</sup> This underscores the point that strong leadership is important for integration.

In the EU, this leadership is made possible through the European Council, which is the EU’s highest decision-making body. Some of the general goals of the Council are: to exchange views and reach consensus; to give political impetus to the development of the EU; to begin cooperation in new policy areas; to provide general policy guidelines for the EU; to guarantee policy consistency and to reach common positions on foreign policy. In essence the Council is more a process or a forum than a formal institution.<sup>9</sup> It comprises the presidents and prime ministers of all EU countries plus the President of the European Commission. The President of the EP also addresses every European Council. The European Council, in principle, meets four times a year and is chaired by the President or Prime Minister of the country currently presiding over the Council of the European Union.<sup>10</sup> This process gives leadership and visibility to European integration. Thus, political leadership is a critical success factor to sustain regional projects.

### **The Caribbean Community (CARICOM) – An Overview**

At the end of 2006 Edward Seaga, the former prime minister of Jamaica, commented on what he referred to as “CARICOM sliding out of the future.”<sup>11</sup> According to Seaga, at the present level, the Caribbean Community (CARICOM)<sup>12</sup> functions in “pieces and patches” without any overriding authoritative machinery. He observed that all major decisions are made in the

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<sup>8</sup> BBC News. “Germany plans to revive EU treaty.” 17 January, 2007 (<http://news.bbc.co.uk/2/hi/europe/6041680.stm>) accessed 19 January, 2007.

<sup>9</sup> McCormick, 101.

<sup>10</sup> See European Communities, “Europe in 12 lessons” (Brussels, 2004), 17

<sup>11</sup> Edward Seaga, “CARICOM Sliding out of the future” *Jamaica Gleaner*. December 31, 2006. (<http://www.jamaica-gleaner.com/gleaner/20061231/lead/lead8.html>) accessed January 19, 2007.

<sup>12</sup> Four member states signed the initial Treaty of Chaguaramas which established CARICOM in 1973: Barbados, Guyana, Jamaica and Trinidad and Tobago. In 1974 CARICOM widened to include thirteen states: Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines. The Commonwealth of the Bahamas became the thirteenth member state in 1983, Suriname, the fourteenth in 1995 and Haiti, the fifteenth in 2002.

“round-about process of agreement”, first at the level of the cabinets of member governments, then regional Heads of Government meetings. Seaga noted that while participating governments are willing to meet at the level of Heads of Government and arrive at a consensus on issues, they are not willing to cede absolute authority on vital issues which will affect their home base. Seaga observed that CARICOM’s answer to the lack of authoritative leadership is the [proposed] establishment of a CARICOM Commission with super powerful public officials appointed to take decisions in prescribed matters “as if they were a single regional CARICOM Cabinet overriding the national executive of member countries.”<sup>13</sup> He cautioned, however, that anyone who believes that this would work does not understand the psyche of Caribbean leaders nor, indeed, the people. Seaga continued to make the point that those who argue for this structure point to the functioning, workable example of the EU. They considered that the success of the European Union means that CARICOM can work in that way. But, in Seaga’s view, the EU is a relatively homogeneous group of nations with all members having broadly similar levels of development. Wide dissimilarities are ruled out in the membership process for admission. Member countries have to ensure that they meet the minimum criteria for establishing a tolerably similar base. He compared CARICOM today to the early demise of the West Indian Federation in 1962 and cautioned that CARICOM is likely to face “a slide, not a climb, in the future.”<sup>14</sup>

To what extent does Seaga’s gloomy picture reflect CARICOM’s reality? CARICOM’s Secretary-General, Edwin Carrington, shares a different view. He points out that the recently launched Caribbean Single Market (CSM)<sup>15</sup> is the “most ambitious undertaking” that CARICOM has ever attempted. Carrington acknowledged that the challenge to sustain Caribbean development remains as formidable as ever. However, he contends that CARICOM is “not lying down in the face of those challenges. [Instead] the Caribbean is putting its house in order even as it reaches out to strengthen its ties with its traditional partners and to develop stronger links with the new ones...”<sup>16</sup>

As the above discussion suggests, CARICOM is at a defining moment in its history. After many hurdles, a Caribbean Court of Justice (CCJ) was established

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<sup>13</sup> *Ibid.*

<sup>14</sup> *Ibid.*

<sup>15</sup> On January 30, 2006 six CARICOM member states – Jamaica, Barbados, Belize, Guyana, Suriname and Trinidad and Tobago signed the formal declaration signaling the launch of the CARICOM Single Market (CSM). In June of that same year, other member states, with the exception of Haiti, Montserrat and The Commonwealth of The Bahamas, became members of the CSM.

<sup>16</sup> CARICOM Secretariat, “Keynote Address by His Excellency Edwin W. Carrington, Secretary-General, Caribbean Community, at the 30<sup>th</sup> Annual Miami Conference on the Caribbean Basin” (4-6 December, 2006, Miami, Florida).

in 2005 and a Caribbean Single Market (CSM) in 2006. These two initiatives reflect a deepening of Caribbean integration, beyond the traditional focus on functional cooperation. In addition to the CCJ and the CSM, there are plans to create an Executive Commission to speed up implementation of CARICOM decisions. Another significant feature of the emerging model is the Caribbean Regional Negotiating Machinery (CRNM).<sup>17</sup> Through this mechanism, member states can collectively strategize to increase their bargaining power and reduce their marginalization as they engage in negotiations at the hemispheric, inter-regional and international levels. As I have mentioned elsewhere, there is an emerging CARICOM model which is a slight shift from the solely inter-governmental approach to integration.<sup>18</sup> Nonetheless, even as CARICOM deepens integration, unlike the EU, it remains a community of sovereign independent states. This means, in essence, that (except for the CCJ, which is in its infancy) there is no supranational entity to make binding decisions for member states. According to Owen Arthur, the Prime Minister of Barbados, a new model of regional governance is required. He cautions, however, that:

I do not propose here any sinister mechanism designed to deny any of us our national authority or sovereignty. Rather, national and regional consensus building and popular consultation and participation must lie at the heart of what I call the new Community.<sup>19</sup>

Since the Report of the West Indian Commission which recommended aspects of the EU model to address the “implementation paralysis” which was cited as a “chronic deficiency,”<sup>20</sup> CARICOM has attempted to strengthen its institutional mechanism. However, despite attempts to deepen integration through new institutional arrangements, there appears to be a dichotomy with the concept of a single economic space, for instance, without greater steps toward political

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<sup>17</sup> For a comprehensive analysis on the CRNM see Cedric Grant, “An Experiment in Supra-National Governance: The Caribbean Regional Negotiating Machinery” in *Contending with Destiny: The Caribbean in the Twenty-first Century*, edited by Kenneth Hall and Denis Benn (Kingston: Ian Randle Publishers, 2000), 447-499.

<sup>18</sup> See Wendy Grenade, “An Overview of Regional Governance Arrangements within the Caribbean Community (CARICOM) in *The European Union and Regional Integration A Comparative Perspective and Lessons for the Americas*, ed. Joaquín Roy and Roberto Dominguez (Miami: European Union Center, 2005), 167-183.

<sup>19</sup> Owen Arthur, Prime Minister of Barbados, “Speech at the 20<sup>th</sup> Meeting of the Conference of Heads of Government of the Caribbean Community held in Port-of-Spain, Trinidad and Tobago” (July 4-7, 1999). Cited in Kenneth O. Hall, *Integrate or Perish: Perspectives of the Heads of Government of the Caribbean Community and Commonwealth Caribbean Countries 1963-2002*. (Kingston, Jamaica: Ian Randle Publishers, 2003), 306.

<sup>20</sup> See The Report of the West Indian Commission. *Time for Action* (Kingston, Jamaica: UWI Press, 1992).

union.<sup>21</sup> At the same time, given the historical roots of integration in the Caribbean, particularly the early demise of the West Indian Federation in 1962, it appears that full political union is idealistic at this time. The West Indian Commission emphasized that, "...the majority of people seemed to despair that they would see full-scale West Indian political unity in their life times."<sup>22</sup> The question is, what lessons can CARICOM draw from the EU as it seeks to deepen integration, mindful of historical and structural differences between both projects?

### **CARICOM and the EU**

This chapter does not intend to compare CARICOM to the EU. Instead it focuses on the approaches to integration which they share and the differences and similarities which exist along several dimensions. Most importantly, it examines how CARICOM can draw useful lessons from the EU.

#### *Political Direction*

Strong political leadership is essential to ensure the viability of regional projects. Lack of political will is often cited as one of the weaknesses associated with Caribbean integration. The founding fathers of Caribbean integration were part of the anti-colonial struggle which created an impetus for solidarity and unity. Visionaries like the late Eric Williams, Forbes Burnham, Errol Barrow, Vere Bird Sr, and Michael Manley had political vision which took the movement from the demise to the Federation through to the establishment of CARICOM in 1973. During the 1980s CARICOM suffered from lack of a clear political direction since it was preoccupied with ideological divisions and domestic structural adjustment programs.

In the contemporary era, political leadership of CARICOM is usually associated with Barbados' Owen Arthur, Ralph Gonsalves of St. Vincent and the Grenadines, P. J. Patterson of Jamaica and Kenny Anthony of St. Lucia. However, in 2006 two major political changes swept through CARICOM member states. Prime minister Portia Simpson replaced P. J. Patterson as Jamaica's Prime Minister and most recently John Compton defeated Kenny Anthony to again be St. Lucia's prime minister. In Seaga's view the pressure placed on Caribbean countries to make the foot fit the shoe will, no doubt, begin to ease with the retirement of P.J. Patterson as Prime Minister of Jamaica, and the defeat of Kenny Anthony. Seaga reports that Owen Arthur, Prime Minister of

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<sup>21</sup> See Havelock, E. Brewster, *The Caribbean Single Market and Economy: Is It Realistic Without Commitment to Political Unity?* (Georgetown: CARICOM Secretariat 2003).

<sup>22</sup> West Indian Commission, 1992, 24.



Barbados, has indicated that he will also be retiring soon. According to Seaga, this leaves only Ralph Gonsalves, Prime Minister of St. Vincent, as the remaining “fanatical believer” and “fiery advocate” of regionalism to work with the present group of leaders who are supporters but have far less “fire in their bellies” to carry on a campaign with passion.<sup>23</sup> What does this mean for political leadership in CARICOM?

As evidence from the EU suggests, strong visionary leadership is necessary to sustain integration. Time will tell to what extent the current German presidency of the EU will reinvigorate the constitutional treaty. Nonetheless, one lesson CARICOM can draw from the EU is that visionary leadership is a fundamental prerequisite for successful integration.

#### *Institutional Process and Decision-making Procedure*

Regional integration schemes require appropriate institutional designs and sound decision making procedures in order to be viable. CARICOM and the EU differ fundamentally in terms of their institutional processes and decision-making procedures. In 1992 at a Special Meeting of the Conference of Heads of Government held in Trinidad and Tobago to consider the recommendations of the West Indian Commission, Heads of Government agreed that the overall structure of CARICOM would continue to be a ‘Community of Sovereign (independent) States’. Hence, theoretically, CARICOM is an inter-governmental organization. Thus, CARICOM differs significantly from the EU in terms of the institutional approach to integration.

Specifically, the Conference of Heads of Government is the supreme decision-making organ of the Community. Heads of Government are the final authority for concluding treaties as well as for financial affairs. Heads of Government also regulate their own procedures. Every six months a head of government acts as CARICOM’s Chairperson, spearheading the direction of CARICOM. Decisions of the Conference are taken unanimously. It is argued that the retention of the unanimity rule in the Revised Treaty of Chaguaramas in voting procedures of the Conference, is intended to emphasize the principle of sovereign equality of states and to “scotch in the bud” any lingering disposition at political integration.<sup>24</sup>

The 2001 Revised Treaty makes provision for the Bureau of the Conference, which is a new organ of the Community. The Bureau consists of the outgoing and incoming chairpersons of CARICOM as well as the CARICOM Secretary-

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<sup>23</sup> Edward Seaga. “CARICOM Sliding out of the future” *Jamaica Gleaner*. December 31, 2006. (<http://www.jamaica-gleaner.com/gleaner/20061231/lead/lead8.html>) accessed January 19, 2007.

<sup>24</sup> Duke Pollard (ed.) *The CARICOM System: Basic Instruments*. Kingston: The Caribbean Law Publishing Co., 2003, 460.

General. The Bureau is a sub-committee of the Conference of Heads of Government and operates between the Heads of Government and the Community Council of Ministers. The principal responsibilities of the Bureau are to: (a) initiate proposals for development by the Ministerial Councils as it considers necessary; (b) facilitate implementation of Community decisions at the regional and local levels; and (c) update consensus on issues determined by the Conference. Two other unique features are Prime Ministerial sub-committees<sup>25</sup> and regional portfolio distribution among CARICOM Heads of Government.

In the case of the EU, its architecture consists of a pillar structure which marries intergovernmentalism and supranationalism. In this way competencies are shared among the various institutions of the EU. On the other hand, CARICOM's institutional design reflects a general intergovernmental approach to integration, although the establishment of the CCJ is a shift away from the old paradigm. In terms of decision-making, while CARICOM's Conference of Heads of Government uses a consensus model of voting, that is, by unanimity, the EU has a mix of unanimity and Qualified Majority Voting (QMV). This has implications for the pace and of integration. One of the lessons CARICOM can draw from the EU is that some measure of supranationality is necessary to sustain integration. Although CARICOM should not mimic the EU. It needs to institute governance arrangements that take into account its historical development and unique circumstances.

#### *A 'Face' to the World*

Despite the differences, there is a 'face' to the world in both CARICOM and the EU. In the case of the EU, in 1999 Mr. Javier Solana was appointed as High Representative for the Common Foreign and Security Policy and Secretary-General of the Council of the European Union. Mr. Solana assists the Council in foreign policy matters, through contributing to the formulation, preparation and implementation of European policy decisions. He acts on behalf of the Council in conducting political dialogue with third parties. In the case of CARICOM, from its inception, the CARICOM Secretariat and in particular the Secretary-General has always been the official contact for CARICOM. The 2001 Revised Treaty of Chaguaramas, designated the Secretary-General as the chief executive officer of the Community and strengthened the role of the Secretariat. In fact, the Secretariat has evolved as the main conduit for Caribbean integration. It is the focal point for matters relating to Caribbean integration and acts as the catalyst among the various organs, bodies, institutions and associate institutions of CARICOM. However, the Secretariat's role is primarily administrative. Since CARICOM is a community of independent sovereign states, the Secretariat is not

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<sup>25</sup> There are three Prime Ministerial Sub-committees: External Negotiations, the Caribbean Single Market and Economy and Cricket.

empowered to implement CARICOM decisions nor is it equipped to effectively respond to the diverse challenges posed by the changing global environment. The level of empowerment of the CARICOM Secretariat and the European Commission is a fundamental difference between CARICOM and the EU. This reflects the fact that the EU is in part a supranational entity and CARICOM is generally intergovernmental. With the deepening of CARICOM there have been calls for "...the creation of an appropriate supra-national entity to which there ought to be a transfer of some measure of sovereignty, in its pooling, similar, though not identical, to that of the fashioning of the European Union."<sup>26</sup> This debate is ongoing.

In July, 2003 the Conference of Heads of Government agreed, through the Rose Hall Declaration, to establish a CARICOM Commission or other executive mechanism, whose purpose will be to facilitate the deepening of regional integration in the area of the CSM, and such other areas of the integration process as the Conference of Heads may from time to time determine. The Commission's function will be to exercise full-time executive responsibility to further the implementation of Community decisions in such areas as well as to initiate proposals for Community action in any such area. In the exercise of its responsibilities the Commission will be accountable to the Conference of Heads of Government and will be responsive to the authority of other organs of the Community within their areas of competence.<sup>27</sup> Following the Rose Hall Declaration, a Prime Ministerial Expert Group on Governance was set up to formulate recommendations for the operationalization of the Commission. In this regard, at the Sixteenth Inter-sessional Meeting of the Conference in February, 2005, Heads of Government considered the report from the Prime Ministerial Expert Group on Governance which recommended the establishment of a four-person Commission. CARICOM Heads are again expected to consider proposals for an Executive Commission during the Inter-sessional meeting which is scheduled for February, 2007.

#### *Council of Ministers*

A Council of Ministers exists in the institutional structures of CARICOM and the EU, though with somewhat different roles. In the case of CARICOM, the

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<sup>26</sup> Ralph Gonsalves, Prime Minister of St. Vincent and the Grenadines, Address to the 24<sup>th</sup> Annual Conference of the Insurance Association of the Caribbean (St. Thomas, United States Virgin Island, June 6, 2004).

<sup>27</sup> CARICOM Secretariat, "Rose Hall Declaration on 'Regional Governance and Integrated Development' adopted on the occasion of the Thirtieth Anniversary of the Caribbean Community at the Twenty-fourth Meeting of the Conference of Heads of Government of the Caribbean Community, Montego Bay, Jamaica, July 2-5, 2003" (<http://www.caricom.org/achieves/rosehalldeclaration.htm>) accessed March 25 2005.

Revised Treaty of Chaguaramas makes provision for the Community Council of Ministers which replaces the Common Market Council of Ministers. The Council consists of Ministers responsible for Caribbean Community Affairs and any other Minister designated by member states. It is responsible for the development of Community strategic planning and co-ordination in the areas of economic integration, functional co-operation and external relations. There are also four Ministerial Councils.<sup>28</sup> There is a notable change in the decision-making at the level of Council of Ministers. For example, Article 29 (1) of the Revised Treaty states that "...the Ministerial Councils shall take decisions by a qualified majority vote and such decisions shall be binding."<sup>29</sup> Thus, while the unanimity principle remains entrenched in the voting procedures of the Conference, it has been dispensed with for decision-making of other organs save in the exceptional circumstances identified in Article 19 (3) which relates to issues "determined to be of critical importance to the well-being of a member state." This is a significant development, although it is too soon to determine what impact such a change will have.

In the case of the EU, the European Council of Ministers is the legislative arm of the EU and is considered one of the EU's most powerful institutions, since it is the EU's main decision-making body. While a Council of Ministers exists within the frameworks of CARICOM and the EU the roles are different. In the EU the Council of Ministers is the main decision-making body, while in CARICOM it is not. In terms of decision-making, however, CARICOM Council of Ministers now adopts QMV, which is also used in the EU. However, it is too early to assess the impact of the change.

### *A Common Court*

A common court is necessary to sustain integration. Both integration schemes have a common court. But what are the similarities and differences between the Caribbean Court of Justice (CCJ) and the European Court of Justice (ECJ)? By way of background, the idea of a final indigenous court for the Anglophone Caribbean has its genesis as long ago as 1947 at the meeting of colonial governors in Barbados which reflected on the need for a West Indian Court and urged its establishment.<sup>30</sup> It is necessary to point out that at independence all Anglophone Caribbean countries retained the Privy Council in London as the

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<sup>28</sup> The Council for: Finance and Planning; Trade and Economic Development; Foreign and Community Relations and Human and Social Development

<sup>29</sup> Caribbean Community Secretariat. *Revised Treaty of Chaguaramas Establishing the Caribbean Community Including The CARICOM Single Market & Economy* (Georgetown, Guyana: CARICOM Secretariat), 2001.

<sup>30</sup> Hugh Rawlins. *The Caribbean Court of Justice: The history and Analysis of the Debate*. (Georgetown, Guyana: Caribbean Community Secretariat, 2000), 5.

highest court of appeal. The idea for an indigenous court was again mooted in 1970 when Jamaica tabled a resolution at the Sixth Heads of Government Conference of the Commonwealth Caribbean Countries held in Jamaica.<sup>31</sup> A key argument in favor of setting up an indigenous court was the need for sovereignty and independence in that its establishment would be in keeping with the idea of an independent Caribbean and would assist in the loosening of the old colonial links;

However, a major argument against the setting up of a Caribbean court is the possibility of political interference in the judiciary. Despite the concerns, as CARICOM prepared for the twenty-first century, and as deeper integration became necessary, the urgency for a Caribbean court took on currency. This was reflected in the 1989 Grand Anse Declaration,<sup>32</sup> the 1990 Mills Report<sup>33</sup> and the Report of the West Indian Commission.<sup>34</sup> However, the controversial ruling of the Privy Council in the death penalty case of *Pratt and Morgan v. Attorney General of Jamaica*<sup>35</sup> had a significant impact on the debate surrounding the establishment of a Caribbean Supreme Court.<sup>36</sup>

After this decision, the debate on the Caribbean Supreme Court became shrouded in controversy which surrounded in large part the issue of capital punishment. Critics view the court as “a hanging court” with judges appointed by governments keen to clear their death rows and appear tough on crime to voters.<sup>37</sup> On the government side it was argued that the debate on the Caribbean

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<sup>31</sup> CARICOM Secretariat, “Heads of Government Conference Concludes,” Press Release No. 16/1970, April 17 1970, (<http://www.caricom.org/archives/communiqués-hcg-1970-communicue.htm>) accessed April 11 2005).

<sup>32</sup> CARICOM Secretariat, “Communiqué Issued at the Conclusion of the Tenth Meeting of the Conference of Heads of Government of the Caribbean Community,” (Grand Anse, Grenada, 3-7 July, 1989) (<http://www.caricom.org/archives/communiqués-hcg/10hgc-1989-communicue.htm>) accessed April 11 2005.

<sup>33</sup> Gladstone E. Mills, et al. “Report on a Review of Regional Programs, Institutions and Organizations of the Caribbean Community” (Georgetown, Guyana: Caribbean Community Secretariat, 1990).

<sup>34</sup> West Indian Commission, “Time for Action - The Report of the West Indian Commission” (Black Rock, Barbados: West Indian Commission, 1992).

<sup>35</sup> Privy Council Appeal No. 10 of 1993, November 2 1993. (<http://www.privycouncil.org.uk/files/other/PRATTJ~1.rtf>) accessed April 11 2005.

<sup>36</sup> Earl Pratt and Ivan Morgan were convicted of murder committed in Jamaica in 1977 and sentenced to death in 1979. However, they were imprisoned over a sixteen year period and took their case to the Privy Council. The Privy Council allowed the appeal, and the sentences of the appellants were commuted to life imprisonment since in the view of the Privy Council it would be a violation of their constitutional rights of the appellants to execute them after the prolonged delay which followed their conviction for murder.

<sup>37</sup> *BBC News*, “Seeking justice closer to home,” November 27 2002. (<http://news.bbc.co.uk/1/hi/world/americas/2478665.stm>) accessed April 17 2005.

Supreme Court has been distorted by opponents of such a court who seek to convey the impression that the impetus to set up the court springs from a desire to accelerate hangings in the region. However, “[n]othing could be further from the truth”. The true reasons for the establishment of an indigenous final Court are “far loftier” and are rooted in the realities of the regional integration process itself.<sup>38</sup>

As Caribbean integration shifted from the old to the new paradigm in the late 1980s and plans to create a single market and economy gained momentum, the need arose for a dispute settlement mechanism to interpret the Revised Treaty of Chaguaramas and create the legal framework for the single market. Therefore, in 1997 Barbados and Jamaica proposed that the Caribbean Supreme Court be restyled “The Caribbean Court of Justice” [and along with an appellate jurisdiction to replace the Privy Council], be also invested with original jurisdiction to adjudicate matters under the revised Treaty.<sup>39</sup>

Against this background, at the Nineteenth Heads of Government Conference which was held in St. Lucia in 1998 Heads of Government adopted, in principle, the Agreement Establishing the Caribbean Supreme Court, under the new appellation of the CCJ. The Conference agreed that the CCJ was to be invested, *inter alia*, with original jurisdiction in respect of the interpretation and application of the Treaty of Chaguaramas.<sup>40</sup> Therefore a unique feature of the CCJ is that it is one court but it performs a dual function. That is, it has two jurisdictions: an appellate and original jurisdiction.

In this regard, the CCJ is important for several reasons. First, in its appellate jurisdiction the CCJ is intended to replace the Judicial Committee of the Privy Council as the court of last resort for Anglophone Caribbean states (except Guyana). In its original jurisdiction the CCJ is intended to interpret the Revised Treaty of Chaguaramas, resolve disputes arising under it, ensure Community law is uniformly, consistently and equally applied throughout member states and enable the shaping of a truly Caribbean jurisprudence.<sup>41</sup> In essence, the original jurisdiction of the CCJ is essential to advance the cause of regional integration.

The European experience suggests that a common court is the glue that keeps the Union together. For CARICOM, the expectation is that the CCJ would be able to provide rulings that would create the legal framework for the effective

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<sup>38</sup> David Simmons, “The CCJ: A historical necessity,” *Thirteenth Commonwealth Law Conference* (Melbourne, Australia April 13-17 2003).

<sup>39</sup> Rawlins, 200, 57

<sup>40</sup> CARICOM Secretariat, “Communiqué Issued at the Conclusion of the Nineteenth Meeting of the Conference of Heads of Government of the Caribbean Community,” (Castries, St. Lucia. June 30 – July 4 1998) (<http://www.caricom.org/archives/communiqués-hgc/19hgc-1998-communicé.htm>) accessed April 11 2005.

<sup>41</sup> Rickey Singh, “Three compelling reasons for CCJ,” *Trinidad Express*. (<http://www.trinidadexpress.com/index.pl/article?id=24395715>) accessed April 14 2005.

functioning of the single market. So, as has developed in the EU, what is expected to emerge in CARICOM is a body of community law which creates the legal environment to facilitate the deepening of integration. As mentioned earlier, unlike the EU, CARICOM is an association of independent sovereign states without a supranational authority to make binding decisions for member states. Therefore, to establish the CCJ requires every member state to enact the Revised Treaty into local law. This in turn subjects this instrument to as many interpretations as there are jurisdictions, thereby constituting “a built-in prescription for legal uncertainty.” To avoid this eventuality the political directorate of CARICOM determined to invest the CCJ with compulsory and exclusive jurisdiction in respect of issues relating to the interpretation and application of the Revised Treaty.<sup>42</sup> A major lesson which CARICOM can draw from the EU is that a common Court is necessary to sustain integration. As such the CCJ is critical to CARICOM’s future.

#### *Mechanism for Collective Trade Negotiations*

Both CARICOM and the EU have devised mechanisms to participate as a bloc in trade negotiations at the global and inter-regional levels. In the case of CARICOM, the CRNM was established in 1997 to provide a coordinated voice for the region in developing and executing an overall negotiating strategy for the various external trade-related negotiations in which the region is involved. CARICOM countries face a continuous and expanding program of trade negotiations at multiple levels. These include the WTO (GATS, built-in agenda, and the Doha Round), CARICOM (CSME) the FTAA and the ACP-EU relations. Other negotiations include CARICOM/Cuba (phase two), CARICOM/Andean Community, and CARICOM/Central America. Besides the number of negotiations, these negotiations include a wide range of issues, such as market access, intellectual property, standards and technical barriers to trade, investment, sanitary and phytosanitary regulations, subsidies, government procurement, competition policy, dispute settlement, rules of origin, customs procedures and services. According to the Inter American Development Bank (IDB), adequate coverage of these areas requires “negotiating capabilities, including a technical capacity for evaluation and analysis on the part of governments, the private sector and civil society.”<sup>43</sup> Therefore, the CRNM has become an integral part of the emerging CARICOM framework. Although, given CARICOM’s intergovernmental nature, the CRNM reports to the CARICOM Head of Government responsible for External Relations. In essence, its role is technical and advisory, since it is not a decision-making body.

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<sup>42</sup> Duke Pollard, “The Caribbean Court of Justice in Regional Economic Development.” *CCJ Issues and Perspectives* vol. 1. (CARICOM Secretariat, 2001): 22.

<sup>43</sup> Inter-American Development Bank (2002, 49).

In the case of the EU, trade policy falls within the first pillar. This means in essence, it is within the competence of the European Commission, where the EU Trade Commissioner spearheads external trade negotiations and represents the EU's interests to the rest of the world. The area of trade negotiations represents deep integration for the EU. Unlike foreign and security policy, for example, the EU has been able to speak with one voice in trade negotiations and have realized the benefits of doing so. For example, in just the last five years, the EU has completed negotiations for a new Free Trade Agreement (FTA) with South Africa, Mexico, Chile, Croatia, former Yugoslav Republic of Macedonia and a number of Mediterranean partners (for example, Jordan, Tunisia, Israel, Morocco, Algeria, Egypt and Lebanon and negotiations continue with the MERCOSUR bloc, with Syria and with the Gulf Cooperation Council countries.<sup>44</sup> Therefore on the question of trade negotiations, CARICOM and the EU, in principle, follow a similar approach by seeking to speak with one voice in the global trade arena. They differ, however, in that the CRNM is not empowered to make decisions for member states of CARICOM, while the EU Trade Commissioner is empowered to do so in the case of the EU. Another lesson which CARICOM can draw from the EU is that a collective voice is an imperative in trade negotiations.

### Conclusion

This chapter examined the current phase of Caribbean integration and explored the similarities and differences between the institutional arrangements of CARICOM and the EU. To do so it first gave a broad overview of some of the critical success factors which have sustained the European integration. It then provided an overview of the current state of CARICOM. Finally the chapter discussed CARICOM and the EU along five dimensions: political direction; a face to the world; the Council of Ministers; a common court and a mechanism for collective trade negotiations. A number of conclusions can be drawn. The EU has a unique history. The underlying philosophy of European integration was to bring about economic and political stability to a Europe that for the second time in a half-century had emerged from a ruinous war that had destroyed livelihoods, economies, political and physical infrastructures and build a European structure that would promote peace and prosperity between and among its members.<sup>45</sup> No other regional project evolved out of such a distinctive history. Therefore, its

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<sup>44</sup> Pascal Lamy "Stepping Stones or Stumbling Blocks? The EU's Approach Towards the Problem of Multilateralism vs. Regionalism in Trade Policy" *World Economy* vol. 25, issue 10 (October, 2002): 1399.

<sup>45</sup> Joaquín Roy, "The Nature of the European Union" in *Public Administration and Public Policy in the European Union*, edited by Peter Van Hoek (New York: Marcel Dekker Publishers, 2005), 5.



tenuous history was an incentive to cooperate. CARICOM evolved from a different historical path. Born out of the experiences of slavery and colonization, the Caribbean is characterized by both unity and diversity. Thus the history of the Caribbean creates a push-pull model of integration.

Second, power and leadership matter. With respect to political direction it is clear that in both CARICOM and the EU heads of government play a pivotal role in steering the direction of integration. This supports the realist claim that national interests and state power cannot be ignored in any discussion of regionalism. Evidence also shows that larger, more powerful states wield power relative to the weaker member states. In CARICOM, Trinidad and Tobago, Jamaica, Barbados and to a lesser extent Guyana exert influence on the regional project. Similarly, in the EU, power centers largely around the Franco-German-British axis. It can be concluded, therefore, that regional integration movements are often influenced by the interests of larger, powerful member states. Further research is needed to probe deeper into questions of power and regional integration.

Third, the character of regional projects, evolve around the decision-making process. In short, unanimity or QMV have implications for the pace of integration. In the case of the Caribbean, decision-making at the level of Heads of Government are based on unanimity. In the case of the EU there is power sharing among the various institutions. This is a major difference between CARICOM and the EU. It reflects the political culture within both regions as well as the level of maturity of the regional project.

While there is a Council of Ministers within CARICOM and the EU, they perform different roles. CARICOM Council of Ministers deliberate on issues and make recommendations to Heads of Government. In the case of the EU, the Council of Ministers is the main decision-making body. It is also necessary to note that traditionally, a major difference between CARICOM and the EU related to decision-making. With the revised Treaty of Chaguaramas QMV has been introduced into the CARICOM model at the level of the Council of Ministers. This is one area in which CARICOM seems to be sharing a similar approach to the EU. It is too early to assess the implications of this change in the voting procedure on the overall integration experiment. This is one area that requires further research to probe deeper into the relationship between voting procedures and the outcomes of regional integration.

On the question of the face to the world, the CARICOM Secretary-General and the Secretariat play a leading role in CARICOM's visibility. The Secretary-General is the Chief Executive of CARICOM and spearheads the day-to-day operations of CARICOM. In the case of the EU, the Secretary-General of the European Council and High Representative for EU CFSP is the EU's face to the world. It can be concluded that in order for integration schemes to be visible to the rest of the world, there needs to be someone at the end of the line that can speak on behalf of the Community. It is necessary to note, however, that although

CARICOM and the EU both have visibility in relation to the rest of the world, there are marked differences between their approach to day-to-day operations within the Community and the Union respectively. For example, the CARICOM Secretary-General and the Secretariat do not possess formal authority to implement decisions for member states (although they may possess power to influence CARICOM's agenda). In the case of the EU the European Commission, which is a supranational institution, is empowered to make binding decisions on behalf of member states. This is a fundamental difference between CARICOM and the EU.

With regard to a common court, the CCJ was inaugurated in 2005. This court is intended to have two jurisdictions. One jurisdiction to replace the role of the Judicial Committee of the Privy Council and the other as a dispute settlement mechanism in light of the single market. As the chapter noted, given controversies surrounding the establishment of the CCJ, it currently operates as a trade court. Nonetheless, a significant difference between the CCJ and the ECJ is that the former intends to carry out a dual role. The courts also differ in terms of the appointment of judges. In the CCJ, judges are appointed on the recommendation of the Regional Judicial and Legal Services Commission, whereas in the ECJ judges are appointed directly by prime ministers or presidents. An overarching similarity is that both courts act as a dispute settlement mechanism to facilitate the single market. It can be concluded that the deepening of economic integration necessitates a legal framework. In other words, a common court is an integral part of the process of deepening integration. The CCJ is still in its infancy. However, as time goes on further research will be needed to analyze the implications of the CCJ on Caribbean integration. The ECJ will be a useful benchmark for analysis.

In terms of world trade, both CARICOM and the EU attempt to speak with one voice in the international trade arena. The Caribbean does it through the CRNM, while the EU Trade Commissioner represents the EU. However, while the EU Trade Commissioner can make decisions that are binding on member states, the CRNM serves more as a consultative body. This difference reflects the intergovernmental nature of CARICOM compared to the mix of intergovernmentalism and supranationalism in the EU. It can also be concluded that such collective mechanisms are critical given the complexity of the global trade environment. Whether in the developed or developing world, the demands of the global political economy are pushing states to use the regional platform to collectively navigate the global trade arena.

It can be concluded that the current phase of Caribbean integration demonstrates that the CARICOM model is shifting away from a focus on functional cooperation to what Sanders<sup>46</sup> refers to as a "half-way house." That is, CARICOM has found a way to continue to be a community of sovereign

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<sup>46</sup> Ronald Sanders, interview by author, Miami, Florida, February 23 2005.

independent states, while at the same time it is in the process of creating an institutional design which can accommodate the demands of the global political economy. This insistence on being a community of sovereign independent states is influenced to a large extent by the history of Caribbean integration and in particular by the early demise of the West Indian Federation. It is too early to access to what extent the CRNM and the CCJ will change the purely intergovernmental nature of CARICOM. It can be concluded that the emerging CARICOM model does share some similarities with the EU in terms of institutional design. These similarities are driven by the intricate historical relationship between CARICOM and the EU and by the fact that the EU is the oldest and most advanced regional project in the world, which acts as a benchmark for other regional projects. However, there are some distinct differences in terms of the workings of the EU and CARICOM. The difference lies in the fact that CARICOM is a community of sovereign independent states and the EU's architecture is built on a mix of intergovernmentalism and supranationalism.

Both regional movements have not actively involved people in the integration process. There is a disconnect between ordinary people and the regional project which suggests that there are democratic deficits which need to be addressed. This chapter advances the argument that for deeper integration to be sustained, people must be a central focus. The rejection of the EU constitution in France and the Netherlands speak to the challenges which face the "ever closer union." Similarly, the negative reaction in some quarters to the Caribbean single market testifies to the elitist approach to integration in the region. The question is, can integration be sustained if it involves too much popular participation? Is there is tension between democracy and integration? Evidence from the EU and CARICOM suggests that there is. This is one area where both regional schemes share similarities.

### **Final Thoughts**

Following are some final thoughts:

1. The history of a region cannot be ignored, since historical factors shape the polity, the economy and society and influence the nature and pace of integration. The history of the Caribbean has influenced its political and economic condition. This in turn is both an incentive for and a barrier against integration. For example, the early demise of the West Indian Federation has influenced CARICOM's decision to be a community of independent sovereign states, cautious of supranationality.

2. It is useful to study regional integration movements comparatively given the global trend toward regionalism. Comparative analysis provides useful lessons for the way forward. Although there is need for caution. In the case of the EU it is a unique specie and while lessons should be learned other regions should not seek to mimic the EU.
3. Regional models on paper do not always reflect the workings of the integration movement. Closer scrutiny is needed of decision-making procedures, the power relationship among institutions and the role of power in the integration process. Where does power lie? With larger, more powerful member states? Diplomats, technocrats and bureaucrats? Special interests? In the corridors? With external forces? Answers to these questions cannot be found on the neat lines of organizational charts. Instead empirical research is needed to probe such questions.
4. Finally, while institutions and decision-making procedures are important for the advancement of regional integration movements, at the end of the day they are meaningless if they do not make a difference to the lives of ordinary people. This chapter contends that in order for regional integration to be successful it must be people-centered. That is, its outcome must be felt outside of the formal halls of officialdom, positively impacting the lives of ordinary people. Both CARICOM and the EU have a long way to go to locate ordinary people at the center of the integration process.



# Perspectives of Central American Integration

Fernando Rueda-Junquera

## Introduction

As a result of the stimulus provided by the formation of the European Economic Community in 1957, interest in economic integration spread particularly to less developed countries (LDCs) during the early 1960s. Most of the regional integration arrangements signed by these countries failed to meet expectations. By contrast, regional integration efforts in Western Europe were generally more successful.

In the 1970s and early 1980s the slowdown in the European integration process and the failure of similar regional initiatives in the Third World led to a decline in integration theory and praxis. Since this decline, regionalism has made an impressive comeback around the world. The increasing creation of formal structures of regional integration around the world has led to distinction between the *new regionalism* of the present and the *old regionalism* of the 1960s.

Despite the problems raised in the past, recent economic policy debate in LDCs has been characterized by a renewed interest in subregional economic integration as a means of stimulating growth and confronting the challenges posed by the increased regionalism in the world trading system. In Central America a new attempt has been made to revitalize the Central American Common Market (CACM) created in 1960 by Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. The new integration scheme is still subject to numerous limitations that hamper the effective encouragement of the Central American economic development. The objective of this chapter is to compare the new CACM with the successful experience of economic integration in the European Union (EU), drawing lessons that may serve to overcome its current limitations.

The rest of the chapter will be structured as follows. The first section examines the theoretical basis of the European model of economic integration, identifying the main components which may contribute to the explanation of the rationale of economic integration among LDCs under the old and new regionalism. The second section explores the major features acquired by the European model of economic integration in its implementation, paying particular attention to its legal and institutional systems and its set of common actions and policies. After presenting the theory and praxis of the European integration model, the third section carries out a comparison between the EU and the new CACM, taking into account the prevailing structural differences between both

regions. The fourth section ends the paper with the major conclusions drawn from that comparison.

### **Theoretical Basis of the European Economic Integration: Relevance to the Rationale of Regional Integration among Less Developed Countries**

Economic integration is a process aimed at abolishing discrimination between domestic and foreign goods, services and factors of production.<sup>1</sup> Typically this process runs through four stages: a free trade area, customs union, common market and economic and monetary union. A free trade area involves the removal of tariffs between member countries on their reciprocal trade in goods and services, and the maintenance of the respective national tariffs towards non-member countries. In addition to liberalized trade among member countries, when a common external tariff (CET) is levied against third countries, a customs union is formed. A common market possesses all the elements of a customs union plus the free movement of the factors of production among the member countries. Finally, a common market in which the major micro- and macroeconomic policies of the member countries are harmonized under supranational control and in which a single currency is adopted leads to an economic and monetary union.

The study of this process of economic integration has produced substantial theoretical literature. Although integration schemes among LDCs have been the most numerous, the theoretical developments on economic integration have been biased largely towards the study of the problems of integration in the developed countries of Western Europe. This section provides an overview of the principal directions taken by this theoretical research, paying special attention to those contributions most relevant to understanding the rationale of economic integration among LDCs under the old regionalism (the first part of the section) and the new regionalism (the second part of the section). As most economic integration initiatives in the Third World have not gone beyond an attempt to integrate the national markets of the participating countries while barely harmonizing their economic policies, the theoretical literature reviewed in this section addresses product market integration, i.e. customs unions.

#### *Rationale under the old regionalism*

There is a consensus on crediting Jacob Viner's<sup>2</sup> pioneering distinction between trade creation and trade diversion with opening up the branch of the theory of

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<sup>1</sup> Bela Balassa, "Economic Integration" in *The New Palgrave: A Dictionary of Economics*, ed. John Eatwell, Murray Milgate and Peter Newman, 43-47 (London: Macmillan, 1987).

<sup>2</sup> Jacob Viner, *The Customs Union Issue* (New York: Carnegie Endowment for International Peace, 1950).

international trade devoted to economic integration. By introducing the concepts of trade creation and trade diversion, Viner showed that it is not possible to generalize about the welfare consequences of a customs union. He accepted that its formation would augment trade between the member countries following the elimination of tariffs on their mutual trade, but he argued that no general judgment could be made as to whether this increased trade would improve or worsen welfare, since this depends on the source of that increased trade. Viner distinguished between two possible cases: trade creation and trade diversion. In the first case, there is a replacement of high-cost domestic production by lower-cost imports from a partner country and hence, an increase in welfare. In the second case, the replacement is of low-cost imports from a non-member country by higher-cost imports from a partner country, and welfare is reduced. Accordingly, the net welfare effects of the customs union depend on the relative incidence of trade creation and trade diversion.

After Viner's fundamental breakthrough, however, economic integration theory has made only limited progress. The lack of a satisfactory framework for analyzing the dynamic effects of economic integration has undermined advancements in this field. The recent incorporation of imperfect competition and product differentiation into economic integration theory has opened up new possibilities and may contribute to a better understanding of integration in the contemporary economic context.<sup>3</sup>

The traditional theory of economic integration, centered on the static effects of resource reallocation of the customs unions, suggests that there is hardly scope for a beneficial process of economic integration among LDCs. The conditions found in the majority of these countries prior to integration –the Central American countries are a clear example– are precisely the opposite of those indicated by the theory for favoring trade creation: their external trade is important relative to their domestic production, the proportion of that external trade conducted with prospective partners is relatively low, their structures of production and resource endowments are similar,<sup>4</sup> and so on. In the light of these

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<sup>3</sup> Useful guides to the development of the literature on customs union theory are provided by: Richard G. Lipsey, "The Theory of Customs Unions: A General Survey" *Economic Journal* 70 (1960): 496-513; Melvyn B. Krauss, "Recent Developments in Customs Union Theory: An Interpretive Survey" *Journal of Economic Literature* 10, no. 2 (1972): 413-436; Frank R. Gunter, "Customs Union Theory: Retrospect and Prospect" in *Economic Aspects of Regional Trading Arrangements*, ed. David Greenaway, Thomas Hyclak and Robert J. Thornton, 1-30 (London: Harvester Wheatsheaf, 1989); Robert C. Hine, "International Economic Integration" in *Surveys in International Trade*, ed. David Greenaway and L. Alan Winters, 234-272 (Oxford: Blackwell, 1994); Ali M. El-Agraa, "International Economic Integration" in *Current Issues in International Trade*, ed. David Greenaway, 174-221 (London: Macmillan, 1996).

<sup>4</sup> Those countries being initially competitive in production but potentially complementary, may give rise to a net trade creating customs union. The probability that this happens, depends on the level of development of the economies involved. In the case of regional integration schemes among LDCs, most of the participating economies are competitive, but not potentially



conditions, LDCs appear as the most unlikely candidates for membership of a welfare-increasing customs union.

The criteria for static welfare gains are of limited value when assessing the arguments for economic integration among LDCs.<sup>5</sup> The circumstances of these countries are quite different from those prevailing in the developed countries of Western Europe, from which the orthodox theory of economic integration has evolved. While the LDCs are attempting to build up their industrial base and face serious structural distortions, the advanced European economies are already industrialized and suffer from far fewer distortions.

The basic rationale for economic integration among LDCs is a dynamic one. Regional integration arrangements are viewed as a means for accelerating the growth rates of the participating economies and for promoting their long-term development. In this dynamic context of growth and development, integration schemes may contribute to the creation of economic conditions needed to overcome structural problems of the LDCs, primarily those hindering the change in the production structure from the primary to the secondary sector.<sup>6</sup>

Most of the integration initiatives launched in the 1960s in the Third World – among them, the CACM– aimed at encouraging industrialization through import substitution. When the domestic markets of LDCs proved to be too small to allow an efficient import-substituting industrialization (ISI), the establishment of a protected regional market –i.e. the formation of a customs union– was advocated as an effective alternative to reduce the costs of the ISI. These integration schemes were justified on the basis of the infant industry argument for protection applied at the regional level.

The customs unions among LDCs created to foster the development of import substituting industries are initially bound to be net trade diverting, since those industries supply a regional demand previously satisfied by imports from the rest of the world. The formation of these customs unions, however, is not irrational. Charles Cooper and Benton Massell,<sup>7</sup> and Harry Johnson<sup>8</sup> first

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complementary. Their low level of development accounts for the low potential for sectoral changes towards complementarity in the short run.

<sup>5</sup> See: Tayseer A. Jaber, “The Relevance of Traditional Integration Theory to Less Developed Countries” *Journal of Common Market Studies* 9, no. 3 (1970): 254-267.

<sup>6</sup> On the long-term dynamic rationale for economic integration among LDCs, see: Germánico Salgado-Peñaherrera, “Viable Integration and the Economic Co-operation Problems of the Developing World” *Journal of Common Market Studies* 19, no. 1 and no. 2 (1980): 65-76 (Part One) and 175-188 (Part Two); Peter Robson, *The Economics of International Integration* (London: Allen and Unwin, 1987), Ch. 11; Rolf J. Langhammer and Ulrich Hiemenz, *Regional Integration among Developing Countries: Opportunities, Obstacles and Options* (Tübingen: Mohr, 1990); Robert C. York, *Regional Integration and Developing Countries* (Paris: Organization for Economic Co-operation and Development, 1993).

<sup>7</sup> Charles A. Cooper and Benton F. Massell, “Towards a General Theory of Customs Union in Developing Countries” *Journal of Political Economy* 73, no. 5 (1965): 461-476.

provided an economic rationality for explaining them. LDCs consider industrialization as a rational social choice because they believe that it can give rise to substantial external economies or lead to an acceleration of economic growth. Given this social preference for industrialization, LDCs are willing to sacrifice some national income by not importing from the cheapest available source and/or by specializing in activities in which they do not possess static comparative advantages. Anything, such as the establishment of a customs union and lowering the cost of realizing the social preference for industrialization via import substitution, increases welfare and contributes to the countries' development. A policy of economic integration among LDCs can, therefore, be justified, even if the standard conditions for static trade creation do not exist.

To the extent that the limited size of the national markets constrains economic development in some LDCs, the market integration may become a useful instrument for easing such constraint.<sup>9</sup> By encouraging a more rational division of labor among member countries and more optimum plants installations, the increased size of the regional market may facilitate the achievement of benefits based on intraregional specialization and economies of scale. For the infant economies of the Third World, an intraregional division of labor within a customs union is expected to be more consistent with the comparative advantages of member countries without exposing their economies to the competition in world markets. Likewise, regional integration provides the opportunity for industries operating below optimum capacity to take advantage of economies of large-scale production made possible by the extended regional market.

Other economic arguments for regional integration arrangements among LDCs are included in the literature.<sup>10</sup> The most common ones maintain that economic integration may enable the joint production of public goods (physical infrastructure, public services, training and research, etc.), the expansion of the volume of foreign private investment being more attracted to a regional market instead of several national markets, the reduction of the external vulnerability of LDCs dependent on commodity exports, and an increase in the collective bargaining power in the external economic relations.

All the analyzed arguments have not been modified substantially under the new regionalism. The basic long-term dynamic rationale for economic

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<sup>8</sup> Harry G. Johnson, "An Economic Theory of Protectionism, Tariff Bargaining and the Formation of Customs Unions" *Journal of Political Economy* 73, no. 3 (1965): 256-283.

<sup>9</sup> On this argument, see: Staffan Burenstan Linder, "Customs Unions and Economic Development" in *Latin American Economic Integration*, ed. Miguel S. Wionczek (New York: Praeger, 1966); F. Kahnert, P. Richards, E. Stoutjesdijk and P. Thomopoulos, *Economic Integration Among Developing Countries* (Paris: Organization for Economic Co-operation and Development, 1969).

<sup>10</sup> See: Langhammer and Hiemenz, *op. cit.*; York, *op. cit.*.

integration among LDCs remains the same, but the environment in which the new schemes have been launched is different from the one that prevailed in the past. This fact has led— as it is subsequently shown— to the arguments that base integration schemes on the incorporation of the new regionalism's changes of emphasis with respect to the approach to economic integration. As a result of the changes in the development strategies pursued by LDCs, there has been a shift towards a more outward-oriented and market-driven approach to economic integration. Likewise, in a world trading system tending towards major blocs, integration schemes among LDCs are also viewed as an instrument for entering into regional trading arrangements with large developed countries to ensure future access to their markets.

#### *Rationale under the new regionalism*

After a decline in the 1970s and the early 1980s, regionalism has reemerged as world wide phenomenon. Diverse developments in North America and Europe in the mid-1980s explain much of the upsurge of interest in integration initiatives. The United States (US), disappointed by the slow progress at the General Agreement on Tariffs and Trade (GATT) negotiations, decided to conclude a bilateral free trade agreement with Canada and to commence together with this country trade talks with Mexico for the completion of the North American Free Trade Agreement. The US also announced its intention to negotiate free trade areas with groups of other Latin American countries under the Enterprise for the Americas Initiative. Alongside this, the European integration process started to widen and deepen. The conclusion in mid-1980s of negotiations to expand the European Community towards Portugal and Spain coincided with the establishment of plans for the implementation of the Single European Market and the Maastricht Treaty.

The increased regional integration in the world's two largest trading areas and the failure in December 1990 to conclude the Uruguay Round of multilateral trade negotiations on schedule, led other countries to reconsider the regional alternative. While continuing to express support for the multilateral trading system, many countries began to explore options for increasing regional cooperation and integration as a way to meet the challenge posed by the developments in North America and Europe. As a result, in the early 1990s an increasing regionalization process of the world economy began,<sup>11</sup> continuing on until the present.

In the case of Latin America and the Caribbean, this process of regionalization has led to the signing of two types of economic integration arrangements. Firstly, there exists a great number of plurilateral and bilateral agreements that only pursue the establishment of a free trade area in which goods

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<sup>11</sup> For a complete list of the regional integration arrangements signed in the early 1990s, see: Augusto de la Torre and Margaret R. Kelly, *Regional Trade Arrangements*, IMF Occasional Paper no. 93 (Washington, D.C.: International Monetary Fund, 1992), Tables 1 and 2.

and investments can circulate without restrictions. Until recently, most of them aspired to converge on a great hemispheric arrangement, the Free Trade Area of the Americas (FTAA).<sup>12</sup>

The second type of arrangements seeks to go deeply into the process of economic integration, beyond a simple free trade area. They aim at successively becoming customs unions, common markets and economic and monetary unions. In this group four subregional integration arrangements are included: the CACM, the Caribbean Community, the Andean Community of Nations and the Common Market of the South. While the three first are a revitalization of integration schemes which already exist, the Common Market of the South was formed in 1991 after the signing of the Treaty of Asuncion by the governments of Argentina, Brazil, Paraguay and Uruguay. All these subregional integration schemes are presently imperfect CUs.<sup>13</sup>

The proliferation of subregional trading arrangements around the world suggests that the world trading system may be evolving towards three major trading blocs built around the US (encompassing the Americas), the EU (encompassing most of Europe) and Japan (encompassing most of East Asia). Some view this development as a positive move towards a less fragmented world trading system. It is maintained that this new regionalism may speed up the global trade liberalization process as multilateral trade talks may be conducted more effectively among a smaller number of negotiating parties. Others, by contrast, fear that these trading blocs may become inward-looking, undermining multilateralism. It is argued that once a trading bloc is large enough, the need to be open to extra-bloc countries is reduced.<sup>14</sup>

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<sup>12</sup> On this kind of agreements intending to be a part of the FTAA, see: Antoni Esteveordal, Dani Rodrik, Alan M. Taylor and Andrés Velasco (eds.), *Integrating the Americas: FTAA and Beyond* (Cambridge, Mass.: David Rockefeller Center for Latin American Studies, Harvard University Press, 2004).

<sup>13</sup> See: Fernando Rueda-Junquera, "Las debilidades de la integración subregional en América Latina y el Caribe" in *Nuevas dimensiones y estrategias de integración en el continente americano: del regionalismo latinoamericano a la integración interregional*, ed. José Briceño Ruiz, Shigeru Kochi and Philippe de Lombaerde (México: Fondo de Cultura Económica, 2007; forthcoming).

<sup>14</sup> The different views and arguments on this debate can be found in: Kym Anderson and Richard Blackhurst (eds.), *Regional Integration and the Global Trading System* (Hemel Hempstead: Harvester Wheatsheaf, 1993); Jaime De Melo and Arvind Panagariya (eds.), *New Dimensions in Regional Integration* (Cambridge: Cambridge University Press, 1993); Vincent Cable and David Henderson (eds.), *Trade Blocs?: The Future of Regional Integration* (London: The Royal Institute of International Affairs, 1994); Pravin Krishna, "Regionalism and Multilateralism: A Political Economy Approach" *Quarterly Journal of Economics* 113 (1998): 227-251; Alan Winters, "Regionalism versus Multilateralism" in *Market Integration, Regionalism and the Global Economy*, ed. R. Baldwin, Daniel Cohen, André Sapir and Anthony J. Venables (London: Centre for Economic Policy Research, 2000); World Bank, *Trade, Regionalism and Development*, Global Economic Prospects 2005 (Washington D.C.: The World Bank, 2005).

The question of whether new regionalism and multilateralism are conflicting or complementary processes is basically an empirical one. After the signing of the Uruguay Round agreement in April 1994 and the coming into force of the new World Trade Organization (WTO), substituting the GATT, in January 1995, the protectionist danger seemed to recede. However, the last WTO ministerial conferences and the development of the Doha Round have revealed that the WTO capacity to ensure that the new regionalism is open and supportive of multilateral liberalization remains to be tested.

In evaluating the recent wave of regional trading arrangements, it must be taken into consideration that the old regionalism of the 1960s was different from the new one in three important aspects.<sup>15</sup> First, the US was then firmly committed to promoting multilateralism and did not endorse regionalism except in the case of the European Economic Community. Second, the developing and communist countries embracing the integrationist approach used it to encourage an inward-looking and state-led ISI strategy at the regional level. Third, economic integration arrangements involved countries with relatively similar income per capita levels, i.e. regional integration was of the North-North and South-South type.

Under the new regionalism, the aforementioned features have changed. The US has commenced supporting regional integration not only in North America, but also in a wider hemispheric and Pacific context.<sup>16</sup> Jagdish Bhagwati<sup>17</sup> argues that this US support is the single most important reason why regionalism is making a comeback and is likely to be more durable than the regionalism of the 1960s. On the other hand, development strategies in developing and communist countries have been radically reappraised in favor of outward-looking and market-led economies. Finally, the new regional integration initiatives have often taken the form of North-South schemes, including partners from the developed and developing world.

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<sup>15</sup> See: Vincent Cable, "Overview" in *Trade Blocs ? : The Future of Regional Integration*, ed. Vincent Cable and David Henderson, 1-16 (London: The Royal Institute of International Affairs, 1994).

<sup>16</sup> The US proposal for a hemispheric free trade area –the FTAA– was launched for the first time by President Bush in 1990 as the Enterprise for the Americas Initiative. After certain lethargy, this proposal reemerged in the first Summit of the Americas held in Miami, US, in December 1994 and it was maintained in the two subsequent Summits held in Santiago, Chile, in 1998 and in Quebec, Canada, in 2001. However, the last Summit held in Mar del Plata, Argentina, in 2005 failed and the hemispheric agreement necessary to the coming into force of the FTAA was not reached. In view of this situation, the US has opted to continue the negotiation of free trade agreements with individual countries and subregional blocs, and to launch a new initiative –the Association of American Free Trade Agreements– to bring them together. Likewise, the US joined the Asia-Pacific Economic Cooperation proposal launched in November 1994, aiming at establishing a free trade zone in the Pacific basin in 2010.

<sup>17</sup> Jagdish Bhagwati, "Regionalism and Multilateralism: An Overview" in *New Dimensions in Regional Integration*, ed. Jaime de Melo and Arvind Panagariya, 22-51 (Cambridge: Cambridge University Press, 1993).

Two of these new features reveal a change of emphasis with respect to the approach to economic integration among LDCs. The basic rationale for LDCs' economic integration remains a dynamic one, i.e. economic integration viewed as a means for accelerating the growth rates of the economies participating. However, integration schemes among LDCs have had to modify some of their old goals in order to adapt to the new conditions of growing economic globalization. Most of these schemes –including the new CACM–<sup>18</sup> no longer have ISI as their primary objective the ISI and have ceased to seek to be formed exclusively from partners with comparable levels of development.

The new initiatives of regional integration among LDCs go beyond a revival of the integration schemes launched in the 1960s to extend domestic ISI policies to the regional level. Most LDCs, as a part of their national stabilization and adjustment programs, have adopted similar trade liberalization and deregulation policies. This has led to a new outward-oriented and market-driven approach to economic integration. This approach aims at making integration policies compatible with, and complementary to, policies that enhance international competitiveness.<sup>19</sup> Economic integration can provide both demand-pull and supply-push mechanisms, i.e. it can contribute not only the expansion of domestic demand, but also to upgrading the sources of competitiveness of the participating countries' exports.

In addition to being an instrument for a more competitive insertion in the global economy, integration schemes among LDCs are now viewed as a means for ensuring future access to developed countries' markets. LDCs have begun to fear that

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<sup>18</sup> On the new regionalism in Central America, see: Victor Bulmer-Thomas (ed.), *Integración regional en Centroamérica* (San José: Facultad Latinoamericana de Ciencias Sociales / Social Science Research Council, 1998); Fernando Rueda-Junquera, *La reactivación del Mercado Común Centroamericano* (Burgos: Servicio de Publicaciones, Universidad de Burgos, 1999); Klaus Bodemer and Eduardo Gamarra (eds.), *Centroamérica 2020: un nuevo modelo de desarrollo regional* (Caracas: Editorial Nueva Sociedad, 2002); SGSICA-CEPAL (Secretaría General del Sistema de la Integración Centroamericana – Comisión Económica de las Naciones Unidas para América Latina y el Caribe), *La integración centroamericana: beneficios y costos* (San Salvador and México: SGSICA-CEPAL, 2004); Fernando Rueda-Junquera, "Prospects for the Central American Customs Union" in *The European Union and Regional Integration: A Comparative Perspective and Lessons for the Americas*, ed. Joaquín Roy and Roberto Domínguez, 113-134 (Miami: Jean Monnet Chair University of Miami, 2005).

<sup>19</sup> For this reason, the United Nations Economic Commission for Latin America and the Caribbean designates this approach as *open regionalism* too; see: ECLA (United Nations Economic Commission for Latin America and the Caribbean), *Open Regionalism in Latin America and the Caribbean: Economic Integration as a Contribution to Changing Production Patterns with Social Equity* (Santiago: ECLA, 1994). For more details on the theory and praxis of new (open) regionalism in LDCs, see: De Melo and Panagariya, *op. cit.*; Cable and Henderson, *op. cit.*; Sheila Page, *Regionalism among Developing Countries* (London: Macmillan, 2000); IADB (Inter-American Development Bank), *Beyond Borders: The New Regionalism in Latin America*, Economic and Social Progress in Latin America: 2002 Report (Washington D.C.: IADB, 2002); Maurice Schiff and Alan Winters, *Regional Integration and Development* (New York: Oxford University Press, 2003); *World Bank, op. cit.*

their access to world markets may be considerably curtailed if the three trading blocs indicated above become a reality and they are left out. For this reason, they are seeking to enter into regional integration arrangements with large developed countries. Many of the subregional processes of economic integration among LDCs, especially those among LDCs with little bargaining power, are intended to be a part of larger integration efforts involving— unlike past initiatives— both developing and developed country partners. In the case of most Latin American integration schemes, their ultimate purpose is to sign a free trade agreement with the US and the EU.

### **The Praxis of the European Economic Integration: Major Features of the European Experience**

As it has been shown in the preceding section, the traditional theory of customs unions has been of limited value in assessing the arguments for economic integration among LDCs. However, in the case of the European countries it has provided sound arguments for establishing a regional integration scheme in Europe. The effective implementation of this scheme has shaped the current European model of economic integration through three essential components: the political commitment, the legal and institutional system, and the set of common actions and policies in favor of integration. These three components are examined next.

#### *Political Commitment as a Basic Precondition*

The successful evolution of the European integration scheme suggests that the political commitment is a basic precondition that must be fulfilled in order for the integration scheme to achieve the positive effects identified by the economic integration theory. Regional integration requires a strong political commitment on the part of the participating governments to advance towards common objectives. It is not enough to have a strong motivation in the initial stages— the commitment must also be sustained over a long period. It is worthwhile noting that the European integration process has been in construction for almost half a century now. The most remarkable feature in this regard has been the irreversible nature of progress achieved thanks to a strong and sustained political commitment.

#### *Legal and Institutional System*

Although the EU is primarily an economic regional integration process, it is also necessary to point out that this process has a legal basis. After the Maastricht Treaty, a clear distinction was drawn between European Community law and EU law. While the former is highly supranational, the latter is considered much less

supranational, since it also includes the areas pertaining to the EU's second and third pillars. The vast majority of EU activity— and particularly, the economics of the European integration (the EU's first pillar)— is encompassed by the Community law, that is, it is subject to a supranational legal system.

Community law is characterized by two major features: its primacy and its direct applicability. The primacy on the national legal systems ensures that Community law cannot be altered by national, regional or local laws in any Member State. The direct applicability to Member States means that Community law is binding on them. Having the force of law in Member States, Community law can be fully and uniformly applicable throughout the EU.

The two aforementioned characteristics explain that Community law has become an important mechanism of regional integration, since it has given rise to a gradual approach of the national legislations and at the same time, it has contributed to the creation of a common legal system. This integration through law has been made possible because— and this is especially pertinent to the subsequent comparison with the Central American case— EU Member States have proceeded in accordance with the law, complying with the commitments signed in the Treaties (Primary Law) and introducing the binding rules (Secondary Law).

Not only has the common legal system supported integration efforts in Europe, but it has also contributed to the establishment of common institutions endowed with a supranational decision making power, a clear mandate and a certain amount of automatically available financial resources.<sup>20</sup> These institutions have helped the European integration scheme to pursue clearly identified regional interests rather than the sometimes conflicting interests of different Member States.

Common institutions have acquired a supranational nature as a result of the partial transfer of sovereignty from Member States to the institutions, making it possible for these institutions to operate appropriately. Both management and decision making powers have been transferred to these institutions, in such a way that a great part of their actions has a binding character for the Member States. Therefore, operating common institutions has been a shared sovereignty exercise. This has led to institutions playing an essential role in strengthening the integra-

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<sup>20</sup> On the legal and institutional system of the EU, see: A. Mangas Martín and D. Liñán Noguera, *Instituciones y Derecho de la Unión Europea* (Madrid: McGraw-Hill, 1999); D. Chalmers, "The Legal Dimension in EU Integration" in *The European Union: Economics and Policies*, ed. Ali M. El-Agraa, 49-71 (Harlow: Financial Times – Prentice Hall, 2001); J. Peterson and M. Shackleton, *The Institutions of the European Union* (Oxford: Oxford University Press, 2002); Francisco J. Fonseca Morillo, "Reformas de la arquitectura institucional y del proceso de toma de decisiones institucionales en el Tratado por el que se establece una Constitución para Europa" in *Logros, iniciativas y retos institucionales y económicos: la Unión Europea del siglo XXI*, ed. Isabel Vega Mocoeroa, 33-59 (Valladolid: Lex Nova, 2005); Amparo Roca Zamora, "El sistema institucional de la Unión Europea" in *Economía de la Unión Europea*, ed. Josep M.<sup>a</sup> Jordán Galduf, 69-113 (Madrid: Thomson-Civitas, 2005).



tion process, since their operation has contributed to the consolidation of the idea of supranationality.

The transfer of sovereignty has not been uniform in all the areas. While in some it has been far-reaching (e.g. in agricultural and monetary matters), in others it has been practically non-existent (e.g. in taxation and social issues). Institutions have had their scope limited to those powers assigned to them by the Treaty on EU or those derived from its implementation.

The principle of subsidiarity has been useful in defining the mandates of the common institutions and dividing tasks between them and Member States. In line with this principle, the responsibility of dealing with an issue has been kept as close to the population concerned as possible. The responsibility has shifted to a higher Community level only if the issue has been able to be more effectively handled at that regional level. This has implied that common institutions have not been involved in matters which have been best dealt with by the Member States themselves.

In addition to the creation of common institutions, the European integration scheme has financed these institutions on a joint basis, endowing them with relative budget independence.<sup>21</sup> This has allowed them to reach a certain degree of autonomy, indispensable in carrying out their activities without depending entirely on the Member States' will.

Finally, it is worth highlighting that the legal and institutional framework for regional integration in Europe has been sufficiently flexible to allow for adaptation to changing historical circumstances. This has made advances in the integration process possible, which have been slow, but irreversible. The European process has taken action on those steps that have been accepted by all the Member States, while those decisions on issues without consensus have been postponed. It has never attempted to go faster than historical circumstances have permitted.

This European integration framework has not only allowed for the agreement on what is possible in each historical moment, but it has also taken into account the different speeds of progress at a subregional level. The European experience has showed that it is unrealistic to expect all the Member States to move along at the same pace, unless it is accepted that the pace is that of the slowest moving Member State. This situation has tended to become more complex as the number

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<sup>21</sup> For detailed information on the EU budget, see: European Commission, Directorate General Economic and Financial Affairs, "Stable Money – Sound Finances" *European Economy*, no. 53 (1993); P. B. Spahn, *The Community Budget for an Economic and Monetary Union* (London: MacMillan, 1993); John Peet and Kitty Ussher, *The EU Budget: an Agenda for Reform?*, CER Working Paper (London: Centre for European Reform, 1999); Ali M. El-Agraa, "The General Budget" in *The European Union: Economics and Policies*, ed. Ali M. El-Agraa, 341-364 (Harlow: Financial Times – Prentice Hall, 2001); Ramón Barberán Ortí, "La hacienda pública de la Unión Europea" in *Economía de la Unión Europea*, ed. Josep M.<sup>a</sup> Jordán Galduf, 115-144 (Madrid: Thomson-Civitas, 2005).

of participating countries has increased, making more difficult the process of achieving the implementation of common policies.

The principle of *variable geometry* has enabled a limited number of Member States –which has been willing and able to advance further– to deepen the integration process within the single institutional framework of the EU. The application of this principle involves the prior existence of a group of Member States with the ability to take over the regional leadership of the integration process (e.g. the French-German Axis).

#### *Common Actions and Policies Encouraging Integration*

The final part of this section centers on the analysis of the common actions and policies developed by the EU in favor of economic integration. The interest in economic aspects is due to three reasons. First, the main objective of the paper is to know how regional integration can be made a successful instrument of social and economic development in Central America in light of the European experience. Second, the economic dimension has prevailed in the European integration process; so far, only the advances in the economic integration have managed to materialize with sound and permanent accomplishments. Finally, the European experience has shown how economic integration has been used as a direct means to achieve economic objectives and as an indirect means to deal with non-economic objectives of great significance in the European construction, such as the pacification after the Second World War and the gradual political integration designed to overcome destructive nationalisms.

The EU has pursued the social and economic development of the Member States by means of the integration of their national markets, the establishment of a single currency and the implementation of measures reducing the internal differences in the integrated market. Common actions and policies taken in this area have aimed at economic liberalization (ensuring the free movement of goods, services, persons and capital), the introduction of the euro and internal cohesion.<sup>22</sup> The singularity of this European approach to the economic integration arises from the fact that there has been an option for the economic liberalization as a way to boost welfare, but accompanied by redistributive policies intended to favor the approximation of the levels of welfare.

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<sup>22</sup> On the common actions and policies encouraging economic integration, see: Mike Artis and Frederick Nixon (eds.), *The Economics of the European Union: Policy and Analysis* (Oxford: Oxford University Press, 2001); Ali M. El-Agraa (ed.), *The European Union: Economics and Policies* (Harlow: Financial Times – Prentice Hall, 2001); Josep M.<sup>a</sup> Jordán Galduf (ed.), *Economía de la Unión Europea* (Madrid: Thomson-Civitas, 2005); Richard Baldwin and Charles Wyplosz, *The Economics of European Integration* (London: McGraw-Hill, 2006).

### **Comparing Integration Schemes: Implications for Economic Integration in Central America**

After presenting the main theoretical and practical characteristics of the European integration model, this section is devoted to the comparison of the new CACM with the European model examined. The comparison is focused on three relevant issues: the political commitment, the legal and institutional system, and the common actions and policies.

#### *Comparing the Political Commitment*

Unlike the European experience, the regional integration process in Central America has been distinguished by its lack of a strong and sustained political commitment. This has usually arisen from actual or perceived conflict between national and regional objectives. When this has happened, the Central American governments have given priority to the former. The political will to implement agreed measures, share sovereignty, accept the short-term costs of integration and allocate financial resources to burden-sharing mechanisms has been quite insufficient. To face this situation it is necessary to renew political commitment in the region and maintain political will for integration.

#### *Comparing the Legal and Institutional Systems*

The Central American Integration System (*Sistema de la Integración Centroamericana*, SICA) is the new institutional framework created by the 1991 Protocol of Tegucigalpa to reactivate the CACM. Compared with the EU's legal and institutional system, this new framework presents five major limitations.<sup>23</sup>

First, the institutional scheme has been characterized by a remarkable legal disorder. There are no homogeneous and compulsory deadlines for the national ratification of the agreements signed, which causes delays in their entry into force or the partial entry into force for only some member countries. For example, Costa Rica has not ratified the 1986 Constitutive Treaty of the Central American Parliament. Likewise, Costa Rica, Guatemala and Panama have not ratified the 1992 Statute of the Central American Court of Justice.

Second, the essentially intergovernmental conception of the new institutional framework provides that the decision making power is concentrated on the Summit of Central American Presidents, which is the SICA's highest ranking

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<sup>23</sup> More complete information on the new legal and institutional framework can be found in: PNUD (Programa de las Naciones Unidas para el Desarrollo), *Segundo informe sobre desarrollo humano en Centroamérica y Panamá* (San José: PNUD-Proyecto Estado de la Región, 2003), Ch. 4; SGSICA-CEPAL, *op. cit.*; SELA (Sistema Económico Latinoamericano), *La institucionalidad de la integración en América Latina y el Caribe: posibilidades de articulación y convergencia* (Caracas: Secretaría Permanente del SELA, 2005).

organization. The high political commitment level of the Presidential Summits is decisive in the first years of an integration process, but it can limit its deepening. The political consensus of the governments will be strongly conditioned by each member country's specific political situation, which can slow down and hinder the regional integration process.

If the consolidation and deepening of the new CACM is desired, facing an increasing number of conflicts in trade matters as well as in harmonization and production factors movement issues will be inevitable. In this context, it will be necessary to provide the regional integration scheme with supranational institutional mechanisms that have sufficient decision-making and financing capacity to rapidly remove obstacles arising in the path towards greater integration.

Third, the construction of the integration process from the political encouragement of the Central American presidents has been carried out without an existing group of countries with the effective ability to take over the regional leadership of the integration process. Although El Salvador and Guatemala have tried to play this role, they have not had a substantial impact on the regional integration dynamics.

Fourth, governments have hardly complied with commitments signed at the Presidential Summits. This fact has slowed down the integration process, taking away from its credibility and legitimacy in the civil society.

Finally, the fifth limitation of the new regional institutional scheme lies in its excessive complexity and large number of institutions, as a consequence of a formal integration process with overly ambitious objectives. This has not only contributed to the ineffectiveness of institutions, but has also caused serious funding problems.

The aforementioned limitations have brought about an important legal and institutional weakness, which hampers the advancement in the regional integration scheme. Therefore, it is required to carry out a profound rationalization and reinforcement of the common Central American institutions.

#### *Comparing the Common Actions and Policies that Encourage Integration*

The European experience has shown that a regional integration process has costs and benefits, but as a whole the net effect can be potentially positive. In order for this potentially positive effect to materialize in practice, the sensible backing of policies is required (such as trade, macroeconomic and sector policies); otherwise, the potential benefits of regional integration can be reduced or eliminated.

It is worthwhile noting that the *net* benefits of integration are becoming positive, that is, it is admitted that there will be winners and losers in the process. To a great extent, the magnitude of these redistributive effects will depend on the type of intraregional trade created after the initiation of the integration process. If that trade creation has a high component of intra-industry trade, the productive structure adjustment will be relatively costless and its effect on income distribu-

tion will be less severe. In the case of the predominance of this trade, member countries have only to bear the cost of eliminating some firms from some industries, without having to entirely abandon those industries. By contrast, interindustry trade involves the complete elimination of some industries in some member countries due to a move to other member countries where comparative costs for these industries are the lowest in the regional market.

The European integration scheme has proven that the gains can be sufficiently significant so as to offset the losses. The fact that the overall effect has been positive has ensured the feasibility of compensatory policies. The standard way to carry out this compensation has been through financial solidarity materialized in the Structural Funds and the Cohesion Fund. With these Funds, a part of the Member States' contributions to the EU budget has been transferred to the less favored social groups and regions. In the 2000-2006 Financial Perspectives, the aforementioned Funds accounted for the third part of the EU budget.

The backing and compensatory policies have been keys to the success of the European model of economic integration. By contrast, the lack of these policies in the new CACM has accounted for most of its limitations. Unlike the European case, the new CACM has not been able to completely implement the basic backing policies to restore the customs union in the region and coordinate their members' macroeconomic policies. In regards to compensatory policies, these hardly exist in the new Central American integration scheme.

Intraregional trade— an essential element for reactivating the customs union— remains limited within the total trade of the CACM. In the 2000-2005 period, intraregional exports were not able to represent on average more than 26.7 per cent of total exports, while intraregional imports did not exceed 13.3 per cent of total imports.<sup>24</sup> These percentages are still far from those observed in the EU, where intraregional trade— measured by both the export and import side— accounts for more than 60 per cent of total trade.<sup>25</sup>

The dominance of extraregional trade explains why the economic policy of Central American governments has given priority to extraregional economic relations and in moments of conflict, has not favored the interests of the Central American integration scheme. If intraregional trade is to become more significant for the process of economic development in Central America, it is necessary to adopt measures that favor its expansion. Thus, measures such as the removal of the non-tariff barriers and the effective liberalization of intraregional trade in primary products and services can help to achieve this objective.

The creation of a customs union also involves the adoption of a common trade policy, since all the customs union members are bound to apply the same

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<sup>24</sup> Percentages derived from: SIECA (Secretaría de Integración Económica Centroamericana), *Boletín Estadístico 13.1* (Guatemala: SIECA, 2005) for 2000-2002 period; and from: SIECA, *Boletín Estadístico 14.2* (Guatemala: SIECA, 2006) for 2003-2005 period.

<sup>25</sup> Rueda-Junquera, *Prospects for the Central American Customs Union*, *op. cit.*, 122.

CET against third countries. Besides, the existence of the CET compels that trade negotiations are carried out jointly, providing a potential benefit to the customs union members stemming from the greater regional bargaining power.

In customs unions made up of LDCs, as is the case of the CACM, the possibility of using the greater regional bargaining power is singularly important because it allows for the establishment of better conditions in international trade relations. However, the Central American countries have scarcely used this power. They have tended to bilaterally negotiate their free trade agreements, eroding the common dimension of the tariff protection guaranteed by the CET. Even when the Central American countries have negotiated free trade agreements en bloc— as in the case of the Dominican Republic and the US— harmonized joint agreements were only reached regarding procedures, while the tariff concessions were bilaterally negotiated, taking into consideration the peculiarities and the sensitive products of every country.

The absence of a real common trade policy has not only prevented CACM members from taking advantage of the potential regional bargaining power, but can also endanger progress made in the CET harmonization. The problem arises when simultaneously establishing a CET with a series of bilateral free trade agreements including different tariff concessions. The entry into force of the US – Dominican Republic – Central America Free Trade Agreement (RD-CAFTA) will provide clear proof of this problem, since it will not take place in a homogeneous way in all the Central American countries. Tariff concessions were bilaterally negotiated, which means that the schedule of tariff exemption in the RD-CAFTA will be different in every country and therefore, the CET will not be applied in its entirety by all the countries during the period of tariff exemption. The fact that the US is the principal trade partner of the CACM, providing approximately 40 per cent of its total imports,<sup>26</sup> converts the CET exceptions originated by the RD-CAFTA implementation into a potentially disturbing factor of the Central American customs union. The potentiality of this disturbance will become effective if governments do not come to an agreement to harmonize the differences in the RD-CAFTA tariff concessions and to make them compatible with the establishment of the CET.

Likewise, the weakness of the common trade policy in the CACM can hinder the conclusion of the current process of CET harmonization. If the aforementioned problem on RD-CAFTA coming into force is left aside, the current percentage of the tariff universe remaining to be harmonized is small (5.4 per cent).<sup>27</sup> Nonetheless, its harmonization can be complex because agricultural prod-

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<sup>26</sup> SIECA (Secretaría de Integración Económica Centroamericana), *Unión aduanera centroamericana en cifras* (Guatemala: SIECA, 2006), 26.

<sup>27</sup> The member countries of the CACM have made substantial progress in the harmonization of tariffs applied by every country against third countries, in such a way that there is a harmonized CET for most of the products. At the beginning of 2007 there were 334 tariff lines remaining to be harmonized and 5,860 tariff lines already harmonized, which represent 94.6 per cent of the total of

ucts with tariffs are included and represent almost half of the total.<sup>28</sup> For these types of products, a renegotiation both of the list of products and of the tariff levels, as well as of the quotas, might be required within the framework of the WTO. In other words, it would be necessary to renegotiate commitments assumed by every country as part of their admission into the WTO, for which it would be advisable to rely on a regional bargaining power.

Along with the common trade policy, the common customs administration is another element inseparable from the formation and operation of a customs union. Not only does the CET have to be applied against third countries in equal terms by all the CACM members, but it also has to be jointly collected and administered. The CET collection is a source of community revenues, which can be allocated to the financing of common policies consolidating and deepening the economic integration process.

For now, the advances in setting up a common customs administration are limited, which can contribute to the conditioning of the effective establishment of the customs union. Progresses are only perceived in the binational customs between Guatemala and El Salvador. Nevertheless, it is still necessary to eliminate all the intraregional customs, keeping only the peripheral customs model until they become the type of customs typical of a customs union.<sup>29</sup>

Given the budgetary restriction of the Central American governments, a significant issue is to delimit the use of the revenues collected in the peripheral customs, once intraregional customs are removed. These revenues include both the tariff incomes and the domestic taxes on imported goods collected at customs. That is why it is important to find suitable mechanisms of tax harmonization as well as a means of collection and distribution of the CET revenues received by the peripheral customs. A coherent proposal would be that such revenues finance a community budget from which common policies could be developed. Nonetheless, for the time being the Central American governments are reluctant to implement this idea.

Macroeconomic stability is another requirement for developing a customs union with a sound basis. A way of contributing to this stability is to coordinate

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tariff lines. For more details, see: SIECA (Secretaría de Integración Económica Centroamericana), *La unión aduanera centroamericana* (Guatemala: SIECA, 2007; January), 10.

<sup>28</sup> The rest of tariff lines without harmonizing includes non-tariffed agricultural products, machinery and apparatus, medicines, metals, petroleum, textiles and clothing, wood and others. See: SIECA, *Unión aduanera centroamericana en cifras, op. cit.*, vi.

<sup>29</sup> The CACM has four customs administration models. These models have been designed to test out the different forms in which trade in the region might be managed in order to gradually advance towards a customs union. The customs models which have been put into practice are the following: three of intraregional character –integrated, juxtaposed and trinational–, and one of peripheral character. On these customs models, see: INTAL (Instituto para la Integración de América Latina y el Caribe), *Informe centroamericano N° 2* (Buenos Aires: BID-INTAL, 2004), 17-18.

the major macroeconomic policies of the countries participating in the customs union. Besides, this coordination is fundamental in order to avoid changes in measures adopted by every member country to adjust to the international economy, which often end up negatively affecting the rest of the partners.

The empirical evidence suggests the fulfillment degree of the macroeconomic convergence criteria established by the Central American Monetary Council has been modest in the new CACM.<sup>30</sup> In the 1997–2005 period, the average fulfillment degree did not exceed 36 per cent in Honduras and Nicaragua, was around 50 per cent in Costa Rica and Guatemala, and reached almost 66 per cent in El Salvador.<sup>31</sup> Although all the CACM members have been applying similar macroeconomic stabilization and structural adjustment policies, the degrees and speeds of implementation of these policies have been different in each country. This explains the disparity in the macroeconomic convergence.

The real possibilities that these limited macroeconomic policies coordination will be extended and deepened still appear to be very limited, since regional commitments continue occupying a secondary position among governments' national priorities. In the medium term it is not predictable that a political commitment at the regional will be undertaken to coordinate macroeconomic policies and fulfill convergence criteria.

In sum, the little relative importance of intraregional trade, the absence of a real common trade policy, the lack of a common customs administration and the limited coordination of macroeconomic policies explain why the economic integration process in Central America has not been accompanied by the appropriate backing policies. In this context, the prospect that the potentially positive effect of the new CACM materializes in practice is very grim.

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<sup>30</sup> The criteria of macroeconomic convergence established by the Central American Monetary Council are the following eight: first, the growth rate of Gross Domestic Product (GDP) must achieve or surpass 5 per cent (nevertheless, due to the economic slowdown in the last years, growth rates exceeding 4 per cent were regarded as satisfactory); second, the rate of inflation must not go above 6 per cent; third, the index of real effective exchange rate with the US has to be placed between 95 and 105; fourth, the rate of real passive interest must not pass 5 per cent; fifth, the ratio of Central Bank's net international reserves to monetary base has to be greater than or equal to 100; sixth, balance of payments' current account deficit does not have to surpass 3.5 per cent of GDP; seventh, public sector deficit must not be above 2.5 per cent of GDP; and finally, the eighth criterion is that total public debt must not exceed 50 per cent of GDP. The fulfillment degree of these eight parameters takes values varying between 0 per cent (null fulfillment) and 100 per cent (full fulfillment). For more information, see: SECMCA (Secretaría Ejecutiva del Consejo Monetario Centroamericano), *Informe económico regional 2005* (San José: SECMCA, 2006), 32–33.

<sup>31</sup> Percentages derived from: SECMCA (Secretaría Ejecutiva del Consejo Monetario Centroamericano), *Informe económico regional 2001* (San José: SECMCA, 2002), 20; SECMCA, *Informe económico regional 2002* (San José: SECMCA, 2003), 22; SECMCA, *Informe económico regional 2003* (San José: SECMCA, 2004), 21; SECMCA, *Informe económico regional 2004* (San José: SECMCA, 2005), 27; and SECMCA, *Informe económico regional 2005*, *op. cit.*, 34.



As for compensatory policies, these are practically non-existent in the new CACM despite the presence of important intraregional asymmetries. The empirical evidence points out that the relatively more developed Central American countries— that is, Costa Rica, El Salvador and Guatemala— are in a better position to enjoy the potential benefits of the consolidation of the new CACM. Most of the growth in intraregional trade and in its intraindustry component has been explained by the aforementioned three countries.<sup>32</sup>

If the new regional integration scheme is to endure in Central America, it must be perceived of as equitable by all the member countries, especially by Honduras and Nicaragua. Without additional measures that pay attention to the specific needs of the relatively less developed countries, it is almost inevitable that these countries will begin to question their participation in the new CACM. It would be appropriate to design mechanisms that enable the potential winners of the Central American customs union to compensate the potential losers. The European experience with intraregional solidarity could be adapted to the peculiarities of the Central American case, giving rise to some kind of a structural and social cohesion instrument. For the present time, the interest of the Central American presidents in the type of mechanisms to more equitably distribute the costs and benefits of integration, has been more formal than real.<sup>33</sup>

## Conclusions

The European model of economic integration has become an unavoidable reference for any project of regional integration. Nevertheless, in the case of projects involving LDCs— as the CACM— it is advisable to use the European reference with caution, since there are important structural differences between both regional groupings. Furthermore, the theoretical basis of the European model is of limited relevance to assess the CACM as it refers to a theoretical framework

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<sup>32</sup> Empirical evidence on the distributive problems of costs and benefits in the new CACM can be found in: Rueda-Junquera, *Prospects for the Central American Customs Union*, *op. cit.*, 124-127. The presence of intraregional asymmetries and the need to search for a mechanism facing them, have been a constant in the process of Central American integration from its inception in the 1960s. The lack of a suitable mechanism to tackle the specific problems of the relatively less developed countries, was one of the main factors that contributed to the slowing-down of the integration scheme in the 1970s and to the withdrawal of Honduras in 1971, as well as to the crisis of the 1980s. On the problem of the intraregional asymmetries in Central America, see: Jorge Nowalski, *Asimetrías económicas, laborales y sociales en Centroamérica: desafíos y oportunidades* (San José: Facultad Latinoamericana de Ciencias Sociales, 2002).

<sup>33</sup> In the Presidential Summit held in Belize in December 2003, the Central American Bank for Economic Integration was instructed to submit “a financial mechanism to create a Social Cohesion Fund to mitigate possible impacts derived from the customs union and to promote its benefits” (Point 6 of the Declaration of Belize, on December 19, 2003). Although the project for a financial mechanism of intraregional solidarity was proposed, the Central American governments did not approve it.

which has been biased largely towards the study of the problems of economic integration among developed countries.

Despite this, some features of the praxis of the European economic integration provide useful guidelines for the new CACM. In this regard, it is worthwhile highlighting that the European experience suggests that:

- a) The political commitment is a basic precondition which has to be fulfilled in order for economic integration to advance.
- b) The legal and institutional system is an important mechanism of economic integration. In the European case, the Community law has given rise to a supranational legal system, which has allowed a gradual approach of the national legislations in economic matters. Likewise, the common institutions endowed with a supranational decision making power, a clear mandate and a certain amount of automatically available financial resources, have helped to pursue clearly identified common interests rather than the sometimes conflicting interests of different Member States.
- c) The backing policies— such as trade, macroeconomic and sector policies— and the compensatory policies— such as structural funds and social cohesion instruments— are keys for the potentially positive net effects of economic integration to materialize in practice.
- d) Flexibility in the process of regional integration is essential in the adaptation to changing historical circumstances, as well as taking into account the different speeds of progress at a subregional level.

The evolution of the new regionalism in Central America differs substantially from the European experience. The new CACM has been reactivated without a strong and sustained political commitment and with a weak legal and institutional framework. Likewise, the new CACM has not been able to effectively implement the basic backing policies to restore the customs union in the region and coordinate its members' macroeconomic policies. In regards to compensatory policies, these hardly exist in the new integration scheme. Without additional measures paying attention to the specific needs of the relatively less developed Central American countries— that is, Honduras and Nicaragua— the potential benefits from the new regionalism will be concentrated on the relatively more developed ones, aggravating the intraregional asymmetries.

All these factors contribute to serious limitations of the new CACM. If these limitations are not overcome through the implementation of sensible economic and institutional policies, such as the ones suggested in this paper, the new CACM will not be able to contribute effectively to the process of economic de-

velopment in Central America. The beginning of the negotiation of an Association Agreement with the EU in 2007 will provide a good opportunity to apply these policies, since one of the conditions required by the EU to successfully conclude this negotiation is that Central America achieve an adequate level of consolidation and progress in its integration process.

# The Southern Cone Model

Marco A. Guedes de Oliveira

## Introduction

This essay introduces the Southern Cone model of regional integration expressed on both MERCOSUR and the South American Community of Nations (or South American Union). For many Europeans, MERCOSUR<sup>1</sup> is a child of the EU process and structures and should closely follow its model of integration; many North-Americans portray it as nothing more than a regional political arrangement for negotiation with the United States. They argue that Latin Americans do not have the conditions for a stable integration process. To their surprise, MERCOSUR has existed now for more than twelve years. It has become a viable instrument for the creation of a South American pole of economic development and integration as well as a means of increasing regional power in the face of inter-regional and global negotiations. This essay discusses key features that MERCOSUR shares with the EU and stresses the particularities that brought MERCOSUR into being and keep it going as an original regional integration model. It also briefly comments on the problems MERCOSUR faces towards widening and deepening -and together with its younger partner the South American Community of Nations- on the deadlocks to make further steps towards the consolidation of South American integration.

In order to argue in favor of an original Southern Cone model, I discuss and compare MERCOSUR to the European Union in three key respects. First, their origins; secondly, the problem of the institutionalization and further consolidation of MERCOSUR; and finally, the external and internal challenges to both MERCOSUR and the South American Union to become stronger.

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<sup>1</sup> For further analysis of MERCOSUR see: Nicola Phillips, *The Southern Cone Model: The Political Economy of Regional Capitalist Development in Latin America* (New York: Routledge, 2004); Helio Jaguaribe and Álvaro de Vasconcelos, *The European Union, Mercosul, and the New World Order* (London: Portland, OR: Cass, 2003); Marcos Guedes de Oliveira and Francisco Domínguez eds., *MERCOSUR: Between Integration and Democracy* (London: Peter Lang, 2004) and Marcos Guedes de Oliveira, *Mercosul e Política* (São Paulo: LTR, 2001). See also Joaquín Roy and Roberto Domínguez (eds.), *The European Union and Regional Integration: A Comparative Perspective and Lessons for the Americas* (Miami: University of Miami, 2005) and Gordon Mace, Louis Bélanger et al, *The Americas in Transition: The Contours of Regionalism* (London: Lynne Rienner, 1999).

**Different Origins**

It is undeniable that the project of the European Common Market, developed just after the Second World War, had a tremendous effect on Latin American views on the need to link economic development to a free trade arrangement. Although, of course, in the European case, the project was related to security implications not found in Latin America.

We have to look at the historical context of European states in order to understand the previous assumption. This came into being during the 14<sup>th</sup> and 15<sup>th</sup> centuries when the dominance of Holy Roman Empire started to wane and Europe went through a succession of empires under the leadership of different European states. From the 17<sup>th</sup> Century onwards Europe entered a period of continuous and growing warfare among its main states. This situation produced a concern as to the future of the continent that suggested unification as a way out of the anarchic system based on war. The Congress of Vienna (1814-15) was a breakthrough in that it produced the first significant international system—the Concert of Europe, and its methodology—the balance of power.

A counter-force to emerging ideas of integration was a new wave of nationalism, particularly in Germany and Italy, which had consolidated them as states late in the day. Their leaders' actions together with the fears and aspirations of small national groups spread suspicion and produced an arms race in Europe, which was one of the pre-conditions for the outbreak of the First and the Second World Wars. By the end of WWII there were two dominant ideas: one regarding the decline of European states and a second that a federal Europe was the next and necessary step for the survival of the continent. The terrible consequences of the two world wars put an end to Europe's status as the center of power, science, culture and civilization. It became a frontier area for disputes between the two superpowers; it lost its scientific and cultural hegemony and lived under the constant menace of nuclear destruction. What could have been worse? In this unforeseen context, Europeans, with the support of the United States, began to take the road towards integration seriously.

South and Central America were not involved in a global war and they were not bound to be in the center of a bipolar Cold War. Latin America was never so well protected under the U.S. umbrella than in the aftermath of WWII. Regional integration had become for European nations a matter of life or death; for Latin America it was seen as a facilitator to overcome backwardness.

The Latin America project looks back to colonial exploitation, to the backward-looking legacy of European domination and points the way towards overcoming this past and fostering economic and social development. The European project, however, was associated with the historic crisis their powerful states were going through; with the undeniable need to stop waves of destructive European wars, which engendered global crises and spurred the U.S. march to-

wards world hegemony; and with the desire to rebuild Europe as the center of civilization, power and hope.<sup>2</sup>

The European states may view themselves as decaying political structures in need of a common economic framework while the Latin Americans see themselves as building up economic structures based on industry and urban life and thus creating and enhancing newly-independent states. Europe was the center of U.S. attention and concern about its future position as hegemonic power, not Latin America.

This point of view is the key to understanding the slow development of integration in the South. The decades following the end of the war were marked by a wish for a father-like U.S. support followed by frustration at U.S. refusal to recognize the region as strategic in view of its growing involvement in conflicts in Asia and Europe. As a result of this dilemma, Brazil as well as Argentina gradually started moving in the direction of creating national development strategies that would depend less on the political will of the U.S. and more on state-oriented guidelines.

The United Nations became in the 1950s an important conduit for Latin American calls for economic support. The creation of United Nations Economic Commission for Latin America and the Caribbean (CECLAC) represented the most important step. By the end of the 1950s, development was at last gaining momentum in regional politics. Industrialization was firmly underway in Brazil and President Kennedy – after the Cuban revolution – admitted the need for a response to demands in the region. Thus, the Alliance for Progress was created<sup>3</sup>.

The assassination of Kennedy and the reemergence of military dictatorships in Latin America halted this development for two decades. The militaries were good at cooperating with intelligence and torture, but maintained the feeling of secrecy, suspicion and national competition that transformed economic development into a national security issue and a nationalistic bone of contention.

As a common market arrangement the European Economic Community was doing well. The power of its democratic institutions and its economic superiority to Eastern Europe was plain to see. By contrast, the Latin American Free Trade Association (ALALC) was powerless and its methods were unrealistic. This situation changed only in the 1980s and 1990s, with the waning and ending of the Cold War. A new global reality demanded new strategies. Europe felt safe to move on towards a more daring structured union. In Latin America the creation of the Latin American Integration Association (ALADI) in 1980 permitted more flexibility in regional negotiations. The general view that the new global eco-

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<sup>2</sup> Alan Milward, *The European Rescue of the Nation-State* (Los Angeles: University of California Press, 1992).

<sup>3</sup> On Brazilian foreign policy history see Amado Cervo and Clodoaldo Bueno, *Historia da Política Exterior do Brasil* (Brasília: UNB, 2006).

conomic reality would reduce South America's standing even more gave a renewed burst of energy to the existing free trade initiatives.

The decline of state-orientated development, the emergence of the debt crisis and the fear of negative consequences of globalization forced Brazil and Argentina into cooperation. It is possible to compare two common factors underlying the origins of the European—the forces behind the creation of the Coal and Steel Community are quite different—and MERCOSUR projects: security and infrastructure (energy and communication).

(a) If the conflict over the construction of Paraná hydroelectric is seen as a question of regional security, it can be stated that, in the case of MERCOSUR, the first driving force behind the project was the issue of security, very much as it was in the European case. (b) But, if the fear of losing economic clout in the emerging globalized world is seen as a main factor, then MERCOSUR is a product of the post-Cold War era of globalization. These concerns are similar to those that recently engendered the European Union. (c) Last but not least, if Brazil and its partners' need to use common natural resources in order to enhance regional infrastructure is seen as a principal driving force then the forces underlying MERCOSUR are similar those which led to the creation of the Coal and Steel community and not the forces of globalization that recently brought about the EU.

It can clearly be argued that the origins of MERCOSUR reflect a combination of challenges and problems that were also dominant at different times in the history of European integration. The need for democratic stability, security, and the development of infrastructure are confronted at the same time as the struggle to adapt to a global economy and find ways to deal with the new problems that have emerged in the 21st century. To a certain extent I agree with that. I think there is one main driving force connecting and giving direction to all initiatives for dealing with these challenges.

Concerns with regional security and the development of infrastructure date back to the 1940s and 1950s, but were never sufficiently pressing to provoke a common initiative towards integration. Until this time the United States was viewed as an unchallenged and solid leader for the whole region in terms of economic development and an ally in security issues. This changed after the Malvinas war, when the regional elite finally realized that they could not count on the United States for both development and security. Although there can be no doubt that security issues lay behind the emergence of MERCOSUR, its main drive was and still is the fear of being left behind in terms of economic development and becoming an insignificant player in the international economy, owing to the negative consequences of the debt crisis and globalization.

The view of South America as a system or a sub-system within the international system—and not as an extension of U.S. power—was bolstered and the features that make it up have, since the end of the Cold War, grown in signifi-

cance.<sup>4</sup> There are shared beliefs about belonging to a region with a common identity and the need to step up interaction and integration among states in order to achieve common strategic goals. Regionalization has been perceived as a process that could remold relations within the region and give it greater leeway for common economic and political action. In other words, it would constitute a strategic move towards economic and political independence from the powerful developed countries and enhance South America's status as an economic and political pole or sub-system.

### **Intergovernmental Political Institutions**

One quite often hears criticism of MERCOSUR for not having political structures that resemble those of the EU. It is depicted as being insufficiently supranational, weak and weighed down by powerless institutions to match intergovernmental political arrangements. Such views are the result of viewing MERCOSUR in the light of the main theories drawn up to understand European integration. As has been argued so far, the historical background and context are key factors for understanding any integration process. Views that underestimate the importance of the regional context cannot understand the important progress MERCOSUR has made through its intergovernmental structures and mechanisms, as well as the constraints imposed by the slow but steady transition that countries in the region are going through towards democracy, economic stability and finding a place in the global system.

In the early 1990s, a debate was in progress concerning the form MERCOSUR's political mechanisms should take. On the one hand, those in favor of a supranational power backed up their point of view with functionalist theories. For these, the need for such an institution would give an independent thrust to MERCOSUR, as well as setting off a spillover process. On the other hand, a less ambitious view argued that, in view of the level of development and the external and internal economic and political limitations on the region, a prudent and pragmatic set of intergovernmental structures would function sufficiently well to meet the challenges MERCOSUR faced.

From the Iguazu Declaration in 1985 to the Asunción Treaty in 1991, the focus of cooperation between Argentina and Brazil shifted rapidly from security concerns to economic ones. Within seven years, both countries, together with Paraguay and Uruguay, were convening to set up a common market. The immediate consequence of this was renewed international interest in the region and a boost to the transition to democracy.

The 1994 Ouro Preto Protocol represented the consolidation of former agreements and it gave MERCOSUR international legal status. It created an in-

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<sup>4</sup> G. Pope Atkins, *Latin America in The International Political System* (Boulder: Westview Press, 1995).



tergovernmental Council composed of ministers and high-level officials from all sides, with the power to make decisions in the national interest, and a group of technical committees specializing in economics aiming to find solutions to moving integration forwards towards a common market. Two other important intergovernmental bodies set up at this time were: the MERCOSUR Joint Parliamentary Commission and the Social and Economic Forum, a forum for the participation of stakeholders from outside government circles.<sup>5</sup>

Though it could be argued that MERCOSUR institutions resemble those of the 1949 statute of the Council of Europe, it cannot be denied that, since its heyday, EU institutions have been both intergovernmental and supranational, while those of MERCOSUR have been merely intergovernmental.

The declining European states required such structures in view of their need to move towards a more interconnected unity and enhance their individual cultural interests as well as the economic and social standards already achieved through social-democratic means. The need to safeguard regional and global security and to entice, by way of economic and political inducements, a growing number of European nations to sign up to the unifying project originated in issues and interests different from those in the context of which MERCOSUR institutions emerged.

Differently from the European case, Latin American countries still see their states as “under construction” or as young states, which have yet to achieve their economic and political aims. The economic situation facing these states is a problematic one. They face debts, social exclusion, corruption, the lack of a social security network, poverty, uneven internal economic development and the need to enhance a democratic and enterprising culture. The reemergence of democratic governments have brought these issues to the center of the political agenda.

A succession of neoliberal economic policies during the 1990s proved to be insufficient to deal with most of the problems above or to foster the progress of MERCOSUR. One could say that the challenges that South American countries face demand a long and persistent set of policies. These relate basically to three points: first, the stabilization of economic structures by reducing the burden of the debt and orienting the economy towards the outside; secondly, the creation of sustainable growth whose benefits would be felt all over South America; and finally, dismantling an aristocratic and unfair state, and building up a democratic one.

The privatization of state companies and initiatives to develop a social network for the very poor were positive steps taken in this decade. Nevertheless, these policies were still national-centered and transitional and the region was hit by a series of international economic crises that undermined major changes. Only

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<sup>5</sup> More information can be found at the official site of MERCOSUR ([www.MERCOSUR.int/msweb/](http://www.MERCOSUR.int/msweb/)).

in 2003-04 did Brazil and Argentina begin to see the first results of their move in the direction of an export-oriented model. Owing to the importance of internal reforms, for a decade not much was done to push forward common macroeconomic policies in Brazil and Argentina. In spite of a set of concrete initiatives, for nearly a decade MERCOSUR was taken over by a neo-populist discourse advocating unrealistic proposals, such as immediate monetary unification. The MERCOSUR agenda was also during this period limited to a debate on the growth of inter-bloc trade and increased trade among South American countries<sup>6</sup>.

At that time commentators were quite skeptical as to the continuation of regional integration and, for many, MERCOSUR was a dying and mistaken initiative. MERCOSUR's supporters did not remain silent. They reminded these critics that the EU had resulted from a process of ups and downs and in Europe an even deeper skepticism had been present at many times in history. For MERCOSUR itself, this was a period of maturation in which common business interests were consolidated, as in the agriculture sector.

The new century brought a renewed combination of soft brands of neopopulism with new leftist governments to the region. As a leading country, Brazil took the step to improve MERCOSUR's links to the Andean Pact countries and proposed negotiations for the integration of the two blocs. It also invited Peru and Venezuela to join Bolivia and Chile as associated members. One even more daring step, which some regarded at the time as an unrealistic initiative, was the launch of the South American Community of Nations. Firstly seen as an up-dated version of the South American free trade initiative taken by former Brazilian President Sarney, the launch of the South American Union represented a further attempt to keep the debate on the need for regional integration firmly on the agenda of South American nations.

MERCOSUR's negotiations with the EU and with the United States and the establishment of a free trade area gained a new impetus. It also made important overtures towards Africa, Asia and North America and there are ongoing negotiations with Australia, Canada, and Mexico. Recently, successful trade agreements have been signed with India, and Southern African countries and Arab countries, the result of which will prove to what extent MERCOSUR has become a priority for the present governments of Brazil and Argentina.

Perhaps the most important initiative by MERCOSUR countries -and which are now within the framework of the South American Union- has been directed towards the region's infrastructure projects, some of which have for decades depended on outside funding. Being able to reduce its debt and enter into a period of sustainable development, Brazil directed the Brazilian development bank - Banco Nacional de Desenvolvimento Economico e Social (BNDES)- to finance projects involving the integration of communications (roads, railroads, water-

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<sup>6</sup> A critical review of the literature on MERCOSUR is found in Marcos Guedes de Oliveira, *Mercosul e Política* (São Paulo: LTR, 2001), 22-46.

ways and ports) and the common production of energy (dams, the use of natural gas and other common natural resources such as water). This initiative is of utmost importance for the region because it deals with the issue of intra-regional asymmetries.

In August 2003, 23 projects worth \$5.5 billion for the integration of South American infrastructure were presented by 12 South American countries. Most of these projects are near the frontier between MERCOSUR countries and they aim to transform what used to be areas beset by security concerns into ones of economic prosperity. Growing investment from large regional enterprises, as well as multinationals, is set to consolidate a new pole of economic growth at the heart of South America. In 2004 alone, foreign investment by Brazilian businesses stood at \$9.5 billion and most of it went to the MERCOSUR area.<sup>7</sup> There has been continuous growth in small- and medium-sized regional enterprises as well as in investment from Europe, North America and Asia. A proposal for the setting up of structural funds and rules for regional governmental purchases has been approved.

The South American Community of Nations is also an initiative associated with the building up of a common security policy. It was drawn up at the South American Presidential Summit in Cusco, in 2004. At the South American Summit in Cochabamba, in 2006, the region's leaders decided to institutionalize the South American Union and announced that a MERCOSUR Parliament would open its doors in 2007.

Brazilian diplomacy regards the South American Community of Nations as the best tool for the fusion of the Andean Community and MERCOSUR and for channeling the region's resources into building up the energy and communications infrastructure network needed for growth<sup>8</sup>. President Chavez seems to agree with this, though he refused until the last minute to sign the first declaration of the South American Union in 2005 in Rio de Janeiro, and continues to criticize what he regards as the slow pace of the process. For some, he is trying to set up obstacles in order to gain time and support for his personal Bolivarian project of regional integration, for others this is simply part of his populist and rhetorical style.

An important link between MERCOSUR and the South American Union has been established. They are both avenues for regional dialogue and their summits are the most telling barometer of progress and discord within South American countries. In spite of this common ground, the meetings of MERCOSUR as well as its initiatives are devoted for the advancement of the process of regional eco-

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<sup>7</sup> Reynaldo Passenezi Filho, "Internacionalização, um desafio para os brasileiros," *Valor Económico*, 28th March, 2005.

<sup>8</sup> See official Brazilian documents at ([www.mre.gov.br](http://www.mre.gov.br)) and the ongoing academic debate in *Revista Brasileira de Política Internacional* (<http://www.relnet.com.br/cgi/WebObjects/RelNet.woa/1/wo/K9cGF9fIEO4CkQusNMtPvM/0.29.0.1>)

conomic integration. For instance, negotiations to accommodate the interests of different entrepreneurial sectors of Brazil and Argentina are done at this inter-governmental body. MERCOSUR still pursues its aims of achieving the stage of a free trade area and a customers union among the four founders, Brazil, Argentina, Uruguay and Paraguay. It has been added to this unfinished objective, the incorporation of Venezuelan economy -and possibly the Bolivian one- to the incomplete regime that rules in MERCOSUR.

Differently, the South American Union has become a forum for collective discussion of regional social and security issues. It has also –and above all- identified itself with the fostering of infrastructure project for the physical integration of all South America on the areas of energy and communications. Perhaps its main challenge is to take out from bureaucratic draws long waited projects of roads, dams, bridges, and formulate new ones for the formation of an energetic and communications network to be financed by the Brazilian BNDES, by the Inter-American Development Bank and by Venezuelan petrodollars.

It is expected that MERCOSUR Parliament will start working late 2007. This will enforce the position in favor of a more institutionalized regional integration and for the future formation of supranational political structures. But the undeniable truth is that MERCOSUR is an intergovernmental body and its issues are dealt either multilaterally or bilaterally. The South American Community of Nations by and large depends on the Presidential summits. It has taken a step to create a Secretariat during 2007, but its institutionalization depends very much on the unfolding of the ongoing problems the integration of South American countries faces. This is discussed next.

### **External Challenges**

MERCOSUR gave the region an international status it never had. It led the US to abandon its one-sided project of free trade for the hemisphere and recognize that in order to advance the process it should look at MERCOSUR and other regional blocs as players to negotiate with. As a consequence of it, Brazil and the US have co-chaired the negotiations for the Free Trade Area of the Americas –FTAA- and at moments it seemed that they were about to reach at least a limited agreement that would unfold further advances in the process. Unfortunately very little has changed when we compare the 1994 Miami declaration to the 2005 Mar del Plata one. Initial hopes of progress were substituted by feelings of doubts and by a perception of stagnation. The growing of China in the world economy reduced dramatically both the hemispheric and the international impact of a successful free trade agreement in the Americas. In the North, the US is unable to deal with issues of migration from the South. Mexico's economy is stalled and the country is looking for other trade opportunities outside the region. In the south, MERCOSUR and all other economic blocs are in crisis.

The European Union represented not only a reference for South American integration but hopes that its broadened integration framework would be essential for South America to deal with its problems of social exclusion and development. EU and MERCOSUR officials have met and declared their wish to reach a free trade agreement many times. But attempts towards an agreement were always blocked by conflicts over agriculture. For many in South America, both the EU and the US were trying to have complete access to the sectors of South American economy in which they have competitive advantages without offering a similar compensation particularly in the US and EU heavily subsidized agriculture sector.

In face of these deadlocks there appears to be two alternatives left. The first one would be to try to reach an overall agreement within the World Trade Organization. The EU, the US and MERCOSUR are trying to do that but so far without any breakthrough. The other alternative is inaction. And inaction means stagnation and growing conflicts. Regrettably this seems to be the ways things are going right now in the sub-continent.

To start with let us look at the stagnation of the US and the EU initiatives to reach free trade with the region.

The bilateral agreements between the US and the countries of Colombia, Peru and possibly Uruguay and Paraguay represent a huge step back to the original free trade project. Its effect in their economies will be quite limited while its main goal is political; in other words it aims at isolating MERCOSUR and the countries that oppose an agreement with the US. An action such as this might produced a few immediate benefits; nevertheless it complicates the search for a way out in the long run. The US and the EU must consider the establishment of free trade agreements with South America as a fundamental move in the direction of the consolidation of Western economic and political values in the region. The return of authoritarianism and economic stagnation, the broadening of social and political exclusion in the region would represent an unbearable setback for all the parts.

Change in modern world comes from outside factors. Brazil as a major player in South America cannot determine alone the tendencies for the region. Brazil itself has not consolidated its democracy as well as its economic reforms. The partnership of the EU and the US is fundamental for the region to accelerate and consolidate its economic and political reforms.

The fact that MERCOSUR has also been unable to decentralize its economic benefits to less developed regions of Brazil and Argentina as well as to Paraguay and Uruguay brings again the issue on the need for empowered institutions to deal with internal problems. Despite much criticism too little or nothing has been done to curb these problems. The way Argentina is dealing with Uruguay's plan to build a factory at their frontier (opposing it and refusing to take the issue into MERCOSUR dispute mechanism), enhances the view that its bodies are not fully

functional and that the big countries do not wish to consolidate them in the lines that they will become independent from national interests.

### **The Neopopulist Factor**

The failure of neoliberal reforms and political inaction has laid the grounds for the return of a populism that reminds us of the worst of the Vargas and Peron years. Venezuelan President Hugo Chavez with his petrodollars heads the revival of this outdated trend. Messianism instead of charisma, *caudilhismo* instead of leadership, improvised and undemocratic attitudes instead of political action within democratic institutions are some of the key aspects of this phenomenon. The deep division of the Andean Community was its first consequence.

With the initial support of Brazilian President Lula, who probably saw in him a trustful ally, Chavez moved first to exchange oil for Cuban doctors and teachers to serve his clientele and the have-nots of Venezuela, thus strengthening his internal support. Chavez decided afterwards to spend about \$ 3 billion on Argentinean bonds, making President Kirchner his close ally. Chavez knows how to get straight to the point and how to benefit from social exclusion and poverty in the region

Recently, he launched his plan to integrate South America with a multibillion gas pipeline project that would stretch from Venezuela to Argentina and cross Brazil from the Amazon to the Pampas. A very positive initiative if proved feasible. Since no study has been carried out to measure Venezuelan gas reserves and Chavez insists he has ten times more than prospecting has shown so far, the pipeline might never come to more than a piece of populist rhetoric. His search for populist exposure led him to meet with Cuban leader Fidel Castro and Bolivian President Evo Morales to announce the formation of ALBA, his Bolivarian regional alternative to FTAA, MERCOSUR and the Andean Community. Its very first action was the melodramatic privatization of foreign energy companies in Bolivia, singling out Brazil as the regional scapegoat for the backwardness of Bolivia. A few days earlier, Evo Morales had declared in a Brazilian TV interview that Lula favored a form of development based on a mixture of public and private, while he and the bolivarians support a “solidarity” economy, in other words, a statist and populist one.

On the back of the neopopulist wave that re-elected President Chavez in Venezuela and elected President Evo Morales in Bolivia, President Rafael Correa of Ecuador has supported MERCOSUR for the time being. Despite concern regarding President Chavez’ undemocratic attitudes and the possibility that his leadership style may provoke political divisions between South American countries, MERCOSUR members agree that it is better to have Venezuela inside MERCOSUR and thus complying with its agreements and commitments than for it to remain an outsider.

The emergence of Morales, as well as Chavez' decision to nationalize key sectors of the economy, indicates that this move may be more than neopopulism, as it is being interpreted by sectors of the European press. Perhaps it marks the beginning of a clear political division in South America concerning models for growth. Such a division might be vicious enough to reduce the flow of foreign investment and slow regional moves towards integration and democracy. At present, it is uncertain what other consequences the entry of Venezuela –and perhaps Bolivia- into MERCOSUR may bring. But the generally-held view is that, if Venezuela can adapt itself to MERCOSUR's rules, the whole process of regional integration will benefit in the long run.

### **Internal Challenges**

The EU regards the processes of widening and deepening as the two main challenges facing its consolidation. This fits well with the economic level and the strategic ambitions Europe aspires to. The context of MERCOSUR (and of the South American Union) suggests two other meanings of deepening and widening. The first would involve creating an infrastructure for communications, transport and energy in order to strengthen economic links among South American countries, attracting non-MERCOSUR members to join in common regional integration and development. The second would involve establishing, in so far as this is possible, free trade agreements and common strategies among countries and blocs of countries all over the globe.

The overall aims of the Southern Cone Model are:

- a) to deal with regional economic development in order to make South America more relevant internationally and better integrated into the global economy than it is now;
- b) to avoid being swallowed up by the interests of the two huge existing blocs or China;
- c) to maintain relative interdependence so as to have a variety of options for increasing its international economic and political sway.

MERCOSUR has seen many different governments—five in Brazil alone—and is undoubtedly a strategic project for its member countries. But there is an overall agreement among critics that, in order for MERCOSUR to achieve its aims, it needs to overcome a number of internal problems.

First, it must enhance its institutional structures. So far, all important decisions have been taken by the presidents and ministers of the countries involved. This brakes and limits the institutional dynamics of regional integration. The first reason for this is that presidents and ministers cannot meet frequently and, when they do, instead of discussing a positive agenda, they are forced to deal with minor problems that could have been solved by lower-level MERCOSUR institutions.

Secondly, all intergovernmental arrangements require a dispute-resolution mechanism with the power and the capacity to deal with conflicts in a way that establishes a pattern that is acceptable to all sides and capable of removing obstructions to the to-and-fro of conflict and conciliation proper to any growing integration.

Thirdly, Brazil as the most powerful partner, might be tempted to adopt an hegemonic stand and instead of enhancing regional regimes and institutions as a way of confronting regional problems, act unilaterally, focusing on its own economic and political interests, at the expense of its neighbors. This would increase asymmetry and in the long run would jeopardize the very precious gains that have come with the transition to democracy and the emergence of regional integration. Gains that are today so deeply cherished by all South American countries, Brazil included. So far Brazil has played a very positive role in the process and worked towards keeping the bloc united.

Finally, there are doubts regarding the behavior of Venezuela within MERCOSUR. If Chavez moves further in the direction of *caudilhismo*, authoritarianism and statism, he might split the region and put in jeopardy nearly everything that has been done to bring about regional integration in the last two decades.<sup>9</sup>

### Final Comments

The year 2007 will show the real potential of MERCOSUR and of the South American Community of Nations. The creation of the MERCOSUR Parliament; the move towards the institutionalization of the South American Community of Nations; and the way Venezuela integrates itself into MERCOSUR will indicate whether the Southern Cone model is making progress or on the wane.

It is obvious that one expected consequence of a successful result in 2007 is an increase in common regional pressure groups in favor of more integration and more political institutions for MERCOSUR as well as for the South American Union. This would represent a spillover that still depends on intergovernmental action but that is increasingly involving non-governmental players.

If the stability and the positive economic framework of recent years persist, then discussion regarding more effective political institutions and mechanisms will naturally be stepped up and the intergovernmental institutions created over the last 16 years, in a very hostile and uncertain environment, may be replaced by more functional ones.

MERCOSUR and the South American Community of Nations have a long way to go if they are to accomplish their ambitions. So far they have been very successful in providing a framework for establishing strong links among coun-

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<sup>9</sup> Mario Mugnauini Jn., "Desafios Internos do Mercosul," *Gazeta Mercantil*, 16th January 2007 (<http://www.gazetamercantil.com.br/reader/default.asp?ed=150>).



tries in the region and for responding to the region's challenges without conceding to the temptation of adopting other models in an automatic fashion. Taking into consideration the historic and political contexts of the region, these projects keep alive the dream of an independent, democratic, politically and economically strong Latin America in a world that is increasingly asymmetrical and unpredictable.

# **Lessons from the Andean Community**

Ángel M. Casas-Gragea

## **Introduction**

Ever since its birth in the 1960s, the Andean Regional Integration Process has attempted to become a strategy to promote a harmonious and balanced development among the Andean countries. This chapter has three main goals: (a) to explain and analyze the theoretical concept of the Andean New Regionalism in the framework of the Latin American region from a comparative perspective with the European Model of Regional Integration; (b) to demonstrate the coexistence of two different regional integration models, where the dominating one during the sixties was known as old regionalism and the other that is currently being used is known as new regionalism; and (c) to analyze the way in which this coexistence appears to be an obstacle for the Andean countries to define their regional integration model and to advance toward their main goal: the balanced and harmonious development of each and every member country.

## **Some points about the definition of the object of analysis and investigation**

The New Latin American Regionalism, in which the Andean region can be framed, is noted for its intensity. It goes from agreements that only pursue the commercial liberalization to projects of social, political and economic integration. This characteristic has turned the New Regionalism into a multidimensional phenomenon, which is also extensive because of the number of subjects it has or can be applied to and the group of countries that are participating in some kind of flexible regionalization process. Moreover, there is the reality that one country participates in different regional processes inside Latin America and, simultaneously, with other countries in the world (spaghetti bowl). Consequently, the new regionalism is a phenomenon that can be described as extensive, diffuse, and with a great variety of shades that will depend on the region or sub-region we are talking about.

The reality described above suggests the need to clearly define the object of analysis and research, as well as the conceptual elements that take part in this process, with the intention of understanding this phenomenon in the Andean countries, both within a worldwide and a Latin American context<sup>1</sup>.

The geographical scope has been limited, until now, to the five countries that make up the Andean Community: Bolivia, Colombia, Ecuador, Peru, and Venezuela, until its withdrawal in 2006. This occurred because Venezuela did not agree with the Free Trade Agreement (FTA) signed by Colombia and Peru with the United States, which was considered by this former member to be even worse than the Free Trade Agreement of Americas (FTAA) itself. This hemispheric agreement experienced several challenges in the IV Summit of the Americas, which was held in Mar del Plata, Argentina in November 2005. The temporary scope of the agreement focuses on the integration process that goes from the second half of the nineties up to the present day. Furthermore, we are using the term “region” to refer to Latin America as a whole and “sub-region” for the smaller groups of countries that make up the “region”, such as Andean, Central American, or the Southern Cone.

In the same way, the concept “regional or sub-regional integration” will be used to describe those agreements in which the *Rhine or structuralist inspiration*<sup>2</sup> is predominant. Thus, the regional integration becomes a fundamental requirement to insure and accelerate the economic and social development of the participating countries.

These countries still have a regionalization model that was predominant in the “old regionalism,” with some economic, political and social goals that will be achieved gradually.

It is through these objectives that we can distinguish that the *Rhine or structural paradigm* proposes a “regional or sub-regional integration model” of a supra-national and community nature, towards which we are gradually moving, always with the transitory support of intergovernmental institutions.

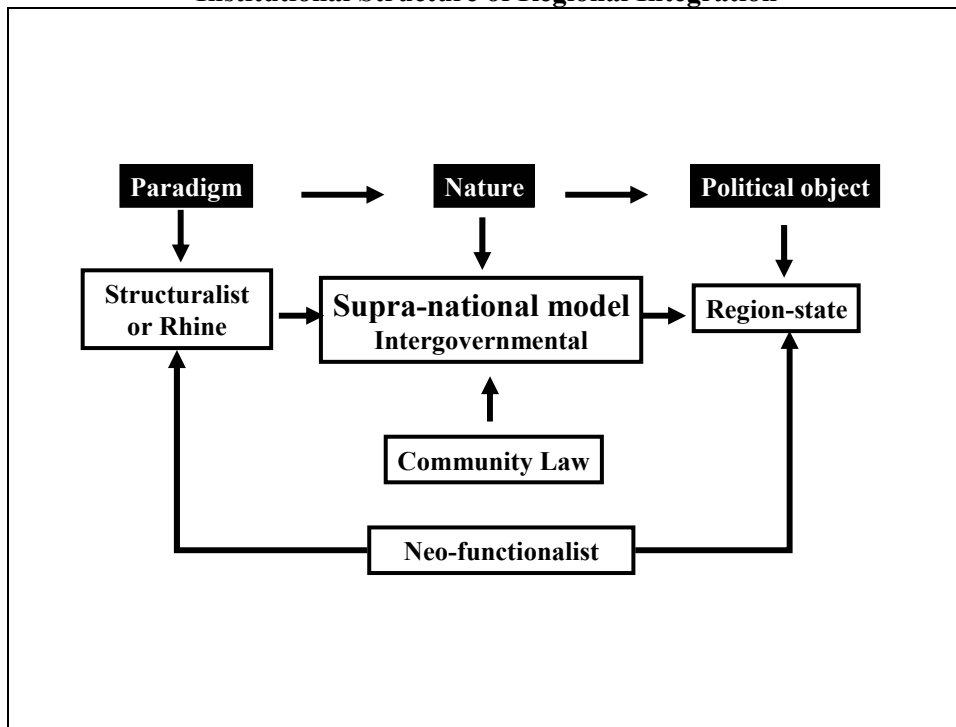
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<sup>1</sup> Clemens Boonekamp, *Regional Trade Integration Under Transformation* (Presentation given at the Seminar on Regionalism and the WTO, Geneva, WTO Secretariat, April 26, 2002); and Jagdish Bhagwati, “The FTAA is Not Free Trade” in *Annual World Bank Conference on Development in Latin America and the Caribbean 1997. Trade: Toward open regionalism* (New York: World Bank, 1998).

<sup>2</sup> Michel Albert, *Capitalism Against Capitalism* (London, Whurr, 1992); Wolfram F. Klein, *El Mercosur. Empresario y sindicatos frente a los desafíos del proceso de integración* (Caracas: Nueva Sociedad, 2000); and Ángel M. Casas-Gragea, “International Economic Policy in the New Regional Integration of the Americas: The Andean Community Case” *Integration & Trade*, no. 16 (Washington: Inter-American Development Bank, January-June 2002).

The institutional structure of a *Rhine or structural inspiration*, in accordance with the neo-functional belief, will increase the inter-dependence among the parts, which will be translated into increasingly improved agreements among the countries and which will be reflected in the renunciation of sovereignty in different matters. From this perspective, as the integration process moves forward, the Nation-State and its loyalties will weaken in favor of a higher State form: the Region-State. (See Chart 1)

**Chart 1**  
**Institutional Structure of Regional Integration**



Source: own creation

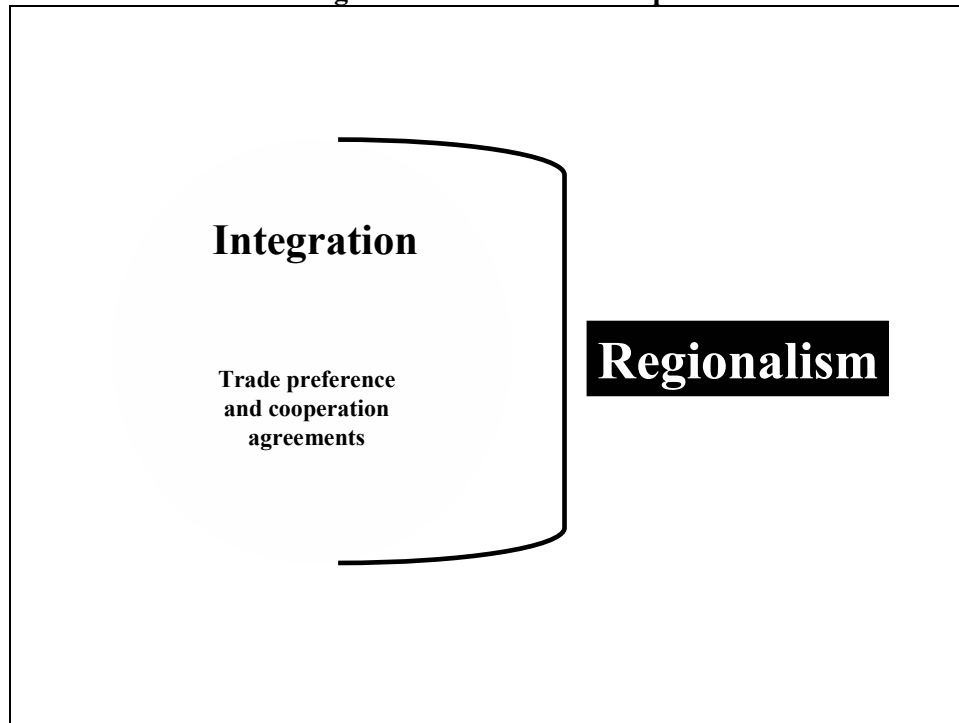
On the other hand, the phrase “preferential agreement of trade and cooperation for regional or sub-regional” is being used for those regional or sub-regional processes that represent the new regionalism, in which *the Anglo-Saxon or liberal inspiration* predominates.<sup>3</sup> The principal goal of the countries that participate in this type of agreement is reaching the commercial integration through a free trade area, as well as cooperating on significant issues such as enhancing democracy or the combat against the drug trade.

<sup>3</sup> *Ibidem.*

Based on the neoclassical theory of international trade, the countries that participate in these agreements trust that the trade opening of their economies and prompt cooperation on political and social issues will contribute to the spontaneous generation of the population's welfare. This will occur through a purely intergovernmental institutional structure, inspired by neo-liberal institutionalism, where the Nation-State will not only continue to exist, but will also be strengthened.

We are making this last distinction because the concept of "regional or sub-regional preferential agreement of trade and cooperation," is included in "regional or sub-regional integration" which has greater consequences because it goes over the simple trade interchange and the prompt cooperation between two or more countries. It implies, at the same time, that a specific process be implemented together with the measures needed to strengthen the economic, political and social relationships of a group of countries. As a result, both would be part of the widest concept of regionalism.

**Chart 2**  
**Regionalism: A Wide Concept**



Source: own creation

Nevertheless, the current Latin American regionalism frequently appears as sharing characteristics of both “regional integration” and “preferential agreements of trade and cooperation.”

This makes the regionalism of the beginning of the twenty-first century a phenomenon that has very intense characteristics. This is due to the fact that it goes, as we mentioned earlier, from agreements that only pursue the trade liberalization all the way through to projects of social, political and economic integration.

Chart 3 will give us an idea of the general scope of geographical and non-geographical regionalism in accordance with the voluntary or involuntary criteria of a social, cultural, historical and political nature.<sup>4</sup>

**Chart 3**  
**Scope and Criteria of Latin American Regionalism**

Scope		Geographic	Non-geographic
Criteria	Economic	Historical, political, cultural and social	Economic
Involuntary	Border zones and natural ecosystems		Globalization
Voluntary	Multilateral zones, trilateral or bilateral of free trade (FTAA, G-3 o Andean Community-Mercosur)  Subregional integration (CACM, Andean Community or MERCOSUR)		Free trade area (Mexico - Japan)  Ibero-American Summits

Source: own creation

<sup>4</sup> Andrew Hurrell, “Regionalism in Theoretical Perspective” in *Regionalism in World Politics. Regional Organization and International Order*, ed. Louise Fawcett and Andrew Hurrell (New York: Oxford University Press, 1995); and Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (New York, Cambridge University Press, 1999).

## Conclusions

### *About Domestic Economies or National Realities*

We have been able to verify that the Andean sub-region is formed by countries with very small economies that are socially polarized, undergoing a terrible economic, political and social crisis, subject to strong shocks, both of capital flows and interchange terms, keeping a status of low value added product exporters, and that have, at the same time, low investment and technological development levels and a huge foreign debt.

The Structural Adjustment Programmes (SAPs) impelled by the FMI and the BM since the beginning of the eighties, also known as the “Washington Consensus”, have pre-supposed a series of liberal adjustments in the economic policy of the country members and have attempted to homogenize their way of handling the economic policy of national economies, but have not been as successful as they had expected and are being questioned more and more each time.

Another element that will not benefit this ambitious regional integration project is the weak character of the Andean democracies. These democracies are in the hands of oligarchies that hamper the existence of the Rule of the Law that should otherwise have a just, equitable and noble spirit, and where permanent political, economic and social crises are generated. Such crises prepare the ground for some kind of elaborate autocratic alternatives to emerge reactively. One of their main characteristics a mixture of populism and fundamentalism; they are defined by praising a perfect past instead of a possible future, (let us remember Fujimori in Peru).

Andean integration can also be a weak forum of pressure for the preservation and maintenance of the good health of the national democratic systems.

Andean integration remains heavily dependent upon the will of its political leaders and is not strongly sustained by its civil society and by the private enterprises that are not clearly identified with the process.

All the above makes it difficult for the conceptual leap from the national to the sub-regional to occur, especially when it comes to conceiving the productive structures and sector policies that the integration process needs and would benefit from.

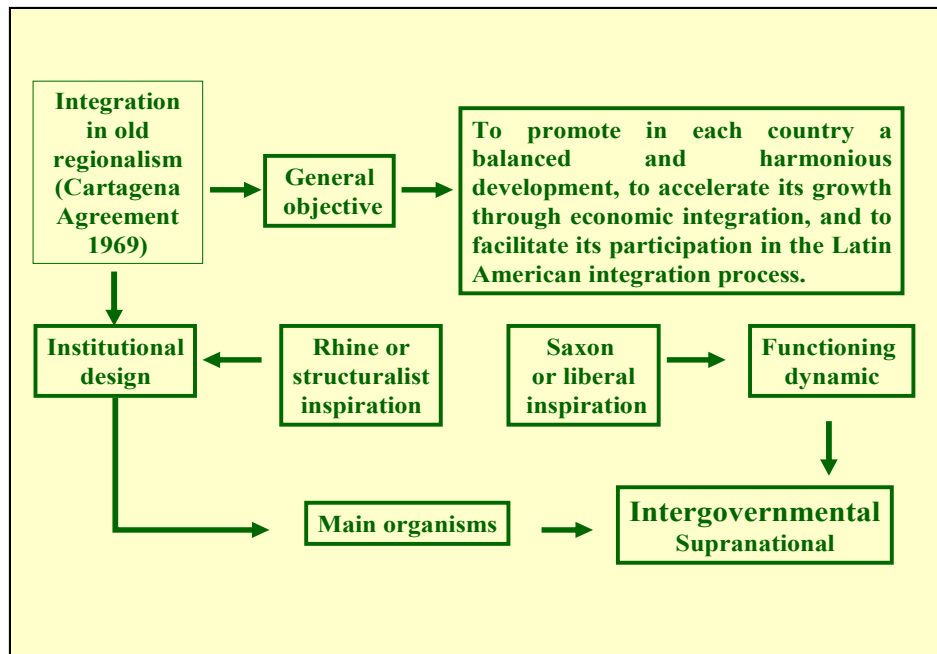
From Andean Community, and bearing in mind the Andean Common Market (ACM), a series of agreements on macro-economic policies that coincide with the ones proposed by the “Washington Consensus” and the “Maastricht Treaty” have been presented. There is always the risk that these macroeconomic harmonization policies will turn into a “Washington Plus Consensus” that is characterized by the same blindness that the multilateral initiative has shown in the sub-region and where orthodox economic thinking predominates without

considering the national institutions, globalization, and high levels of poverty in the Andean countries. These will be key elements when it comes to achieving the harmonization of macroeconomic policies, which will be feasible and beneficial for the area.<sup>5</sup>

*About Regional Institutions*

The Andean community has a very well developed supra-national institutional structure, inherited from the old regionalism. When the Andean countries signed the Cartagena Agreement in 1969, what they really wanted—through the sub-regional integration process—was to promote a harmonious and balanced development in the Andean countries, accelerate their growth through economic integration, as well as facilitate their participation in the Latin American integration process.

**Chart 4**  
**Theoretical Design of the Andean Sub-Regional Process during the Old Regionalism**



Source: own creation

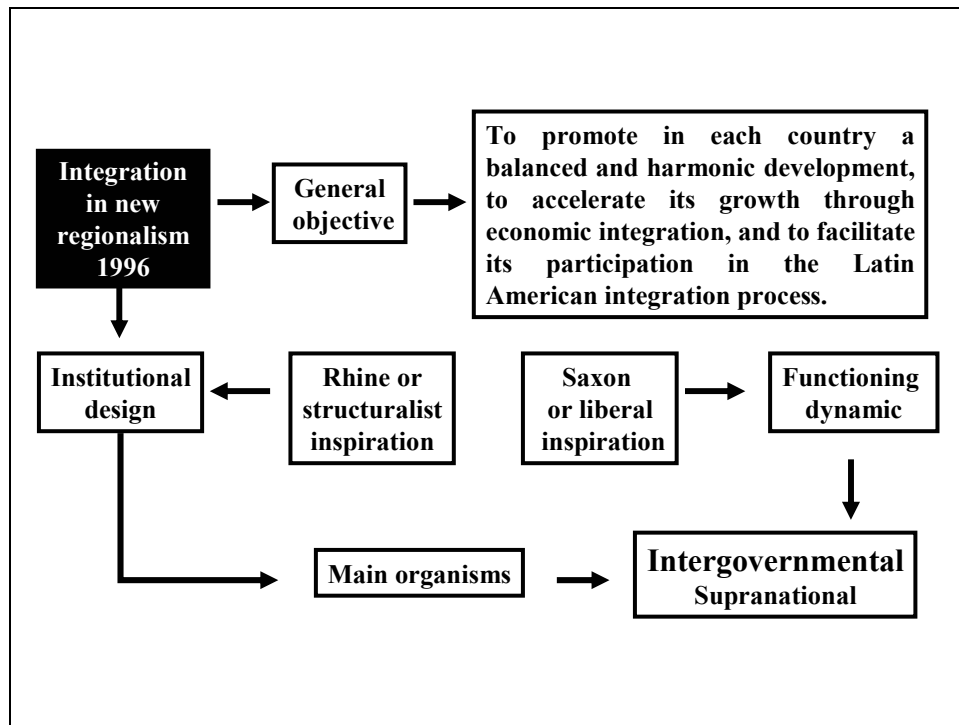
<sup>5</sup> Maurice Shiff and L. Alan Winters, *Regional Integration and Development* (Oxford, Oxford University Press, 2003).



As soon as the agreement came into effect, besides the principal instruments that appear to be included in it, an institutional structure with a community design (supra-national and intergovernmental) was built in the following years. It was inspired by the *Rhine- structural paradigm* and, in a few years, it placed the integration agreement under Common Law with a legal self-regulation.

After several years of reevaluation, in 1996, the Andean integration process became the Andean Community and the Andean System of Integration. This occurred through the Modifying Protocol of the Cartagena Agreement.

**Chart 5**  
**Theoretical Design of the Andean Sub-Regional Process**  
**During the New Regionalism**



Source: own creation

With the birth of the Andean Integration System, some institutions were created and some were eliminated while new institutions that the process had generated were incorporated into this system. All the above confirms the tendency in the eighties to strengthen the political institutions and their intergovernmental decision-making schemes in order to create a more efficient

and flexible organization, coupled with a theoretical inspiration that coincides with the *Anglo-Saxon or liberal paradigm*.<sup>6</sup>

Nowadays we find ourselves with an integration process that has a well-developed *Rhine structural institutional* structure with social, political, and economic integration objectives. In accordance with the political theory analyzed, this institutional dynamics only make sense if the sub-regional process is moving towards the supra-national construction of the Federal State.

However, a deeper analysis of both the Andean Integration System and its working dynamics shows us a sub-regional process that is essentially intergovernmental.

The Andean Presidential Council (executive branch) is the ultimate intergovernmental institution of the Andean institutional structure and it directs, almost entirely, the whole integration process. The Court of Justice of the Andean Community (judicial branch) and of the Andean Council of Foreign Relations and the Commission (legislative branch) also play a very important role in the integration process.

The Andean Parliament has a political and deliberating character, but it does not legislate. Consequently, the high and low Andean Politics continue to be defined by the individual interests of the member countries, all through the intergovernmental functioning of the institutional structure of the Andean Integration Process and with a strong presidential leadership.

Because of all these, the Andean Community is obliged to perform an institutional revision of the Andean Integration System Organizations, especially in terms of the supra-national institutional aspects, in accordance with its theoretical inspiration, its objectives and the intended goals.

#### *Importance of the International Context*

The new regionalism gives great importance to the international context, to the hegemonic forces that are currently participating in Latin America, and to the phenomenon of globalization, all of which constitute a key variable for the definition of the model.<sup>7</sup>

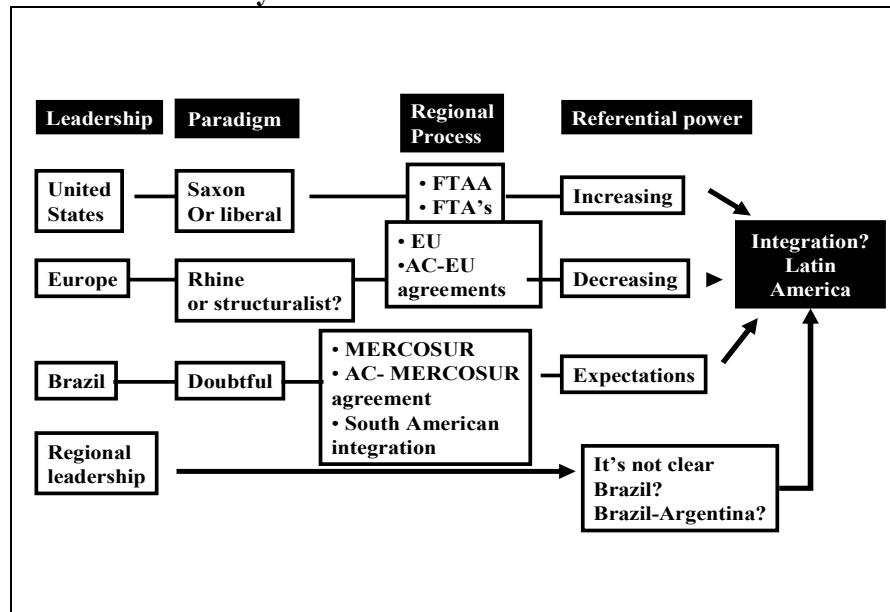
Leadership is an especially sensitive issue for the Latin American region. Many of the Latin American countries are interested in establishing some kind of leadership within the Andean sub-region, including closer cooperation with the United States, the European Union (EU) and Brazil.

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<sup>6</sup> Douglass C. North, *Institutions, institutional change and Economic Performance* (New York, Cambridge University Press, 1990); and Roberto Domínguez, "NAFTA: Assessments and Institutional Development" in *The European Union and Regional Integration*, ed. Joaquín Roy and Roberto Domínguez (Miami, University of Miami, 2005).

<sup>7</sup> Edward D. Mansfield and Helen V. Milner, ed., *The Political Economy of Regionalism* (New York: Columbia University Press, 1997).

**Chart 6**  
**The Sub-Regional Hegemonic Power:**  
**Key for the Definition of the Model**



*Source: own creation*

From an international perspective, the key for the Andean integration process is hegemonic power this will determine which regional paradigm will be heavier in the definition of the Andean sub-regional model. Furthermore, the hegemonic power that is consolidated could be exercised either in a benign or a malignant form, which will have repercussions on the division of the countries or on the concentration of the leadership of the regionalization benefits.

1) The United States has a great influence in the Andean sub-region and led the FTAA process until it froze in 2005. Nonetheless, the United States has kept its regional vision through the bilateral signature of FTAs with different countries and sub-regions in Latin America. This is where Washington is considering economic regionalism sustained on a preferential agreement of trade and cooperation of intergovernmental manufacture. It believes in an American market with some game rules when it comes to services, goods and new topics, but the final result will depend on the negotiation between United States, Canada, and the Latin American countries. The importance of FTAA and the bilateral FTAs in all of Latin America has made the referential power of this integration model suggested by the United States expand.

2) The EU is present in the FTAA process with timid proposals of agreements where political dialogue and economic cooperation are considered,

but the possibility of reaching free trade agreements in a conciliatory framework of the interests of the Andean sub-region, North America and the EU has not been contemplated yet. However, the EU is fearful of the former FTAA and the current FTAs might be limiting its access to the Andean market.<sup>8</sup>

Another key element in the role of the hegemonic influence of the EU in Andean America is the current process of European redefinition. For Andean integration, the EU has been the reference point in terms of its institutional structure and integration role model that it can emulate. Nevertheless, today, this reference has not had enough strength in the dynamics of the Andean process, partly due to the importance of the regionalism of intergovernmental agreements of trade and cooperation impelled from North America and to the European irresolution in the presence of new challenges in the construction of its own integration process.

3) Brazil has some geo-political and geo-economic aspirations that it knows cannot be fulfilled, unless it leads the Southern Common Market (MERCOSUR). This country has come up with a South American initiative where the Andean Community plays a very important role that will not only allow it to lead the South American block, but will also imply a lower vulnerability rate and a possibility to defend both the South American interests against the rest of the world and the regional initiatives with North America and the EU. Nevertheless, Brazil has not expressed clearly which regional model it is interested in leading, and this is of vital importance for the future of the Andean integration. This situation has become even more complex since Venezuela decided to leave the Andean Community and join the Southern Common Market. Venezuela would also like to lead the South American community by launching its own initiative called Bolivarian Trade Alternative to the FTAA for the Americas (ALBA). Such an issue might generate leadership conflicts with Brazil in the near future.

#### *About the New Andean Regionalism*

Up to now the progress in the Andean integration process has played out in the following way:

- a. There is a perfect Free Trade Area between Bolivia, Colombia, Ecuador and Venezuela. Peru has freed 80% of its products and the goal is to reach the 100% in 2005.
- b. There is an imperfect Customs Union (CU) that would have been consolidated by the year 2003 but has not been accomplished yet.
- c. By 2005, the Andean Community tried to have an ACM, but achieving this goal has been overruled. That is why there have been some

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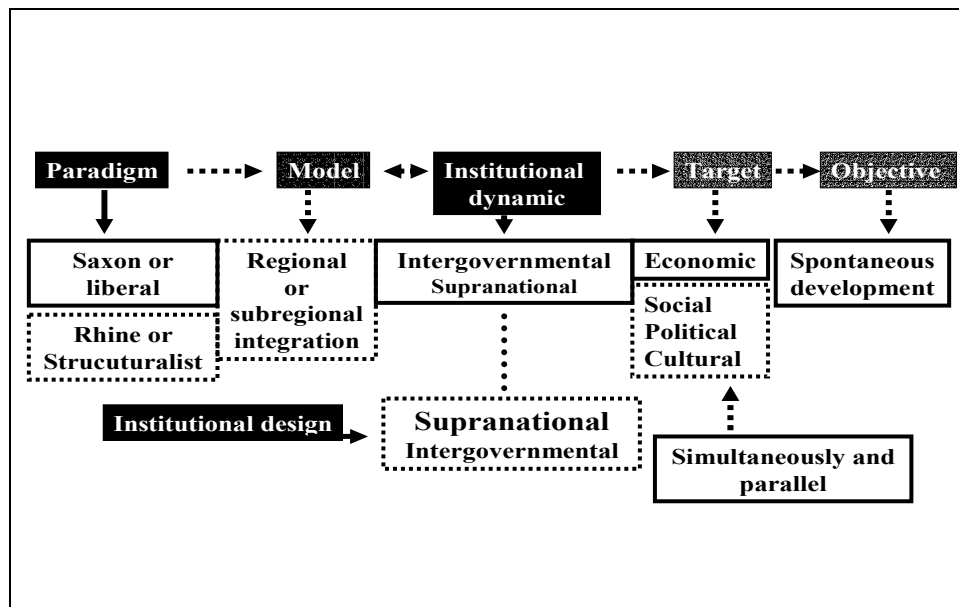
<sup>8</sup> Joaquín Roy, "The Uniqueness of the FTAA from an EU Perspective" in *The European Union and Regional Integration*, ed. Joaquín Roy and Roberto Dominguez (Miami, University of Miami, 2005).

discussions about the harmonization of macro-economic policies, of the free flow of services (a normative exists already, even though there are many restrictions among the member countries) and of the free flow of capital and people, although these are still a project.

We are definitely confronted with a regional process that has some goals and integration objectives within a very elaborate common institutional framework, but it is ruled by some preferential agreements of trade and cooperation and greatly influenced by the different forces that characterize the international context.

Currently, the Andean integration shows a co-existence of the two paradigms which, as we have seen, present different goals and objectives and that are projected in a different way in terms of development. (See Chart 7)

**Chart 7**  
**The Praxis of the Andean Integration Process**



Source: own creation

This makes us ask ourselves some questions from the perspective of the Andean integration: what objectives are going to be achieved? Is it possible to reach them in the light of the real paradigm of sub-regional construction?

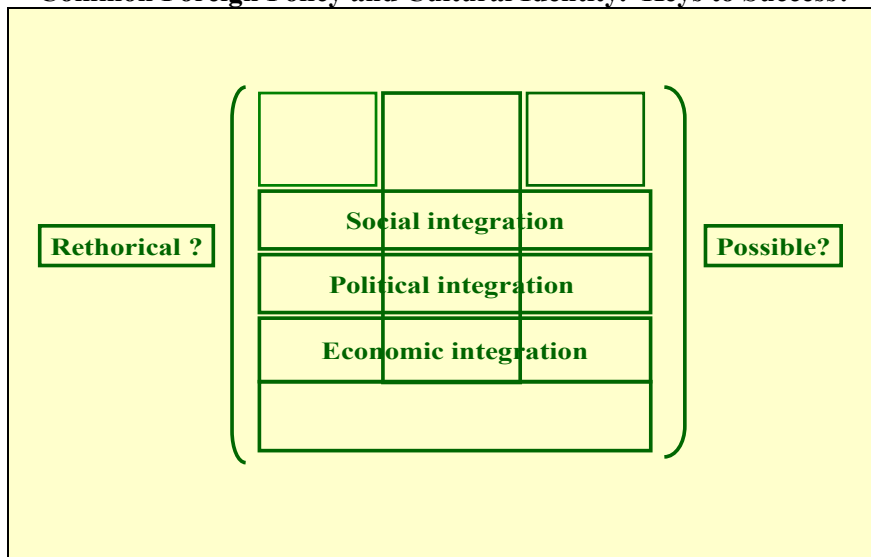
From the European perspective, some of the questions that may be asked include: will the progress of the European integration process be in accordance with its theoretical basis? Will the debate about the future of EU be as important

for the integration processes that use it as a model as it is for Europe itself? Will the development of the Latin American integration process, the Andean process included, effectively mirror the EU project?

*Regarding Forging Cultural Integration: Integration Axis*

Keeping the globalization objective, the external international influence and the internal difficulties of the Andean countries in mind, the Common Exterior Policy (PEC) was intended to be outlined as a transversely articulated instrument of the Andean Community’s integrationist desires with a cultural conscience and cultural integration as the basis of the process. Such a vision has currently weakened due to the signature of the bilateral FTAs and Venezuela’s departure. (See Chart 8)

**Chart 8  
Common Foreign Policy and Cultural Identity. Keys to Success?**



Source: own creation

At that time the Common External Policy and the cultural integration process were developed, they were jointly considered to be the defining instruments of the Andean Integration Model and they became the link that clarifies, excludes or reconciles the two integrationist paradigms (“the old regionalism” and the “new regionalism”) that, as we have tried to demonstrate, currently coexist in the Andean sub-region.

The definition of the Andean identity is of vital importance for the future of Andean Community, but establishing a consensus about it does not appear to be an easy task since, just as its incorporation has shown, it should be a facilitator of the Andean economic and social development under the sub-regional integration

framework. At the same time, depending on how it is done, defining this identity could be primarily rhetorical and become a seemingly insurmountable obstacle for Andean integration to successfully overcome.

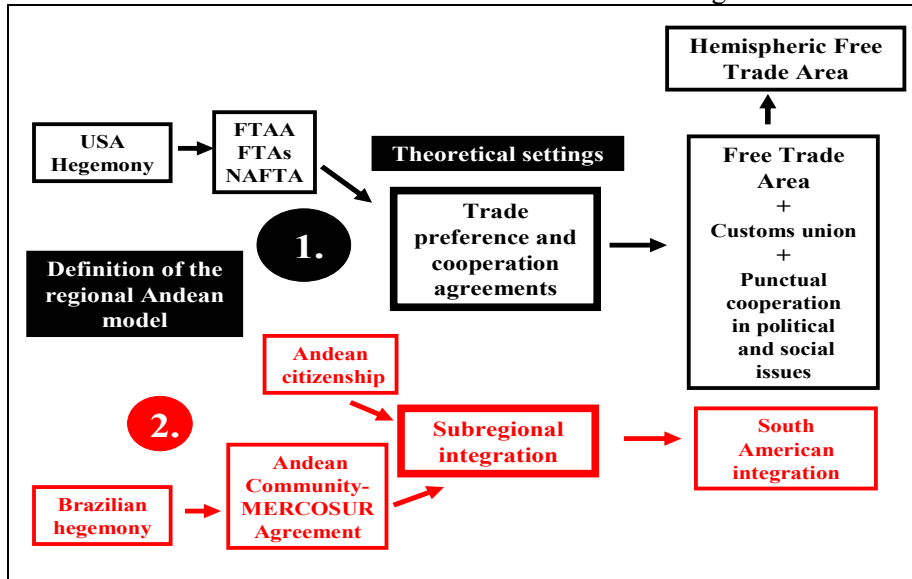
*Theoretical Scenarios and Final Reflections*

Theoretical scenarios that will be open to Andean Community in the coming years could be summarized as follows. (See Chart 9)

A first scenario could look something like this: After some punctual reforms in the agreement and redesign of the objectives and the way to achieve them, just as the trend shows, the Andean Community could be defined as a “preferential agreement for trade and cooperation”, where a free trade area and a customs union conveniently consolidate and where cooperation exists on significant social and political issues (i.e. common voices, the fight against drugs, migration).

A second scenario, which may be seemingly less viable, would be one in which the Andean regionalism is defined with the help of a Brazilian hegemony that would be in favor of the *Rhine-structural paradigm* for being “an integration agreement”, in which the Andean citizens be would incorporated into the process as important actors and participants that legalize a gradual, more interdependent and increasingly supra-national construction of the Andean sub-regional integration.

**Chart 10**  
Future Theoretical Scenarios for the Andean Integration



Source: own creation

In conclusion, our research shows that the current Andean sub-regional model, with its strengths and weaknesses, needs to become a development strategy.

Undoubtedly, the Andean Community has some objectives and an institutional architecture that turn it into one of the most ambitious and developed integration processes in Latin America. However, it currently needs to renew its efforts to complete the definition of its sub-regional model.

There seems to be an agreement that this must be supported by two axes: on the one hand, the “identity” and cultural issues upon which the own model should be constructed; and on the other hand, the Common External Policy, now within a bigger South American framework, should be the second axial element to structure the whole process. This is an existing challenge, but it still remains to be thoroughly discussed.

Recalling Carlos Fuentes, we can say that the rediscovery of cultural values can provide, maybe with some effort and a little luck, the necessary coincidence of cultural, economic and political visions that will benefit Latin America. Considering the Andean integration process from this perspective would contribute to the resolution the above-mentioned paradox. Once the model is defined, the members countries and sub-regional institutions can work on making important integrationist efforts and on becoming more efficient and on moving closer to the ultimate objective of team work, that is, a higher level of welfare, justice and equality for the people of the Andean region.





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